

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
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February 13, 2018

The Honorable Joey Manahan, Chair
and Members
Committee on Budget
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Manahan and Councilmembers:

SUBJECT: Bill 3 (2018)

The Department of Budget and Fiscal Services (BFS) is opposed to Bill 3 which establishes a formula to periodically adjust the threshold of assessed value that qualifies properties for the Residential A real property classification. The bill would increase volatility in real property taxation, and would likely require increases in other revenues, or cuts in services to mitigate its effect on revenues.

The bill adjusts the Residential A Tier 1 and Tier 2 thresholds by the ratio of the median assessed value of all properties classified Residential or Residential A as of October 1 of the preceding tax year, to the median assessed value of all properties classified Residential or Residential A as of October 1 two tax years prior. The use of a ratio based on the median assessed value is likely to create more volatility because the median value will vary depending on the distribution as well as the overall changes in assessed values.

In an increasing market, the threshold amount will increase, resulting in decreases in real property tax revenue which the City depends on to pay for the core services that are provided for residents and visitors. For example, if Bill 3 was in effect beginning in FY2015, the City would have earned approximately \$20 million less in real property tax revenues during the 3 year period from FY2016 to FY2018 and the estimated revenues from Residential A for FY2019 would be less by \$9.7 million. The City would have to make up the revenue loss in the General Fund by increasing the tax rate for the Residential A class or other classes of real property, increasing other fees or taxes, or cutting services.

Under this scenario, the number of Residential A properties would decrease by almost 20% in FY2016 from 8,557 properties without Bill 3 to 6,856 properties if Bill 3 were enacted. The magnitude of the change shows how volatile the changes in classification could become under Bill 3. Residential property owners without a home exemption would have no certainty

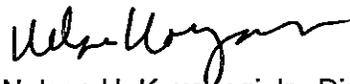
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from year to year on whether their property would be classified as Residential A. Although assessed values have been increasing in recent years, during times of decreasing assessed values, Bill 3 could result in increases in the number of properties in the Residential A class. The property owners who are added to the Residential A class would face an increase in their taxes while the assessed value of their property could decrease. This situation could lead to taxpayer frustration and an increase in complaints as well as appeals.

If the City Council passes Bill 3, it will affect General Fund revenues and could negatively impact services to the public. It will also increase the volatility of real property taxes and arbitrarily change the classification of real property. If you have any questions, please call me at 768-3901.

Sincerely,



Nelson H. Koyahagi Jr., Director
Budget and Fiscal Services

APPROVED:



Roy K. Amemiya, Jr.
Managing Director