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DEPARTMENT OF BUDGET AND FISCAL SERVICES
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CITY AND COUNTY OF HONOLULU

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July 10, 2026

The Honorable Val Okimoto, Chair
and Members
Committee on Budget
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawai'i 96813

Dear Chair Okimoto and Councilmembers:

SUBJECT: Testimony in Opposition to Bill 67 (2025) - Relating to a Valuation Cap on Real Property Assessment for Homeowners Aged 65 and Older with a Home Exemption

The Department of Budget and Fiscal Services ("BFS") opposes Bill 67 (2025), which proposes to cap the assessed value of parcels owned by homeowners aged 65 and older who have a home exemption. The proposed cap is the lower of either two percent of the prior year's assessment or the percent change in the Consumer Price Index applicable to the assessment year.

There are approximately 82,100 home exemption claims for individuals aged 65 and older. This proposal would create financial uncertainty because the number of eligible parcels and their assessed values are dynamic and likely to increase over time.

The following are additional reasons why any valuation cap proposal is unfavorable to the City's real property tax program and overall fiscal well-being:

1) Introduces inequities to the tax base between property owners under the age of 65 and those aged 65 and over. Comparable neighboring parcels will be taxed differently under the cap, but receive the same core City services, including response times from the police, emergency services, and fire departments.

2) Long-term Revenue Loss. The gap between market and capped values will widen, resulting in an unknown but significant long-term

revenue loss. This gap may be magnified in higher-valued neighborhoods, where property values tend to rise faster than in lower-valued neighborhoods, thereby giving additional tax relief to owners of higher-valued parcels and creating a regressive tax policy.

3) Complications for Property Owners. This proposal will further complicate and intensify matters, as evidenced by the Residential A issues faced by those without a home exemption. A property owner who loses the home exemption due to a change in status may face a significantly higher tax bill because of a shift to the Residential A classification, an uncapped assessment, and the loss of the exemption amount.

4) Increased Appeals to the Board of Review. The number of appeals to the Board of Review is expected to rise. Ineligible property owners will express dissatisfaction and file appeals, as their assessed values and taxes will become increasingly higher than those of their neighbors with capped assessed values.

5) Negative Impact on the Local Housing Market. This measure may adversely affect the local housing market by creating a "locked-in effect." Because the tax benefit would be lost upon sale or transfer, current owners who receive it may be discouraged from selling, further limiting the housing supply and driving up prices. These owners may also be less likely to downsize or relocate, reducing their financial flexibility. Additionally, uncertainty about increases in assessed values after renovations may deter homeowners who receive the benefits from making improvements or performing regular maintenance, leading to higher long-term repair costs.

6) Negative Impact on Bond Ratings and Funding of Services. The valuation cap may negatively impact the City's bond ratings by limiting the City's ability to fully capture all real property tax revenue. Further, if real property tax revenue growth lags behind the inflationary growth in our operating costs, the funding of core City services would be further constrained during the budget process.

7) Administrative and Financial Burdens on the City. Implementing and managing two valuation systems - one for fair market value, and one for the value cap system - will require costly system reconfiguration, reprogramming, and maintenance of an already delicate computer system. Additional staff will be needed and trained to perform continuous cross-checking and compliance monitoring. Once

implemented, reverting from two valuation systems to a single full market-value system would be very difficult due to potential legal challenges and the associated costs.

Eligible homeowners for this proposal already receive tax relief through the home exemption and will receive a higher exemption amount effective July 1, 2027, and again the following year if Bill 46(2026) is passed. Additionally, the City offers a tax relief program that provides tax credits to taxpayers least able to afford rising real property taxes. Those eligible for the City's real property tax credit program should apply by September 30 each year.

Given those existing forms of tax relief, it is important to consider who truly needs additional assistance. Many kūpuna are financially secure, even wealthy, and do not need further tax relief. Passing this proposal would not be an appropriate or equitable application of the real property tax program.

BFS therefore opposes Bill 67(2025) and recommends maintaining the current system of 100% fair market valuation for all parcels as the foundation for an equitable and sustainable real property tax program.

We urge the City Council to consider establishing another Permitted Interaction Group to rigorously review and evaluate active measures relating to real property taxes. Tax ordinance changes should be evaluated in unison to avoid unintended fiscal impacts and administrative burdens.

Thank you for the opportunity to provide testimony on this bill. Please contact me at (808) 768-7901 with any questions you may have.

Sincerely,

Andrew T. Kawano
Director

APPROVED:

Krishna F. Jayaram, Managing Director Designate
Office of the Managing Director