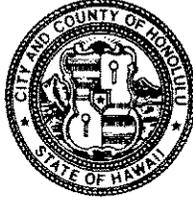


OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU

530 SOUTH KING STREET, ROOM 300 * HONOLULU, HAWAII 96813
PHONE: (808) 523-4141 * FAX: (808) 523-4242 * INTERNET: www.honolulu.gov



MUFI HANNEMANN
MAYOR

WAYNE M. HASHIRO, P.E.
ACTING MANAGING DIRECTOR

TRUDI S. SAITO
DEPUTY MANAGING DIRECTOR

March 10, 2006

The Honorable Donovan Dela Cruz, Chair
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

RECEIVED

MAR 10 7 53 AM '06

CITY CLERK
HONOLULU, HAWAII

Dear Chair Dela Cruz and Councilmembers:

I am returning, unsigned, Bill 12, CD1, FD2, which proposes to annually determine the initial real property rates based on adjusting for the City's uncontrollable costs.

While the intent of the measure is to ensure that revenues realized from real property taxes do not outpace what are determined to be government's uncontrollable costs, this bill presents a number of technical challenges that preclude me from signing it into law. However, I commend the Council for your efforts to provide the public with a degree of transparency and accountability on the cost of core government operations and services.

I am also hopeful that the recently established Tax Policy Advisory Committee will provide recommendations and guidance to the Council and my administration on future tax legislation.

Sincerely,

A handwritten signature in black ink, appearing to read "Mufi Hannemann", with a long horizontal flourish extending to the right.

Mufi Hannemann
Mayor

Attachments

Mayor's Message No. 041



A BILL FOR AN ORDINANCE

RELATING TO LIMITS ON REAL PROPERTY TAXATION.

BE IT ORDAINED by the People of the City and County of Honolulu:

SECTION 1. The purpose of this ordinance 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 the city's uncontrollable costs. This is to provide greater stability in real property taxes for both property owners and the city, helping to insulate both from wide swings in property valuations due to market forces. The mayor or the council may still propose different tax rates.

SECTION 2. Section 8-11.1, Revised Ordinances of Honolulu 1990, is amended to read as follows:

"Sec. 8-11.1 Real property tax—Determination of rates.

- (a) Unless a different meaning is clearly indicated by the context, as used in this section[.]:

"Base tax year" means the tax year immediately prior to the budgeted tax year.

"Budgeted tax year" means the tax year beginning July 1 from which real property tax revenues are to help finance the proposed legislative and executive budgets.

"Class of property" means a class of real property established in accordance with section 8-7.1(c).

"Estimated uncontrollable cost adjustment" means a factor representing costs that the city is mandated or obligated to pay.

"Initial tax rate" means the preliminary tax rate for a class of property as determined in section 8-11.1(b).

"[net] Net taxable real property" means the fair market value of property determined pursuant to this chapter which the director of budget and fiscal services certifies as the tax base as provided by ordinance less exemptions as provided by ordinance and, in all cases where appeals from the director's assessment are then unsettled, less 50 percent of the value in dispute.



A BILL FOR AN ORDINANCE

"Tax rate" means the dollar amount of tax levied under this chapter per \$1,000.00 of net taxable real property, computed to the nearest cent.

(b) The council shall annually set the tax rate or rates in accordance with this subsection for the classes of real property established in accordance with subsection 8-7.1(c). A resolution setting the tax rate or rates shall be adopted by the council during the same meeting at which the applicable legislative and executive budget bills are passed on third reading. The tax rate or rates shall be set according to the following procedures[:]. The procedures provide for initial tax rates for the net taxable real property within each class of property to be established by the director. The initial tax rates are established in a way that the average real property tax liability within each class of property does not change in the budgeted tax year compared to the base tax except for the estimated uncontrollable cost adjustment only.

(1) Tax rates for all taxable classes of property shall be initially established by the director using the following method:

(A) The director shall establish the estimated change in the operating uncontrollable costs of the city and county of Honolulu, expressed as a percentage of the base tax year's total net tax liability of all classes.

(B) The director shall determine the average tax liability for each class of property for the base tax year as follows: sum the net tax liability for the base tax year of all parcels within the class, then divide the result by the total number of tax parcels in the class;

(C) The director shall then determine the average tax liability for each class of property for the budgeted tax year as follows: adjust the figure determined under paragraph (B) by the estimated uncontrollable cost adjustment;

(D) The director shall then determine the amount to be raised by the initial tax rate for each class of property for the budgeted tax year as follows: multiply the figure determined under paragraph (C) for each class of property by the total number of tax parcels in the class for the budgeted tax year; and

(E) The director shall then determine the initial tax rate per \$1,000.00 of net taxable real property in each class of property for the budgeted tax year as follows: divide the figure determined under



A BILL FOR AN ORDINANCE

paragraph (D) for each class of property by the assessed valuation of net taxable real property within each class of property for the budgeted tax year, then multiply the result by 1,000, then round the result to the nearest cent.

- (2) The mayor may propose to the council that the initial tax rates be adopted or be increased or decreased for any class of property. The tax rates proposed by the mayor shall be set forth in the form of a resolution transmitted to the council at the same time that other revenue measures for the budgeted tax year are transmitted.
- (3) Upon receipt of the mayor's proposed tax rate resolution, the council may adopt the initial tax rates, the mayor's proposed tax rates, or propose new rates.
- (c) (1) The council shall advertise its intention to set the tax rate or rates and the date, time and place of a public hearing in accordance with law. The date of the public hearing shall be not less than 10 days after the advertisement is first published and shall set forth the proposed tax rate or rates to be considered by the council.
- (2) After the public hearing provided for in subdivision (1) of this subsection, the council shall readvertise and reconvene to adopt a resolution setting the tax rate or rates for the tax year for which property tax revenues are to be raised. The advertisement shall state the rate or rates proposed to be set and the date, time and place of the meeting scheduled for setting the rate or rates. The date, time and place of the meeting shall also be announced at the public hearing required by subdivision (1) of this subsection.
- (3) If, after adopting an increase or decrease in the tax rates as provided by subdivisions (1) and (2) of this subsection, the council determines that it requires a further increase or decrease in tax rates, the council shall readvertise and follow the requirements of subdivisions (1) and (2) of this subsection.
- [(c) The council shall set the tax rate for each class of real property for a tax year by using the following method:
- (1) Net taxable real property within each class shall be assigned a percentage of the total revenue to be derived from all real property.



A BILL FOR AN ORDINANCE

- (2) The percentage of revenue to be raised from net taxable real property within each class shall be multiplied by the total revenue to be raised from all real property in order to determine the amount of revenue to be derived from that class.
- (3) The amount of revenue to be raised from each class shall be divided by the net taxable real property of that class to determine the applicable tax rate. The tax rate shall be expressed as a dollar amount per \$1,000.00 of net taxable real property.]
- (d) The council shall notify the director of budget and fiscal services of the tax rate or rates set for a tax year before the commencement of that tax year. Upon receipt of the notification, the director shall use the rate or rates in the levying of property taxes as provided by this chapter.
- (e) The director of budget and fiscal services shall, on or before February 1st preceding the tax year, furnish the council with a calculation certified by the director as being as nearly accurate as [may be,] possible of the net taxable real property within the [county] city, separately stated for each class established in accordance with [Section] subsection 8-7.1(c) plus such additional data relating to the property tax base as may be necessary. The director shall include the [sum of the value] amount of all tax credits granted under Article 13 for the current tax year and the amount of all tax credit denials appealed during the current tax year as part of the information required by this subsection.
- (f) Insofar as the validity of any tax rate is concerned, the provisions of subsection (e) of this section as to dates shall be deemed directory; provided, that all other provisions of this section shall be deemed mandatory.
- (g) 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 \$100.00 a year, except for properties exempt under Section 8-10.27 and except as provided in Section 8-10.28(b)(2)."



A BILL FOR AN ORDINANCE

SECTION 3. This ordinance shall take effect upon its approval.

INTRODUCED BY:

Donovan Dela Cruz

Ann Kobayashi

DATE OF INTRODUCTION:

January 19, 2006
Honolulu, Hawaii

Councilmembers

APPROVED AS TO FORM AND LEGALITY:

[Signature]
Deputy Corporation Counsel

APPROVED this _____ day of _____, 2006.

MUFU HANNEMANN, Mayor
City and County of Honolulu

(OCS/022306/ct)

CITY COUNCIL
CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII
CERTIFICATE

ORDINANCE

BILL 012 (2006)

Introduced: 1/19/06 By: DONOVAN DELA CRUZ

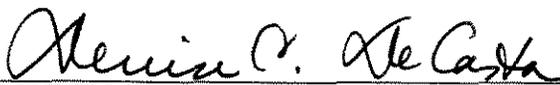
Committee:

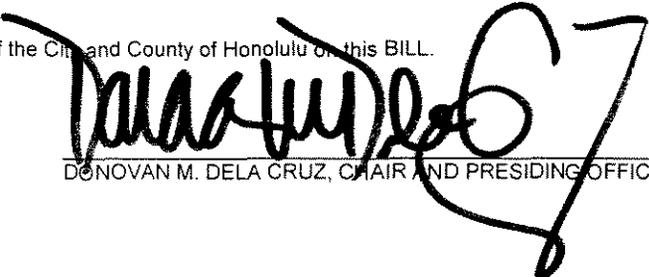
Title: A BILL FOR AN ORDINANCE RELATING TO LIMITS ON REAL PROPERTY TAXATION.

Links: [BILL 012 \(2006\)](#)
[BILL 012 \(2006\), FD1](#)
[BILL 012 \(2006\), FD1, CD1](#)
[BILL 012 \(2006\), CD1, FD2](#)
[CR-59](#)

Council	1/25/06	Bill passed first reading and referred to Committee on Budget. Apo Y Cachola Y Dela Cruz Y Djou Y Garcia Y Kobayashi Y Marshall Y Okino Y Tam Y
Budget	1/26/06	Bill deferred in Committee.
Budget	02/01/06	CR-59 - Bill reported out of committee for passage on second reading and scheduling of a public hearing.
Publish	2/4/06	Public hearing notice published in the Honolulu Star-Bulletin.
Council/Public Hearing	2/15/06	CR-59 adopted. Bill amended to FD1 on the Council floor and subsequently passed second reading, as amended (Bill 12, FD1); public hearing closed and referred to Budget Committee. Apo Y Cachola Y Dela Cruz Y Djou Y Garcia Y Kobayashi Y Marshall Y Okino Y Tam Y
Budget	2/16/06	CR-93 - Bill reported out of committee for passage on third reading as amended in FD1, CD1 form.
Publish	2/18/06	Second reading notice published in the Honolulu Star-Bulletin.
Council	2/23/06	CR-93 adopted. Bill further amended to CD1, FD2, on the Council floor and subsequently passed third reading, as amended (Bill 12 CD1, FD2). Apo Y Cachola Y Dela Cruz Y Djou Y Garcia Y Kobayashi Y Marshall Y Okino N Tam Y

I hereby certify that the above is a true record of action by the Council of the City and County of Honolulu on this BILL.


DENISE C. DE COSTA, CITY CLERK


DONOVAN M. DELA CRUZ, CHAIR AND PRESIDING OFFICER