MINUTES

FINANCE & ECONOMIC DEVELOPMENT COMMITTEE

September 13, 2023

A meeting of the Finance & Economic Development Committee of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Ross Kagawa, Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Wednesday, September 13, 2023, at 9:06 a.m., after which the following Members answered the call of the roll:

Honorable Addison Bulosan
Honorable Bernard P. Carvalho, Jr.
Honorable Felicia Cowden
Honorable Bill DeCosta
Honorable Mel Rapozo
Honorable Ross Kagawa

Excused: Honorable KipuKai Kuali'i

The Committee proceeded on its agenda item, as shown in the following Committee Report, which is incorporated herein by reference:

CR-FED 2023-10: on Bill No. 2901 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(RPT Reform Tax Year 2024)* **(Approved as Amended.)**

The Committee proceeded on its agenda items as follows:

Bill No. 2902 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(RPT Reform Tax Year 2025)* **(This item was Amended to Bill No. 2902, Draft 1, and Deferred to November 8, 2023.)**

Councilmember Cowden moved to recommend approval of Bill No. 2902 on second and final reading, seconded by Council Chair Rapozo.

Council Chair Rapozo: Committee Chair Kagawa.

Committee Chair Kagawa: Go ahead.

Council Chair Rapozo: Okay, this Bill is not time-sensitive. So, it is the intent that we can ultimately defer this. There is the twenty percent (20%) Bill on here. Nothing in this Bill will happen until the next tax year. So, the one we just passed will impact the next tax year, and this one will be for the following tax year—so, two (2) years down the road.

Committee Chair Kagawa: What is the pleasure of the Committee? Councilmember Kuali'i is out, unfortunately. Do you folks want to just defer it until he comes back? That would be my preference.

Council Chair Rapozo: I guess it would be a good idea to have the Administration come up and go through it the same way.

Committee Chair Kagawa: Alright.

Council Chair Rapozo: And then...

Committee Chair Kagawa: And then we can...

Council Chair Rapozo: I am not going to make any...because it is going to be deferred and if it will not be deferred...I am going to be asking for a deferral until November 8th, I believe...

Committee Chair Kagawa: Alright.

Council Chair Rapozo: ...because there is some more of the twenty percent (20%) cap that I still want to do, but that would be my "ask" that we defer, at the end of the day, to November 8th.

Committee Chair Kagawa: Do you want to hold off on the amendments or do you folks want to work through the amendments?

Council Chair Rapozo: No, I mean, if there are amendments, it is a good idea to go through it now.

Committee Chair Kagawa: Alright.

Council Chair Rapozo: Are there any amendments on this one?

Councilmember DeCosta: I have two (2) amendments.

Committee Chair Kagawa: Okay, do you want to introduce it?

Councilmember DeCosta: Sure. I have a housekeeping amendment...

Council Chair Rapozo: Can the Administration come up first?

Committee Chair Kagawa: Let us have the Administration come up first on the main Bill and you folks can ask some questions first, and then Councilmember DeCosta can introduce his amendments.

There being no objections, the rules were suspended.

STEVE HUNT, Executive Assistant to the Mayor: Bill No. 2902. Are we going to put this up on the screen, as well, just so people can follow? Section 1 of the Bill is a proposal to reduce the percentage of eligibility from one hundred percent (100%) to eighty percent (80%) for disabled veterans and this would be qualified for fully disabled. So, we are creating a new definition of fully disabled. The Veterans Administration (VA) is the one who provides the actual report to us as part of the application, so we would be then vetting anyone who comes in with eighty percent (80%) listed on that accreditation of the disabled...and it has to be during service, so it is a disability acquired either during service or after service, but related to the time that they were in service. It is not just combat veterans, it is any disabilities that are related, but has to be eighty percent (80%) or above. And for those, these are transferrable to either the spouse or civil union partner until such time they remarry and they currently do not have to be within the state; that they are actually transferrable between states. They can come in and bring in that disability with them and that entitles them to minimum tax.

Section 2 is also relates to disabled veterans and it adds to our existing program for other disabilities, which include blind, deaf, disabled from mobility—those types of injuries. It would include anyone that is below eighty percent (80%), so basically one percent (1%) to seventy-nine point ninety-nine percent (79.99%), I believe they go in either ten percent (10%) increments or whole amounts, but so anyone who has the VA certification on the disability would then be entitled to a flat exemption amount of fifty thousand dollars ($50,000) to come off the value of their property. The Administration supports both of these. We do not know the financial impact because practically we do not know how many people are going to apply and be awarded these, but just in philosophy, we are supportive of our veterans and would like to give additional recognition.

Section 3 was a recommendation by the Administration that was included in this Bill and it is essentially increasing the amounts that would qualify to be part of the Home Preservation limit. These were stale-dated numbers. The income amount and the qualifying value amount have not changed since the Bill was originally approved. Therefore, this would move the minimum property value to qualify from seven hundred fifty thousand dollars ($750,000) to one million dollars ($1,000,000) and the allowable income limits would be increased from one hundred thousand dollars ($100,000) to two hundred thousand dollars ($200,000) gross income for all owners on property. This is an in lieu of tax, so it is not minimum tax. They pay a percentage of the income that is reported—their gross income. It is three percent (3%) of the gross income in lieu of property taxes, and this one has a floor, the minimum tax is a little higher on this of five hundred dollars ($500), so it cannot go below five hundred dollars ($500), but you pay on a percentage of your income. Also supportive. Obviously, we recommended it, so we are supportive.

Section 4. This is a proposal that actually, I would call it in conjunction with Section 5. This proposal is looking at reducing the qualifying long-term affordable rental rent limits from ninety percent (90%) area median income (AMI) to eighty percent (80%) AMI and in the next section, Section 5, we are looking at creating a new exemption for anyone between just over eighty percent (80%) and up to one hundred percent (100%) of area median income to get one hundred fifty dollar ($150,000) exemption. If we look at the current tax rate of five dollars and forty-five cents ($5.45) for Residential currently, that equates roughly to about eight hundred seventeen dollars and fifty cents ($817.50) for that exemption amount in credit for their bill.

Section 6. This is similar to what we discussed on Section 10 on the prior Bill. This is the removal of the three percent (3%) assessment cap floor, which would be for our homeowners either in the new Owner-Occupied class, which include the Long-Term Affordable Rentals, as well we the ones that are in our Owner-Occupied Mixed Use, which is formerly known as Commercialized Home Use. This would allow, again, when the market does decrease, that the values can drop down lower than just a three percent (3%) drop year-over-year. We also recommended this and are supportive of this.

Section 7. Section 7 would add a twenty percent (20%) assessment cap to all properties other than the ones that are capped under the three percent (3%) program. This is a Council recommendation and the Administration, in concept, is not supportive of this. I think we have explained some of the reasons we believe historically the properties that are going to benefit the most from this are going to be your condotels, your condominiums, your resorts, investor-type properties. We acknowledge that the market as a whole has moved and that estate properties and oceanfront properties, including those that are Non-Owner-Occupied, by some of our local residents that own second properties have been impacted by this, but our position also is we do not try to create policy for a handful. We look at the total category and that is our concern that we may be throwing the baby out with the bath water by including this policy. Also, just from an administrative standpoint, there are approximately twenty thousand (20,000) of our thirty-four thousand (34,000) parcels that would fall into this category that are not Owner-Occupied with the exemption. So those would have to be reviewed annually, because part of the current proposal requires the Real Property Tax Office to look at changes to the property that are not covered by the cap and these would be if someone starts the cap but then does a thousand (1,000) square foot addition to the property, or renovates the property, or subdivides the property, or consolidates with another property, or rezones the property; all these potential changes to the property are not covered by the twenty percent (20%) cap and have to be looked at manually. The system can flag them to say that these characteristics have changed from year-to-year, so we know which ones to look at, but it is going to be a very large workload to calculate what that potential non-capped amount would be. Speaking on behalf of Mike Hubbard and his office, I know it is a big lift to do that.

The remaining sections, Sections 8, 9, 10, and 11, essentially are perfunctory requirements to pass bills. They are really are not any changes in there. That covers the initial Bill No. 2902.

Council Chair Rapozo: So all are in support, except for Section 7.

Mr. Hunt: We also have concerns on Section 5, the creation of a new program, which is the one hundred fifty thousand dollar ($150,000) exemption. We do not know what the volume of applications are going to be for this. Currently in our Long-Term Affordable Rental Program, we have approximately one thousand five hundred (1,500) participants. Opening it up to a larger category between eighty percent (80%) to one hundred percent (100%) AMI, best guestimate based on some calls with rental agents and knowing what those 2025 rent levels are going to be, we anticipate somewhere in the neighborhood of three thousand (3,000), maybe, possibly as high as five thousand (5,000) applications. From personnel, from an office space management, we cannot process this with existing resources. While it can be done, it would have to be included with some budget for personnel and for space, basically a money bill.

Committee Chair Kagawa: Council Chair Rapozo.

Council Chair Rapozo: I thought in our discussion, that we had Sections 4 and 5 pretty much had to...maybe I just misunderstood because you do support Section 4, right? The eighty percent (80%).

Mr. Hunt: Yes.

Council Chair Rapozo: I thought I heard you say when we met prior to today's meeting that Sections 4 and 5 kind of worked together?

Mr. Hunt: They do. They do work together because I think if we were supporting lowering it, that we would need another vehicle to accommodate—I am just, from an implementation standpoint now, there are concerns that in order to do this, we need resources to do it. If the resource is not there, we are not opposed to it necessarily, if we approve it, but do not give Mr. Hubbard and his office the staff to do it, then we have set ourselves up to fail.

Council Chair Rapozo: Right. So, approving Section 5, I am sorry, approving Section 4 without Section 5 does not make sense and approving Section 5 without Section 4 does not make sense. In my opinion. You folks are the experts, but it kind of goes hand-in-hand.

Mr. Hunt: Agreed. And as long as there is an acknowledgment that Section 5 does come with challenges for implementation.

Council Chair Rapozo: Okay. Thank you.

Mr. Hunt: From a revenue standpoint, depending on, again, at eight hundred seventeen dollars and fifty cents ($817.50) per at the current rate not factoring in who might be in tiers and different rates, but just assuming all one rate right now, if we received approximately three thousand (3,000) applications, we are talking about two point four million dollars ($2,400,000) in revenue give-back.

Committee Chair Kagawa: Okay. Councilmember Cowden.

Councilmember Cowden: When we look at Sections 4 and 5, it is a little bit similar except to the lower number to what I had suggested in the next Bill No. 2903. So my understanding is the next Bill No. 2903, you cannot implement it, because it is just too much work. I mean, help me understand the difference here other than that it has a different threshold.

Mr. Hunt: The substantial difference the way I see it, by opening it up to one hundred forty percent (140%) AMI, then certainly more people would potentially now qualify for it. The bigger concern I think was, having relived Residential Investor, creating its own tax class and moving those parcels out into a new tax class, by default creates another Residential Investor for those that are not in that class renting long-term and then we deal with some of the same issues in terms of, "I did not know I had to apply" and "I could not re-rent it because I was renovating it at the time the application was due." A lot of things we do not want to relive.

Councilmember Cowden: Alright, I get that. Kind of, just again, stuck back on that twenty percent (20%) because the twenty percent (20%) helps to do that difference between one area that is doubled or tripled. The rest of the areas, so you know, the twenty percent (20%) I guess would be addressing my concern more.

Committee Chair Kagawa: Are there further questions?

Councilmember Carvalho: Just so I am clear, Section 4 through Section 7, would mean additional staffing?

Mr. Hunt: I am sorry, which sections?

Councilmember Carvalho: Seven 7. Sections 4, 5, and 7.

Mr. Hunt: Section 7, yes, Sections 5 and 7 are the two (2) big lifts. Right? Because now...

Councilmember Carvalho: That is the basic...

Mr. Hunt: Correct. The twenty percent (20%) means, if it were twenty percent (20%) and any change in property kicked you back out, and you did not have the protection, which I am sure people are not going to say, "I renovated the bathroom and now I got a one hundred percent (100%) increase in my value and it was capped at twenty percent (20%)." But in order for us to make sure that we are allowing the changes to be captured as non-capped amounts, the staff has to review every property to see year-to-year what were their changes done and so you start with the assessment from last year, you add the twenty percent (20%) cap, and then you look were there any changes outside of the cap that allowed increases above that so they can absorb the cap, plus their non-capped amount. That is a lot of work. They do it currently for those that are participating in the three percent (3%) cap, which is also a lot of work, but this is adding twenty thousand (20,000) more parcels to do that. Basically, you are taking your entire tax base and saying, "thirty-four thousand (34,000) parcels a year, see if there are any changes, and if there are any changes, were they capped or not capped?" That is a large lift and then for the Rental Program under Section 5; is just the volume of potential applicants and whether they are coming in annual three-year leases at a time and typically people wait for the last minute to drop them in. I can tell you like for our Long-Term Lease (LTL) Program, I was trying to get some figures when we were looking at the eighty percent (80%) drop from ninety percent (90%) to eighty percent (80%) to see who might be impacted by being lower than that. We only have eight hundred seventy-six (876) applicants. Currently, we have about one thousand five hundred (1,500) from last year in 2023. We anticipate roughly another five hundred (500) to six hundred (600) still to come between now and the 30th of this month. Everyone does kind of wait until the last minute to do their applications. From a work management standpoint, it makes it difficult because it is not staggered throughout the year, it is all dumped at one time.

Committee Chair Kagawa: Are there any further questions? Seeing none. Is there anyone from the public wishing to speak on Bill No. 2902? None?

There being no one present to provide testimony, the meeting was called back to order, and proceeded as follows:

Councilmember DeCosta: I have two (2) floor amendments. One is just housekeeping.

Committee Chair Kagawa: Okay.

Councilmember DeCosta moved to amend Bill No. 2902 as circulated, and as shown in the Floor Amendment which is attached hereto as Attachment 1, seconded by Councilmember Cowden.

Committee Chair Kagawa: Councilmember DeCosta stated this is housekeeping. Clarifying the assessment cap, sounds good. Self-explanatory?

Councilmember DeCosta: Yes, pretty much, just a typographical error.

The motion to amend Bill No. 2902 as circulated, and as shown in the Floor Amendment which is attached hereto as Attachment 1 was then put, and carried by a vote of 6:0:1 *(Councilmember KipuKai Kuali'i was excused).*

Committee Chair Kagawa: Next amendment, Councilmember DeCosta.

Councilmember DeCosta moved to amend Bill No. 2902 as circulated, as shown in the Floor Amendment which is attached hereto as Attachment 2, seconded by Councilmember Cowden.

Committee Chair Kagawa: Thank you. Councilmember DeCosta, you have the floor.

Councilmember DeCosta: This is going to address our twenty percent (20%) cap that I actually was the one that voted against this 6:1 and I tell you folks why, but I think that with this amendment we can fix this and assure all the categories that you want to give a tax relief to, we can. This amendment... basically the way it is right now, we have an assessment cap on the Homeowner's Exemption properties and the Long-Term Affordable Rental properties. But we have a group of long-term rentals that do not fall into the affordable that is a second property that Councilmember Cowden made a good point that if the assessed values raise without the cap, they will push that cap on the renters, so how do we stop that? I would like to introduce this amendment, which now captures the twenty percent (20%) cap on the Non-Owner-Occupied Residential category, which means now those people who own a second home who are renting it out not as a long-term rental, but as just a rental, they are going to have a twenty percent (20%) cap. We are going to have one more category that falls into this a twenty percent (20%) cap. The reason I wanted to introduce this and not just to the twenty percent (20%) cap across-the-board is I wanted to let you folks know per the Department of Finance, who is our experts, said that condominiums, hotels, you are talking about resort, timeshares, and the large estates, they are also going to get a twenty percent (20%) cap. A lot of those people are not local people who own timeshares. A lot of those people who own resorts or hotels are very wealthy, privatized companies or individuals, and the large estates, and I want to use this as an example for you folks. There is a sale going on right now. A very large landowner is selling hundreds of acres to another very wealthy landowner on the North Shore. They are making a sale and it is in escrow right now. The adjacent property to the new homeowner that is in escrow is going to be affected by that high sale price, but that landowner is a billionaire. They own over one thousand (1,000) acres on the North Shore. So now we are going to give that billionaire a twenty percent (20%) cap. With this new amendment, we are going to take care of the three (3) categories, which are the most important. I learned this from listening to you folks, I am very receptive: (1) Homeowner, they get the three percent (3%) cap; (2) Commercial Home Use and Long-Term Rental with the County program, they are protected; (3) which is Councilmember Cowden's thing, and Council Chair's thing that the second investor homes that are not on the long-term rental for renting in your geographic area, we are afraid that if the assessed value is too high and the property taxes goes up, that they are going to push it on the renters. We do not want that to happen. This new amendment is going to capture that category and at the same time is going to allow our Department of Finance and us to tax the people that should pay the taxes, who is your condominiums, your timeshares, your resorts, and your very large wealthy landowners. Thank you.

Councilmember Cowden: Can I talk to the Department of Finance?

Committee Chair Kagawa: Yes, you may. You have the floor, Councilmember Cowden.

Councilmember Cowden: When it is twenty percent (20%) for all things, that felt unmanageable by your office. Would this be somehow manageable?

There being no objections, the rules were suspended.

Mr. Hunt: I just pulled out the counts to see how many were in Residential and Residential Investor which are merged now to be this one (1) category. There were seven thousand four hundred thirty-nine (7,439) properties in Residential and one thousand six hundred fifty-two (1,652) properties in Residential Investor. So we are talking nine thousand ninety-one (9,091) properties. It cuts a little bit more than half of what we would have to review.

Councilmember Cowden: Okay. And then when there is Commercial, I am just thinking about shopping centers for a moment. How many shopping centers—because that seems to be something that gets impacted—how many shopping centers do we have that are Commercial? Is Commercial different than Resort? How big is Commercial?

Mr. Hunt: I do not have that...I know it is a very small percentage of the value base. The Residential and Residential Investor class together from the...I do know this...that represents roughly between thirty-three percent (33%) and thirty-four percent (34%) of our tax base from a valuation standpoint.

Councilmember Cowden: What does?

Mr. Hunt: The Residential which...

Councilmember Cowden: Yes, thirty-three percent (33%).

Mr. Hunt: Yes, which is now the Non-Owner-Occupied Residential including the Residential Investors, about thirty-four percent (34%), roughly.

Councilmember Cowden: Okay. That is my question.

Mr. Hunt: Commercial is a much smaller amount.

Councilmember Cowden: Much smaller.

Committee Chair Kagawa: Do we have any idea how many workers we may need in addition to carry out this work that is going to be created by this amendment?

MIKE HUBBARD, Real Property Tax Manager: I believe, as Mr. Hunt has referenced earlier today, the International Association of Assessing Officers (IAAO) suggested we need at least eleven (11) more staff just to do values. This would be, if we do not hire more staff to do values, the staff that should be doing values will be having to do this. We would definitely need four (4), and I think I would be conservative to make things sort of management, but that is a difficult question when we were provided this just a few minutes ago.

Committee Chair Kagawa: Yes, I know. I know it is hard to answer. At least four (4).

Councilmember Cowden: I have a follow-up. What we learned that made this so hard is when we need to look if people have another house on the property, put another floor on, add another bedroom, have their septic updated. Is there some way that piece of the pie can be made simpler or is that pretty difficult? Do you have any idea how many people improve their properties? Is it a significant amount? I keep thinking databases should be able to cross-reference it to some degree, but I am just trying to think if there is another way to simplify it.

Mr. Hubbard: I can potentially ask the Building Division to see how many building permits we get annually. I am not aware.

Councilmember Cowden: Okay. Well a good thing is that we have, it sounds like another month or two to keep working on this.

Committee Chair Kagawa: Are there any further questions? Go ahead, Council Chair Rapozo.

Council Chair Rapozo: I just find it difficult to believe that with today's technology we cannot find a system, maybe it is by hiring a software engineer or software designer and not buying from these companies that say, "Here this is a cookie cutter and this is what we can do and we really cannot do anything else outside the scope," which is really horrible. I mean, I am finding that out for the first time in all my years. I cannot imagine we cannot have a designer come in and design exactly what we need and a lot of this should be automated, I mean, we know how many building permits we have. The computers already tell us the values of those permits. I cannot imagine how we cannot get a system in place where we can automate that. It just baffles my mind when I can go on my telephone right now and type out Chat GPT and find out anything and that thing is amazing and I know we have talented people even here on-island that are software people that can design this kind of program. Maybe it is not something we can do overnight, but someday we have to explore designing a program that is specific to Kauaʻi and our needs because the price we are going to pay for four (4) more employees or five (5) more employees over the years could be actually save by purchasing a program that can do that work. That is baffling me right now. We are being told, "No we cannot because of the software limitations." Okay, then we need a new software. I guess just my "ask," if we could explore that option of having someone come in and actually design us a program. Your folks needing data from permitting and Real Property. That would be a better way, I guess is what I am trying to say. Thank you.

Committee Chair Kagawa: Councilmember DeCosta.

Councilmember DeCosta: Do you think that this is a good amendment to the twenty percent (20%) overall cap Bill?

Mr. Hunt: I would say that it is good to the extent that it reduces workload by about half. In terms of...ultimately, there is a fairness issue, right? It is trumped two (2) sides, the taxpayer side and from the taxpayers' at-large side. What a twenty percent (20%) cap does is it pulls out a portion of market value that is not used for the distribution for the taxes. So ultimately we decide what the taxes should be to run the budget, and we back into tax rates to say this is what we need to fund it. By taking a cap and pushing value outside and saying, "You do not have to pay tax on that," someone who is paying at full share because they did not benefit from the cap and they had market activity in their neighborhood and their values are accurate where someone was having a "catch-up" or a market appreciated, now we are saying that that portion does not get calculated into the tax calculation on the rates. Someone who says, "My property is worth one million dollars ($1,000,000)" and someone who also used to have a property that now went from one million dollars ($1,000,000) to two million dollars ($2,000,000), would only now be paying on one million two hundred thousand dollars ($1,200,000); eight hundred thousand dollars ($800,000) would be sheltered. And so yes, that one million two hundred thousand dollars ($1,200,000) is paying a little bit more than the one million dollars ($1,000,000), but they also have value of property that is substantially higher than the one at full market value.

Councilmember DeCosta: Tax relief comes with some kind of "give back," right?

Mr. Hunt: Yes.

Councilmember DeCosta: That is what it is. You have homeowners who are residents of Kaua'i. You have the Commercialized Home Use and you have the Long-Term Affordable AMI rental.

Mr. Hunt: Correct.

Councilmember DeCosta: And then now it was a big outcry, I have been hearing it from my constituents and the lady in the back, Ms. Steel, she said it, Councilmember Cowden said her constituents in Kīlauea and North Shore are crying because the rents are going very high because the landlords have a higher assessed value so they have to push it on the tenant. This will curb that category leaving alone, let me finish...

Mr. Hunt: Yes.

Councilmember DeCosta: Leaving alone the condominiums, the timeshares, the hotels, who should pay the taxes.

Mr. Hunt: Yes.

Councilmember DeCosta: The people that can afford it should be paying the higher taxes. Why are we worried about not being fair across-the-board and now this cap only targets certain people and certain people are not going to benefit, and I am actually appalled also that we have a good idea with this amendment, but we cannot implement it, because we cannot hire two (2) more people. Let us hire two (2) more people. Come to us with a money bill. Come see us. We are going to approve this and we can help these people not raise their rents on the people that do not qualify for the low AMI through the Department of Housing and Urban Development (HUD). Sorry, I just felt passionate.

Mr. Hunt: Maybe I was not enthusiastic enough about your amendment. It does dramatically improve the existing Bill by targeting a specific group. What I would say, though, by doing this, and potentially giving relief, you do not guarantee that that relief is passed on. You could still have someone say, "I am going to rent at market value. Instead of renting for three thousand dollars ($3,000) a month, I am going to rent it for eight thousand dollars ($8,000) a month and I get tax relief. Yay, thank you!" We cannot control the market activity on who people are going to rent to. Some of these other programs that you have to participate at prescribed rent levels do that. But this, essentially, is sheltering a portion of value with no guarantees that relief is going to be passed on to the tenants because the market rent is the market rent based on supply and demand characteristics, it is not based on what the property taxes are. I just wanted to put that out there.

Councilmember DeCosta: No, you make sense, Mr. Hunt.

Committee Chair Kagawa: Are there any more questions?

Council Chair Rapozo: No questions.

There being no objections, the meeting was called back to order, and proceeded as follows:

Committee Chair Kagawa: I am good, too. Alright, are we ready to vote? I think there is a way to put the information into the computer. We are not actually looking at nine thousand (9,000) or whatever. The computer will tell us which of the few went up by more than twenty percent (20%), I mean, the majority, not ninety-nine percent (99%) is not going to go up more than twenty percent (20%). I do not know, that is just my take. Councilmember Cowden, you may be more of an expert in this...I am just saying, I think the workload is overblown. I am going to support this. Councilmember Cowden.

Councilmember Cowden: I will support it because it is more in the direction than what was there prior. Thank you for that. Where I get those numbers...but I was saying before is gratitude to the Department of Finance for giving us the numbers from 2022. And so it was eight thousand four hundred forty-one (8,441) properties were above the twenty percent (20%). To me, I was like, "Wow, that is a lot." Where I think where you would get a smaller amount is if you took building permits against that, well then maybe it is a lot less and what I was saying last time when you look at that eight thousand four hundred forty-one (8,441), two point six percent (2.6%) of all the properties is what drove up all these costs, so it is a really difficult math game. Also, I am looking at our community member in the corner who is always trying to "hold our feet to the fire," accurately, for not unfairly targeting different people based on their place of origin. I understand that. Just so you hear that, I am going to support this because I think it is moving us a little bit closer. I think these folks know to expect in this next two (2) months, I want to work really hard with you folks to come up with something that will help us find a way rather than us looking at the building codes or whatever we can do to try and find a way where we can manage that disparity between the different regions of the island because that is something that is really important to me, but I will support this where it is at. It does not have to be perfect at this stage. Thank you for moving us a little bit closer to not as deep a displacement as I fear.

Committee Chair Kagawa: Is there any further discussion? Ten (10) years ago, when we made things go ad valorem, and we got off our two percent (2%) Proposition 48, which myself and Council Chair Rapozo supported, I think was the easiest time, we needed the least staff. Only if our houses were sold or whatever changed hands and then you needed to use market values for Residential. So, I think that was the way for people, it was most consistent and then after that time, the County needed more revenue, but it just went haywire after that in trying to...now we are doing all these complicated bills. The simplest way for me is to use it to fix the rate; market rates are just so arbitrary and it is like paper value. If you have no intention of selling, why does the house a mile away affect your value? But sometimes it is the only comparison they have. It is just so complicated using the ad valorem way, but I know that how are we going to fix things if we do not have revenue, right? How are we going to improve affordable housing? How are we going to improve sewer? How are we going to do all these things if we do not have money? And the other way, if we kept that Proposition 48, we would have to tax other categories much heavier and that would draw a lot of complaints, as well. Sometimes you go back in time and just think, "If we took our time ten (10) years ago, maybe we would not be all 'hammajang' right now." But, anyway...Council Chair Rapozo.

Council Chair Rapozo: It is just a weird time right now. I do not think we have ever seen anything like this, but how do we justify what Amy Frazier talked about earlier and the examples she gave. These ridiculous increases in taxes for people who did not get an increase in services. For people who did not do a thing to their home, like you said. Just because the market in their area went nuts. How in the heck do you...I have a hard time. When I get the calls from a constituent asking me, "How come my tax went up six thousand dollars ($6,000) to twelve thousand dollars ($12,000)?" Number 1, I cannot believe they are paying twelve thousand dollars ($12,000), and Number 2, I do not know how to justify it. Are your parks any better? Your roads any better? Your trash pick-up? We see, again, what yesterday, "Solid Waste is down until further notice." It happens every week now—sometimes twice, three times a week. So how do we justify to the taxpayer that the one that goes up from twelve thousand dollars ($12,000) to twenty-four thousand dollars ($24,000)? When one is paying one hundred thousand dollars plus ($100,000) a year. How do you justify that? There is no way of doing that. The cap will help at least get us closer to where we need to be and the twenty percent (20%) cap, I think, is still high. Honestly, I wanted ten percent (10%), I wanted ten percent (10%), but I knew that I was never going to get the support for ten percent (10%). So, I went with twenty percent (20%). When the constituent calls you up and says, "I went from eighty thousand dollars ($80,000) to one hundred seventy thousand dollars ($170,000) a year." That is just tax! That is the price of a home in some places outside Hawai'i and that is what they are paying every year. It is crazy, and even then with this here, again as I have talked about it and others have, we cannot even implement this for two (2) more years. In two (2) more years, we may not need this. I think we will, but it is just two (2) more years of people paying that excessive amount of taxes, and that is why we will have another discussion on how we can...with this system that does not work for us, set it up so we can make alterations or changes throughout the tax year. If your tax classification changes, you should be able to go change it in the system and get either a tax credit for the next tax year or adjust your second payment of the year with the new tax plan. I do not see how we cannot do that, it just baffles me. So anyway, I will be supporting this. Thank you.

Committee Chair Kagawa: Councilmember Cowden.

Councilmember Cowden: I just want to also make the observation that every family that we push out of a house costs us five hundred fifty thousand dollars ($550,000) to build an apartment to put them in them. We do not have that and every unsheltered person that we do not even bother to put in somewhere costs us a lot of money whether it is in police or hospitalizations or frustration from the people who have to live near where they are suffering in front of them. When we lose jobs and businesses, it all costs us a lot. To me, my only worry...I do not have a problem funding four (4), five (5), ten (10) more people in your department if it can put everyone in a home, we save money that way. I just do not know if you can find those people. That is the worry because they do not have any house to live in. We have this big challenge, but I will be supporting this.

Committee Chair Kagawa: Thank you. Is there any further discussion? Seeing none, roll call vote on the amendment.

The motion to amend Bill No. 2902, as circulated, and as shown in the Floor Amendment, which is attached hereto as Attachment 2 was then put, and carried by a vote of:

FOR AMENDMENT:	Bulosan, Carvalho, Cowden, DeCosta Rapozo, Kagawa	TOTAL – 6,
AGAINST AMENDMENT:	None	TOTAL – 0,
EXCUSED & NOT VOTING:	Kuali'i	TOTAL – 1,
RECUSED & NOT VOTING:	None	TOTAL – 0.

Committee Chair Kagawa: Motion passes. Are there any more amendments?

Councilmember Cowden: Do we want to move to Defer?

Committee Chair Kagawa: There is no discussion after the motion to defer is made.

Councilmember DeCosta moved to defer Bill No. 2902 as amended to Bill No. 2902, Draft 1 to the November 8, 2023 Committee Meeting, seconded by Councilmember Carvalho, and carried by a vote of 6:0:1 *(Councilmember Kuali'i was excused).*

The Committee proceeded on its agenda items, as shown in the following Committee Reports, which are incorporated herein by reference:

CR-FED 2023-11: on Bill No. 2903 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(Long-Term Gap Housing Rental)* **(Received for the Record.)**

CR-FED 2023-12: on Bill No. 2904 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(Separated Married Persons)* **(Received for the Record.)**

There being no further business, the meeting was adjourned at 3:02 p.m.

Respectfully submitted,

DonnaLee Brinkerhoff
Council Services Assistant I

APPROVED at the Committee Meeting held on September 27, 2023:

ROSS KAGAWA
Chair, FED Committee

(September 13, 2023)
FLOOR AMENDMENT
Bill No. 2902, A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(RPT Reform Tax Year 2025)*

Introduced by: BILL DECOSTA, Councilmember

1. Amend Bill No. 2902 by amending its SECTION 6 in pertinent part as follows:

"(a) Any owner who has a home exemption pursuant to Sec. 5A-11.4, Kaua'i County Code 1987, as amended, or receives the beneficial tax rate due to a [long term] long-term affordable rental pursuant to Sec. 5A-11A.1 shall receive [an Assessment Cap.] a three percent (3%) assessment cap."

2. Amend Bill No. 2902 by amending its SECTION 7 in pertinent part as follows:

"SECTION 7. Chapter 5A, Article 11A (Limitation of Taxes), Kaua'i County Code 1987, as amended, is hereby amended by establishing a new Section to be appropriately designated and to read as follows: [to read as follows:]"

(Material to be deleted is bracketed, new material to be added is underscored. Amendment material is highlighted.)

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(September 13, 2023)
FLOOR AMENDMENT
Bill No. 2902, A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(RPT Reform Tax Year 2025)*

Introduced by: BILL DECOSTA, Councilmember

1. Amend Bill No. 2902 by amending its SECTION 7 as follows:

"Sec. 5A-11A.__ Assessment Cap for Other Than Home Exemption Property and Property Used For Long-Term Affordable Rental.

(a) [All property not eligible for the three percent (3%) assessment cap under Section 5A-11.3] <u>Any property classified as Non-Owner-Occupied Residential</u> shall receive a twenty percent (20%) assessment cap.

(b) The Director shall note on the notice of assessment or tax bill, or both, that the property receives the twenty percent (20%) assessment cap.

(c) Property receiving the assessment cap shall be taxed in the following manner:

(1) The property shall be assessed based on its market value, provided that, any increase in assessed value from the prior tax year shall not exceed twenty percent (20%).

(A) Any improvements to the property, including, but not limited to: new construction, renovations, and partial demolition, that increase the fair market value of the property, the assessment shall be increased based on the value of the improvements undertaken, notwithstanding the assessment cap limits.

(B) If property receiving the assessment cap subsequently increases in assessed value due solely to actions of the owner, such as but not limited to, the creation of a subdivision or condominium property regime, consolidation of lots or land area, or change in zoning, the assessment cap shall be reset to market value in the year of the change.

(C) If there is an error in the assessment for any year, the correction of which is not permitted under the terms of Section 5A-1.19, the assessment for the next year shall be based on what the assessment would have been for the previous year without the error.

(D) The gain or loss of an agricultural dedication, breach, or expiration of a dedication, or change in status to another real property program that affect the value shall be excluded from the twenty percent (20%) assessment cap limit.

(2) In the case of properties that are multi-use parcels or structures, the entire property shall receive the twenty percent (20%) assessment cap, but shall be classified and taxed at the highest applicable tax rate based on the property's actual use.

(d) The Director shall calculate the assessment cap as prescribed in subsection (c).

(e) Upon transfer or sale of property, real property assessments shall be reset to reflect the current market value of the property."

(Material to be deleted is bracketed, new material to be added is underscored.)
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