



# **Real Property Tax Developments Committee of the Whole Meeting October 14, 2004**

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# Purpose of this presentation:

To provide information to this Committee and the public



## Background

- Current tax model needs improvement
- Significant rise in assessed values
- 12.8% in 2003 and 24% in 2004



# Island-wide Solution Needed



Much like an Ukulele, all strings must be tuned



# Island-wide Solution Needed



Ohana Amendment tunes only one string

The Real Property Tax Task Force solution considers the entire island's needs



# Real Property Tax Task Force

## Nine Members:

- Steve Hunt (Chair), Dottie Bekeart, Dave Pratt, Curtis Tom, Arnold Nurock, Ray Chuan, Roy Oyama, Steve Nishimura, Mike Dyer
- Vision: To create a tax model, which provides Predictability, Equitability, and Clarity
- Goal: Using a collaborative process, improve the tax model (over 28 meetings)



# Real Property Tax Task Force Model

Three components:

1. Land Value
2. Building Value
3. Tax Rates



# Real Property Tax Task Force Model

1) How will your Land Value be calculated?

- Base value = average of assessed value 1999-2003
- Annual increase = base + inflation rate each year forward:
  - ✓ 1994-2003 inflation was 1.42%
  - ✓ 2003 inflation 2.3%





# Real Property Tax Task Force Model

2) How will your building value be calculated?

Same as today- Current cost to build  
minus depreciation



# Real Property Tax Task Force Model

## 3) How will your tax rates be determined?

Eight different tax rate classes will be reduced to two classifications:

1. “Long-Term Residential” for properties which are occupied only by the owner and/or long-term tenants
2. “General” for all other properties



# Real Property Tax Task Force Model

## 3) How will your tax rates be determined?

Low tax rates on land. Three times as high tax rates on buildings:

### “Long-Term Residential”

- Land = \$2 for every \$1,000 assessed value
- Building = \$6 for every \$1,000 assessed value

### “General”

- Land = \$4 for every \$1,000 assessed value
- Building = \$12 for every \$1,000 assessed value



# Real Property Tax Task Force Model

Improvement for ag lands - no assessment of homesites until realized:

- ✓ For properties dedicated to agricultural use, the homesite assessment will not be applied until the dwelling is under construction
- ✓ The homesite will be assessed uniformly with residential or agricultural parcel assessments



# Ohana Amendment:

## Positive:

- ✓ Intent and purpose is to help owner / occupants
- ✓ Recognizes a currently dysfunctional tax model



# Ohana Amendment:

## What is the Ohana Amendment?:

- ✓ Purchase home at or before FY 1998-99, roll back tax level to FY 1998-99 level, and then increase at “...cost of living adjustments [COLA] in retirement benefits by the Social Security Administration.”
- ✓ For homes acquired after FY 1998-99, freeze the tax level at purchase year, and then index at COLA



# Ohana Amendment:

## Facts:

- ✓ Approximately 12% of households change hands per year
- ✓ First year of effect forecasted at MUSD 3.0 if only Homeowner Exempt properties included
- ✓ All residences, first year effect is MUSD 9.1
- ✓ Over ten years, accumulated effect is at minimum MUSD 44



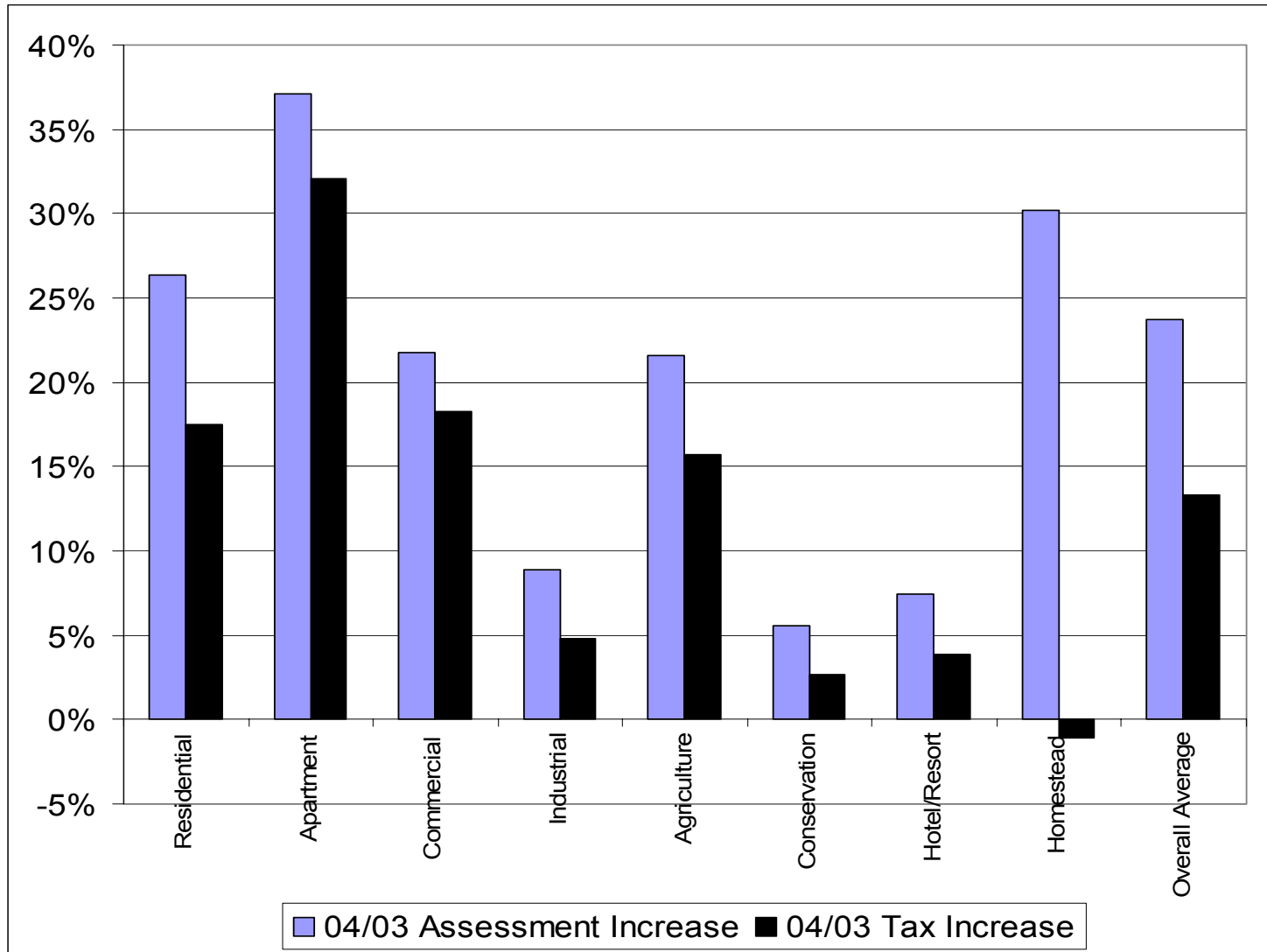
# Ohana Amendment:

## Drawbacks:

- ✓ County will have to strongly reduce services and products and cut jobs or
- ✓ Increase taxes for all other tax classes, such as Commercial (businesses), Single Family Residential (renters), Apartment, Agriculture, etc.



# Comparison of Assessment and Taxes 2003 vs 2004 Increases





# Comparison in \$ (taken from Task Force samples):

	Current Taxes	Ohana	Task Force
Older smaller home bought recently	517	517	444
Modest newer home	554	512	494
Ave quality - Lihue, 02 purch., 03 exemption	830	844	865



# Comparison in \$:

	Current Taxes	Ohana	Task Force
High-end Wailua, recently perm res	1899	2452	1899
High-end Lihue	1899	1902	1895
Older smaller home, with Home exemption	282	278	157



# Comparison in \$:

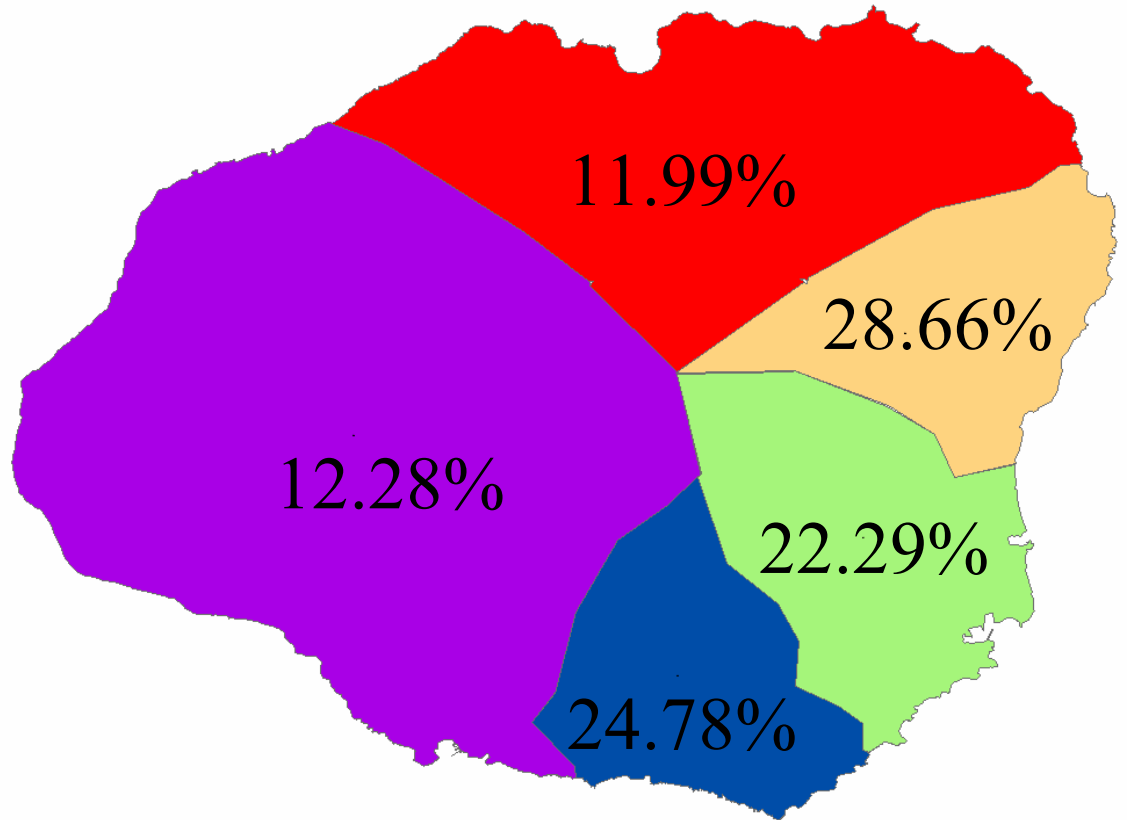
Current Taxes

Ohana

Task Force

Older smaller home -no home exemption	2315	2315	1866
High-end, no home exemption	4839	4839	4499
Modest newer home	800	729	688

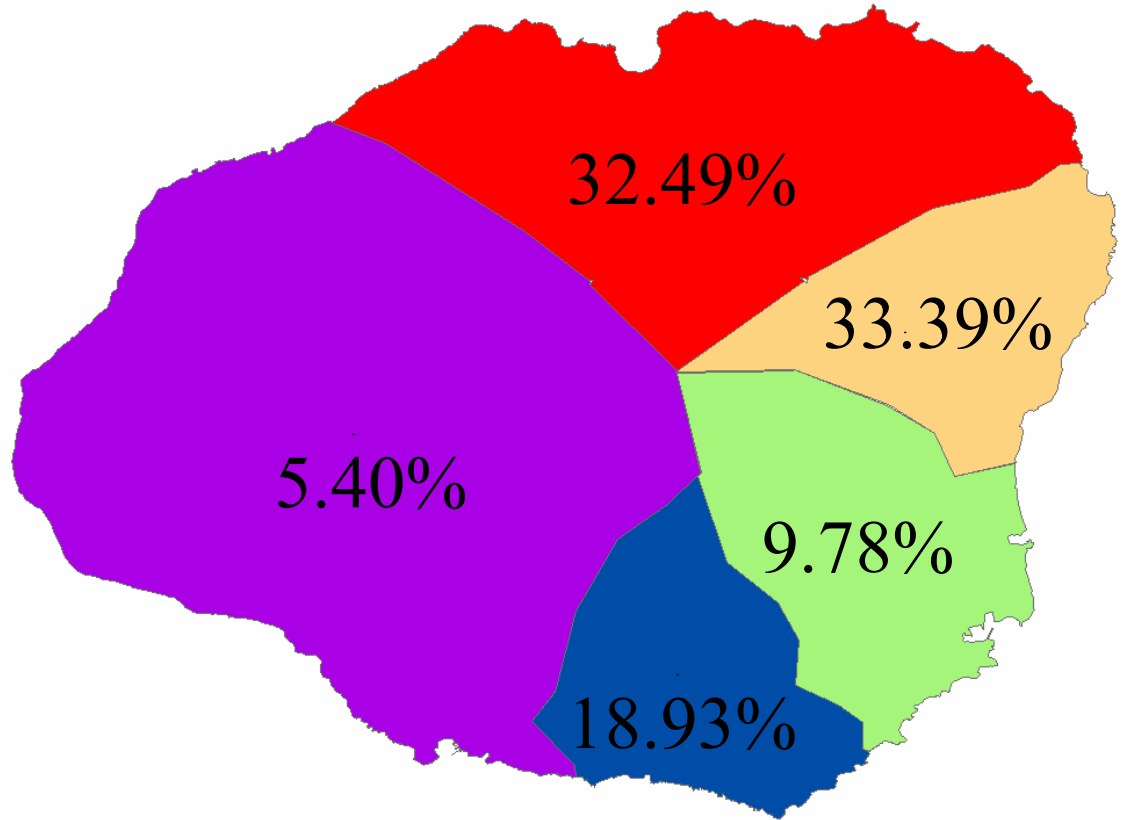
# Parcel Count



Zone	Property Count	Percentage
1	1,353	12.28%
2	2,760	24.78%
3	2,456	22.29%
4	3,157	28.66%
5	1,321	11.99%
Total	11,017	100.00%

# Transfer of Tax Burden

## Fiscal Year 2011

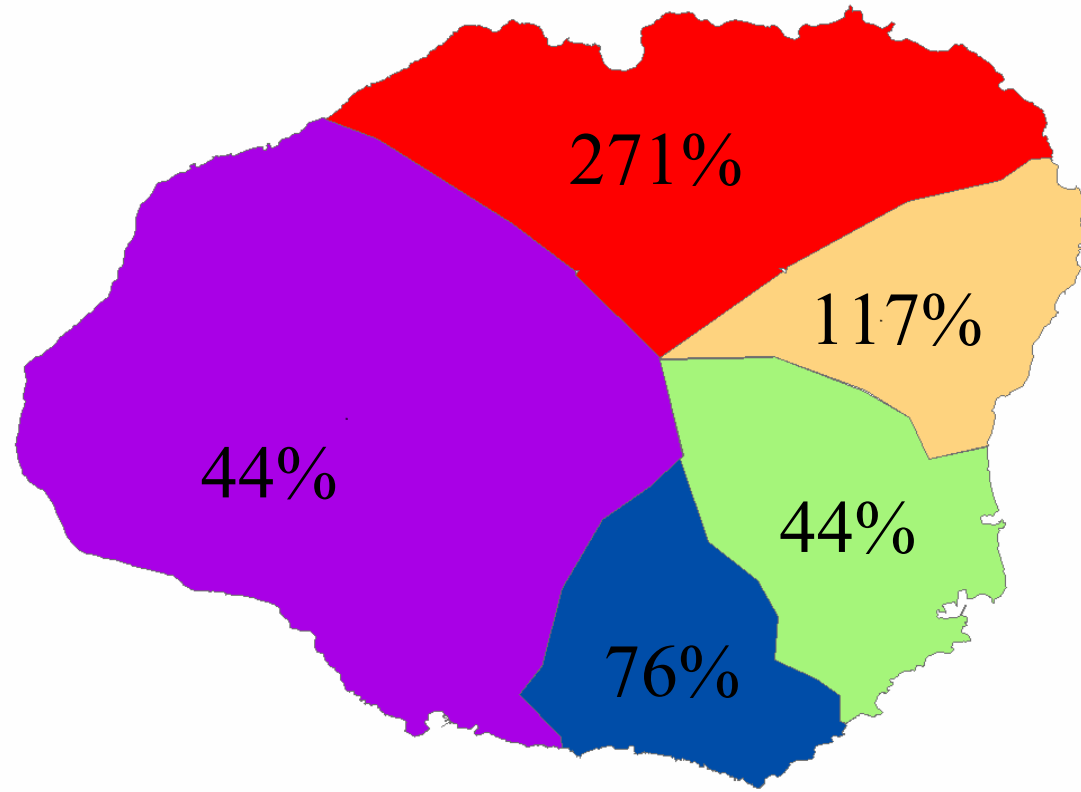


Zone	\$ Transfer	Percentage
1	\$166,718	5.40%
2	\$584,382	18.93%
3	\$301,952	9.78%
4	\$1,030,808	33.39%
5	\$1,003,000	32.49%
Total	\$3,086,860	100.00%

# Ohana Effect by Zone

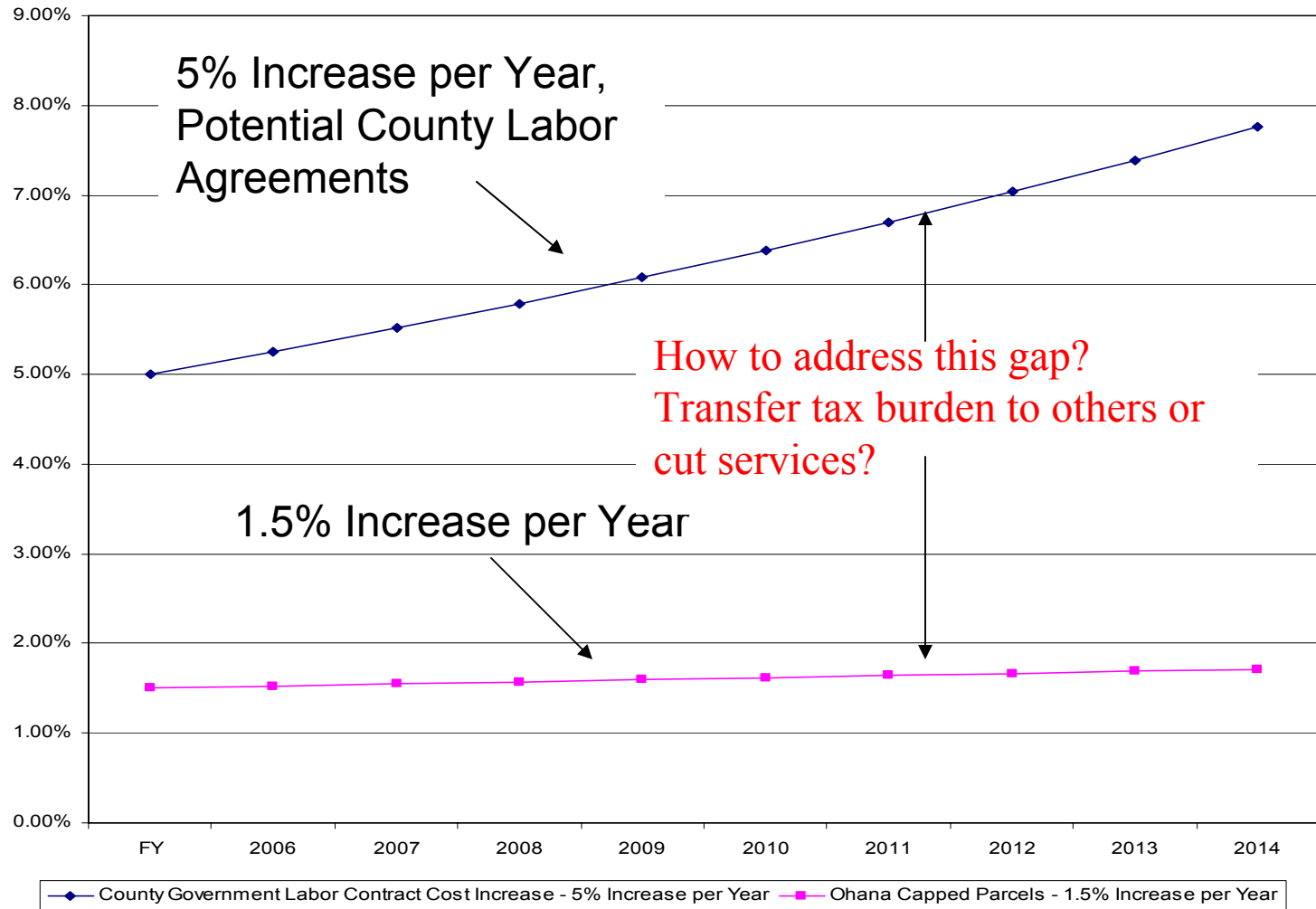
## Credit Distribution / Parcel Split Ratio

### First Year Only



Zone	Credit Distribution	Parcel Split	Credit Distribution/ Parcel Split Ratio
1	5.40%	12.28%	44%
2	18.93%	24.78%	76%
3	9.78%	22.29%	44%
4	33.39%	28.66%	117%
5	32.49%	11.99%	271%
Total	100.00%	100.00%	--

# Increasing Cumulative Effect of Ohana, Gap Increasing







# Ohana Amendment:

## Drawbacks:

Should tax burdens be transferred by the County as a result, this will be detrimental to:

- ✓ Businesses
- ✓ Farmers
- ✓ New Home Buyers
- ✓ Renters



# Ohana Amendment:

## Potential services impacted:

- ✓ Rubbish pick-up
- ✓ Police and Fire
- ✓ Drivers licensing and vehicle registration
- ✓ Wailua Golf
- ✓ Anti-drug program, senior and youth programs
- ✓ Neighborhood centers
- ✓ Parks
- ✓ Housing
- ✓ Transportation



# Ohana Amendment:

## Drawbacks:

Concerns have been raised that the bond rating of the County of Kaua'i would be hurt, increasing the cost of debt and directly increasing the tax burden



Thank you!