

TO: Members of the Budget Committee of the Honolulu City Council

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SPECIAL
MEETING: 9 a.m. Tuesday, April 12, 2011

SUBJECT: Bill 2 Real Property Taxes & Historic Property Exemption - Comments

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Aloha Councilmembers,

Thank you for allowing me to provide testimony on Bill 2 which relates to real property taxes, specifically the historic exemption.

Bill 2 - includes four options to amend the tax incentive for historic residential real property:

- Option 1 Repeal the exemption;
- Option 2 Repeal the exemption for a period ending 1/1/2016, i.e., from 7/1/2012 through 12/31/2015;
- Option 3 Repeal existing and enact new dedication; and
- Option 4 Repeal the exemption and enact new historic structures tax credit.

Option 4, which provides real property tax relief via a tax credit to historic homeowners who make expenditures beyond routine maintenance, is **perhaps the best option** of the four. One of the abuses of the current system is that homeowners merely have to certify via their signature on the petition that the "current level of taxation is a material factor which threatens the continued existence of the historical residential property." Seemingly well-off homeowners have been able to take advantage of this exemption without any burden of proof. This bill at least includes a requirement that documentation regarding qualified expenditures be provided to the city in order to obtain the credit.

Should councilmembers prefer **Option 3**, I make the following suggestions for amendments. The current due date of the petition in the bill is September 1. Consideration should be given to changing the date to September 30 to be consistent with other applications for exemptions and credits. In order to provide enough time for administration to process the paperwork, notice of approval or disapproval can be given via the assessment notice, which is mailed on December 15, as noted in Bill 3. I support the

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change in procedures to include no separate notice of approval or disapproval *provided that the approval or disapproval is conspicuously indicated* on the assessment notice.

Option 3 also includes a subjective determination by the director under Sec. 8-7.6 (c) of “whether the current level of taxation is a material factor which threatens the continued existence of the historic property.” Without any evidence regarding income levels or maintenance or restoration costs, it is difficult to imagine who this determination can be made. Consideration should therefore be given to providing guidance to the director on how this determination should be made.

As I have previously testified, we simply need to take a broader look at the city’s tax policies and review them in conjunction with the audit that will soon be started by the city auditor. I encourage councilmembers to convene the “blue ribbon panel” after the budgeting process has been completed.