

Real Property Tax Advisory Commission 2014

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November 20, 2014

HAND DELIVERY

Honorable Chair Ernest Y. Martin and
Members of the City Council
Honolulu City Council
Honolulu Hale
530 South King Street, Room 203
Honolulu, Hawaii 96813

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CITY COUNCIL
HONOLULU, HAWAII

Dear Chair Martin and Members of the City Council:

Please find attached our Real Property Tax Advisory Commission 2014 Report to the City Council. The Commission diligently worked to adopt recommendations that we believe would improve fairness, equity and transparency relating to Honolulu's real property tax exemptions and classifications. In this endeavor, we took seriously the need to balance the City's need for revenues and the burden on the City's property owners. Of course, we could not address every real property tax issue, but rather focused on those of current concern.

It was our privilege to be of service to you, and we look forward to working with the City Council to implement our recommendations. We will be readily available should you or any of the Councilmembers have questions about the Report.

We hope that you will find this Report helpful in your deliberations on the budget next year.

Respectfully submitted,



Ray Kamikawa, Chair
Real Property Tax Advisory Commission 2014

Enclosure

cc: RPTAC 2014 Members
167308.2

REAL PROPERTY TAX ADVISORY COMMISSION 2014

Ray Kamikawa, Chair; Thomas Yamachika, Vice-chair
Members: Schuyler Cole, Howard Garval, Nelson Higa, Amy Hirano, Eugene Soquena

COUNCIL COM.
265
RPTAC

Report of the Real Property Tax Advisory Commission 2014

1 BACKGROUND

Under Resolution 11-143, FD1, the Honolulu City Council established a Real Property Tax Advisory Commission consisting of seven citizens. Our charge was to conduct an objective review of the City & County of Honolulu real property tax system.

The Commission understands and appreciates that the Commission is not the first, and the Commission in fact has a member on the Commission who also served on the previous Commission that rendered its report in January 2012. The Commission gratefully acknowledges the efforts of its predecessors, and to an extent the Commission is picking up where it left off. For example, the prior report adopted six principles of good tax policy, and we found no need to revisit or reexamine them. The Commission did note that it faces some significant issues that did not exist in 2011 when its predecessors performed most of its work. In addition, the Commission did feel the need to revisit one or two issues that its predecessors touched on.

The role of the Commission is purely advisory. Its recommendations are sent to the Council for them to act as they see fit consistently with their roles and responsibility to their constituents. Most, if not all, of the recommendations contained in this report can only be implemented by amending the Revised Ordinances of Honolulu, which can only be done using a process that requires exposure of the concepts to the public and a consequent opportunity for the public to submit testimony and comments.

Despite the protections and safeguards already built into that process, the Commission heard testimony that the Residential A property classification adopted in 2013, which is discussed in much more detail below, caught more than a few homeowners unaware – they did not fully appreciate the consequences of this classification until they received their real property tax billings, and at that time it was already well past the deadline fixed by ordinance either to appeal the classification or to apply for a homeowner's exemption, which if granted would drop the parcel out of Residential A classification. Indeed, the Commission received many pieces of testimony from the public about the unfairness of the Residential A classification although that classification was deliberated, passed, and signed into law last year. It mentions these events primarily to raise the issue of whether the City & County

can do a better job of publicizing the Council's deliberations on wide-ranging issues such as the property tax issues it addresses in this report so that those in the taxpaying public feel less like they have been slighted.

2 MINIMUM TAX

The Commission recommends changing the minimum tax provision to language stating that operation of the exemptions shall not reduce the tax below \$300 for organizations holding Internal Revenue Code § 501(c)(3) status, and below \$1,000 for other organizations.

Currently, the real property tax ordinances contain a minimum tax provision that reads:

Notwithstanding any provision to the contrary, there shall be levied upon each individual parcel of real property taxable under this chapter a minimum real property tax of \$300.00 a year, except for properties exempt under Section 8-10.27 [relating to property used by public utilities and subject to the public service company tax under HRS chapter 239] and except as provided in Section 8-10.28(b)(2) [relating to low-income rental housing projects on Hawaiian home lands].

ROH § 8-11.1(g). The Commission noted that the present language imposes the minimum tax on all parcels regardless of size, so that a parcel the size of a parking stall, which would be taxed at a far smaller amount if this provision did not exist, would be taxed at \$300. The Commission considered that the probable intent of this provision was to require properties owned by exempt organizations to pay some minimal amount of real property tax, and not to penalize small parcels. Thus, the Commission recommends rewording the exemption to say that the operation of any real property tax exemption shall not operate to reduce the tax below a certain amount. That or similar language would not have the effect of increasing the tax that would be due on very small parcels.

There are numerous exemptions allowed in the real property tax ordinances. One of the primary justifications for allowing an organization a real property tax exemption, or a tax exemption in general, is that the organization performs essential work or services that the government would have to perform itself if the organization were not present. Many organizations may claim that they fit that criterion, and the City might not have the expertise or resources to verify such a claim independently. For that reason the Commission recommends more favorable treatment for organizations that are described in § 501(c)(3) of the Internal Revenue Code.

Although 501(c)(3) status is complex to describe, the Commission thought that most Americans are familiar with it. The Commission felt that an organization so described makes certain commitments, such as it must have a clause in its organizing documents permanently dedicating its assets to be given to the government or other similarly described organizations if it is ever to liquidate; it must have a governing body composed of diverse community leaders as opposed to one or two, or a few related people; and it must make key financial information, including most of its tax return, widely available to the public for scrutiny. Charitable organizations are motivated to seek 501(c)(3) status because it usually results in individual donors being allowed a tax deduction for their donations, thereby creating an incentive to donate; such organizations are allowed special mailing privileges among other governmental benefits; and of course the organization itself is exempted from income tax on activities contributing importantly to its mission. The Internal Revenue Service grants such organizations qualification letters, and maintains an online database of such organizations so interested parties can easily and quickly verify the organizations' status.

In contrast, ROH § 8-10.10, which is relied upon by most charities and similar tax-exempt organizations, exempts from Honolulu real property tax not only 501(c)(3) organizations, but also cemeteries, labor unions, and any association of league of federal credit unions. The latter organizations, described in Internal Revenue Code §§ 501(c)(5), (6), and (9), are tax exempt under Federal income tax law but no charitable deduction is allowed to individuals for contributions to such organizations.

For these reasons, our recommendation is to reword the present minimum tax provision, ROH § 8-11.1(g), to read substantially as follows:

No provision in this Chapter 8 providing an exemption from real property tax may reduce the tax assessed to any individual parcel of real property taxable under this chapter below \$1,000 a year, except: (1) the exemption in section 8-10.10 for charitable use may reduce the tax on a parcel to no less than \$300 a year where the property is used by an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended; (2) the exemption in section 8-10.27 (relating to property used by public utilities and subject to the public service company tax under HRS chapter 239) may reduce the tax to zero; and (3) this subsection shall apply only as provided in section 8-10.28(b)(2) (relating to low-income rental housing projects on Hawaiian home lands) for property to which section 8-10.28 applies.

3 EXEMPTIONS

3.1 HISTORIC RESIDENTIAL HOMES

The Commission recommends changing the exemption to 50% of the assessed value of the property, provided that existing historic residential dedication contracts shall be honored until they are cancelable.

ROH § 8-10.22 permits historic residential real property dedicated for preservation to enjoy a full exemption from real property tax. For fiscal year 2014-2015, 266 parcels of property with an aggregate valuation of \$363.2 million had registered for this exemption.

To be dedicated for preservation, the ordinance and its implementing regulations (Chapter 32, Historic Residential Property Dedication Rules) provide:

1. The property owners are to provide visual access at all times from the public way such as a road, alley, street, trail, or other public area; and the public must be able to view the property not more than 50 feet from the property line;
2. If visual access is not available, the owner must provide *alternative visual visitations* (an alternative view) from a viewing point on the historic property for at least 12 days a year on the second Saturday of each month from 9:00 a.m. to 4:00 p.m. The alternative visual visitation must be clearly identified by a sign on the property that marks the location of the viewing point, and the point beyond which the public may not enter;
3. The property must be maintained at least in average condition; and
4. The property must be currently listed in the State of Hawaii Register of Historic Places.

The Commission, after reviewing these requirements, was of the opinion that the owners of such properties are still able to use their property as a home and they are receiving City & County services such as rubbish pickup and police and fire protection, and that the impact of the historical dedication requirements on their use and enjoyment of their home do not justify a full exemption.

The Commission also notes that the Office of the City Auditor, in its Audit of the Real Property Assessment Division, Report No. 13-02 (October 2013), found “many violations of and non-compliance with historical residential property dedication requirements,” and estimated that the City could increase tax

revenues by over \$555,000 if the Division were to monitor and enforce historic property dedication requirements and cancel the historic property exemptions for noncompliant property owners. The Commission finds regrettable the apparent abuse of this exemption.

At the same time, the Commission understands that the dedication agreements previously entered into between the City & County and the property owners are contracts and need to be respected as such. Although the terms of the ordinance state that the contracts auto-renew, they are cancelable upon five years' notice any time after the first five years. They are also cancelable at any time if the City determines that the property owner is not complying with the terms of the dedication. Thus, the changes in the exemption that this Commission is recommending could not go into effect for everyone at once, but could be implemented if the City were able to cancel the dedication (either for cause or by lapse of time).

3.2 FOR-PROFIT CHILD CARE CENTERS

The Commission recommends repealing this exemption because it believes for-profit entities should be treated alike.

ROH § 8-10.33 allows for-profit group child care centers a full exemption from real property tax. For fiscal year 2014-2015, 7 parcels of property with an aggregate valuation of \$12.5 million had registered for this exemption.

Although the owners of such properties may be able to contend that the businesses they are running provide essential services that otherwise would have to be provided by the City, the Commission notes that many for-profit businesses now subject to tax could make the same argument. The existing exemption for charitable uses of property, in § 8-10.10, is based on the same argument, and it, like many other exemptions given to charitable and nonprofit entities, contains a requirement that there be *no private inurement*, namely that no one makes a profit from the activities of the organization. The for-profit group child care center exemption expressly allows for-profit entities to qualify for the exemption, thereby allowing the subsidy provided by this exemption to increase the profits that their owners would reap. Such an exemption also unbalances the playing field of competition and forces the rest of us who are not favored with such an exemption to pay for the City services consumed by these businesses. The Commission accordingly recommends repeal of this exemption.

A child care center that qualifies as a charitable organization would, of course, be exempt if its use of the property qualifies for exemption under § 8-10.10.

3.3 CREDIT UNIONS

The Commission recommends repealing the exemption because, even after having reviewed the testimony of the credit unions to the prior Commission, it finds it impossible to distinguish credit unions from taxable organizations in a principled way.

ROH § 8-10.24 allows for-federally chartered or state chartered credit unions a full exemption from real property tax. For fiscal year 2014-2015, 89 parcels of property with an aggregate valuation of \$159.8 million had registered for this exemption.

Federal law, 12 U.S.C. § 1768, provides that federally chartered credit unions are exempt from all taxation imposed by any state, territorial, or local taxing authority, except that any real property (and tangible personal property) shall be subject to federal, state, territorial, and local taxation to the same extent as other similar property is taxed.

State law, HRS § 412:10-122, provides that state chartered credit unions shall have the same immunity from state and local taxation that federally chartered credit unions have. That statute also specifies that any real property of a credit union shall be subject to taxation to the same extent as other similar property is taxed.

Thus, neither federal nor state law preempts county taxation of real property owned by a credit union.

The previous Commission received numerous communications from various credit unions imploring the Commission not to repeal this exemption, citing the fact that these organizations provide financial services to their memberships which normally cannot be accessed at traditional financial institutions. Others stated that as a result of being granted the exemption, they are able to enhance the earnings on their members' deposits and reduce the cost of loans made to their members.

Like the previous Commission, this Commission finds the offered policy rationale deficient. Credit unions are business organizations just like the for-profit child care centers discussed above. There are no prohibitions on private inurement. Credit unions advertise for business and compete for business with other financial institutions. Credit unions may be member-owned and lower costs incurred by the credit union result in cost savings or earnings enhancements to their members; however, many other for-profit businesses give back to the community, and pass on cost savings to their customers through either lower costs of goods or services, or enhanced earnings by way of dividends or distributions. The Commission has found no principled way to distinguish credit unions from other for-profit businesses and, for many of the

same reasons set forth in the section immediately preceding on child care centers, recommends that the exemption that credit unions now enjoy be repealed.

3.4 AGRICULTURAL DEDICATION

The Commission recommends repealing the provision allowing for a one-year dedication. The one-year dedication period reportedly creates difficulty in enforcement, and the circumstances creating the need for this provision are no longer present.

ROH § 8-7.3 provides that a taxpayer can petition for land to be dedicated for agricultural use. Land can be dedicated for periods of one, five, or ten years. If the petition is approved, land will be assessed at 5% of its fair market value for land dedicated for one year; at 3% of its fair market value for land dedicated for five years, and at 1% of its fair market value for land dedicated for ten years. The land dedicated must be substantially and continuously used for the business of raising and producing agricultural products in their natural state.

ROH § 8-10.31 provides that any increase in the valuation of real property attributable to qualifying agricultural land improvements shall be exempt from property taxes for a period of seven years following the construction of the agricultural land improvements. The exemption applies only to property dedicated to agricultural use for ten years, and to improvements costing at least \$10,000.

The Commission heard testimony from the Department of Budget and Fiscal Services (DBFS) that it was having difficulty ascertaining whether properties dedicated for a one-year period are being continuously used for farming. DBFS further informed the Commission that it was commonplace for the owners of such properties to “roll over” the dedication, meaning that the owners would apply for a subsequent one-year dedication period to begin after the current dedication period expires.

The Commission noted that its predecessor Commission specifically requested that this Commission examine agricultural issues. The Commission heard testimony, and finds, that the one-year dedication period was necessary when the Campbell Estate trust was near its termination date and was not able to lease agricultural lands for anything but short periods. The Campbell Estate trust has since terminated and so this issue no longer exists. In view of the enforcement difficulties cited by DBFS and that there is apparently no longer a need for the provision, the Commission recommends that the Council consider repealing the one-year dedication option.

4 CLASSIFICATIONS

4.1 RESIDENTIAL CLASS A RATE

The Commission recommends keeping the Residential Class A classification for second homes and investors, but adopts a graduated tax rate, where the assessed value of the classified property up to \$1 million would be taxed at \$3.50 and assessed value over that threshold taxed at a second rate. The second rate would be pegged at an amount to be revenue neutral or higher. This proposal would resolve the cliff effect under current law and go a long way to achieve more fairness. If this recommendation is to be implemented, affected taxpayers should be notified as soon as possible, such as in the December 15 assessment notices, to avoid more taxpayer angst and unnecessary tax appeals.

The Commission has primarily focused on this classification due to fairness concerns about how the increased tax is structured. Currently, there is a \$1 million assessed value cliff, wherein the affected properties are taxed at a higher \$6.00 rate on the entire assessed value. When this new class was adopted, affected property owners did not appreciate at the time of the assessments in 2013 to scrutinize and possibly appeal any assessment at or above \$1 million. In addition, property owners who were otherwise eligible for homeowner exemptions did not appreciate the importance of qualifying and filing for the exemption on a timely basis to fall outside of this new class. This situation has caused much concern in the community and has prompted Mayor Caldwell to ask the Real Property Assessment Division to examine this issue with the Commission.

The “Cliff” at \$1,000,000 causes properties assessed just above to pay \$2,500 more than a comparable property assessed just below in the identical use and zoning. The proposed two rate structure will solve this problem and distribute the tax increase to higher value parcels rather than those in the \$1 to \$1.5 million range. This change will reduce the need for tax appeals by owners whose properties are near the cliff.

4.2 RESIDENTIAL CLASS A DEFINITION

The Commission recommends eliminating the phrase “has an assessed value of \$1,000,000 or more” from the definition. This will expand the class to all investor and second home parcels except those with homeowner exemptions, three (3) or more units or military housing. It aligns the class with all the parcels in this use and zoning.

Based on summary data provided by DBFS, we estimate about 150,000 owner-occupant units; and less than 10,000 parcels with 3 or more units, vacant apartment-zoned lots, and military housing. So, the Residential class would include about 160,000 parcels. Residential A under this proposal would include the balance of 100,000 parcels in long-term and short term rentals, as well as second homes and vacant residential lots. 7,000 of these 100,000 or about 7% remain assessed above \$1 million and do not have full exemptions. This number is likely to go up in the next tax year. This change in classification will not impact those parcels assessed at or under \$1,000,000, assuming no change in the \$3.50 rate for the first \$1,000,000 of assessed value.

4.3 COMMERCIAL CLASS

The Commission recommends that the Council consider a two-rate graduated tax rate structure for this class of properties as commercial properties have a similar assessed value distribution as residential.

The Commission's research of the real property assessment data included 2,208 commercial parcels in the Honolulu and Waikiki zones (1&2), representing about 40% of the total commercial class. This sample showed that 95% of the parcels in these zones were assessed at less than \$1,500,000 and accounted for only 31% of the total assessed value. So, 5% of the parcels assessed above \$1,500,000 accounted for 69% of the assessed value in the tax base. A small increase in the tax rate applied to the higher end properties would allow a lower rate for the remaining 95% and be revenue neutral.

At the same time, however, the Commission notes that larger commercial parcels may be divided and leased to small and medium size businesses, such as in a strip mall that is not a condominium property regime. Because real property taxes are customarily passed on to tenants in such a situation, the Council should analyze the potential impact on smaller tenants when evaluating the benefits of a graduated tax rate for commercial realty.

4.4 TRANSIENT USE CLASS

If the Council were to consider a third residential class based upon transient rental use, then the Commission recommends that it be based upon short-term or transient rental use. The transient definition proposed would be parcels rented for less than 6 months aligning with the State transient accommodations tax (TAT) under Chapter 237D, HRS. Included in this class would be the 810 units with nonconforming use permits, plus an additional estimated 3,000 to 4,000 units operating without permits some of which may violate zoning if rented for less than 30 days.

The recent study by the Hawaii Tourism Authority indicated that there are over 4,000 units in transient use on Oahu. There are over 3,000 units listed on the Vacation Rentals by Owner (VRBO) website which would confirm this number is probably low. Of these 4,000 or more units, 810 have transient vacation use (TVU) permits allowing non-conforming use (NCU) based upon their use being grandfathered in residential zoning (1986). These units have to apply biannually and pay a \$400 fee for each TVU. DBFS appeared to want to create a tax class and presumably tax at a much higher rate these easily identified licensed units. The Commission believes that this would be unfair given the historic inability of the City to enforce zoning with a large number of the 4,000 units operating in violation of residential zoning and renting for less than 30 days. Enforcement of zoning is beyond the scope of the Commission. Enforcement of tax laws, state or county, and zoning regulations should be coordinated between our two levels of government; citizens who scoff at these laws should not be tolerated. So, the Commission recommends expanding the class to include all parcels for which the owners are obligated to pay the TAT. This expanded tax would yield more revenue and not create another fairness or ethical issue. The Commission discusses below certain compliance measures that can assist in raising revenues.

5 TAX COMPLIANCE

5.1 VERIFICATION OF HOMEOWNER EXEMPTION

The Commission recommends using the State's income tax return filings as substantiation for the homeowner exemption.

The DBFS should require proof of homeowner exemption applications by requiring an attestation or copy of the Hawaii Form N-11 resident income tax return filed when claiming the homeowner exemption, or an attestation that a N-11 income tax return is not required (if, for example, the homeowner's income consists entirely of pensions that are excludable under the income tax law). Ongoing, the Department of Taxation can assist in cross-checking and verifying home exemption qualifications by cross-checking against Hawaii resident income tax returns filed by homeowners claiming the exemption. For example, DBFS is currently requiring income tax return filings for its just-concluded compromise procedure for Residential A relief, i.e., ensuring that the homeowner is not reporting the home as rental property.

The Commission notes that the Maui property tax ordinance, Maui County Code § 3.48.450(D), now requires a tax clearance or similar substantiation for a home exemption. The Honolulu ordinance, ROH § 8-10.4, now provides that the director may demand documentation of "the above or other indicia" to

substantiate a home exemption application, which would allow DBFS to ask for tax information administratively. If the Council believes that a change to our existing home exemption ordinance is required, the Council could consider language similar to the current Maui ordinance.

Finally, the Commission heard testimony from DBFS to the effect that it considers tax return information confidential and will not use it for purposes other than verification of homeowner status. The Commission expects DBFS to continue this practice if this recommendation is adopted.

5.2 VERIFICATION OF TRANSIENT USE

The Commission recommends requesting that the Department of Taxation require information on TMKs on TAT returns.

The TAT returns, i.e., TA-1 and TA-2, would be a good resource for DBFS if it could include information on the taxpayer's transient or long-term rentals, and second home use. If these forms were changed to include the Tax Map Keys for each property reported on those returns and an appropriate information sharing agreement could be concluded with the Department of Taxation, it would enhance the ability of DBFS to enforce our present tax classification laws. The Commission notes that transient accommodations tax return information is presently authorized to be disclosed to the county tax officials under HRS § 237D-13(a)(10), and, like income tax returns, is treated as confidential by DBFS.

5.3 IMPROVE ACCURACY AND TIMELINESS OF ASSESSMENTS

The Commission recommends third party resources be included as information used for assessments.

Expand assessment methodology to include input from title companies, realtors, and appraisers. Reassess high valued properties after a sale, as well as comparable properties in the same neighborhood.

5.4 CHANGE EXEMPTIONS AT TIME OF SALE

The Commission recommends restarting exemption applications after ownership transfer of property.

Homeowners and other exempt entities would need to apply on the new parcel prior to closing. All prior exemptions will be removed at the time of sale from this property. This will affect the following tax year. Late filings, e.g. after April may require an adjustment in the second payment.

6 BOARD OF REVIEW TRANSPARENCY

6.1 UTILIZE WEBSITES AND OTHER SOCIAL MEDIA FOR BOARD OF REVIEW HEARINGS, INFORMATION, AND PROCEDURES

The Commission recommends posting on the DBFS web site all appeal hearing agenda notices and decisions of the Board for each appeal. Rules governing the Board's procedures should also be posted on the DBFS web site.

At present, there are several Boards of Review established to hear disputes between tax officials and taxpayers. The Commission understands that DBFS has promulgated procedural rules for the conduct of these appeals, but those rules are difficult to access because they are not currently online. Thus the Commission recommends that they be posted online.

Furthermore, the Commission notes that HRS § 232-7, relating to boards of review on state tax matters, now specifies that a taxpayer's identity and pertinent documents in the appeal are public information. ROH § 8-12.7, relating to boards of review on real property tax matters, is less clear as to what is public information; however, ROH § 8-12.7(f) contemplates publication of a report detailing the Board's work, particularly if it has disagreed with the County on property assessments. To enhance transparency and to align the City's policy further with that of the State, the Commission recommends publication of agenda notices and decisions of the Board.

6.2 CLEAR INSTRUCTIONS ON DEADLINES FOR FILING APPEALS

The Commission recommends that the appropriate ordinances be amended to ensure that the "weekend rule," described below, in fact does apply to real property tax appeals, so as to align the City's rule with tax appeals involving other tax types and with appeals generally.

The recommendation in this section concerns the "weekend rule" for taxes. If a tax form or return is due on a weekend or holiday, the form is not late if it is filed on the next business day. The State and the counties have all adopted this rule for tax forms. For this County the applicable ordinance is ROH § 8-1.16. The question is whether this also applies to appeals.

For most appeals in the judiciary system, the computation of time is governed by Rule 26(a) of the Hawaii Rules of Appellate Procedure, which does adopt the weekend rule. The Intermediate Court of Appeals, in *Marzec v. City and County of Honolulu*, No. 28287 (Haw. App. Aug. 27, 2008) (summary disposition order)

indicated in footnote 2 that the weekend rule does apply to real property tax appeals.

The Commission considered a publication by the Tax Foundation of Hawaii asserting that an official City & County brochure titled “Real Property Assessment Appeals” (April 2011) indicated that the weekend rule applies, but that in an actual case RPAD argued that the weekend rule was inapplicable and persuaded the Board of Review to dismiss the appeal for that reason despite the statements to the contrary in the *Marzec* case and in the brochure.

At a minimum, the City’s brochures must be revised to correctly state the City’s position on the issue so taxpayers are not misled into filing their appeals late.

Attachments: (Source: Department of Budget & Fiscal Services)

Appendix 1 – Real Property Tax Valuation (FY 2014-2015)

Appendix 2 – Net Valuation and Taxes Raised by Class

Appendix 3 – Tax Benefit Provided by Exemptions (FY 2014-2015)

Appendix 4 – Net Valuation to Exemption by Class

Appendix 5 – Statistics on Dedications (FY 2014-2015)

Appendix 6 – County Tax Credit Program Statistics

Attachments: (Source: 2014 Commission)

Appendix 7 – Commercial Class Study

Appendix 8 – Residential A Study Page One

Appendix 9 – Residential A Study Page Two



Real Property Tax Valuation

FY 2014 - 2015

(In Thousands of Dollars)

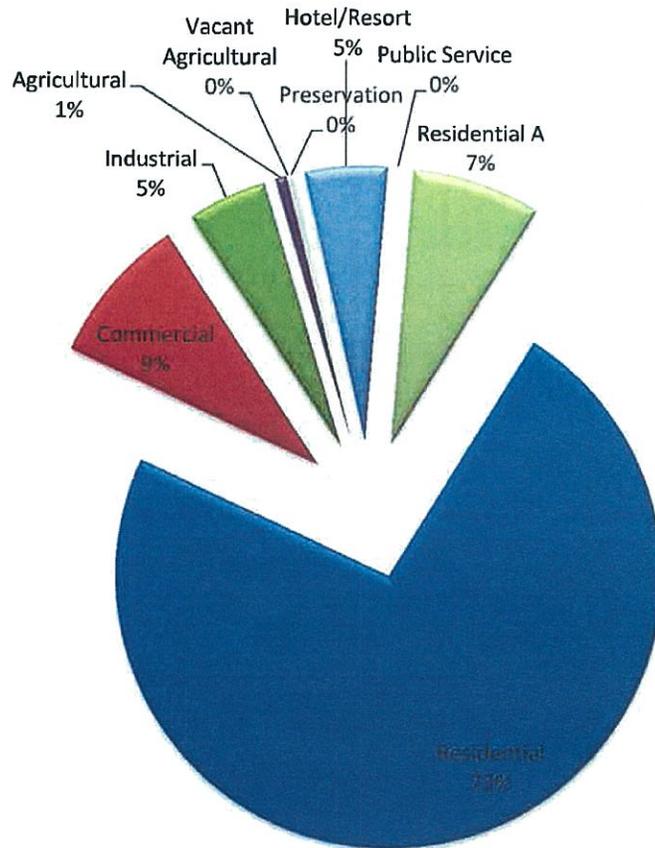
Land Use Class	# of Records	Gross Valuation	Total Exemptions	Net Valuation	50% Of Appeal Value	Number Of Appeals	Valuation For Tax Rate	Tax Rate Per \$1,000 Value	Amount Raised by Taxation
Residential	255,525	\$148,996,793	\$20,766,003	\$128,230,790	\$250,178	1,255	\$127,980,612	\$3.50	\$447,932
Commercial	6,283	\$17,597,309	\$2,193,597	\$15,403,713	\$253,294	320	\$15,150,419	\$12.40	\$187,865
Industrial	4,016	\$8,983,767	\$700,454	\$8,283,313	\$130,139	92	\$8,153,174	\$12.40	\$101,099
Agricultural	2,799	\$1,294,561	\$117,128	\$1,177,433	\$46,968	131	\$1,130,465	\$5.70	\$6,444
Vacant Agricultural	128	\$80,561	\$0	\$80,561	\$1,015	6	\$79,546	\$8.50	\$676
Preservation	871	\$502,821	\$47,218	\$455,603	\$10,565	13	\$445,038	\$5.70	\$2,537
Hotel/Resort	7,343	\$8,606,608	\$25,346	\$8,581,262	\$387,405	99	\$8,193,857	\$12.90	\$105,701
Public Service	472	\$820,217	\$820,217	\$0	\$0	1	\$0	\$0.00	\$0
Residential A	7,655	\$13,853,970	\$570,142	\$13,283,828	\$81,389	224	\$13,202,440	\$6.00	\$79,215
TOTAL	285,092	\$200,736,608	\$25,240,105	\$175,496,503	\$1,160,953	2,141	\$174,335,550		\$931,469

(1) Prepared in accordance with ROH Section 8-2.2, Assessment Lists

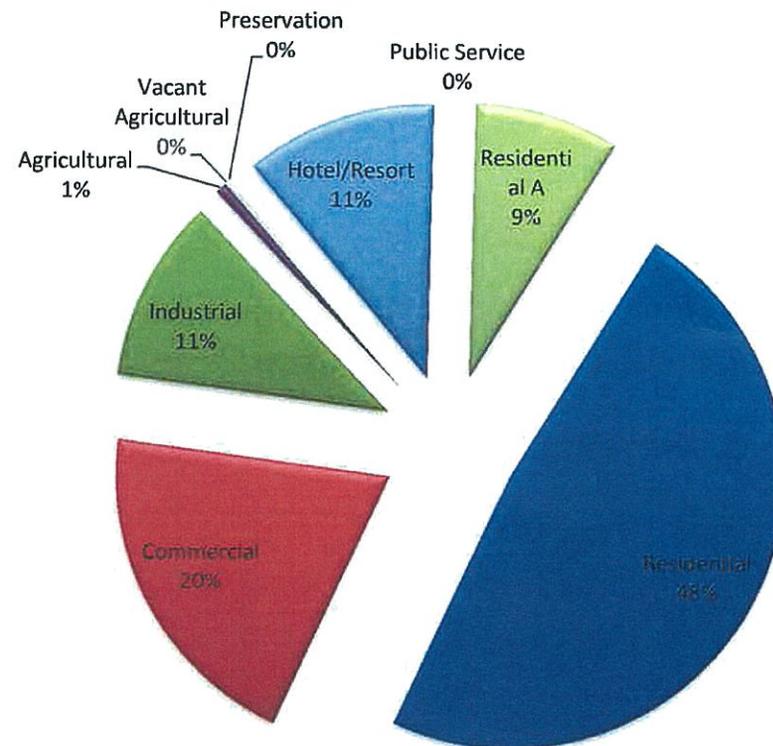


Net Valuation and Taxes Raised by Class

Net Valuation by Class (FY2015)



Taxes Raised by Class (FY2015)



Resolution 07-060, CD1: policy to set real property tax rates based on percentage of net revenue (55% residential and 45% non-residential excluding agricultural, vacant agricultural, preservation and public service)



Tax Benefit Provided by Exemptions

FY 2014 – 2015

(In Thousands of Dollars)

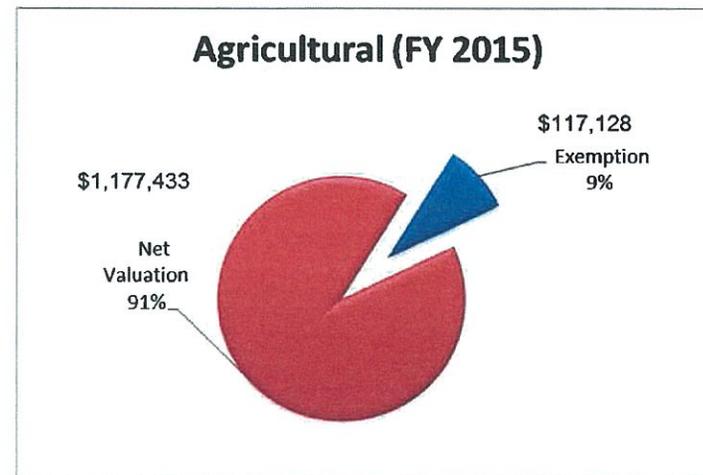
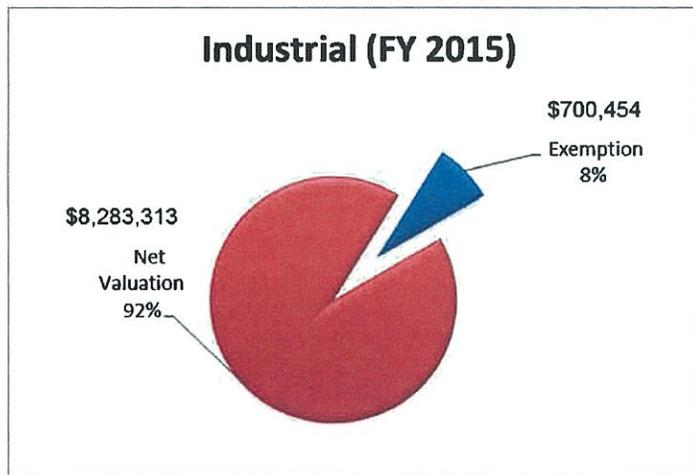
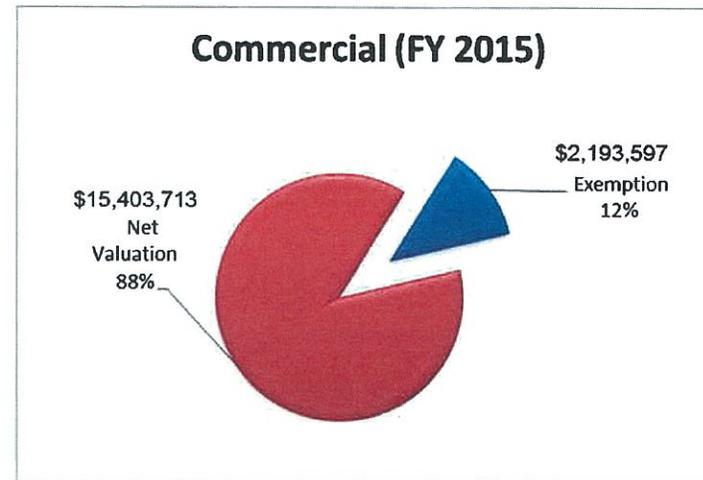
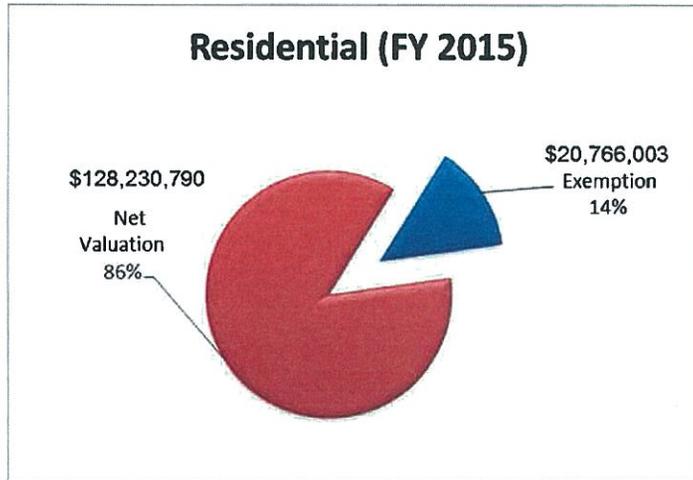
ROH Section	Type of Exemption	Count	Total Exempted Valuation	Tax Benefit
Taxable:				
8-10.4	Homes	140,582	\$14,028,533	\$49,100
8.10.6	Homes of totally disabled veterans	1,094	\$662,149	\$2,318
8.10.7	Persons affected with leprosy			
8-10.8	Persons with impaired sight or hearing and persons totally disabled	2,632	\$66,165	\$232
8-10.9	Nonprofit medical, hospital indemnity association	95	\$724,799	\$8,477
8-10.10	Charitable purposes	1,814	\$4,826,488	\$32,341
8-10.12	Crop Shelters	21	\$2,758	\$16
8-10.13	Dedication (Dedicated lands in urban districts)	9	\$24,879	\$318
8-10.15	Alternate energy improvements	8	\$348,687	\$4,324
8-10.20	Low-income rental housing	242	\$1,769,052	\$7,435
8-10.22	Dedication (Historic - Residential)	266	\$363,174	\$1,271
8-10.23	Other exemptions (Hawaiian Home Land Lease)	3,150	\$1,405,707	\$4,936
8-10.24	Credit Union	89	\$159,784	\$2,336
8-10.25	Slaughterhouses	1	\$2,583	\$15
8-10.27	Public service (Public utilities)	509	\$866,043	\$957
8-10.30	Dedication (Historic - Commercial)	7	\$27,150	\$337
8-10.32	Kuleana land	48	\$33,805	\$128
8-10.33	For-Profit Child Care Center	7	\$12,535	\$155
Subtotal (Taxable)		150,574	\$25,324,291	\$114,695
Non-taxable:				
8-10.17	Exemption - Public property (Federal - Fee)	391	\$6,347,953	\$43,338
8-10.17	Exemption - Public property (State - Fee)	3,294	\$12,311,974	\$104,562
8-10.17	Exemption - Public property (County - Fee)	2,140	\$5,055,870	\$35,380
8-10.17	Exemption - Public property (Civil - Condemnation)	28	\$38,352	\$384
8-10.17	Exemption - Public property (Roadway & Waterway)	3,059	\$14,320	\$71
8-10.17	Exemption - Public property (Setback)	1	\$298	\$0
8-10.17	Exemption - Public property (Foreign Consulates)	29	\$41,559	\$145
8-10.23	Other exemptions (Hawaiian Home Land - Fee)	457	\$545,483	\$2,826
8-10.23	Other exemptions (Hawaiian Home Lease - 7 years)	592	\$333,576	\$1,169
Subtotal (Non-taxable)		9,991	\$24,689,385	\$187,875
Total - Exemptions		160,565	\$50,013,676	\$302,570

For more detail, please refer to the Exemption by Type handout.



Net Valuation to Exemption by Class

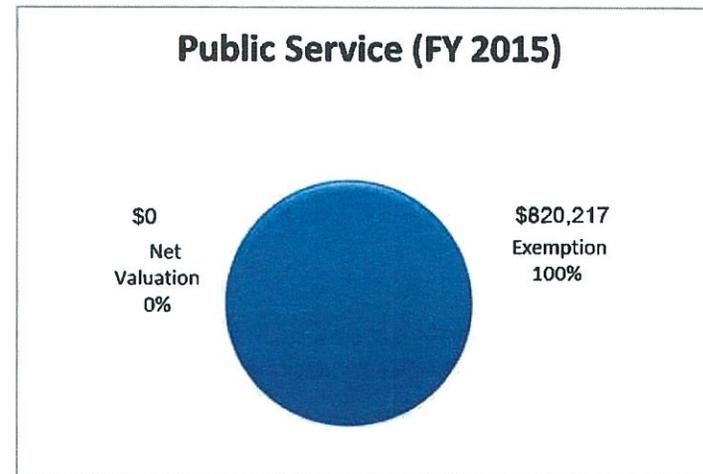
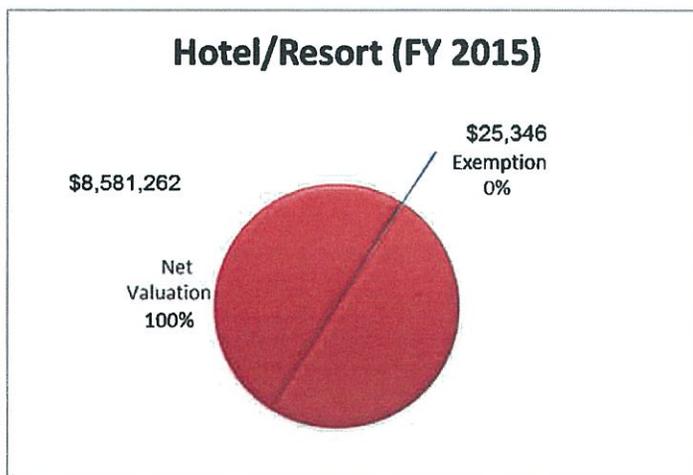
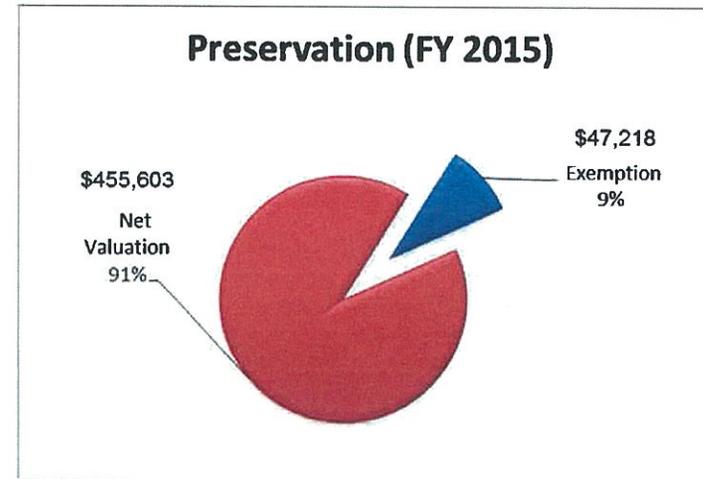
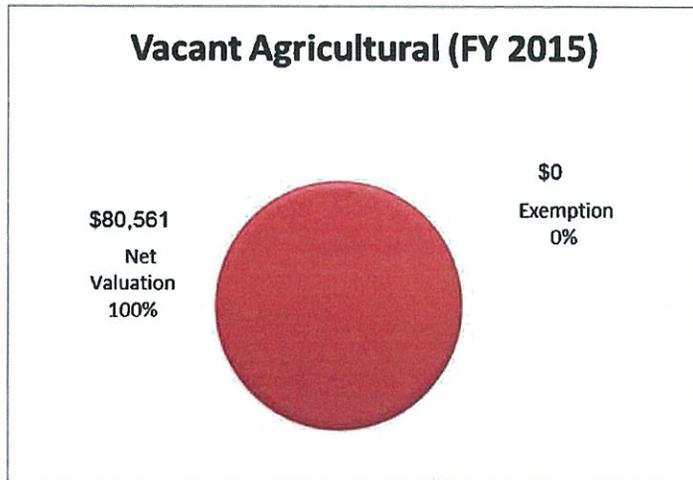
(In Thousands of Dollars)





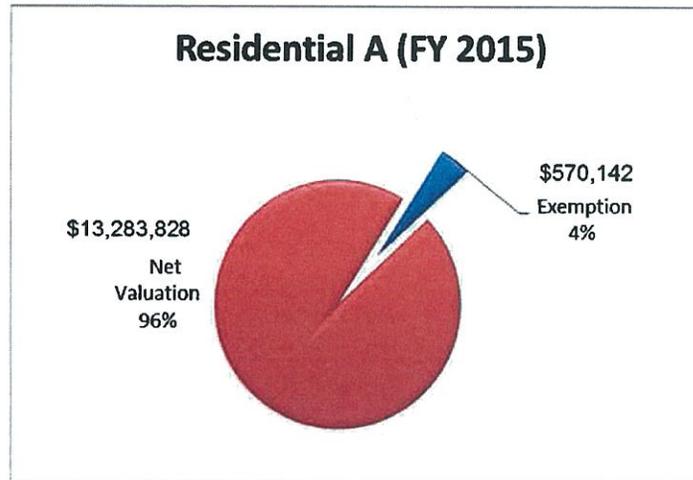
Net Valuation to Exemption by Class - continued

(In Thousands of Dollars)





Net Valuation to Exemption by Class ***- continued*** *(In Thousands of Dollars)*





Statistics on Dedications

FY 2014 – 2015

(In Thousands of Dollars)

<u>ROH</u>	<u>Dedications</u>	<u>Number</u>	<u>Land Value</u>			<u>Tax Benefit</u>
			<u>Market</u>	<u>Assessed</u>	<u>Difference</u>	
8-7.3	Dedication of lands for agricultural use - Agricultural	1174	\$2,125,762	\$185,114	\$1,940,648	\$11,062
8-7.3	Dedication of lands for agricultural use - Vacant Agricultural	126	\$139,242	\$80,510	\$58,732	\$499
8-7.4	Lands dedicated for golf course use		not available			
		<u>Tax Rate</u>				
		<u>Number</u>	<u>Non Residential</u>	<u>Residential</u>	<u>Difference</u>	<u>Tax Benefit</u>
8-7.5	Certain lands for residential use	331	\$12.40	\$3.50	\$8.90	\$2,984
		<u>Dedications Applied as Exemptions</u>				
		<u>Number</u>	<u>Exemption Amount</u>			<u>Tax Benefit</u>
8-10.13	Dedicated lands in urban districts	9	\$24,879	-	-	\$317
8-10.22	Historic - Residential	266	\$363,174			\$1,271
8-10.30	Historic - Commercial	7	\$27,150			\$337



County Tax Credit Program Statistics

	TAX YEAR							
	2006 Ord. 05-026 Ord. 06-08 Ord. 06-19	2007 Ord. 05-026 Ord. 06-08 Ord. 06-19	2008 Ord. 07-20 Ord. 07-30	2009 Ord. 07-20 Ord. 07-30	2010 Ord. 07-20 Ord. 07-30	2011 Ord. 07-20 Ord. 07-30	2012 Ord. 07-20 Ord. 07-30	2013 Ord. 07-20 Ord. 07-30
Total number of applications	3269	3269	2183	2716	2379	2731	2523	2584
Total number of homeowners who qualified	2496	2496	1804	2378	2122	2543	2095	2179
Total number of homeowners who benefitted	1687	1774	1489	1939	1646	2104	1773	1864
Total tax credits granted	\$1,438,017.45	\$1,654,285.27	\$1,483,991.89	\$2,091,450.92	\$1,668,452.65	\$2,084,999.49	\$2,028,472.66	\$2,031,042.60
Range of tax credits granted by parcel – Low	\$0.57	\$0.29	\$1.84	\$0.80	\$0.28	\$0.46	\$1.76	\$1.93
Range of tax credits granted by parcel - High	\$9,154.28	\$9,706.76	\$7,927.15	\$12,790.08	\$12,798.71	\$12,209.44	\$8,154.18	\$7,730.64

County Tax Credit History

Prior to Ordinance 03-28:

- (1) Tax relief was a refund instead of a credit.
- (2) Limited to certain low-income, elderly households whose household income did not exceed \$20,000.
- (3) Refunds must have been more than \$10 and less than \$500.

Ordinance 03-28:

- (1) Changed the refund to a tax credit.
- (2) Raised the household income limit to \$26,100.
- (3) Removed the \$10 minimum and \$500 maximum.
- (4) Imposed a minimum tax amount.

Ordinance 04-43:

- (1) Changed the \$26,100 income limit to the very low-income established by HUD for the applicable year.

Ordinance 05-026:

- (1) Removed the age restriction.
- (2) Changed the income limit from HUD's very low-income to \$50,000.
- (3) Lowered the threshold from 5% to 4% of the titleholders' combined income.

Ordinance 06-08:

- (1) Amended Ordinance 05-026.
- (2) Changed the effective date from July 1, 2007 to July 1, 2006.
- (3) Allowed applications filed for the tax year 2006 to be used for the tax year 2007.
- (4) Established other administrative provisions.

Ordinance 06-19:

- (1) Clarified the definition of "Titleholder."
- (2) Established other requirements related to filing an application.

Ordinance 07-20:

- (1) Added a provision for owners 75 years of age or older where the threshold for a tax credit would be 3% of the titleholders' combined income instead of 4% for those under the age of 75.

Ordinance 07-30:

- (1) Clarified the definition of "Income".
- (2) Established certain other administrative requirements.

Study of commercial class zones 1&2 based on data from Title Guaranty:

Prepared by Lucky Cole for the RPTAC 2014

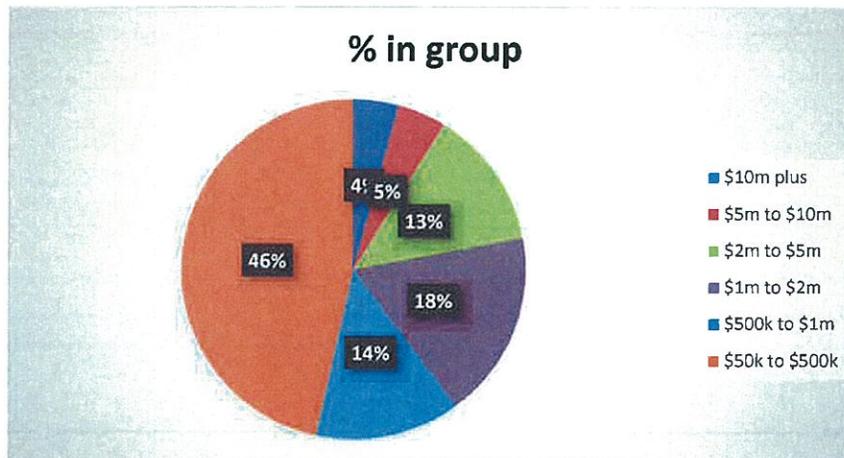
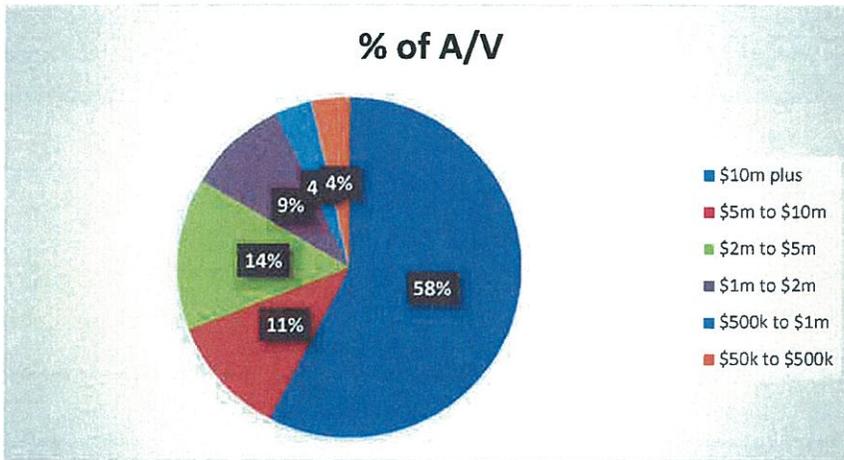
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Parcels with A/V >=\$50,000 and no exemptions

# in group	\$ of A/V	Average A/V	Group by A/V	% of A/V	% in group
91	\$3,455,753,300	\$37,975,311	\$10m plus	57.7%	4.2%
99	\$683,958,800	\$6,908,675	\$5m to \$10m	11.4%	4.6%
286	\$863,839,000	\$3,020,416	\$2m to \$5m	14.4%	13.2%
387	\$561,056,100	\$1,449,757	\$1m to \$2m	9.4%	17.9%
295	\$214,141,100	\$725,902	\$500k to \$1m	3.6%	13.6%
1007	\$214,013,800	\$212,526	\$50k to \$500k	3.6%	46.5%
2165	\$5,992,762,100	\$2,768,019.45			

385 \$2,395,242,600 Exempt or with A/V under \$50,000.
 2550 \$8,388,004,700 Total in Zones 1&2
 6283 \$17,597,309,000 Total in all commercial from BFS data
40.6% 47.7% Sample Size of Zones 1&2

4.2% of the parcels assessed over \$10 million account for 57.7% of the Assessed Value



Study of two rates for Residential class A to achieve revenue neutrality based on data from TG with exempt properties removed:
 Prepared by Lucky Cole for the RPTAC 2014
 10/26/2014 11:55

I. Forecasted impact if Council adopts Graduated Rate for 2015 tax year

Revenue neutrality is achieved at \$9.08 per thousand of A/V above \$1m.

"A" Group	#in Group	Revenue by group	Increase by group	Increase at \$9.08 >=\$1m	1st M at \$3.50	Taxes by group	Avg tax paid	Eff. rate	A/V in group	Avg A/V
\$5m plus	207	16.5%	23.0%	\$7,613,216	\$724,500	\$13,113,030	\$63,348	\$8.34	\$1,571,375,600	\$7,591,186
\$2.5 to \$5m	891	28.1%	35.6%	\$11,790,999	\$3,118,500	\$22,305,287	\$25,034	\$7.42	\$3,004,082,300	\$3,371,585
\$2m to \$2.5m	671	12.3%	13.8%	\$4,580,935	\$2,348,500	\$9,802,781	\$14,609	\$6.57	\$1,491,956,100	\$2,223,482
\$1.5m to \$2m	1,203	15.3%	14.8%	\$4,884,389	\$4,210,500	\$12,158,574	\$10,107	\$5.85	\$2,078,338,500	\$1,727,630
\$1m to \$1.5m	4,326	27.8%	12.8%	\$4,244,142	\$15,141,000	\$22,047,238	\$5,096	\$4.33	\$5,086,598,900	\$1,175,820
	7,298			\$33,113,681	\$25,543,000	\$79,426,911	\$10,883	\$6.00	\$13,232,351,400	\$1,813,148

Revenue neutrality is compared with the current flat rate of \$6.00 applied to the entire assessed value.
 The increase in revenue is based upon comparing with the \$3.50 flat rate for other residential properties.
 The effective tax rate shows how the two rate system achieves a rate based upon ability to pay and shifts the burden from tax payer in the lowest group.
 Over 5,000 parcels will pay less taxes with the graduated rate than under the current fixed rate plan.
 Note; this data does not reflect the owner occupant compromise which might effect up to 10% of the parcels.

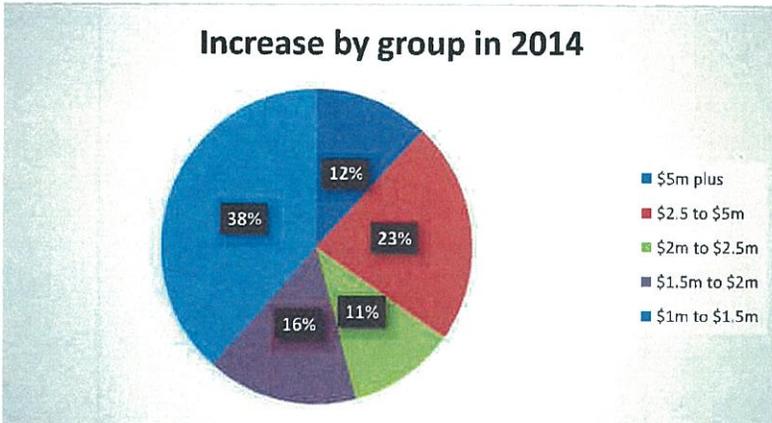
II. Actual Impact in 2014 based on the \$6.00 flat rate applied to the entire assessed value.

"A" Group	#in Group	Revenue by group	Increase by group	Tax Increase from 1st \$1m	Tax Increase above \$1m	total increase	Total Revenue
\$5m plus	207	11.9%	11.9%	\$517,500	\$3,410,939	\$3,928,439	\$9,428,254
\$2.5 to \$5m	891	22.7%	22.7%	\$2,227,500	\$5,282,706	\$7,510,206	\$18,024,494
\$2m to \$2.5m	671	11.3%	11.3%	\$1,677,500	\$2,052,390	\$3,729,890	\$8,951,737
\$1.5m to \$2m	1,203	15.7%	15.7%	\$3,007,500	\$2,188,346	\$5,195,846	\$12,470,031
\$1m to \$1.5m	4,326	38.4%	38.4%	\$10,815,000	\$1,901,497	\$12,716,497	\$30,519,593
	7,298			\$18,245,000	\$14,835,879	\$33,080,879	\$79,394,108

Effective and actual Rate are the same in 2014 at \$6.00 per thousand of Assessed value for Residential A.
 Note actual revenue neutrality is achieved at slightly less than \$9.08 per thousand of Assessed value above \$1m.

II. Actual Impact in 2014 based on the \$6.00 flat rate.

<u>"A" Group</u>	<u>Increase by group</u>
\$5m plus	11.9%
\$2.5 to \$5m	22.7%
\$2m to \$2.5m	11.3%
\$1.5m to \$2m	15.7%
\$1m to \$1.5m	38.4%



I. Forecasted impact if Council adopts Graduated Rate for 2015 tax year

<u>"A" Group</u>	<u>Increase by group</u>
\$5m plus	23.0%
\$2.5 to \$5m	35.6%
\$2m to \$2.5m	13.8%
\$1.5m to \$2m	14.8%
\$1m to \$1.5m	12.8%

