HONOLULU CITY COUNCIL
KE KANIHELA O KE KALANA O HONOLULU
CITY AND COUNTY OF HONOLULU

ORDINANCE ______________
BILL 63(2025)

A BILL FOR AN ORDINANCE

RELATING TO REAL PROPERTY TAXATION.

BE IT ORDAINED by the People of the City and County of Honolulu:

SECTION 1. Purpose. The purpose of this ordinance is to address the dedication of certain property for affordable long-term residential rental use.

SECTION 2. Section 8-7.6, Revised Ordinances of Honolulu 2021, is amended to read as follows:

"§ 8-7.6 Property dedicated for [~~low-income~~] affordable long-term residential rental [~~housing.~~] use.

(a) [~~For the purposes of this section, "low-income rental housing" means housing rented at or below the rental rate limits established by the United States Department of Housing and Urban Development for households earning 80 percent of the city's area median income for the applicable household size, or less.~~] *Definitions*. For the purposes of this section, the following definitions apply unless the context clearly indicates or requires a different meaning.

Affordable. The annual income of a household does not exceed 100 percent of the area median income determined by the United States Department of Housing and Urban Development annually for the Honolulu metropolitan statistical area as adjusted for household size.

Dwelling Unit. Has the same meaning as defined in § 21-10.1.

Eligible Tenant. A natural person or natural persons who individually or collectively:

(1) Have no ownership interest in a dwelling unit or lodging unit;

(2) Will reside in the affordable long-term residential rental as the tenant's principal home; and

(3) Certity the accuracy of the requirements in subdivisions (1) and (2).

Immediate Family Member. An individual's spouse; natural or adoptive parent, child or sibling; step-parent, stepchild, stepbrother, or stepsister; father-in-law, mother-in-law, daughter-in-law, son-in-law, brother-in-law, or sister-in-law; grandparent or grandchild; or spouse of a grandparent or grandchild.

Lodging Unit. Has the same meaning as defined in § 21-10.1.

Long-Term Residential Rental. A residential unit that is either:

(1) Under a written lease agreement executed between the owner and an occupant lessee, for compensation, for a minimum lease term of 12 consecutive months; or

(2) Continuously occupied by the occupant lessee, for compensation, after the expiration of a written lease agreement under paragraph (1).

Owner. The recorded owner of real property in fee simple on which a residential unit is situated.

Principal Home. Has the same meaning as defined in § 8-10.3(a).

Residential Unit. A dwelling unit or lodging unit that is not used as a timeshare unit or transient vacation unit.

Sale or Transfer of Property. The act of conveying the ownership or beneficial interest in real property.

Timeshare Unit. Has the same meaning as defined in § 21-10.1.

Transient Vacation Unit. Has the same meaning as defined in § 21-10.1.

(b) An owner of real property classified as [~~Residential~~] residential A used [~~as low-income~~] for affordable long-term residential rental [~~housing~~] purposes may make a five-year dedication of the property for [~~low-income~~] affordable long-term residential rental [~~housing~~] use and have the property classified as [~~Residential~~] residential; provided that:

(1) The property was purchased by the owner for less than [~~$1,000,000;~~] the residential A classification threshold established in § 8-7.1(c)(4);

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(2) The property is exclusively used during the dedication period [~~as a rental home or apartment unit with a lease period of at least one year; and~~] <u>for affordable long-term residential rental purposes;</u>

(3) The [~~rental home or apartment unit~~] <u>affordable long-term residential rental</u> is rented at a rate that meets the [~~requirements of low-income rental housing as defined in subsection (a).~~] <u>definition of affordable; and</u>

<u>(4)</u> <u>The affordable long-term residential rental is rented to an eligible tenant.</u>

(c) Any owner desiring to dedicate the owner's property for [~~low-income rental housing~~] <u>affordable long-term residential rental use</u> shall petition the director[~~, describing~~]<u>:</u>

<u>(1)</u> <u>Describing</u> the property to be dedicated[~~, providing~~]<u>;</u>

<u>(2)</u> <u>Providing</u> evidence that the property is currently used exclusively [~~for affordable rental housing, and declaring~~] <u>as an affordable long-term residential rental;</u>

<u>(3)</u> <u>Providing evidence that the tenant is an eligible tenant, including a copy of the eligible tenant's certification; and</u>

<u>(4)</u> <u>Declaring</u> that [~~such~~] <u>the</u> use will continue in the dedicated tax years and the owner shall meet the applicable requirements of subsection (b) [~~pertaining to the property~~].

(d) The director shall prescribe the form of the petition. The petition for the following tax year must be filed with the director by September 1 of [~~any~~] <u>the</u> calendar year. The notice of assessment will serve as notification of approval or disapproval of the petition for dedication. If the petition is approved, [~~the assessment based upon the use requested in the dedication~~] <u>the assessment notice will indicate that the property is being assessed based on the residential use classification, and</u> will be effective on October 1 of the same calendar year<u>,</u> and apply to the following tax year.

(e) The director shall make a finding as to whether the property is and will be maintained and used [~~for the sole purpose of providing low-income rental housing.~~] as an affordable long-term residential rental. That finding will be based on [~~the~~] rental [~~agreement or~~] agreements and [~~such~~] other evidence required [~~of and provided by~~] from the owner as the director may deem pertinent.

(f) The director's approval of the petition [~~by the director~~] shall constitute a forfeiture on the part of the owner of any right to change the use of the owner's real property [~~for low-income rental housing~~] as an affordable long-term residential rental for the dedication period. The dedication period may be renewed in the same manner as the initial petition.

(g) The owner may appeal any disapproved petition in the same manner as in the case of an appeal from an assessment.

(h) *Violation and penalties.*

(1) Failure of the owner to observe the restrictions on the use of [~~such person's real~~] the owner's property will [~~cancel~~] result in the cancellation of the exemption retroactive to the date of the initial dedication, and all differences between the amount of taxes that were paid and the amount that would have been due from assessment without the dedication will be payable with a 10 percent per year penalty from the respective dates that these payments would have been due.

[~~Failure to observe the restrictions on the use~~] For purposes of this subsection, "failure to observe the restrictions on the use" means any failure of 45 consecutive days or more during the tax year of the exemption to use the real property in the manner certified in the petition, or the overt act of changing the use for any period. Nothing in this subsection precludes the city from pursuing any other remedy to enforce the covenant on the use of the real property.

(2) The additional taxes and penalties, due and owing as a result of failure to observe the restrictions on the use or any other breach of the dedication will be a paramount lien [~~upon~~] on the property as provided for by this chapter.

(i) Before September 1 in each of the five years of the dedication, the owner shall submit to the director [a]:

(1) A copy of the rental agreement [~~to be in force in~~] that will be in effect during the upcoming tax year[~~.~~];

(2) If the tenant is a new eligible tenant, a copy of the eligible tenant's certificate; and

(3) Evidence as may be required by the director to verify the rent amounts as required under this section.

(j) *Sale or transfer of property.* In the event of the sale or transfer of property dedicated for use as an affordable long-term residential rental during the dedication period:

(1) The owner of the dedicated property shall notify the director and the potential successor in interest regarding the anticipated sale or transfer of the dedicated property.

(2) Upon the sale or transfer of the dedicated property:

(A) The dedication will be cancelled and the owner that originally dedicated the property will be subject to rollback taxes and penalties under subsection (h); and

(B) The owner that originally dedicated the property shall provide the director with a copy of the legal instrument conveying the property.

(3) Notwithstanding an owner's failure to comply with the notice requirements of this subsection, the owner that originally dedicated the property will be remain responsible for paying any rollback taxes and penalties under subsection (h).

(4) In the event of the death of an owner and the transfer of the fee simple interest in the dedicated property to an immediate family member as the successor in interest and new owner:

(A) The dedication will continue if the new owner petitions the director for a continuation of the dedication within 30 days after the transfer of title.

(B) The director shall prescribe the form of the continuing petition. At a minimum, the petition must include:

(i) A copy of the death certificate for the owner that originally dedicated the property; and

(ii) A copy of the legal instrument conveying the property.

(C) If the new owner fails to petition the director under paragraph (A), the dedication will be cancelled and the new owner will be subject to rollback taxes and penalties under subsection (h).

(k) *Report.* The director shall provide the council with an annual report by August 1 of each year, beginning August 1, 2028. The report must include information on dedications pursuant to this section for the prior tax year as follows:

(1) The number of dedication petitions filed;

(2) The number of dedication petitions approved;

(3) The number of approved dedications cancelled for failure to comply with the dedication requirements;

(4) The estimated tax revenue forgone; and

(5) The cost of administering this section.

[~~(j)~~](l) The director shall [~~make and~~] adopt [~~necessary rules to administer~~] rules pursuant to HRS Chapter 91 for the implementation, administration, and enforcement of this section."

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SECTION 3. Ordinance material to be repealed is bracketed and stricken. New ordinance material is underscored. When revising, compiling, or printing this ordinance for inclusion in the Revised Ordinances of Honolulu, the Revisor of Ordinances need not include the brackets, the material that has been bracketed and stricken, or the underscoring. The Revisor of Ordinances shall, pursuant to the Revisor's authority under SECTION 2 of Ordinance 23-7, update the Reporting Requirements Table to include the reporting requirements enacted by SECTION 2 of this ordinance.

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SECTION 4. This ordinance takes effect upon its approval, and applies to the tax years beginning July 1, 2027, and thereafter.

INTRODUCED BY:

Esther Kiaʻāina

DATE OF INTRODUCTION:

SEP 22 2025

Honolulu, Hawaiʻi

Councilmembers

APPROVED AS TO FORM AND LEGALITY:

____
Deputy Corporation Counsel

APPROVED this ______day of ______________, 20 ____.

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RICK BLANGIARDI, Mayor
City and County of Honolulu

Report Title:
Real Property Taxation; Valuations; Dedication for Residential Use; Residential A Properties; Low-Income Housing; Affordable Long-Term Residential Rental; Reporting Requirement; Rulemaking; Department of Budget and Fiscal Services ("BFS")

Description:
Amends the requirements of the low-income housing dedication for residential use. Adds an annual reporting requirement.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.