

TO: Commissioners of the Oahu Real Property Tax Advisory Commission

FROM: Natalie Iwasa, CPA, CFE  
808-395-3233

MEETING: Thursday, October 12, 2017

Aloha Chair Oshiro and Commissioners,

Thank you for volunteering to be on this commission. Some of you may be aware I frequently testify at city council meetings and in fact supported the resolution that is the basis for your appointments. Even so, I was unaware you had already had three meetings until I happened to check the Council's website and saw the agendas. I have since asked Todd Swisher to at least include the Commission on the city's email subscription list. I also sent an email to people I thought would be interested in providing input and posted your agenda on my Facebook page. Unfortunately I am unable to attend today's meeting but hope you will have time to review my written testimony before you make any decisions.

### Classifications

Residential A – Over 40% of residents of Honolulu are renters. As more and more properties fall into the Residential A classification, landlords are increasing rents and tenants are looking for cheaper places to live. This puts pressure on non-residential A properties and squeezes out those in the middle, i.e., those who are between subsidized cheaper rentals and those who can afford higher rents.

In an attempt to address some of the concerns with Residential A, the Council recently adopted a two-tiered rate. This does not address the fact that each year more properties fall into this category with the result that the owners pay higher taxes than regular residential properties. (Note that even before Residential A, landlords paid more, because they were not eligible for the homeowners exemption.) I think we all realize that it won't be too long before the median price of a single family home reaches \$1 million. Therefore, if you are going to recommend this classification continue, please consider recommending it be indexed to the median sales price.

Please also take a look at Bill 48, which would remove the Residential A classification and create a new one for Luxury apartment units.

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Commercial and Industrial

Consider combining these classes, as their rates have been the same for quite a while. In general, a simpler system is more efficient to run and therefore less costly.

Other Issues Not on Agenda

If you haven't already done so, I encourage you to read the reports from the 2011 and 2014 RPT Advisory Commissions. (Disclosure – I was a on the 2011 Commission.) In addition, I've attached minutes from meetings of the 2011 Commission that were never posted on the Council's website. Items in red on the October 27, 2011, minutes were suggested corrections that I made. Please note the 2011 Commission was never provided with minutes for its November 8, 2011, meeting.

If you have time, please also look at properties that pay no tax due to public use. This applies to properties such as narrow parcels that provide public access to beaches. In some cases public access may be cut off, but the owners continue to benefit from no tax.

If you have questions, please feel free to call me.



## **MEETING MINUTES**

### **REAL PROPERTY TAX ADVISORY COMMISSION**

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TUESDAY, SEPTEMBER 26, 2011  
CITY COUNCIL MEETING ROOM  
2<sup>nd</sup> FLOOR  
HONOLULU HALE

Members Present: Paul Brewbaker, Vice Chair  
Roland Casamina  
Amy Hirano  
Natalie Iwasa  
Lisa Maruyama  
Joseph Paikai

Members Absent: Lowell Kalapa

1. The meeting was called to order at 12:30 p.m.
2. Approval of the minutes from the August 29, 2011 meeting was postponed to the October 10, 2011 meeting.
3. The Commission identified its primary goal is to ensure revenue adequacy for the city. There was no consensus whether the Commission's present scope includes recommending how to fulfill that need.

Commissioners noted that Resolution 11-143, FD1, directs the Commission to focus on "classes, exemptions, credits..." The Commissioners agreed to focus on exemptions, especially as they relate to Historic Homes and Non-Profits.

As time permits, the Commission may address classifications, low income credit, and homeowner exemptions. These topics may arise naturally as the primary discussion of Historic Homes and Non-Profits develops.

4. The Commissioners discussed "Criteria for a Good Tax System" will use the six elements (equity, adequacy, stability, efficiency, simplicity, competitiveness) as filters for discussion. The Commissioners debated which of the six criteria should be given the most priority.
  - a. Historic Homes -- The Department of Budget and Fiscal Services noted that of the 255 parcels the Historic Home exemption, 117 were non-compliant and there were 11 voluntary withdrawals from the program.

Can 255 homes make a material difference in terms of adequacy?  
Historic Homes revenue is \$1 million out of \$800 million. Nevertheless, the equity of historic homes paying only the minimum real property tax is of concern to the Commission.

- b. Non-Profits – BFS reported that non-profits make up approximately \$49 million of the total \$800 million. This amount is more significant to overall revenue adequacy; but Commissioners raised concerns over the unintended consequences of amending the present system which may place a greater tax burden on the property owners.
5. Commissioners requested BFS add another column to the “page 15” spreadsheet which shows by percentage the proportion of total revenue that each exemption represents.
- BFS to provide a primer on the Historic Homes exemption, then and now.
6. The following topics may be included in the Commission's report, if time permits:
- a) Tax Compromises; and
  - b) Recommendations and comments on administrative process.
7. Next Meeting – Monday, October 10, 2011 at 12:30 p.m.

The Real Property Tax Advisory Commission generally meets bi-weekly on the Mondays at 12:30 p.m. Future meetings dates, subject to the call of the Chair, are as follows:

Monday, October 24, 2011  
Tuesday, November 8, 2011  
Monday, November 21, 2011  
Tuesday, December 6, 2011

8. The meeting adjourned at 1:53 p.m.

Submitted by: Paul Brewbaker, Vice Chair  
cclbc@honolulu.gov



## **MEETING MINUTES**

### **REAL PROPERTY TAX ADVISORY COMMISSION**

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TUESDAY, OCTOBER 10, 2011  
CITY COUNCIL MEETING ROOM  
2<sup>nd</sup> FLOOR  
HONOLULU HALE

Members Present: Lowell Kalapa, Chair  
Roland Casamina  
Amy Hirano  
Natalie Iwasa  
Joseph Paikai

Members Absent: Paul Brewbaker, Vice Chair  
Lisa Maruyama

1. The meeting was called to order at 12:40 p.m.
2. Minutes from the September 13, 2011 meeting were approved.  
Minutes from the September 26, 2011 meeting were approved, as corrected.
3. The Chair noted communication was received from the Hawaii Credit Union League and Ms. Holly Huber.
4. The Commission suggested removing the following home exemptions in ROH Sec. 8-10.4, for fairness, adequacy, and simplicity:
  - a. Disabled Veterans
  - b. Hansen's Disease
  - c. Blind
  - d. Deaf
  - e. Totally Disabled
  - f. In lieu of (age based)

These exempted property owners could apply for the real property tax income based credit. Real Property Tax Assessment Division noted increased credit applications may increase Treasury's workload.

Also suggested for repeal is ROH Sec. 8-10.16, personal property tax. The state had a personal property tax through 1946. The City does not.

Similar to personal property and could also be considered for repeal are the ROH sections which deal with Pollution Control Facilities (8-10.14), Alternate Energy Facilities (8-10.15), and Paper and Pulp Manufacturing (8-10.11).

5. The Commission requested the Real Property Tax Assessment Division (RPTAD) provide the following information:

◆ Non-Profits

- a. A sampling of 5-10 large and small non-profits comparing their real property tax burdens, on the land valuation only, if assessed at:
- i. the current valuation and rate versus
  - ii. 10% of the current valuation

RPTAD stated there are approximately 1,709 non-profit properties. RPT and the Chair noted that valuation of non-profit properties, especially the building component, may not be up to date because non-profits currently pay the minimum tax, thus the calculation for comparison on the land only.

- b. The rates and zoning of non-profit properties. What is the zoning versus the use of the property? Are non-profits being taxed at the commercial rate, residential rate, or other? Should there be a new rate for non-profits?
- i. RPTAD reiterated that properties are taxed at their highest and best use.

◆ Historic Homes

- c. A similar comparison of land and building valuations of historic homes assessed at:
- i. the current valuation and residential rate of \$3.50 versus
  - ii. 10% of the current valuation

◆ Homeowner Exemptions

- d. What is the revenue neutral rate if the \$80,000 homeowner exemption is removed? *i.e.* – How low could the current RPT homeowner rate of \$3.50 go?
- e. How much additional revenue is generated if the homeowner exemption is lowered to \$40,000?
- f. The cost of administering and maintaining the homeowner exemption program.

6. Circuit breaker – Approximately 2,000 people who have applied qualify for the current low income credit of \$50,000. Should the \$50,000 figure be increased? Commissioners recalled the council discussed amending the \$50,000 threshold when it heard Bill 9 (2009), which was filed on February 18, 2011 pursuant to ROH Sec. 1-2.4.
7. The Chair and RPTAD noted the following real property exemptions cannot be amended or repealed:
  - a. Hawaiian Homes
  - b. Kuleana lands
  - c. Consulates
  - d. Utilities
8. Discussion for a future meeting developed which asked if all non-profits should be treated the same? Are charitable 501(c)(3) non-profits the same as credit unions, labor unions, etc. Where does the City or the Council draw the line?

Commissioner Iwasa volunteered to examine how the IRS's Internal Revenue Code treats the various non-profit classes differently. Is a (c)(3) materially different from a (c)(6)?

9. Next Meeting – Monday, October 24, 2011 at 12:30 p.m.

The Real Property Tax Advisory Commission generally meets bi-weekly on the Mondays at 12:30 p.m. Future meetings dates, subject to the call of the Chair, are as follows:

Tuesday, November 8, 2011  
Monday, November 21, 2011  
Tuesday, December 6, 2011

10. The meeting adjourned at 1:58 p.m.

Submitted by: Lowell Kalapa, Chair  
cclbc@honolulu.gov



## **MEETING MINUTES**

### **REAL PROPERTY TAX ADVISORY COMMISSION**

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TUESDAY, OCTOBER 27, 2011  
CITY COUNCIL MEETING ROOM  
2<sup>nd</sup> FLOOR  
HONOLULU HALE

Members Present: Lowell Kalapa, Chair  
Roland Casamina  
Amy Hirano  
Natalie Iwasa  
Lisa Maruyama  
Joseph Paikai

Members Absent: Paul Brewbaker, Vice Chair

1. The meeting was called to order at 12:37 p.m.
2. Minutes from the October 10, 2011 meeting were approved, as corrected.
3. The Chair noted communication was received from Ms. Holly Huber and the following credit unions: HIUSA, UHFCU, and HCCU. In addition, Commissioner Iwasa provided several spreadsheets for discussion regarding credit unions, non-profits, and miscellaneous exemptions.

The Department of Budget and Fiscal Services (BFS) provided the following information requested at the previous meeting regarding:

- a. the "revenue neutral" estimated tax rate for residential properties if the home exemption and disability exemptions were repealed;
- b. estimated tax savings for residential properties if the reduced "revenue neutral" rate is implemented because of the elimination of the home exemption;
- c. the impact of reducing the exemption from 100% to 90% on a sampling of non-profit properties; and
- d. the impact of reducing the exemption from 100% to 90% on several categories of exempt properties.

In comparing the estimated tax savings for residential properties if the reduced "revenue neutral" rate is implemented, homeowners of lower valued properties who are older than 65 years will see the largest increase and homeowners of

high valued properties who are younger than 65 years will see the largest benefit. Commissioners concurred that expensive homes will always realize the greatest tax savings when rates are decreased.

4. The Real Property Tax Advisory Commission (RPTAC) may suggest to the Council the concept of an "assessment ratio" but not the actual percentage rate. For purposes of illustration, the RPTAC asked BFS to calculate the examples based on a 90% exemption. The RPTAC feels the Council should determine the percentage of exemption should it concur with using an assessment ratio to calculate the real property tax. It was noted that exemptions may create apathy in that the owner of the exempted property no longer cares as much about public services provided through the RPT collected. The cost of city services such as police, fire, and trash collection to service exempted properties is the same as properties that are not exempt. An assessment ratio injects a certain amount of scale into the real property values.

Alternatively, the Council could look at increasing the minimum tax from the current \$300 to a higher value.

5. The RPTAC examined Commissioner Iwasa's spreadsheet comparing various types of non-profits currently receiving a 100% exemption. BFS explained ROH 8-10.10 originally came over from the state from HRS § 246-32 whose title was "charitable, etc. purposes." BFS further explained that it uses many criteria to determine a non-profit's tax status including, but not limited to, the organization's articles of incorporation, mission statement, dissolution clause, and IRS letter of determination. The RPTAC suggests using the IRC as a guideline for determining a group's non-profit status.

The RPTAC seemed in agreement that 501(c)(3) non-profits should continue to receive a tax exemption because they provide a societal benefit. Section 501(c)(3) of the Internal Revenue Code lists, in part, the following exempt purposes: charitable, educational, religious, and scientific.

Schools (ROH 8-10.10(b)(1)), churches (ROH 8-10.10(b)(3)), and hospitals (ROH 8-10.10(b)(2)) are separated in the current ordinance and could continue to be or could be consolidated into a single ROH section which references 501(c)(3) exempt organizations.

Alternatively, there could be two broad classifications and rates for non-profits: charitable (501(c)(3)) and non-profits other (501(c)(everything else)).

6. The RPTAC suggested the removal of the following non-profit and miscellaneous exemptions:

Non-Profit

- a. Cemeteries 501(c)(13) (ROH 8-10.10(b)(4))
- b. Labor Unions 501(c)(4) (ROH 8-10.10(b)(6))
- c. Credit Unions 501(c)(1) or 501(c)(14) (ROH 8-10.10(b)(6) and ROH 8-10.24)
- d. Social Services/Social Welfare 501(c)(4)

Miscellaneous

- e. Property used in manufacture of pulp and paper (ROH 8-10.11)
- f. Air pollution control facility (ROH 8-10.14)
- g. Alternate energy improvements (ROH 8-10.15)
- h. Fixtures used in manufacturing or producing tangible personal products (ROH 8-10.16)
- i. Slaughterhouses (8-10.25)
- j. Kuleana land (ROH 8-10.32)
- k. For-profit group child care centers (ROH 8-10.33)

The foregoing are in addition to the RPTAC's previous suggestion to remove the following home exemptions in ROH Sec. 8-10.4:

- a. Disabled Veterans
  - b. Hansen's Disease
  - c. Blind
  - d. Deaf
  - e. Totally Disabled
  - f. In lieu of (age based)
7. The RPTAC thinks it would be most efficient to re-write ROH Sec. 8-10.10 for simplicity and clarity and would appreciate the Office of Council Services or Corporation Counsel offering its insight on the best method to achieving the desired ordinance language. Council Chair Martin's office will assist the RPTAC in clarifying this issue.

Similarly, the personal property exemption sections, ROH 8-10.11, 8-10.14, 8-10.15, and 8-10.16, may also benefit from repealing the current language in its entirety and starting from scratch to reflect current facilities and uses.

8. With the suggested removal of the various homeowner exemptions, RPTAC would like a representative from the Department of Information Technology (DIT) to discuss possible ways to make the low income tax credit application and filing process less onerous.

Council Chair Martin's office will check on the availability of DIT to attend a future meeting.

9. The RPTAC requested BFS/RPTAD provide background, clarification, and definitions for the following two sections:
  - a. ROH Section 8-10.12 – Crop shelters
  - b. ROH Section 8-10.31 – Qualifying agricultural improvements for dedicated vacant agricultural lands

The RPTAC also asked BFS/RPTAD if ROH Sections 8-10.20 (Low-income rental housing) and 8-10.28 (Additional terms and conditions for exemption of low-income rental housing projects on Hawaiian home lands) can be consolidated into one section. The department suspects the criteria may be different for these sections but will look into it.

10. Next Meeting – Tuesday, November 8, 2011 at 12:30 p.m.

The Real Property Tax Advisory Commission generally meets bi-weekly on the Mondays at 12:30 p.m. Future meetings dates, subject to the call of the Chair, are as follows:

Monday, November 21, 2011  
Tuesday, December 6, 2011

11. The meeting adjourned at 2:07 p.m.

Submitted by: Lowell Kalapa, Chair  
cclbc@honolulu.gov