

**OAHU REAL PROPERTY TAX ADVISORY COMMISSION  
VALUATION COMMITTEE – REVISED AND UPDATED RECOMMENDATIONS  
Thursday, November 21, 2019 (6 pages)**

Our Task

On September 4, 2019, the council unanimously approved amending Resolution 17-122, which set forth the scope of the Oahu Real Property Tax Advisory Commission, including “valuation methodologies.” Specifically, the Commission is tasked with conducting a “systematic review of the City’s real property tax system’s valuation methodologies, classes, exemptions, credits, and minimum property tax, using such standards as equity and efficiency.”

Commission members were assigned to one of several committees to research, discuss and make recommendations applicable to the topic(s) they covered.

Valuation Committee

The Valuation Committee was comprised of members Natalie Iwasa, Chair, Scott Higashi and Earl Mente. We met on September 5 and 18 and October 10 and 24. We also briefly met after the full Commission meeting on November 7 to further discuss the income method of valuation. Steven Takara, Administrator of the Real Property Assessment Division (RPAD), attended two of the five meetings, and Gary Kurokawa, Chief of Staff to the Mayor and former Administrator of RPAD, attended one.

Concerns Noted and Discussed

Several people testified regarding valuations of their properties and others in their area. People do not understand how valuations are done. The lack of transparency is creating confusion and frustration on the part of taxpayers.

The Valuation Committee was unfortunately unable to complete its work in the area of a comprehensive review of the real property tax valuation methodologies. This is because the Administration refused to answer any of the questions submitted by the Committee, as evidenced by the on-record testimony at the Commission meeting of September 19, 2019. The Administration cited their fear that the potential misinterpretation of their answers to the Committee’s questions would jeopardize the outcome of pending appeals. This reasoning is specious.

Property value is a critical part of the equation in determining property tax owed. It is worth noting that the City only provides a notice of *value*, and *not* taxes owed, prior to the start of a new tax year. The questions posed by the Committee (see Appendix A) are general in nature and scope, and were designed to provide the Commission and the public reasonable transparency as to the valuation methods and process used by the City to determine property values. Taxpayers have a right to clearly understand how properties are valued and are owed full and complete transparency by the taxing authority. The Committee was not given full and complete transparency, and therefore, neither are taxpayers. The solution provided by the Administration in their testimony was that a taxpayer should appeal if they are unhappy with or disagree with the City’s valuation of their property.

In addition to its questions, the Committee filed Freedom of Information Act (FOIA) requests to the Administration to gain access to documents that would help provide transparency to the Commission. These requests were denied by the Administration, with the exception of one item for which they stated the fee would be \$46.25. (See Appendix A for timeline and details of requests made.) This buttresses the Committee's conclusion that the Administration has not provided complete transparency in to the property tax valuation methodology or process.

What is troubling about the Administration's refusal to answer the Committee's questions is the strong inference that the Administration is concerned that they will not prevail on pending appeals if they answer the questions the Committee posed. If in fact the process of valuation is proper and is objectively performed, then no appeal should be impacted by answering general questions about valuation. What is clear is that the valuation process used by the City is unclear to taxpayers and is not transparent. It also appears that the City does not provide sufficient resources for a taxpayer to have a level playing field if they disagree with their valuation and therefore their property taxes, instead inviting an appeal in a very short window to gain access to information that is both helpful and critical to the taxpayer to understanding the valuation process.

Revised Ordinances of Honolulu (ROH) Sec. 8-7.1 currently allows two methods of valuations. It states:

Valuation--Considerations in fixing. (a) The director of budget and fiscal services shall cause the fair market value of all taxable real property to be determined and annually assessed by the market data and cost approaches to value using appropriate systematic methods suitable for mass valuation of real property for ad valorem taxation purposes, so selected and applied to obtain, as far as possible, uniform and equalized assessments throughout the county.

We noted during our discussions that the income method of valuations is also recognized as a valid method of valuing income-producing properties. The Honolulu City Council has had discussions regarding the income method of valuation, but concerns were brought up about the lack of data. It was noted in Committee discussions, however, that on a case-by-case basis, this could be a valid method used by individuals who disagree with the assessed value of their property.

### Recommendation 1

People should be able to find out the basis for government decisions. While the City has a good start with a list of Frequently Asked Questions (FAQs) on its website and an improved property search feature, more needs to be done. We therefore recommend the city increase its efforts at educating the public as follows:

- Explain the two types of valuation methods the City uses – market approach and cost approach;
- Explain the difference between mass and individual appraisals;
- Provide list of examples of common attributes used;
- Explain that land values are estimated and depreciation is considered for improvements;

- Provide a hypothetical property valuation and include a copy of the related MK127; and
- Include links to the Revised Charter of the City and County of Honolulu and Revised Ordinances of the City and County of Honolulu as applicable.

Appeals were mentioned several times as recourse for taxpayers who thought their property values were too high. The City does have a page for appeals information, but it currently states “Unavailable.” We also therefore have recommendations regarding education on that process:

- Provide a timeline for taxpayers, so it is clear when appeals take place;
- Include the requirements for appealing, e.g., assessment increased more than 10% over the prior year; and
- Explain why the page is currently “Unavailable.”

A couple of other suggestions are as follows:

- On the FAQs page, list the questions covered and provide links to the answers; and
- Fix the links that go to the real property tax calculation.

### Recommendation 2

We recommend the income method of valuation be recognized by the Honolulu RPAD as a valid method for property owners to use when requesting the city to review their appraisals either through discussions with the office or in formal appeals. This recommended change would apply to commercial, industrial and hotel properties.

**OAHU REAL PROPERTY TAX ADVISORY COMMISSION  
VALUATION COMMITTEE  
APPENDIX A**

**August 8, 2019** – Oahu Real Property Tax Advisory Commission forms committees, including Valuation Committee

**August 12, 2019** – Email notice from Steven Takara, Administrator of the Real Property Assessment Division (RPAD), “note provision (3) [of Resolution 17-112], which may not include the valuation process (review of the Marshall & Swift/Corelogic cost factor system and the income approach). If true, this subcommittee may have been tasked to review components of the real property tax system outside the desired scope.”

**August 15, 2019** – Letter dated August 14, 2019, received from Council Chair Ikaika Anderson expressing concern Commission is “exceeding the scope of its charge” and recommended the Commission discuss an amendment to the resolution with Council.

**August 15, 2019** – Resolution 19-199 introduced by Councilmember Kobayashi. Resolution adds “valuation methodologies” to the list of items to be reviewed by the Commission.

**August 30, 2019** – In anticipation of adoption of Resolution 19-199 and Committee meeting September 5, 2019, following information was requested of Steven Takara:

- Please provide a schedule comparing assessed values for the last five years by property classification and area on Oahu;
- Please provide a copy of the contract with Marshall and Swift;
- Please provide a copy of the Marshall and Swift (or CoreLogic) manual and a summary description of how the model has been implemented, e.g., source of and assumptions about construction costs on Oahu;
- What is the estimated cost to implement the income approach to valuations?
- Could the income approach be used for select properties such as multi-family structures, office , commercial, industrial, short term rentals, etc. instead of blanket of all properties?
- Do you have ideas for sources of data that could be used for the income approach?

**September 4, 2019** – Resolution 19-199 unanimously adopted by Council.

**September 5, 2019** – Committee meeting. Steven Takara did not attend or provide requested information.

**September 19, 2019** – During full Commission meeting statement from Steven Takara that he

will not attend Committee meetings or respond to questions because it may jeopardize real property tax appeals.

**September 20, 2019** – Freedom of Information Act Request filed for “A copy of the current or most recent contract with CoreLogic that covers the Marshall & Swift Valuation software and/or services.”

**September 23, 2019** – Freedom of Information Act Request filed for:

1. Marshall & Swift - CoreLogic Residential and Commercial Valuation Service Cost Manual;
2. Marshall & Swift - CoreLogic – Request for proposal or other procurement solicitations for Marshall & Swift-CoreLogic valuation services; and
3. Contract price for Marshall & Swift-CoreLogic valuation services.

**September 27, 2019** – Denial of September 20, 2019, request received from Department of Budget & Fiscal Services (BFS), Purchasing Division because “The City does not have a contract with CoreLogic.”

**September 30, 2019** – Freedom of Information Act Request for “Current or most recent contract or agreement with Marshall & Swift, provider of valuation services.”

**October 7, 2019** – Denial of September 23, 2019, request received from BFS because:

1. For item 1 -- “Government record must be confidential to avoid frustration or [sic] government functions-confidential commercial/proprietary information.”
2. For items 2 and 3 – “See 9/27/2019 Notice to Requester”

**October 10, 2019** – Valuation Committee meeting. Steven Takara and Gary Kurokawa, former Administrator of RPAD and current Chief of Staff to Mayor Caldwell attended. Position of City remains that they are concerned about real property tax appeals and providing requested information to the committee.

**October 16, 2019** – Received response dated October 14, 2019, regarding September 30, 2019, request for contract with Marshall and Swift Valuation Software and/or Services. Request to be granted in its entirety after payment of \$41.75 by cashier’s check. Full amount to be charged \$46.25. Fee waiver request of \$60 for public interest was not granted, even though the stated public purpose was that it was for the Commission.

**October 17, 2019** – Full Commission meeting. Discussion regarding October 10, 2019, Valuation Committee meeting. Minutes and audio recording are available here at <http://www.honolulu.gov/council/bc/real-property-tax-advisory-commission.html#>.

**October 21, 2019** – Email to BFS from Committee Chair Iwasa with the following questions:

- If the document will be provided in its entirety, why are review and segregation fees being charged?
- Was the public interest discount denied? If so, why? Please note this request is made on behalf of the Oahu Real Property Tax Advisory Commission.
- The document will be emailed to me. Why are coping fees being charged?

**October 24, 2019** – Committee met and agreed upon recommendations in report.

**November 1, 2019** – Response from BFS: “The OIP Request you submitted [September 30, 2019] came from you and not from a government entity, therefore all charges apply. For the fees to be waived, an OIP has to come from a government entity.”

Committee Chair Iwasa called BFS Purchasing, and it was confirmed request would have to come from a government agency in order for fee waiver to apply. Other questions were not answered.

**November 6, 2019** – Committee Chair Iwasa visited the Purchasing Division of the Department of Budget and Fiscal Services and was informed by a supervisor that the September 30, 2019, request for the “Current or most recent contract or agreement with Marshall & Swift, provider of valuation services” would have to come from a governmental agency in order to have all fees waived.

Iwasa was further informed that if such a request could be made before the next day, they would do their best to fulfill it. (Note the original request stated it was for the Oahu Real Property Tax Advisory Commission.)

Iwasa filed the revised request approximately 11:30 p.m.

**November 7, 2019** – Full commission meeting. No response from the administration.

**November 12, 2019** – Committee Chair Iwasa visited the Purchasing Division and was told by office staff that the request had not been received.

**November 13, 2019** – Message sent to the Department of Budget and Fiscal Services.