REPORT OF THE COMMITTEE ON BUDGET

Voting Members:
Val A. Okimoto, Chair; Scott Y. Nishimoto, Vice Chair;
Esther Kia'āina, Augie Tulba, Tommy Waters

Committee Meeting Held
November 18, 2025

Honorable Tommy Waters
Chair, City Council
City and County of Honolulu

Mr. Chair:

Your Committee on Budget, which considered Bill 63 (2025) entitled:

"A BILL FOR AN ORDINANCE RELATING TO REAL PROPERTY TAXATION,"

introduced on September 22, 2025, and which passed first reading at the October 1, 2025 Council meeting, reports as follows:

The purpose of the bill is to address the dedication of certain property for affordable long-term residential rental use.

Your Committee amended and approved a CD1 version of the bill during its meeting held on October 14, 2025.

Your Committee further amended and approved a CD1 version of the bill that makes the following amendments:

A. In SECTION 2 of the bill, amends ROH § 8-7.6(a), relating to definitions, to:

1. Amend the definition of "Affordable" to read as follows:

"The long-term residential rental is rented at no more than the maximum monthly rental rate based on the number of bedrooms, for a household with an annual income that does not exceed 100 percent of the area median income based on HUD annual income limits for the Honolulu metropolitan statistical area as adjusted for household size, as calculated by the responsible city agency for the corresponding tax year based on

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the applicable annual household income limits; provided that if the long-term residential rental includes more than four bedrooms, the maximum monthly rental rate will be calculated using the same methodology."

2. Add a definition of "HUD" to mean the United States Department of Housing and Urban Development.

3. Delete the definition of "Immediate Family Member."

4. Add a definition of "Violation of the Dedication" to mean any failure by the owner to observe the restrictions imposed on the dedicated property under ROH § 8-7.6 for 45 consecutive days or more during any tax year within the applicable dedication period, or cancellation of the dedication due to the sale or transfer of the dedicated property during the dedication period.

B. In SECTION 2 of the bill, deletes ROH § 8-7.6(b)(1), which required that dedicated property be purchased by the owner for less than the Residential A classification threshold.

C. In SECTION 2 of the bill, amends ROH § 8-7.6(f), relating to the dedication of property, to provide that the dedication automatically renews after the five-year dedication period expires, subject to cancellation by the owner, which must be in writing and submitted to the director by September 1 of the fifth year of the applicable dedication period.

D. In SECTION 2 of the bill, amends ROH § 8-7.6(h), relating to violation and penalties, to:

1. Provide that violation of the dedication will result in the cancellation of dedication retroactive to the tax year preceding the tax year in which the violation of the dedication occurred (instead of retroactive to the date of the initial dedication);

2. Move the definition of "failure to observe the restrictions on the use" to subsection (a), and replace the defined term with "violation of the dedication"; and

3. Retain as new subdivision (3) the provision regarding the City's ability to pursue any other remedy provided by law to enforce the restrictions on real property under ROH § 8-7.6.

E. In SECTION 2 of the bill, replaces proposed ROH § 8-7.6(j), which provided that, in the event of the death of an owner and the transfer of the property to an immediate family member, the dedication could continue upon petitioning the director, and required the original owner to remain responsible for the rollback taxes and penalties following the property transfer, with new provisions that:

1. Require the owner to provide written notification of the sale or transfer of the dedicated property to the director and all potential successors-in-interest, and specify certain information that must be disclosed in the notification; and

2. Provide that upon the sale or transfer of the dedicated property, the new owner will be subject to rollback taxes and penalties; provided that the new owner has the option to avoid the rollback taxes and penalties by filing, within 30 days after the transfer of title, a new petition to dedicate the property as an affordable long-term residential rental, and the petition is approved by the director.

F. In SECTION 2 of the bill, amends proposed ROH § 8-7.6(l), to provide that the director "may" (rather than "shall") adopt rules pursuant to HRS Chapter 91 for the implementation, administration, and enforcement of this section.

G. Makes miscellaneous technical and nonsubstantive amendments.

Your Committee on Budget is in accord with the intent and purpose of Bill 63 (2025), as amended herein, and recommends that is pass second reading, be scheduled for a public hearing, and be referred back to Committee in the form attached hereto as Bill 63 (2025), CD1. (Ayes: Kia'āina, Nishimoto, Okimoto, Waters – 4; Noes: None; Absent: Tulba – 1.)

Respectfully submitted,

Val A. Okimoto

Committee Chair

HONOLULU CITY COUNCIL

KE KANIHELA O KE KALANA O HONOLULU

CITY AND COUNTY OF HONOLULU

ORDINANCE _____

BILL 63 (2025), CD1

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 long-term residential rental is rented at no more than the maximum monthly rental rate based on the number of bedrooms, for a household with an annual income that does not exceed 100 percent of the area median income based on HUD annual income limits for the Honolulu metropolitan statistical area as adjusted for household size, as calculated by the responsible city agency for the corresponding tax year based on the applicable annual household income limits; provided that if the long-term residential rental includes more than four bedrooms, the maximum monthly rental rate will be calculated using the same methodology.

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

HUD. The United States Department of Housing and Urban Development.

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 or transient vacation unit.

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

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

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

Violation of the Dedication. Any failure by the owner to observe the restrictions imposed on the dedicated property under this section for 45 consecutive days or more during any tax year within the applicable dedication period, or cancellation of the dedication due to the sale or transfer of the dedicated property during the dedication period.

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(b) *Five-year dedication.* 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;~~

~~(2)~~](1) 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~~] for affordable long-term residential rental purposes;

[~~(3)~~](2) The [~~rental home or apartment unit~~] affordable long-term residential rental is rented at a rate that meets the [~~requirements of low-income rental housing as defined in subsection (a).~~] definition of affordable; and

(3) The affordable long-term residential rental is rented to an eligible tenant.

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

(1) Describing the property to be dedicated[~~, providing~~];

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

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

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

(d) *Petition form and filing.* 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~~] the 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~~] the assessment notice will indicate that the property is being assessed based on the residential use classification, and will be effective on October 1 of the same calendar year, and apply to the following tax year.

(e) *Director's finding.* 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) *Director's approval, expiration of the dedication period.* 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.~~] The dedication will be automatically renewed after the five-year dedication period expires, subject to cancellation by the owner. Cancellation by the owner must be in writing and submitted to the director by September 1 of the fifth year of the applicable dedication period.

(g) *Appeal.* 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 property will cancel the exemption~~] Violation of the dedication will result in the cancellation of the dedication retroactive to the [~~date of the initial dedication,~~] tax year preceding the tax year in which the violation of the dedication occurred, 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.~~] retroactive to the tax year preceding the tax year in which the violation of the dedication occurred.

[~~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 use or any other breach of the dedication~~] a violation of the dedication will be a paramount lien [~~upon~~] on the property as provided for by this chapter.

(3) Nothing in this subsection precludes the city from pursuing any other remedy provided by law to enforce the restrictions on real property under this section.

(i) *Annual owner filing.* 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 any portion 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 all potential successors-in-interest regarding the anticipated sale or transfer of the dedicated property. The notification must be in writing and include:

(A) A disclosure that the property was dedicated for use as an affordable long-term residential rental under this section, and the date of the dedication; and

(B) A disclosure of the rollback taxes and penalties under subsection (h) for violation of the dedication, and the option under this subsection for the new owner, within 30 days after the transfer of title, to file a new petition under this section to dedicate the property.

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

(A) The dedication will be canceled and the entire dedicated property will be subject to rollback taxes and penalties under subsection (h); and

(B) The rollback taxes and penalties under subsection (h) will not apply to any portion of the dedicated property for which the new owner, within 30 days after the transfer of title, files a new petition under this section to dedicate the property, and the petition is approved by the director.

(k) *Director's 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 canceled for failure to comply with the dedication requirements;

(4) The estimated tax revenue forgone; and

(5) The cost of administering this section.

[~~(j)~~](l) *Rules.* The director [~~shall make and~~] may 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 Kia'āina

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DATE OF INTRODUCTION: _____

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September 22, 2025 _____
Honolulu, Hawai'i

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.