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CITY COUNCIL
HONOLULU, HAWAII

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February 15, 2006

The Honorable Donovan Dela Cruz, Chair
City Council
City and County of Honolulu
Honolulu, Hawaii 96813

BY FACSIMILE: 527-6910

Dear Chair Dela Cruz and Council Members:

Subject: Testimony on Bill No. 12, Relating to Limits on Real Property Taxation

My name is Dean Uchida, Executive Director of the Land Use Research Foundation of Hawaii (LURF), testifying in regard to Bill No. 12 Relating to Limits on Real Property Taxation.

The purpose of Bill No. 12 is to establish a new way of setting real property tax rates so that initially, the average real property tax bill for each property, as well as the revenues derived from each class of property, is unchanged from year to year, adjusting for inflation. This is to provide greater stability in real property taxes for both property owners and the City. Under the bill, the Council establishes the preceding year as the "base year" and will show adjustments made to the real property taxes based on the preceding year. Any changes greater than 10% or the estimated inflation adjustment will require more discussion and public input. The Council and Mayor reserve the right to propose different rates.

As indicated in our prior testimony, we support the intent of the Council's actions to provide real property tax relief for the residents of Honolulu. Tax assessed values, over the last three year period has gone up over 15% the first year, and over 20% the last two years. Without an adjustment in the tax rate, property owners will see a corresponding increase in their real property taxes.

This bill recognizes that the tax assessed real property values are a reflection of the economy, and go up and down with the market. The assessed values, simply provides a mechanism for government to collect revenues to pay for government services. In very simplistic terms, the Mayor and Council approve a budget which reflects the priorities of government services to be provided. The bulk of the funding for the programs in the budget is generated from the revenues collected through real property taxes.

Bill No. 12 provides a "safety value" to stabilize real property taxes for residents. We believe that the discussion must also involve not only how revenues are generated but also how the revenues are spent. The discussion should focus on the budget priorities and the appropriate or proportionate share that each class should pay based on the services provided.

Misc. Com. No. 0501
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The following table is compiled from data from the Real Property Tax Division, City and County of Honolulu website. The revenues are for fiscal year 2005-2006. Improved residential and apartments comprise 90% of the total number of records or parcels, yet account for roughly 60% of the total real property tax revenues. Commercial, Industrial and Hotel/Resort represent 5.75% of the total number of records or parcels, yet account for 37.72% of the total real property tax revenues. While it may appear that improved residential and apartments are getting a break, the reality is that those costs incurred by commercial, industrial and hotel/resort businesses are passed on to the Honolulu consumer. Ultimately, residents pay.

Land Use Class	# of Records	% of Total # of Records	Rate ($)	Revenues ($)	% of Total	25% Increase ($) in Assessed Value
Residential (Improved)	148,402	56.54%	$3.75	$256,782,277	44.14%	$320,977,846
Apartment	94,610	36.04%	$3.75	$92,516,977	15..90%	$115,646,221
Commercial	6,070	2.31%	$11.37	$109,358,740	18.80%	$136,698,425
Industrial	3,840	1.46%	$11.37	$56,536,574	9.72%	$70,670,718
Hotel/Resort	5,188	1.98%	$11.37	$53,533,677	9.20%	$66,917,097
Agricultural	2,315	.88%	$8.57	$6,307,305	1.08%	$7,884,132
Vacant Agricultural	30	.01%	$8.57	$290,240	.05%	$362,800
Preservation	801	.31%	$9.57	$3,475,134	.06%	$4,343,918
Residential (Unimproved)	748	.28%	$5.72	$3,000,185	.52%	$3,750,232
Public Service	475	.18%	0	0	0	0
Total	262,479			$581,801,109		$727,251,389

In a booming and growing economy, it may be an opportune time to reassess our view of the role of government. Clearly defining our expectations on the level of government services provided at the county level allows us to properly budget for these services. Reducing expenses hopefully moves us towards a reduction in taxes. Right sizing government when the economy is doing well allows people who work in programs that may not be a priority at this time to secure employment elsewhere. With a 2.5 % unemployment rate, people with marketable skills should find employment opportunities quickly.

It is a time to think long-term by not only investing in infrastructure for our future but "right-sizing" government services at levels that are sustainable in both good and bad economic times.

Thank you for this opportunity to express our views.