MINUTES

SPECIAL COMMITTEE OF THE WHOLE
COMMITTEE MEETING
COUNTY REAL PROPERTY TAX WORKSHOP

JUNE 27, 2023

The Special Committee of the Whole Meeting of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Mel Rapozo, Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Tuesday, June 27, 2023 at 9:00 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 Ross Kagawa *(Excused 10:30 a.m.)*
Honorable KipuKai Kuali'i
Honorable Mel Rapozo

APPROVAL OF AGENDA.

Councilmember Kuali'i moved for approval of the agenda, as circulated, seconded by Councilmember DeCosta.

Council Chair Rapozo: Is there any discussion or public testimony? Seeing none.

There being no one present to provide testimony, the meeting proceeded as follows:

The motion for approval of the agenda, as circulated, was then put, and unanimously carried.

Council Chair Rapozo: Next item, please.

COUNTY REAL PROPERTY TAX WORKSHOP:

The Kaua'i County Council's Committee of the Whole will hold an informational Workshop to discuss Bill No. 2900 and broader matters related to amendments to Kaua'i County Code 1987, as amended, Title III (Taxation and Financial Administration), including but not limited to Chapter 5A (Real Property Tax) and topics such as: valuation tiers, exemptions, and other tax relief programs.

Councilmember Kuali'i moved to receive the Committee of the Whole Real Property Tax Workshop for the record, seconded by Councilmember Cowden.

Council Chair Rapozo: Thank you all for being here today. Thank you to the Administration for allowing us to participate in this workshop. I honestly do not recall a time where we actually did a workshop for Real Property Tax. This County has done many changes to the Tax Code, and we have probably one of the most complicated tax codes around, so I figured the best way to simplify this is by having this workshop format, and not take away time from a Council or Committee Meeting, and take as much time as necessary to explore what we are doing and how we can make it better, and at the end of the day, more beneficial to our local residents—that is the idea. The objective of this workshop is to discuss what we currently have with the Administration, and bounce around our ideas of what each of us would like to see changed or made better. At the end of the day, I cannot speak for the rest of the Members, but for me, we have a system right now that is not very local-resident-friendly, and a lot of people are suffering because of the Tax Code that we currently have, there are a lot of moving parts, market values, and I hope after this workshop, a bill will be generated that will address our code, that it will simplify our code, and more importantly, be fair and consistent across the board. Those are the objectives that I hope we can get through. I know that we will not get it all done in one (1) workshop, so I would anticipate at least another workshop, possibly two (2) more, so we can spend the time, not rush, and not have to deal with unintended consequences down the road, which is not fun to deal with. With that, before I suspend the rules, Members, are there any comments before we get started, or are there any requests? If not, is there any public testimony? Is there anyone in the audience wishing to testify? Are there any registered speakers?

DONNALEE BRINKERHOFF, Council Services Assistant I: Chair, we have four (4) speakers. The first speaker is Heidi Schemp, followed by Jeff Lindner.

Council Chair Rapozo: On the workshop format, we want to take up your concerns or if what is currently existing is impacting you or someone you know, or your industry, or whatever. We just want to hear from you all now, then hopefully after today's session, we will get to hear more from you all. We are curious to hear from you, we do not want to hear from you after the bill has passed, then it is too late.

There being no objections, the rules were suspended to take public testimony.

HEIDI SCHEMP: Good morning. I am a realtor.

Council Chair Rapozo: Can you please state your name?

Ms. Schemp: Heidi Schemp.

Council Chair Rapozo: Thank you.

Ms. Schemp: I am a realtor. I am here because we are interested in property tax. I would say some of my concerns are it is so complicated, so if we could simplify as much as possible, obviously. There is a lot of weird exemptions, we had to go into the tax office and fill out a form, and for low-income, I believe that is every year, and the number has not gone up on income from what I understand, so I think that should be looked at, that might be a moving target possibly, if we are going to have exemptions for that. The tiered pricing for your property value, I think we need to be very careful of where we put the tier dollar amounts because values have been rising, and we do not know where we are going to land, we do not know how that is going to escalate in the future, so I think that needs to be taken into account. Then, another concern I have is that we all want to save money and make it an efficient system, and at the same time our County also needs a lot of things done, so I do not want to see us be in a financial hardship down the road, I want to see sewers go in. I would rather pay a little more on my property taxes, and not have to put a septic tank in that will cost me forty thousand dollars ($40,000), so if that could be taken into account, and I think a lot of people feel the same way, so where is the balance in finding the resources and the process. I think that is all.

Councilmember Cowden: I have one clarifying question.

Council Chair Rapozo: Go ahead.

Councilmember Cowden: Are you representing yourself as an individual, or are you on the Kaua'i Board of Realtors?

Ms. Schemp: I am on the Kaua'i Board of Realtors, and I am on their Government Affairs Committee.

Councilmember Cowden: Okay.

Ms. Schemp: So, I am versed in what is going on.

Councilmember Cowden: Is the Kaua'i Board of Realtors paying attention? Are they watching today?

Ms. Schemp: Yes, they are.

Councilmember Cowden: Are you here for them?

Ms. Schemp: I am here as an individual, but there are a number of realtors here, because a lot of us are concerned about property taxes, and we want to make sure that it is a fair system, and that we get it right the first time. I think everyone feels that way.

Councilmember Cowden: Okay. Thank you.

Council Chair Rapozo: Councilmember DeCosta.

Councilmember DeCosta: Two (2) questions. One, when you mentioned property taxes being fair, you are talking about the local residents that are here wanting to buy homes, and residents from outside coming to buy homes, is that what you mean by fairness?

Ms. Schemp: Yes. I feel like that is important that we need to address, it is super expensive to live here, and we need to take care of our people, so I definitely believe that.

Councilmember DeCosta: The other clarifying question I wanted to ask you was, the low-income rental, you made a comment that the value has not gone up.

Ms. Schemp: It is for owners.

Councilmember DeCosta: Can I ask the question?

Ms. Schemp: Oh, sorry.

Councilmember DeCosta: I wanted you to clarify. The rental income that we are allowed to charge to the renter has not gone up, is that what you are asking?

Ms. Schemp: No. If you are an owner, you can actually get your property taxes reduced if you show a low-income, but you have to bring your tax returns in. A friend of mine was telling me that she used to qualify for getting her taxes reduced, but now her and her husband's income went up a little bit, past COVID-19, so now they have to pay thousands of dollars more, so it has put a hardship on them being able to afford owning their little condominium.

Councilmember DeCosta: I appreciate that you explained that, because we should never suppress people from wanting to make more money and live a more comfortable lifestyle. The last one, I wanted you to tell me a little bit about the property taxes that you do not mind paying if you know it is going to good use and making our island a more efficient and better place to live.

Ms. Schemp: Right. Well, I think you need to look at your expenses as a household, and we all have a finite number of money to pay for things, and things are getting very expensive, so where we are putting our tax money, if it is going to help you, and in the long run you know that we have these big expenses coming up such as possibly a cesspool conversion.

Councilmember DeCosta: You mentioned sewer and septic.

Ms. Schemp: Sewer.

Councilmember DeCosta: That is what caught me, because that was a big topic at the last meeting.

Ms. Schemp: I am seeing things like it will cost forty thousand dollars ($40,000) to switch your cesspool to a septic tank, and that is concerning for a lot of people. I think there are about fourteen thousand (14,000) cesspools on our island right now.

Councilmember DeCosta: You are preaching to the choir here. Trust me, we have people in Kekaha, Hāʻena, that put a sand septic system in, and it is not forty thousand dollars ($40,000). I think you have the number for that, it was about seventy thousand dollars ($70,000).

Ms. Schemp: Yes.

Councilmember DeCosta: If we can put sewer in the next five (5) to ten (10) years, why are we telling people to put a seventy-thousand-dollar septic system in the sand backyard when it is going to be obsolete? We appreciate that we are all thinking the same. Thank you. I am done.

Ms. Schemp: Amen. Thank you.

Council Chair Rapozo: See, you had a lot to say. You said you did not have a lot to say.

Ms. Schemp: I do, but I do not know what the bill is, so it is hard to say, "Testimony."

Council Chair Rapozo: Neither do we.

Ms. Schemp: I do not know. I feel like testimony would be saying, "That is good or not good."

Council Chair Rapozo: Thank you so much. Yes, we do not even have a bill yet. Mr. Lindner.

Ms. Brinkerhoff: Jeff Lindner, followed by Sylvia Templeman-Gonzales.

Council Chair Rapozo: Thank you.

JEFF LINDNER: Jeff Lindner. *Aloha*, Councilmembers. I would like to take a bird's eye view of the tax, because I think it is related to planning, zoning, and I think if we understand the tax, we will understand everything else better. I want to start out with, the tax law is complicated, but from what I understand, the calculations seems like the County zoning has been varied, and so it is hard to really tell...I guess my testimony has always been with the agricultural owners are paying most of the land property tax, and I think if the calculation is done according to how I believe the ordinance says it is done, where you relate it to not the real property's use tax, because why does Real Property get to choose where everything goes and what tax they put it in without any sort of recourse to argue with? I guess you can appeal it, but that takes a long time, I have my own personal experience. The law is set up that basically the zoning R-10, R-20, Residential, so many Agricultural, Industrial, special treatment, and what I think is that the tax burden has been shifted to the agricultural property because of the discretion of Real Property to put agricultural land where they feel like it is being used, and that really should not be their decision. Even when it is put somewhere, it is typically non-conforming, and then the Planning Department does not do anything. To me, I would like to turn myself or argue with in the Planning Department, for ten (10) years I was Commercial, and the appeals dragged on, I would have preferred to go to the Planning Department and say, "Am I non-conforming or not?" Go back to Real Property and tell them. I feel that things are obscured as far as seeing the original zoning in how you break it down by the classes of the land class as opposed to real property value.

Council Chair Rapozo: Thank you. Councilmember Cowden.

Councilmember Cowden: I am asking a little bit off of your testimony here, too. You gave a very thorough testimony, two (2) written testimonies that said, "Agriculture is paying the most." When I look at it, and I see a lot of big parcels of agricultural land paying minimum tax, they are paying one hundred fifty dollars ($150) a year, so that is where it is confusing to me. Are you saying that agricultural land might be being charged Residential Investor, and that is where they are putting all those high dollars in? It seems like there is a lot of land banking going on where people are paying one hundred fifty dollars ($150) and those typically are not the earnest farmers, those are people who have big properties. When you said Agriculture pays more than anyone else, which was confusing to me because I thought that is not correct.

Mr. Lindner: Yes, you are right. Vacation Rental would have agriculture in it. Residential Investor would have agriculture in it. Residential would have agriculture in it, as opposed to Residential zoned would be "R" under the land class. The one billion five hundred million dollars ($1,500,000,000) in the assessment report, that was not taxes paid, that was valuation, so regardless of someone getting a break on their taxes based on an agricultural exemption, the valuation is still there, the market value is there, right? So, I am not sure that is broken down in the report, but what I am saying is that the market valuation of agricultural land is a lot more. The agricultural land has been valued a lot more, if you pull it out of all of the classifications that the Real Property Division has put it in, and where is that money spent? We see that there is no...

Council Chair Rapozo: I need to stop you there, because you answered her question.

Mr. Lindner: Okay.

Council Chair Rapozo: We will get that when the Department of Finance comes up, we will have a breakdown of all the different classes and taxes received.

Ms. Brinkerhoff: We have Sylvia Templeman-Gonzales, followed by Mike Curtis.

SYLVIA TEMPLEMAN-GONZALES: *Aloha*, everyone. My husband...

Council Chair Rapozo: We just need you to state your names.

Ms. Templeman-Gonzales: Sylvia Templeman-Gonzales and Andrew Templeman-Gonzales. I am here to represent me, us, and everyone that owns a home, and that is making a small living just trying to get with growing the business, and also living on an expensive island. I think a lot of people cannot even qualify at this point for a mortgage with the rates and everything with what they are doing. I am a real estate agent, my husband is a mortgage loan officer, so we see it very often that our clients, or our friends are priced out. When it comes to seeing if they qualify for a mortgage, which first-time homebuyers need mortgages, and when they are qualified, every single dollar counts, and all the costs, not only the rates are high, we have no control over that, or the prices on the market defines the prices, and they are still going up. Even as a real estate agent, we do not have control over what the seller wants to ask for his property, so if we can help, and share our testimony, I want to say, just try to really help the first-time homebuyer, and give the home exemption as generous as possible. We have a generous home exemption, hopefully it does not affect that, is why I am here to say. I agree with everything that my colleague Heidi shared, and I support the idea of the sewer connection whenever possible and turn that big investment into small contributions from the owners. Those are the only two (2) things I have to say.

Council Chair Rapozo: Councilmember DeCosta.

Councilmember DeCosta: You mentioned that you are a realtor, how many years have you been on the island practicing selling?

Ms. Templeman-Gonzales: On the island since 2010, practicing for three (3) years.

Councilmember DeCosta: Okay. You mentioned that you want to help the first-time homebuyer. I had a burning question in my mind to ask a realtor, I am sorry, I am going to ask you, but I believe it pertains to first-time homebuyer. If you had a first-time homebuyer, and he or she made an offer on a property, but another person came in and they already own a home, and they made another offer that was one hundred thousand dollars ($100,000) to two hundred thousand dollars ($200,000) more than the first-time buyer, what do realtors normally do when you folks say you want to help that first-time buyer? Do you take the lower offer, or do you take the higher offer based on the compensation percentage you folks get?

Ms. Templeman-Gonzales: We are a heavily ruled industry, and a lot of ethics that we abide by, so we have to present all the offers. We have to put all the offers on the table, present them as they come, unless the seller has decided that there is a specific time when he wants to review them. We still send them to them as they come, but they will review them when they are ready to review them. When the seller reviews the offers, it is up to the seller. There are some sellers that want to prioritize first-time homebuyers, or home occupancy, there are. I have seen it many times, that sellers say, "I take this offer under." Not under his asking, because he also has a price for his property, but if he gets an offer at asking, or sometimes a little below, it is fine, he will take that a lot of times over a higher cash offer from an investor, but that is the choice of the seller. Maybe there can be some education, it is good that the sellers or owners of the second homes know the situation, and when they have homes at a certain price that could benefit that they would be aware of the needs on island.

Councilmember DeCosta: I appreciate your explanation. It is just really troublesome when you are a first-time buyer, you can only borrow on the assessed value of the home, then these other buyers come in with a higher offer because they have cash, they do not have to go to the bank, and it really takes away from people who are struggling just to make that first offer. Thank you for that.

Ms. Templeman-Gonzales: Okay.

Council Chair Rapozo: I have a quick question. Thank you for your explanation, it clarifies a lot. One of the problems that we are having on Kauaʻi is the absentee buyer purchases that are happening. I know we will probably send over a formal request to the Board of Realtors for their position, but your personal opinion on taxing the absentee owners at a much higher rate to discourage the investments or speculation, that is one of the options that we have that I honestly support. You are a realtor, right?

Ms. Templeman-Gonzales: Yes.

Council Chair Rapozo: How would that impact the industry?

Ms. Templeman-Gonzales: I want to make sure it is clear that I am not representing anyone else or the industry it is just my personal opinion. There are a lot of people inside that group that would be affected differently. I agree personally that in order to protect the homeowner that is occupying his home, and keep that exemption, and get that low rate, we have to raise it somewhere, right?

Council Chair Rapozo: Correct.

Ms. Templeman-Gonzales: I agree that the people that are paying cash versus the ones that are getting mortgages are clearly in less need, maybe I would go that way. Now the non-occupancy, sometimes people do not occupy it because it is their second home, and they only come once a year, twice, or six (6) months out of the year, and they just do not want to tax, they do not need the income necessarily, or it is not profitable anymore. It could be that they could use the income, but it is not profitable anymore because the prices are going too high, and it is not making enough, and there is more "wear and tear" than necessary, so they choose not to rent it out. There are different people in that group. Now, if we discouraged that you buy a house and do not occupy it, then they will feel forced to rent it out short-term and increase not necessarily the amount of visitors, because now there are more properties being rented out in order to have lower taxes. I do not know. Just a thought.

Council Chair Rapozo: I guess I did not understand the last part. You said if we discourage them from leaving the house vacant, it encourages them to rent?

Ms. Templeman-Gonzales: Yes, if they can be...but if they are buying the house to come and to retire...

Council Chair Rapozo: We are assuming that they are buying a property that is eligible to rent.

Ms. Templeman-Gonzales: Short-term rental.

Council Chair Rapozo: You are talking about vacation rentals.

Ms. Templeman-Gonzales: Okay.

Council Chair Rapozo: Which is limited right now. You cannot create new Transient Vacation Rentals (TVR). I am trying to understand what you said. You said, "If we discourage them..." Let us say, we put a higher tax on absentee owners, you are saying, that would encourage them to put that into the rental market.

Ms. Templeman-Gonzales: Well, if they have less taxes, if they do, I do not know.

Council Chair Rapozo: Correct.

Ms. Templeman-Gonzales: They could start looking into that.

Council Chair Rapozo: Are you saying that is good or bad?

Ms. Templeman-Gonzales: Well, we only have...I do not know how much we want to grow that industry, the visitor industry, and to what point.

Council Chair Rapozo: Okay. You are talking about vacation rentals, I am not talking about vacation rentals, I am talking about these people who are buying inventory, that are not vacation rentals, that could be rentals for our local people. It is not up to them; they will not be able to do short-term. They have two (2) options, either leave it vacant and pay a high tax, or rent it long-term.

Ms. Templeman-Gonzales: Right.

Council Chair Rapozo: I am asking you, is that a benefit?

Ms. Templeman-Gonzales: There are two (2) kinds of people that I can think of right now, the ones who are buying it to come every year, those would not be able to rent it long-term.

Council Chair Rapozo: Right.

Ms. Templeman-Gonzales: One day they hope to retire there.

Council Chair Rapozo: Until then though, that house is vacant eight (8) months out of the year, or seven (7) months out of the year, or whatever, everyone is different. My point is, and I am asking if you agree or not, would that person be affected or discouraged from renting or buying if in fact we had a higher tax rate for that property?

Ms. Templeman-Gonzales: Maybe, I would agree more to an incentive instead of a penalty.

Council Chair Rapozo: We have an incentive; it is the low-income tax rental.

Ms. Templeman-Gonzales: Maybe increase that incentive.

Council Chair Rapozo: Okay, thank you.

Ms. Templeman-Gonzales: Thank you.

Council Chair Rapozo: Next.

Ms. Brinkerhoff: The last speaker is Mike Curtis.

MIKE CURTIS: Mike Curtis, speaking as an individual. I am a realtor, too. My concern was the dedication. Several counties have Agricultural Dedication, things like a 10-year dedication, and my concern is the rollback. If someone is in an Agricultural Dedication for ten (10) years, and some circumstances in the ninth year make them sell the property and they go into Residential, there is a rollback clause where back to the first year of the 10-year Agricultural Dedication, the taxes are taxed back at Residential rate. That dedication in rollback is a real concern for realtors who are in the middle of a transaction whose buyer client gets hit with a twenty-thousand-dollar back real property tax bill. The Agricultural Dedication is my purpose for speaking today. Your concern for vacant homes, there is a term for that, it is called, "mouse milking." You put a lot of effort in getting one (1), two (2), or three (3) units where you are sitting here with no water, limiting a two thousand (2,000) unit development in the Poʻipū and Līhuʻe area. When you talk about vacant homes, most of those vacant homes are legacy properties, like a couple doors down there is Tony Kunimura's property, that has been vacant since Phyllis died, so you want to tax Tony's estate at a higher rate because they are not ready to use the property again, and they are not ready to move back to Kauaʻi. I suggest that most of these vacant homes that you are looking at are heritage properties from families who have moved off Kauaʻi that are holding out property looking forward to moving back to Kauaʻi, but you are going to fine them because they do not have a use for it now. That might generate two (2), three (3), four (4) more rental units, because you are taxing the vacant units at a higher rate, so maybe one (1) or two (2) will be motivated to rent, but you have two thousand (2,000) units that are limited because you do not develop water. You have another fifty thousand dollars ($50,000) to seventy-five thousand dollars ($75,000) per septic conversion system. You folks created the problem by limiting the supply. You are limiting supply by zoning, but you are limiting it more by the infrastructure, you are not funding the infrastructure that allows development that allows properties to be developed, and you are aiming at one (1), two (2), or three (3) houses that are vacant, taxing at a higher rate trying to squeeze out one (1) or two (2) more rentals. You folks caused the problem, and hitting the vacant properties is "mouse milking." You might generate one (1), two (2), three (3), or four (4) rentals, but you have two thousand (2,000) sitting for lack of water in Līhu'e.

Council Chair Rapozo: That is another workshop. I was just passed a note from our amazing staff that the Agricultural Dedication was amended last term and the rollbacks are no longer there.

Mr. Curtis: Just make sure that they do not reoccur, please. Thank you.

Council Chair Rapozo: I know we have a couple of questions, but also, the legacy lands, we have programs in place to protect legacy lands, the family-owned lands. I am not talking about those properties; I was talking about...

Mr. Curtis: Vacant properties that are suitable for rental.

Council Chair Rapozo: They are not vacant all year long. It is the absentee owners that buy it, come here, stay for a couple of months, then it sits vacant for the remainder—those are the people I am talking about. The legacy land program is a great one here, which we will revisit as well to make sure that our families do not lose the land because of taxes.

Mr. Curtis: Be careful you do not shoot yourself in the foot with that one.

Council Chair Rapozo: That is why we are having this workshop. I have shot my foot before, and I do not want to do it again.

Mr. Curtis: Okay.

Council Chair Rapozo: Councilmember Cowden.

Councilmember Cowden: I was just going to ask him if he knew we got rid of the rollback. There are a few properties that still are on it that would be impacted, but we recognize that mistake and we changed it.

Mr. Curtis: The other counties are still making that mistake. Thank you.

Council Chair Rapozo: Is there anyone else? Councilmember DeCosta.

Councilmember DeCosta: Thank you, Mike. I was going to comment on that. I worked on the Agricultural Bill with former Councilmember Evslin, and we took away the rollbacks. Thank you to our staff for being on it. You mentioned "mouse milking"—you make a good point. I believe the Chair before, Arryl Kaneshiro, said when basic economics, point of equilibrium is when supply hits demand. Lack of supply, the demand rises, and your price rises. More supply, demand goes down, and your price lowers, but in this current time right now, I can almost guarantee that supply rise, I do not see a lot of local families qualifying for that interest rate and mortgage rate right now, that supply could easily be bought by other investors outside of our local industry, so we need to be careful on how we develop that or how we look at that. The basic point of economics, and I believe, because I am an economics major, that is my degree, is a simple supply and demand and a point of equilibrium where they meet, so I agree supply needs to increase, we need to have more supply out there, we need more development in a smart way. That is all I want to say. Thank you.

Council Chair Rapozo: Thank you, Mike.

Mr. Curtis: That was not a question.

Council Chair Rapozo: I know. Thank you. Is there anyone else wishing to testify for the first time?

PAUL ROY: Good afternoon. Thank you. Good morning. When you wake up at 5:00 a.m., it seems like it is afternoon. My name is Paul Roy. I live in Līhu'e, Hawai'i, I feel blessed to live here. I am here on behalf of myself, but full disclosure I am a realtor, surprise, surprise. As realtors, I am not only concerned with one thing, and that is property owner property rights, and my feeling is that we all have the same rights as property owners. I am here just to tell you thank you. You are looking at a system that had unintended consequences, and we do not want any more unintended consequences, as you have these workshops, so much appreciated for allowing me to speak. I really appreciate your efforts. The need today is we need not to forget that when we look at processes that raise taxes, typically at the end of the day, we can say things like, "That is the investor, that is someone who has a lot of money, or that is someone from somewhere else." At the end of the day, the end user is the person who is paying that fee, it is just passed on, and the more you pass it on, you put a dollar charge on something, by the time it gets to the end user, it has had other economic (inaudible), by the time it gets to the end users there is all these auxiliary charges. My point is it is really crucial that we are careful, and I do not like using things like, "We are going to raise taxes on this one group to solve a problem," and that is what I am hearing. For myself, I live here, I dreamt about living here, I have always lived here for the last ten (10) years, I moved here, my family is here, and we worked really hard to be able to afford to live here. Most of the inventory that is sold on this island is below one million five hundred thousand dollars ($1,500,000). The vast majority of it is one million five hundred thousand dollars ($1,500,000) and less. That is the vast majority of the inventory that is moving through our marketplace, and then it is everything else. My primary concern lies with the valuation methods that you folks will be using to set these tiers up, because it seems like last time, we just picked a number, one million three hundred thousand dollars ($1,300,000), anything over this. I think it is dangerous to use median prices to do this, because there are other factors vital to the community, I could take that exact same property on the Westside and bring it on the Eastside, it is the exact same property, but it has a different valuation, so just keep using the experts, bring in the advisors, keep trying to work to make a fair system to all that is easy to understand, and for people to feel like they are treated fairly. Thank you.

Council Chair Rapozo: One quick question. You mentioned that most houses are being sold for one million five hundred thousand dollars ($1,500,000) and below, what figure do you consider attainable by our local residents here?

Mr. Roy: Again, it depends. It is so diverse, there are so many variables, but when you look at communities where there are government agencies that do these things, so they look at what a median family income is, then the median cost, and we know that it is very difficult, almost impossible if you are just a median person trying to afford a median price house. That is why we have very vast multi-generational families who are not moving, that are staying in their homes, and we have a lot of this going on. Most of the inventory I see turning off are people who come to the island, they live here a while, then they go back. Sixty-five percent (65%) of our inventory that is sold are sold to people who have state residency. I am just saying that sometimes we think we are going after one (1) certain class, or one (1) certain type of property, and it could be me as someone who lives here that wants to spend time on the mainland, and now we have changed what "occupancy" is—most people say it is one hundred eighty (180) days, we just changed it that I have to be here a certain amount of time, and I cannot short-term lease my property, even if I want to put it in the rental pool, it has to be a minimum of six (6) months, so you are forcing me basically six (6) months I have to be away. That is just my own personal thing, everyone is different. Also, there are people that live in the state that own property that is long-term investment that they also live and work here too, they are trying to build wealth through real estate. I am just saying, I appreciate your approach, thank you for involving all the stakeholders, thank you for taking this seriously, and just be careful of unintended consequences, because there are no solutions as Thomas Sowell says, "There are just no trade-offs." Thank you for your efforts. Thank you for your service.

Council Chair Rapozo: Hang on.

Mr. Roy: Someone has a question?

Council Chair Rapozo: Councilmember DeCosta.

Councilmember DeCosta: Yes. Explain to me, what you mean by "raising taxes to one (1) specific group?" What group are you talking about?

Mr. Roy: One (1) group was the people who do not use their house as you think they should intend to use it, so you are going to try to increase inventory stock by raising a tax on that class to try to create stock, and I do not know that is a way that you create more housing stock—that is all I am saying. By raising tax on a certain class or a group of people.

Councilmember DeCosta: Hang on. You said, "You." Me personally, or the Council, or the Department of Finance, because I do not understand.

Mr. Roy: Policy. I am talking about policy.

Councilmember DeCosta: You either live and work here, and be in our community, or you come and vacation here, there is no gray area.

Mr. Roy: I live and work here, but I vacation other places, and I want to come back to my house when I get back, because my family is mostly over there.

Councilmember DeCosta: Okay, so this is your main residence, so you are protected. We have policy that protects you.

Mr. Roy: I am not saying that you are harming me in particular. I am just saying that as you set these policies, continue to get the stakeholders and consider the trade-offs, because when I hear things like, "We are going to tax a certain group." Remember, you are not going to be here in some of the law regarding my main concern is how you are going to establish the valuation on the tiers, what equates to a tier, that it is fairly done, because we have such a diverse stock. I am not so much about that you are going to raise taxes on someone who does not live here, I do not have a problem with that per se. I am just saying I do not want that to be the policy to increase new stock. I do not think that is the right way, or what we want to say is, we are doing this because we are going to make more housing stock, because I do not know that you will. I do not know that you will not, but I do not know that you will, and I do not know that it will create as big of an impact as we hope.

Councilmember DeCosta: Can I ask another question? Last question I want to ask you. Our job, and this Council just did that this year, we gave a tax relief, and I believe everyone voted. We gave a tax relief to residents who live here, but our County operates on a certain budget, we have responsibilities and services that we have to do, we have pressing issues, so somewhere along the line that revenue needs to be made up. How do we make up that revenue that we gave to our local residents who deserve that tax break? How would you see us do that if we do not tax another class something else?

Mr. Roy: Again, I am sorry if my position came off as I like I am saying, "Do not raise taxes." I am just saying, make sure the system is fair, easy to understand, and applied to everyone equally, based on that class. If you want to say that residents get a tax break, yes, we should. I do not drive on the road as much as a visitor does in a week. I have a friend in Turo, visitors drive around three hundred (300) miles a week in his car. I do not drive three hundred (300) miles a week, I drive to Costco, I drive back, so people who have a great impact on our infrastructure, and do not live here, but they have the greater impact, yes, they should be charged more. I am saying as you go through the process, keep doing what you are doing, work it, and just make sure that you use good, sound approaches especially as you determine the different values, because guess what? The way I am reading the law, the next Council, when you are no longer here will get to make these decisions too, right? They may say, "You know what? We can do this..." Which you folks did maybe as a Council intended to happen, so I am just saying as you do this, very important, thank you for your efforts, and including everyone, and keep talking to your stakeholders, experts, economist, appraisers, the realtors, which you have done, thank you. Again, no perfect, but you will find the right trade-offs.

Councilmember DeCosta: Thank you.

Council Chair Rapozo: Thank you. That is the intent. Is there anyone else wishing to speak for the first time?

ANDREW TEMPLEMAN-GONZALES: *Aloha,* Council. My name is Andrew Templeman-Gonzales. I am a mortgage loan officer on the island. Of course, I am a resident, I have been here for eighteen (18) years, worked in hospitality, everything. I am speaking as a private citizen and as a resident here with my own opinions and thoughts on what I am seeing. I also have a Political Science major, and understand that as people in position as yourself, you have to do two (2) things with taxes, you have to raise revenue, but you also have to affect the economy. Taxation is not just about paving the roads, but also it is about affecting the actions people take. When we have a multi-tiered system of any kind there will be people that will gain it. If we try to tax people who are not occupying their second homes, how do you actually know if that is their second home that is unoccupied? Are you going to hire a whole bureaucracy in the county to knock on doors and see if anyone is home?

Everything has a cost. As you know as an Economics major, not everything is as straightforward as we put it on paper, and it is going to result in exactly what we want, there is a law of unintended consequences, to speak to Paul Roy's point. For me, what I am seeing here are two (2) things—that you need to raise revenue for the county, but you are also trying to help locals have home ownership as part of taxation policy, and I think that we are missing something here, it is not just about the taxation policies, it is also about zoning. I talked to my wife a lot, we are helping a local child, essentially, we call him "child," but he is in his late twenties, he has two (2) children, we got him into a home, the two (2) of us together. He just barely made it, he is trying to get into another home, trying to live the life that everyone wants to live, yard in the back for his children to play, and he is just a little bit out of reach of getting the home that he wants. I always say to myself, "Why is all this land right by Kukui Grove, if you drive down Kaumuali'i Highway, the *mauka* side, there is all this empty land, I know the County does not own it, but why are we not building more of these first-step homes for people to get into?" Right now, if you want to own a home for the first time, you have to come up with eight hundred thousand dollars ($800,000) out of nowhere. Most people step their way up from a smaller place to a bigger place. I would like to ask the County to think of that as well as part of the taxation policy, we need to have a way to get people get their foothold, their very first home, a simple two-bedroom (2) condominium, and there is not much of that anymore, even some of the condominiums are going for five hundred thousand dollars ($500,000) or six hundred thousand dollars ($600,000), and even that is just a little bit out of reach for enough of our locals that are working day-to-day serving the tourist industry, which is the "money maker" on the island, but if we are going to try and find ways to protect them, yes, let us give them some exemptions to protect them if we have to tax the owners of vacation rentals that are active short-term rentals in the Visitor Destination Area (VDA), but we are still missing a huge piece of the equation here that there is just not enough housing.

Council Chair Rapozo: Okay. That was your first three (3) minutes. You can come back. Do you have a question?

Councilmember DeCosta: Can I answer his question? He asked a question.

Councilmember Kuali'i: No.

Councilmember Cowden: No.

Council Chair Rapozo: You can ask a question.

Councilmember DeCosta: I had an answer for him, but that is alright.

Council Chair Rapozo: You can come back for a second round.

Mr. Templeman-Gonzales: Okay. Thank you.

Council Chair Rapozo: Sorry, I did not see you raise your hand earlier.

AMY FRAIZER: Hello, I am Amy Fraizer. I think most of you know me. I was not going to speak because I wanted to hear what you folks had to say, but now that we are doing it this way, I think the one thing everyone is talking about is that it is complicated, the system is complicated. I am someone that feels like I know the system well, and I still do not understand it. Mike Hubbard will tell you; I call him all the time trying to figure out, "What is this supposed to do?" I am a homeowner, I am a landlord, I am from here, my parents did not own a home, they were renters when I was growing up, so I have an interesting perspective on how taxes affect the end-user, so I am going to walk you through a couple of examples of what is broken in the system. This year, me, being someone who thinks I know the system, life gets busy, you are not paying attention, we have a long-term rental, it was something that we bought years ago, forward-thinking, thinking that someday our children will not be able to afford to live here. On the weekends, let us buy this property, fix it up ourselves, rent it, and hold it for our children as a long-term rental. Well, I did not pay attention to the assessment that doubled in one (1) year. There is no protection for long-term rentals on assessed value—they can double, they can triple one-time, so I missed that. I also did not realize, because I have never reached the assessed value, that you have to let the County know that you have a long-term rental, and you have to do that every single year now. That is an example of something that is complicated. To put it into perspective without that property being left in Residential, the property taxes when we bought the property were under one thousand dollars ($1,000) a year. Then, it went to two thousand dollars ($2,000), then it went to five thousand dollars ($5,000), then it went to six thousand dollars ($6,000). This last year it was fourteen thousand dollars ($14,000), this one (1) assessment took it up to twenty-one thousand dollars ($21,000) for a long-term rental. Most people can recapture that by just renting it at a higher rate, because there is a demand for it, and you make up the difference, so it is always passed on to the tenant. In our situation we were able to, through your last bill, fix some things and keep everything the same way, but it is just an unintended consequence. I think a lot of our policy is set for...we hear people are doing loopholes and we want to make a rule against it, then all of a sudden, the unintended consequences. I just learned the other day, I went to a house, the man is a true farmer, he is at the farmers market every weekend, he is farming, and he has an Agricultural Dedication, but the parcel is just under five (5) acres. He no longer qualifies for Agricultural Dedication, because we do not let you have an Agricultural Dedication under five (5) acres. Now, his taxes as a farmer will be in his fixed income, not attainable, so we have all these things that we are doing, because we know about those gentleman farmers, but it is actually affecting the same group that we are trying to protect.

Council Chair Rapozo: I need to stop you there. That is your first three (3) minutes. Are there any questions for Amy?

Councilmember DeCosta: I have a question.

Council Chair Rapozo: Go ahead.

Ms. Fraizer: It was a joke. I am Steele's mom.

Councilmember DeCosta: I like jokes. I am a joker.

Ms. Fraizer: No, Steele's mom. I am Steele's mom.

Councilmember DeCosta: Yes, I know, he was my student. Yes, I knew that. You raised a good son. He did well in my class.

Ms. Fraizer: Yes.

Councilmember DeCosta: I need to ask you, that five (5) acres. Is there a home on the property?

Ms. Fraizer: Yes, they live there, owner-occupants.

Councilmember DeCosta: I think they are protected by what we call our Homestead rate.

Ms. Fraizer: But they lose their Agricultural Dedication.

Councilmember DeCosta: You do not need Agricultural Dedication, because Homestead rate is cheaper than Agriculture, so they are fine. I live on my ten (10) acres, and I do not have Agriculture, but I have Homestead.

Ms. Fraizer: Okay.

Councilmember DeCosta: So, we have something in place for that.

Ms. Fraizer: I thought there was a dedication that actually took...because when you have large parcels that are truly farmed, then they go down to minimum tax rate, so even if you are owner-occupant, the Homestead rate is going to be higher than the minimum tax rate, so what they do with the dedication on...this is where it gets complicated, because you have to really...

Council Chair Rapozo: When they come up, they are going to go through each of the programs, because many of us are confused.

Ms. Fraizer: Right, so they lose the carve-out, is what I am saying.

Councilmember DeCosta: They will address yours today.

Council Chair Rapozo: I am curious about that.

Ms. Frazier: Okay.

Council Chair Rapozo: Thank you. You can come back for a second round.

Ms. Fraizer: No, I am good.

Councilmember DeCosta: Tell Steele I said, "Hi."

Council Chair Rapozo: Come on up.

ALICE LUCK: Good morning. Alice Luck with Keiki to Career and Kaua'i Planning and Action Alliance. Thank you for doing this. I want to say it is interesting to see who is in the room and who is not in the room, so I know sometimes the saying, "the squeaky wheel gets the grease," is instructive here, so I just want to speak for the younger people on our island, and those who are trying to get into the market, I think someone else mentioned that as well. People in here, you can see there are a lot of realtors, I know a lot of them have their hearts in the right place, too. I wanted to keep in mind the younger folks who are trying to get into the market, and our young people who are thinking that they do not have a future here, and they will have to buy up elsewhere. Secondly, I just want to mention if, I do not know if it is on the table, to also adjust the Commercial rates. I have been hearing from a lot of our nonprofit partners that they are really struggling with the increase in commercial rents, and some of them are nonprofits, some of them are for-profit, they do not have a nonprofit, but they serve a very important community function, and that is serving our youth, so they are really struggling, is what I am hearing. I am trying to gather more data on that. I just want to say, if you adjust the commercial rents, if there is some sort of mechanism we can put in place to have some tax relief for those who rent long-term to a nonprofit organization or an organization that serves a community purpose. I do not know if that is possible, but that is something that I would like the Council to consider. Thank you.

Council Chair Rapozo: Thank you so much. Is there anyone else wishing to speak for the first time? Mr. Pratt.

STAN PRATT: Good morning. Thank you for holding the workshop and thank you all for attending the workshop. I am here to monitor this, learn about it, try to understand the impacts of it.

Councilmember DeCosta: State your name.

Mr. Pratt: I am sorry. Stan Pratt, for the record. I am trying to understand the impacts of it, and if possible, to provide input that can be helpful. I am a six-generation Kaua'i resident with children in college who will hopefully live on Kaua'i also. As a high-level summary for me, why I am here, and as we go, we will learn more about the proposal and the different classifications. Our family has a multi-generational property that is a large property, and we have owned it for over one hundred (100) years. Our mission is family enjoyment of the property. Our entire goal in my generation is delivering it to the next generation—that is all. In our case, our ownership is as a C corporation and that is really for transferability of ownership and not much else, it does not make money, in fact, we "kick" money into it to keep it alive. We "kicked in" a lot of money this year, so we can convert two (2) cesspools to septic; the ground open today as we work on that. We have long-term residents who have lived there their entire life, over fifty (50) years, and they have recorded leases, so we do benefit from Commercialized Home Use currently. We have Conservation land; we have Agricultural land with actual real taro in the ground being farmed. I am here with a great interest in this whole process to see how we can deliver it to our children, so they can live there and enjoy it. At the same time, I fully understand the difficult challenge for you to make it fair for everyone while running the County business—not easy—that is why I am over here, and you folks are over there. Good luck and let me know how I can help you. I am not sure if any of the solutions or proposals if you were to ask me what do I think, until I see what Reiko, Steve, and Mike talk about, I do not know what to think, but I sure hope we can work something out, so that long-term residents can continue to be long-term residents, and other residents in the room can be multi-generational like me, and like some of you. With that, I will probably stop. I hope we can stop the drain of people who leave here because it is too expensive to live here, and real property tax is just one (1) component of that, but in any big transformative change that we make in our lives, personal or otherwise, you chip away at it, there is never a silver bullet, you have to do a lot of things to try and do it, so I appreciate your willingness to have the workshop to share and to work on this project.

Council Chair Rapozo: Thank you.

Councilmember DeCosta: I have a question for you, Mr. Pratt. I want to understand. You have a family property and you mentioned you have multiple uses on it. You said you have Agriculture, bona fide agriculture actually, thank you for explaining that, because we know there are some people who have "Agriculture" that grow palm trees and grass, so thank you for that, and you have Commercial and you have long-term lease on it, so is the whole parcel that is carved out into different sections?

Mr. Pratt: Right. There is no Commercial, it is Commercialized Home Use is what we have there, whatever the outgoing classification is. There is Agriculture, there is actual agricultural practice going on over several acres, several years, generations really. There is Agriculture in a hillside that is not really usable hillside, but it is a large hillside, then there is Conservation property, and there are homes on the property. There are six (6) homes on the entire property all together. Three (3) of those are long-term residents and one (1) is currently vacant as we put in the septic and try to fix it up and decide as a family what should be next. Should family live there, or should we try to make it a long-term rental?

Councilmember DeCosta: Did you tell the County that you folks were putting in a septic and it was not usable. Maybe they have a program that would help you be exempt for that one (1) year?

Mr. Pratt: I do not know what we told, we have someone helping us go through this, so we are just working on it, and we are doing it this month.

Councilmember DeCosta: We will look into that for you. If you are not using a home and it is not usable because of your cesspool, then we need to be able to help you.

Mr. Pratt: I would not say it is not usable because of the cesspool, but the point, Councilmember DeCosta, is we are investing in the long-term health of the property. We are trying to steward the property properly, not for any other reason, but to deliver it to our children. Our family company is never going to make money, it is not intended to, everything is set up to make enough to sustain our expenses, and save a little money, so when we have to paint, re-roof, and redo the septic, we can do that. No one is going to get any money out of it. In fact, we are going to "kick" it in over time.

Councilmember DeCosta: I understand you. I am trying to understand, and I am trying to help you understand that we have programs, so the few things that you mentioned, Agriculture, we have an agricultural program. Long-term rental, we have a long-term rental program. Homesteader, we have. We are not reaching your target, like we are not helping in those areas.

Mr. Pratt: We are. A few years ago, we started on the process because we realize we have long-term lifetime residents, and we did not realize how you are supposed to proceed to have the tax benefit, so with help from the Real Property Tax Division, we were able to do that, it was a tremendous help, and we know about Agricultural Dedication, etcetera.

Councilmember DeCosta: Thank you. I understand.

Council Chair Rapozo: Thank you.

Mr. Pratt: Yes. Thank you.

Council Chair Rapozo: Is there anyone else wishing to speak for the first time? If not, we will go down the list. Does anyone want to speak for a second time?

Ms. Brinkerhoff: Heidi Schemp.

(Councilmember Carvalho was noted as not present.)

Council Chair Rapozo: I think it is just Mr. Lindner.

Ms. Brinkerhoff: Jeff Lindner.

(Councilmember Kuali'i was noted as not present.)

Mr. Lindner: I would like to address Council Chair Rapozo's questions. As far as absentee owners, I agree that something could be done or should be done for speculation, in inventory. In that manner, I am not totally familiar with the zoning amendments, how zoning is, but I do know there is no assessment on people who have zoning R-10, R-4, whatever, and there is no expiration date. It seems like the real property...that is inventory that has not come into existence, and it is sitting there, and it seems like it should be assessed and if it is not, there should be something to put it into fruition otherwise it should be taken away. I know I have heard the arguments that basically would be considered taking from the Council, but I have heard reasonableness and laches.

(Councilmember Carvalho was noted as present.)

Mr. Lindner: Reasonableness and laches is a legal term that could be applied. I would also like to address the woman who talked about assessment is just as big or more important than just a tax rate. So, you cannot just look at a tax rate when you are trying to keep people in their homes, you have to look at the assessments and see whether the assessments are fair. The other thing I would like to point out is in the infrastructure, which Councilmember DeCosta brought up, is...because you have to have the things, is it basically the whole water system. Just about everywhere was...the Department of Water did not pay anything for it, they basically required that the agriculture developer put it in, and a lot of times they would ask more than what was really needed.

(Councilmember Kagawa was noted as not present.)

Mr. Lindner: It would be one hundred thousand (100,000) gallons, which maybe they only needed fifty thousand (50,000) gallons. I am sure in the last twenty (20) years, there has not been much agricultural subdivisions, and that is a huge amount of infrastructure that could have been put in. I am not sure that the Department of Water is going to...we heard their finances, it is going to be tough for them to do that. That is related to being able to put people into reasonable houses.

Councilmember Cowden: I am just trying to understand when you said, I could not hear the first word, but something and laches, what was the first word?

Mr. Lindner: It was reasonableness.

Councilmember Cowden: Reasonableness.

Mr. Lindner: Reasonableness, is how can someone hold on for forty (40) years?

Councilmember Cowden: In speaking to that, you gave the example of R-20, for people who do not know, those are twenty (20) units per acre.

(Councilmember Kuali'i was noted as present.)

Councilmember Cowden: "R" would be Residential. "RR" would be Resort. This is a question that I will ask the Department of Finance for better clarity, if they are being taxed as R-20, or if they are not being taxed. It sounds like you are saying they are not being taxed as R-20, is that what you saying?

Mr. Lindner: Yes, that is my understanding.

Councilmember Cowden: I think that they are, but I will ask them that. Did I also hear you saying that you think there should be an expiration date on RR-20, which would be a resort.

Mr. Lindner: Correct. Related to the inventory. Right.

Councilmember Cowden: So, you would say, if they do not build within "x" amount of time that they would lose that.

(Councilmember Kagawa was noted as present.)

Mr. Lindner: Right.

Councilmember Cowden: Okay. That gives me questions to ask. I am sure we charge according to the use.

Council Chair Rapozo: Hang on, Mr. Lindner, we have one (1) more question from Councilmember DeCosta.

Councilmember DeCosta: Thank you. I am curious, because we just had the Department of Water less than a week ago. You made a very important comment in your testimony that the Department of Water is providing sufficient water for agricultural properties, and the infrastructure costs that they would have to incur, you did not say it, but I will ask you, would it be pushed off to the water customers? How else will the Department of Water get the revenue?

Mr. Lindner: It just would not be built.

Councilmember DeCosta: Correct.

Mr. Lindner: The Department of Water tends to not pay for anything, and it would have to be someone doing a subdivision to run.

Councilmember DeCosta: Correct. I understand. I am just trying to look at the oversight. I am thinking if the water was part of our County, then we could put CIP money towards infrastructure to make this water available to help with agricultural lots to help the supply to put people into homes. Am I correct?

Mr. Lindner: Yes.

Councilmember DeCosta: Thank you, Mr. Lindner.

Mr. Lindner: Okay.

Council Chair Rapozo: Come on up.

KENNA STORMOGIPSON: *Aloha,* Council. It is really good to be here listing to this discussion.

Council Chair Rapozo: Please state your name.

Ms. Stormogipson: My name is Kenna Stormogipson. I had the distinct pleasure of being part of the Maui County Comprehensive Housing Plan, it was led by Jeff Gilbreath from Hawai'i Community Assets, and one of the other key team members on that was Blossom Feiteira from Maui County. As part of that plan, we were trying to figure out money for affordable housing. Literally, how can Maui achieve five thousand (5,000) affordable units at something that local people with local wages could actually afford? That was literally the question. As we tried to find revenue sources...do we do a Transient Accommodations Tax (TAT)? Do we use rental car money? Where is the money going to come from? We realize that there were a lot of property classifications that were not really organized correctly, so folks who did not necessarily live on Maui were having some of the lowest property taxes in the country, so we took a "deep dive" into that, and through taking a deep dive, because as many people here said, it does get very confusing, very quickly, so we had to go really deep into all of these nuances. At the end of the day, what we had was, we came up with a plan, we shopped it around about twenty-eight (28) community meetings. We had one thousand six hundred (1,600) people respond to that plan, and at the end of the day, we raised some rates in some areas, mostly on folks who do not live and work in Maui, and our target was fifty-eight million dollars ($58,000,000) a year in that fund, and we hit that target. Now, what they have been able to do with that is they have been able to fund five (5) or six (6) affordable housing projects last year. This past year they had a situation similar to Waipouli Courtyards, where an apartment building was falling out of the affordability period, they thought they had more affordable housing than they did, so they were able to use that fund to buy the building, I think it was about twelve million dollars ($12,000,000). I want to reiterate that being able to have county-controlled money that you can use to get the affordable housing that you want is great, because then you do not have to rely on the federal government or whatever pace they are working at. It is great to have federal support, it is great to have state support, but as a county, sometimes you need to have your own resources to move at the speed that the county wants to move at, and with that reality, the main revenue source that as a county, you have control over as property taxes, right? Anyway, I just want to *mahalo* everyone for this conversation. I think it is super important, and I do not know if that is the topic today, but especially in regard to funding for affordable housing. I would be happy to come back with Blossom, I really wish she could have come today, but she has a lot of important wisdom on this as well, and maybe some other time we could have her come too.

Council Chair Rapozo: Thank you. Is there anyone else wishing to testify? Seeing none. The Department of Finance.

(Councilmember Bulosan noted as not present)

STEVEN HUNT, Executive Assistant to the Mayor: Good morning, Chair, Councilmembers. For the record, Steve Hunt, Executive Assistant to the Mayor. We are first going to cover Bill No. 2900.

(Councilmember Bulosan noted as present)

I know that is a part of this as well. It is kind of a special carve-out, it really does not have anything to do with tax relief, all it does is give additional tools creating some clarification on tax classes, eliminating the Residential Investor tax class, and getting rid of some of the preset tiers that were going to be taking affect had we not created a more flexible tier system.

I am going to jump right into a spreadsheet that gives you an overview of what we are talking about in terms of tiers. We just did a screenshot of...and this is by no means the suggested tiers, but we want to just start somewhere, and give you an idea of how it would work. In this case, we set the first tier at one million dollars ($1,000,000), we used the existing Residential rate of five dollars and forty-five cents ($5.45), and the existing rate of nine dollars and forty cents ($9.40) for Residential Investor as the starting tiers. Then, the upper tiers starting at above three million dollars ($3,000,000) with a rate of ten dollars and forty cents ($10.40). Again, totally arbitrary, we just wanted to see where the counts of properties fall as well. In this particular class we have merged the Residential class and the Residential Investor class, so there is a total of nine thousand ninety-two (9,092) properties. The current taxation without the tiers, with the five dollars and forty-five cents ($5.45) and the nine dollars and forty cents ($9.40) collectively creates a little over seventy-five seven hundred million dollars ($75,700,000) in revenue, so under this scenario we actually lose about two million dollars ($2,000,000) in revenue. The nine dollars and forty cents ($9.40) is only applied to the differential, not the initial. So, everyone pays five thousand four hundred fifty dollars ($5,450) for the first million dollars ($1,000,000). Then above that is when the tier kicks in. The incremental amount that is above one million dollars ($1,000,000) and below three million dollars ($3,000,000), you pay nine dollars and forty cents ($9.40) on, so there is sort of a blended rate that will be applied to that.

I have taken some examples, I have six (6) properties here, three (3) that were formerly in the "Pitt 9" or the Residential Investor class, and three (3) that are in the Residential class. If you go across, you can see that we are starting with a net taxable value of example 1 of over seven million seven hundred thousand dollars ($7,700,000). With this tiering the net change, they would actually pay seven hundred ninety-five dollars ($795) more in taxes going from seventy-two thousand eight hundred dollars ($72,800) to seventy-three thousand six hundred dollars ($73,600) roughly. Then, if you look at the breakdown on the tiers, there is Tier 1, Tier 2, Tier 3, and it buckets how much of the taxes are related to each of the tiers. I have done one with a lesser-valued property, again, we had a threshold of one million three hundred thousand dollars ($1,300,000), so this one still was a Residential Investor falling in at one million four hundred sixty thousand dollars ($1,460,000). Under these tiered rates, they would actually pay three thousand nine hundred fifty dollars ($3,950) less in taxes. Going from thirteen million seven hundred thousand dollars ($13,700,000) in taxes to about nine thousand seven hundred ninety dollars ($9,790) rounded. Again, you can see the tiers, everyone pays that first five thousand four hundred fifty dollars ($5,450) for the first tier, but in this case, that incremental amount is only four thousand three hundred forty ($4,340) roughly. Example 3 is a higher-valued property. This one is over ten million seven hundred thousand dollars ($10,700,000). Under this scenario, because the top tier, Tier 3 kicks in on a weighted average a little heavier, they would pay more, three thousand seven hundred sixty-seven dollars ($3,767) more. Again, going from formerly one hundred thousand dollars ($100,000) to a little over one hundred four thousand dollars ($104,000). Again, most of that coming in the Tier 3 bucket. Examples 4 through Example 6 are Residential properties, again, the first one just crosses the threshold, so they would pay a little bit more, one hundred fifty-seven dollars ($157) more in taxes for being over one million dollars ($1,000,000). Example 5 does not hit the first threshold, so they pay exactly what they are paying, they are only paying the flat rate of five dollars and forty-five dollars ($5.45) for the entire amount. Example 6 crosses the threshold by about one million five hundred thousand dollars ($1,500,000), so under this scenario, they would pay five thousand eight hundred dollars ($5,800) more, because of the big portion of that is coming in at the feathered-in rate. Again, this is for discussion purposes of examples of how the tiers work.

REIKO MATSUYAMA, Finance Director: I just want to go through the count again, because you are going to see this on a spreadsheet. The first tier, Steve said the total in this class tax will be nine thousand ninety-two (9,092), and this is assuming Steve's bill, Bill No. 2900 passes, it is a combination of Residential and Residential Investor, so in this case, six thousand two hundred sixty-nine (6,269) properties do not hit the million-dollar tier, so they are only going to be in Tier 1, they will be like this Example 5 down here. Then, the next tier, those that are under three million dollars ($3,000,000), but over one million dollars ($1,000,000) are going to be in this two thousand three hundred fifty-four (2,354) count, and what we are saying here is that there is four hundred sixty-nine (469) properties that are over three million dollars ($3,000,000). I just wanted you to pay attention to that, because as we start playing with the Excel spreadsheet, you are going to want to pay attention to those counts.

Mr. Hunt: Again, if you look at those two (2) tiers, Tier 2 and Tier 3, roughly about two thousand eight hundred (2,800) properties. The count in our Residential Investor class is about one thousand six hundred fifty-three (1,653), I believe, so a majority of those are already from the Residential Investor class, we are not picking up too many from the Residential class, one million dollars ($1,000,000).

Let us go to the first tab. This is just an overview of the assessments, the net taxable value. A count based on percentage, so you see how much percent in parcel counts on each. Then, you also see percentage of the net taxable value, which you can see this combined, if you look at row two (2), column "E," you can see over thirty-three percent (33%) of our net taxable value is going to be coming from this combined Residential and Residential Investor class, it is now the largest tax class in terms of where the value lies, followed by our Owner-Occupant class at twenty percent (20%). Then, our Vacation Rental class at seventeen percent (17%).

Councilmember Cowden: What page are you on?

Mr. Hunt: It is not a page.

Councilmember Cowden: Okay.

Mr. Hunt: This is live on the spreadsheet.

Councilmember Cowden: Alright.

Mr. Hunt: Sorry. Also, the next column over, I have the median net taxable, so you can get an idea, again, the midpoint. The median is, you are based on having a certain count that are above or below that figure, whereas the average could be skewed. Obviously, when we get to the homeowner owner-occupant class, which formerly Homestead, if we passed this it would be called the Owner-Occupied class. You can see that the median is, four hundred nine thousand four hundred dollars ($409,400), whereas the average is five hundred twenty-five thousand seven hundred ninety-three dollars ($525,793), and the reason that is skewed like that is because people who are getting in and not protected by the cap initially are having resets and those values are a little bit on the higher side, so the new applicants that are coming in are skewing that a little bit up, but you still have the long-time participants who entered when the cap started in 2016 that was the first pure year where we did not have tax credits applied. From 2016 to current, a majority of our properties are going to be in that four hundred nine thousand four hundred dollars ($409,400) or below, at least fifty percent (50%). From a tax revenue standpoint, column "H," gives you an idea, if we were to stay revenue-neutral by category, where that would be. Obviously, with tiers and moving tiers around in a room, we may not be in a revenue-neutral by class, but we also need to be aware that we need to balance the budget, and we do not have a whole lot of room to give everyone relief. The twenty-two million eight hundred six thousand dollars ($22,806,000) does not factor in appeals, it does not factor in tax credits, there are certain things, like special exemptions like Ni'ihau, and things like that that I cannot do on a spreadsheet, you have to actually have the software to run a formal analysis, but for purposes of getting a gauge as to what the tiers and rates might produce, this is definitely good for decision-making purposes. We will move to the next tab.

Here, we have broken them out and we put in the existing tax rates. We put a tier of one million dollars ($1,000,000) and two million dollars ($2,000,000), but they are not being utilized, because we are having the same rate for each tier, so it does not matter at this point. As you can see in the big red number in column "G," but dropping in all of the Residential Investor parcels, which are currently paying nine dollars and forty cents ($9.40) and giving them the Residential tax rate, we would lose about nineteen million two hundred seventy thousand dollars ($19,270,000). I know there has been talk about a thirty-three million dollar ($33,000,000) increase, but it is the incremental increase to the category, not the tax of the entire class that should be considered, so that is how much incrementally we were getting by having a different tax rate for those properties. This is also where we would begin the numbers and the thresholds that are illustrated in purple. This is where we would begin to put in numbers to see what the impacts would be. Reiko, if you could accommodate and throw in a rate or a threshold, we can see.

Council Chair Rapozo: As we discussed, before we get to the tiers, I wanted to do the tiers last only because the complication and the confusion is in the programs, the exemptions, as I am following your presentation, how many exemptions do we have now?

Ms. Matsuyama: Thirty (30) something.

Council Chair Rapozo: I think that is part of the problem. I understand, I do not want to get hung up on the tiers, because we are going to be playing with spreadsheet for the next seven (7) hours. That is what I think. If we can start with the exemptions and the programs, so the public can understand. There were a lot of questions just in the short testimony we had about confusion with the agricultural, and all of these different exemptions, Agricultural Dedication, and so forth. If we can get through this first, then get a better understanding. I am curious to hear what the Councilmembers feel about some of these exemptions. Do we still need these exemptions? Are we providing too many exemptions? Councilmember Cowden.

Councilmember Cowden: If I may, I wonder if I could just hand out a sales analysis from last year for the area of the island where I live just so we can see how skewed the whole thing is, because even when we are looking at the tiering, I think it is valuable for us when we are listening to understand how the presentation that I am watching and I appreciate is for maybe seventy-five percent (75%) of the island. I want to hand it out so people can see.

Council Chair Rapozo: You can move to where I live, and you will not have that problem.

Councilmember Cowden: Yes, that is right.

Council Chair Rapozo: Listen, we are going to get into one of the things...of course there will be outliers.

Mr. Hunt: Absolutely.

Council Chair Rapozo: We are not going to be able to create a tax system that is going to be good fit for every single property owner. I will ask you to pass it out; I want to see that, because it is real.

Councilmember Cowden: It is a lot more than just an outlier, it is a whole region.

Council Chair Rapozo: I understand, but we cannot have a North Shore tax rate system, a Westside tax rate system, Līhuʻe, a Puhi, and a Hanamāʻulu, that is the unfortunate mess we are in. We need to create a system that is as fair as possible, but there is no way we are going to be able to address every single region on this island.

Councilmember Cowden: If I could just make a statement on that though.

Council Chair Rapozo: Sure.

Councilmember Cowden: When you look at last year's sales in our area, the lowest was one million six hundred thousand dollars ($1,600,000). Hardly a shack will sell at that, so twenty-four million dollars ($24,000,000) on Malolo Road, these are not extraordinary houses, so when we are making these plans, I want us to hold in our hearts that we are saying we are talking about everywhere but the North Shore and the beachline areas, and we are still humans up there.

Council Chair Rapozo: Again, I will repeat, we are not going to be able to custom...

Councilmember Cowden: They are not outliers; they are whole communities.

Council Chair Rapozo: Right, but again, we cannot do a special tax rate for the North Shore.

Councilmember Cowden: Why not?

Council Chair Rapozo: We cannot.

Councilmember Cowden: I am working on it.

Council Chair Rapozo: Anyway, that is why I want to save the tiers today, because we are going to get hung up on this. I am more concerned about our exemptions. We have too many. I will be straight up. We have some people who are getting exemptions that should not be getting exemptions, we have people who do not have exemptions that should have exemptions, and we are in a new time. I want to be the devil's advocate here and challenge Councilmember Cowden, the difference between the people on the North Shore and me, in Wailua Houselots, is they can go to the bank, the equity that they have in their properties is much higher than the equity I have on my property because of the assessments, and the appraisals. The value of their property, they enjoy something that I do not have, that is the trade-off as the gentleman was saying earlier, it comes with a trade-off, but we cannot sit here today and throughout this workshop process and say, "Councilmember Kagawa, you are from the Westside, let us go and figure out how we can set up a tax rate just for the Westside. Councilmember Kuali'i, you are in Anahola, how are we going to deal with the Anahola community, and Līhu'e?" Do you know what I am saying? So, it is going to be very difficult.

Councilmember Cowden: I just want to give you a little bit of rebuttal when you are talking about people could go and get the equity out of their house. I own my house, but if I went to get a home equity line of credit, I would not be able to pay that price, I would lose my house, I cannot make the payment on it, so you have that equity, but that equity is available only if you have the income to support it. What we are doing is taxing our community out. I appreciate the Homestead piece, there is a lot that works, but when I just see a number like one million dollars ($1,000,000), one of the workforce houses says that.

Council Chair Rapozo: As I said, that was just as a...that was not intended to be a proposal or anything, it was just there to show the spreadsheet and how it works. That is the difficulty that we will have going forward. How do we set the thresholds, and I have my ideas on that, but I will save that for when we get to the tiers. Okay, you can start.

Mr. Hunt: We will go into the exemptions. The next two (2) slides show the number and the listing of all the exemptions that are under Chapter 5A, Article 11. As you can see a number of exemptions, some new, some not. I am going to go in and cover the first couple, so the next exemption is Home.

Under the Home exemption, we actually have Home plus Age, and it not only applies to Homestead, but also the Commercialized Home Use. Essentially, if you claim your property as your primary residence, if you use it solely as your primary residence, no alternative uses, no other buildings or development on the property, no rentals, no Additional Dwelling Units (ADUs) unrented or rented, you essentially qualify for Homestead. If you have other uses and it does not differentiate by the type of use whether you have a rental at market, you could, under the long-term affordable rental, get back into Homestead with two (2) properties, but that is not the majority of properties, most will rent at market or have another use, Commercial, Vacation Rental, whatever the use is, then you can classify it as this Commercialized Home Use. Both of these two (2) classes, Homestead and Commercialized Home Use, enjoy the benefit of the assessment cap, and that starts when you apply and receive the Home use exemption, that the property value cannot go up or down more than three percent (3%) between tax years. We will cover more on how it affects value, but just to go over some of the numbers, for those owner-occupants who are seventy (70) years or older, the amount of that exemption is two hundred thousand dollars ($200,000), and there are five thousand two hundred eight (5,208) that enjoy that with a reduction in value of a little over one billion dollars ($1,000,000,000). For those between age sixty (60) and sixty-nine (69), you receive one hundred eighty thousand dollars ($180,000) in exemption, and there are three thousand four hundred twenty-six (3,426) with a potential savings of about six hundred twelve million eight hundred thousand dollars ($612,800,000). Finally, the first level, the basic exemption is one hundred sixty thousand dollars ($160,000), and these are for owner-occupants that are under age sixty (60), and there are four thousand seven hundred eleven (4,711) for a little over seven hundred fifty-one million dollars ($751,000,000) in reduced value. Collectively, if you take all of these, we are looking at about two billion three hundred nine million dollars ($2,309,000,000) in reduced value for having that Home exemption on these properties. I know for the audience and people out there, it is probably hard to see this, but we have taken ten (10) examples of properties, and the beginning year 2016 and the current year 2023, with their projected bills, and it encounters both the cap and the rate change going from three dollars and five cents ($3.05) to two dollars and fifty-nine cents ($2.59) and what the impact has been on these properties. If we look at Example 1, originally the market value when it entered the cap was one million one hundred seventy-seven thousand seven hundred dollars ($1,177,700), and the assessment at market last year was two million one hundred twenty-four thousand one hundred dollars ($2,124,100), so it nearly doubled in value over that eight-year period. However, the assessed value, initially, when it started the cap, it did not have any benefits from the cap, so the market and assessed were the same. The one million one hundred seventy-seven thousand seven hundred dollars ($1,177,700) and the assessment through the benefit of the three percent (3%) cap is one million three hundred seventy-eight thousand two hundred dollars ($1,378,200). The exemption that applied, this individual was above seventy (70) years old at the time they received it in 2016 and still alive, still have the benefit of that exemption, two hundred thousand dollars ($200,000) reduced, so the net taxable of nine hundred seventy-seven thousand seven hundred dollars ($977,700) at the beginning and one million one hundred seventy-eight thousand two hundred thousand dollars ($1,178,200) today. The market taxes, if they did not have the cap, and we were just applying the market value times the tax rate, they went from three thousand five hundred ninety-two dollars ($3,592) to five thousand five hundred one dollars and forty-two cents ($5,501.42), but the actual tax only increased over that eight-year period from point one (1) to point two (2), sixty-nine dollars and fifty-five cents ($69.55), that is a two point thirty-three percent (2.33%) increase over eight (8) years. It also works out to an effective tax rate of one dollar and forty-four cents ($1.44), and the effective tax rate is basically taking the actual taxes paid divided by the market value, everything else is essentially relief, and that results in how much the effective rate applied to that. I should note that exemptions that are flat value are more beneficial to properties with lower values, so if you apply one hundred thousand dollar ($100,000) exemption to a property that has an assessment of one million dollars ($1,000,000) and you apply one hundred thousand dollar ($100,000) exemption to one that is five hundred thousand dollars ($500,000), obviously the percentage basis that exemption gives a greater percentage relief to the lower valued property. Similarly, when you apply the tax rate differential those in dollar amounts, if you are applying it to a highly assessed property the tax dollar savings by lowering the tax rate is more for those that are assessed higher than those that are assessed lower.

Council Chair Rapozo: Steve, as opposed to setting a percentage to determine...

Mr. Hunt: Correct. If you were to take a percentage, say thirty percent (30%) is going to be your exemption. If you take thirty percent (30%) off of one million dollars ($1,000,000), you get three hundred thousand dollars ($300,000) off. If you take thirty percent (30%) off of two hundred thousand dollars ($200,000), you get sixty thousand dollars ($60,000) off. Obviously, it is going to skew more towards the higher end if you do a percentage.

Council Chair Rapozo: I mean dollar-wise.

Mr. Hunt: Yes, dollar-wise.

Council Chair Rapozo: But percentage-wise, it is the same.

Mr. Hunt: Correct. Thirty percent (30%), thirty percent (30%), but dollar-wise, it is going to skew towards the higher end is going the greater relief—that is true.

Council Chair Rapozo: Thank you.

Mr. Hunt: Example 2. Again, following the same thing, there was a property that was assessed at market value of four hundred seventy-five thousand eight hundred dollars ($475,800) back in 2016. Today, that market value is eight hundred thirty-four thousand two hundred dollars ($834,200), but the assessed value is only increased to five hundred seventy-one thousand one hundred dollars ($571,100). This one also has the larger age exemption for that year. The tax increase over that period is one hundred nineteen dollars and ninety-six cents ($119.96), so they have actually increased fourteen point twenty-six percent (14.26%) over that eight-year period, but the effective tax rate on this particular one is lower at one dollar and fifteen cents ($1.15), because it is applied to a lower amount when that exemption comes off it gives greater relief. The middle columns breaks out the relief, so if you can see there is a cap relief, and an exemption relief, so if you wanted to look at the dollars by each portion of the relief, you can kind of see that as well. Example 1 has a lot more relief from the cap than they did from the exemption, and Example 2 has a lot more relief from the cap, but only slightly more than the exemption. Example 3, this is a property that is owned by a younger person, so they have the one hundred sixty thousand dollar ($160,000) exemption, and similarly almost doubled in value in market value, but their assessment went from four hundred fourteen thousand seven hundred dollars ($414,700) to five hundred ten thousand one hundred dollars ($510,100), an increase of about seventy-eight dollars and twelve cents ($78.12) or about ten percent (10%) effective tax rate is one dollar ($1.00) even on this one.

Ms. Matsuyama: No. What happened?

Mr. Hunt: We lost the feed.

Council Chair Rapozo: This is probably a good time to take a caption break. Let us do the caption break now, because we are going to have to take it at 11:00 a.m. anyways, so let us just do it now. We have ten (10) minutes.

There being no objections, the Committee recessed at 10:34 a.m.

The Committee reconvened at 10:50 a.m., and proceeded as follows:

(Councilmembers DeCosta and Kagawa were noted as not present.)

Mr. Hunt: Picking up where we left off. I am trying to make it a little brief, because I know we have a lot to cover today, so without getting into too much belaboring detail, let me jump to Example 6, because that is a good example. This property actually had two (2) homes on it and it got a long-term affordable rental program (LTL) for the second home, so it got reclassified from Commercialized Home Use to Homestead and that actually resulted in a comparative savings between what they were paying as Commercialized Home Use in 2016 versus what they will pay in 2023; a reduction of two thousand three hundred five dollars ($2,305), so it went down almost thirty-six percent (36%). In this case, the effective tax rate is still a little high because they are not benefiting as much from the cap. Example 7 was a property that was being built but had not yet been occupied by the owners in 2016. It had a market value of eight hundred twenty-eight thousand dollars ($828,000) with no exemption. Today, in 2023, it has a market value of one million four hundred twenty-four thousand eight hundred dollars ($1,424,800), but an assessed value of one million twenty-three thousand five hundred dollars ($1,023,500), so you can see during the period in between, they were able to get the exemption, they were able to start on the cap. This one has a savings of two thousand seven hundred seventy-two dollars and ninety-four cents ($2,772.94), it went down a little over fifty-five percent (55%). Example 8 is a condominium, so this actually starts to show the influence of what exemptions do. Because the net taxable is so much smaller, if you look at the net taxable on this, it went from thirty-four thousand two hundred dollars ($34,200) to seventy-nine thousand dollars ($79,000), and that means the effective tax rate, which is the taxes that they are paying...the actual taxes in 2023 divided by the market value of four hundred fifty-eight thousand one hundred dollars ($458,100) is only forty-five cents ($0.45). That is the big impact of how an exemption impacts smaller-valued properties. Example 9 is a property that started as vacant land, so if we go back to 2016, they were paying at the Residential rate of six dollars and five cents ($6.05) based on the land value of two hundred ninety-six thousand seven hundred dollars ($296,700). They built it out, got their exemptions, started the cap, bring it forward to today, they are actually only paying three hundred forty-nine dollars and forty-nine cents ($349.49) more by having that cap. Taxes went, as vacant land from one thousand seven hundred ninety-five dollars ($1,795) on market to a capped and homeowner tax of two thousand one hundred forty-four dollars and fifty-two cents ($2,144.52), so you can see the power of getting into the Homestead tax class, because it is not much more in taxes having a built property as compared to vacant land. Those are the examples I wanted to cover. I will turn it over to Mike to get into...

(Councilmember DeCosta was noted as present.)

Mr. Hunt: ...the exemptions, aside from the Home use exemption that homeowners and other property owners that are not homeowners can apply for and qualify for.

MIKE HUBBARD, Real Property Tax Manager: For the record, Tax Manager Mike Hubbard. With the Home Exemption, there is an additional exemption. This is often referred to as an Additional Income Exemption. If the owner-occupant makes less than eighty percent (80%) of the Kaua'i Median Household Income (MHI), this year, the 2023 threshold is ninety-one thousand two hundred dollars ($91,200), and they do the annual filing before September 30th, they will receive an additional one-hundred-twenty-thousand-dollar ($120,000) exemption, which comes off of the value and it will also reduce minimum tax from one hundred fifty dollars ($150) to seventy-five dollars ($75). For 2023, we have one thousand six hundred eighty (1,680) participants. The amount of exempt in value is one hundred ninety-eight million ($198,000,000) and change. The revenue lost assumed at the Homestead tax rate is about five hundred thirteen thousand dollars ($513,000).

Ms. Matsuyama: Just to clarify the "assumes at the Homestead rate," that is not what is the revenue lost, so as we go through some of these slides, you will see the tax rates that are associated with the exemptions, and that is the actual revenue lost, but some of these that have the higher counts was hard to pull it out, so we assumed one (1) rate. Some of these parcels are at Commercialized Home Use, so the revenue lost is actually more than five hundred thirteen thousand dollars ($513,000).

Council Chair Rapozo: Real quick. You are saying to qualify, you have to be at or below eighty percent (80%) of the Kaua'i MHI.

Mr. Hubbard: Yes.

Council Chair Rapozo: Your threshold is at ninety-one thousand two hundred dollars ($91,200), is that the eighty percent (80%) mark?

Ms. Matsuyama: That is for 2023.

Council Chair Rapozo: Correct.

Ms. Matsuyama: Yes.

Council Chair Rapozo: That median income was higher? Wow, okay.

Ms. Matsuyama: Just to clarify, that number has increased, so in 2024, it has actually at ninety-six thousand dollars ($96,000). Back in 2021, it was seventy-seven thousand dollars ($77,000), so it has gradually increased in time.

Council Chair Rapozo: Thank you.

Mr. Hubbard: Next slide. Also with the Home Exemption, there is a Low-Income Tax Credit. It is an annual filing deadline of September 30th. This is if your gross income is fifty percent (50%) or lower of the Kaua'i MHI, which as fifty-seven thousand dollars ($57,000) for 2023. The credit limits the taxes that you pay to three percent (3%) of your income. In 2023, we had eight hundred twenty-seven (827) qualified applicants and only two hundred fifty-seven (257) benefited, which means their other benefits from their additional Home Exemption and Home Exemption and their tax cap were greater than the three percent (3%). Their 2023 credit amount was about two hundred sixty-seven thousand dollars ($267,000).

Mr. Hunt: Just to clarify, too, that for simplicity we combined the applications into one (1) application, so you do not have to apply separately for both the exemption and the tax credit. If you qualify, you will be given it, and if not, you still get the other exemption amount. Again, they do the calculation on both, which benefits you more, having the exemption or having three percent (3%) of your gross income if you qualify at that fifty percent (50%) level.

Council Chair Rapozo: Does the Department of Finance determine what the best fit for the applicant is or do they need to apply in all...

Mr. Hubbard: They get the most beneficial.

Council Chair Rapozo: Okay.

Ms. Matsuyama: I will say that the additional income exemption, so not the credit one...they are all together, but it does create a very hefty workload, because it does require an annual application, because income amount vary. The workload and the intake are heavy for our staff for both income exemptions.

Council Chair Rapozo: Okay.

Mr. Hubbard: This is an interesting chart; this is a State of Hawai'i Exemption and Minimum Tax Comparison by County. We often refer to what other counties are doing as a bench line for what our County is doing. The first eight or so columns, everyone has an age exemption that varies, so we have a bunch up there. I think Maui County is the only county that does not. That is the one that we should look at for all of those "X"s and it only means that they do not have a tiered exemption for age. What we should really be focusing on this is...or what we would like to focus on is the potential home exemptions column, which the City and County of Honolulu gives one hundred forty thousand dollars ($140,000), Maui County gives one hundred twenty thousand dollars ($120,000), Hawai'i Island gives two hundred ten thousand dollars ($210,000), and the County of Kaua'i gives three hundred twenty thousand dollars ($320,000) for the maximum allowable. Does every island have a low-income tax credit? You are going to see every island, every County does, except for Hawai'i Island. Home preservation limit—Kaua'i is the only county that has that...

Council Chair Rapozo: I am sorry to interrupt. You are showing the potential home exemptions for Kaua'i at three hundred twenty thousand dollars ($320,000).

Mr. Hubbard: Correct.

Council Chair Rapozo: But you cannot pile on these exemptions on each other, right?

Councilmember Cowden: Yes.

Ms. Matsuyama: Yes.

Council Chair Rapozo: So, you can get a sixty (60) to sixty-nine (69) age exemption...let us say if you are seventy-two (72), do you receive the sixty (60) to sixty-nine (69) age exemption plus the seventy plus (70+)?

Ms. Matsuyama: Yes, so it would be...your exemption would be one hundred sixty (160), plus forty (40), which would be the twenty (20), twenty (20)...

Councilmember Kuali'i: The basic. You are adding to the basic.

Ms. Matsuyama: ...so, two hundred (200), and then if you qualify for the income exemption, you will get another one hundred twenty (120), so your total potential would be three hundred twenty (320).

Council Chair Rapozo: Okay. Thank you.

Mr. Hubbard: Only two (2) counties, the County of Kaua'i and Hawai'i Island, have the three percent (3%) assessment cap. We show the chart for the tax rates, so you can do a county comparison. Other exemptions that we are going to be talking about later—disability, everyone has very similar amounts. Safe Rooms—County of Kaua'i is the only one. Totally Disabled Veteran—every county has Veterans with Wartime Service; County of Maui and the County of Kaua'i are the only ones with that. An important one to compare is the minimum tax. The City & County of Honolulu—three-hundred-dollar ($300) minimum tax along with Maui County; Hawai'i Island—two hundred dollars ($200) and the County of Kaua'i, one hundred fifty dollars ($150). The last three (3) counties have the ability to qualify for a varied minimum tax just like our low-income pays only half of minimum tax. The next slide, Totally Disabled Veteran. If you are a totally disabled veteran, wartime service, you can get your property fully exempted. There are some caveats that are up on the screen. In 2023, we had one hundred forty-nine (149) applications. The total amount of value exempted was ninety-eight million dollars ($98,000,000). Leprosy exemption—we have it on the books, fifty thousand dollars ($50,000). None of us remember a time that it was used. Next slide, Impaired Sight, or Hearing, Totally Disabled—this is relating to one of the Hawai'i Revised Statutes (HRS) for the definition of blind, total disabled, or deaf, and you can get a fifty-thousand-dollar ($50,000) exemption. There is a typographical error on this first one, it should be that we had fourteen (14) properties for seven hundred thousand dollars ($700,000). Totally disabled—two hundred seventy-five (275), for a total exempted amount of thirteen million five hundred sixty-nine thousand dollars ($13,569,000) and change. Revenue lost on this is forty-four thousand two hundred fifty-six dollars ($44,256), and that is the actual number, and the tax classes vary from Agriculture (Ag), Residential, Commercialized Home Use, Homestead, Residential Investor, Commercial, and Vacation Rental, and that is because it does not have to be your primary residence for you to qualify for these exemptions. If you are deaf...we had seven (7), value exemption as three hundred and fifty (350) and the revenue lost on that portion is one thousand one hundred seventy-three dollars ($1,173).

Mr. Hunt: While you do not have to be an owner-occupant to get this, you are only allowed to apply it to one (1) property. You cannot have ten (10) properties and get one for each of your ten (10) properties. It is one (1) you can assign.

Mr. Hubbard: Nonprofit Medical, Hospital Indemnity Association—we have five (5) properties, and we currently exempt twenty-three million six hundred eighty-nine thousand dollars ($23,689,000) of value. These properties are subject to minimum tax.

Councilmember DeCosta: I had a question. Nonprofit medical facilities, do they give a nonprofit break to the patient that go see them or is the insurance that they pay the same as the regular for-profit company. If we are giving them a break, are they giving them a break to their constituents? Do we know that?

Ms. Matsuyama: I do not know.

Councilmember DeCosta: I know nonprofits like the YWCA help women in need, and that is great, but we have a nonprofit medical facility, who bills insurance companies, but we pay insurance premiums, I have never seen a nonprofit insurance premium. I only seen an insurance premium. We have to look into that, because that is big business. Thank you. There is a few more I want to look at. Some banks have some nonprofit status and I want to know if they are giving breaks to their constituents.

Council Chair Rapozo: What was the revenue lost on the Nonprofit Medical, Hospital Indemnity?

Ms. Matsuyama: I am not sure.

Council Chair Rapozo: Are you saying all these people are paying minimum tax?

Ms. Matsuyama: Yes.

Council Chair Rapozo: Three hundred dollars ($300)?

Ms. Matsuyama: One hundred fifty dollars ($150).

Council Chair Rapozo: Oh, yes, one hundred fifty dollars ($150). Who would be the nonprofit medical on Kaua'i?

Mr. Hubbard: A portion of Wilcox is, not the entire hospital, it is only a portion of Wilcox.

(Councilmember Kagawa was noted as present.)

Mr. Hubbard: I am not sure who else.

Councilmember DeCosta: Can we look into this, please?

Mr. Hubbard: Kaua'i Veterans Memorial Hospital (KVMH).

Council Chair Rapozo: I am interested to see what the revenue lost is.

Mr. Hubbard: Charitable Use, exempt from all property taxes, this includes nonprofits, schools, hospitals, churches, cemeteries, and currently we have three hundred and five (305). Value exempted, five hundred seventy-five million dollars ($575,000,000).

Councilmember Cowden: I have a question.

Council Chair Rapozo: Go ahead.

Councilmember Cowden: What about churches that are sitting there empty and unused, that they are basically vacated, there are a handful of those.

Ms. Matsuyama: Churches?

Councilmember Cowden: Yes, church properties that are not being used.

Mr. Hubbard: If we know that they are not being used, I think that would be something we could investigate. A lot of times, we do not have inspectors going out and we are not ingrained enough into the community to know that this particular church is not being used. I am aware of one (1) on the North Shore, but that was just through recent talks.

Councilmember Cowden: I think that was 2018, that one stopped. What I notice...I am big on housing our houseless, is there are buildings that there is probably classrooms, or a former school, and they sit on these parcels empty and every time I see these campuses that are in decay, it might not have to be what I want, but that there might be encouragement to utilize them for something else, that would be in alignment with their value system, but also would help the community.

Mr. Hunt: In alignment with that, I believe that the way the code reads is it is the use and not the ownership, so when you have a church that owns a vacant piece of land, but there is no activity, they pay market value on that. There is no break for that. They would have to have a use, and that use must be a charitable public use for them to qualify for that exemption. Along those same lines, it seems like the use has ceased, then they would probably be taxable.

Councilmember Cowden: Okay, because I am thinking about one that is residential property use and I think that it has been sitting there for a handful of years. There is a handful of properties, when I looked around trying to think where I can "stuff" these people, or some people—what can we do? There is actually quite a few.

Council Chair Rapozo: What is the difference between Nonprofit Medical, Hospital Indemnity Association and under Charitable Use, you have hospitals. Apparently, Hospital Indemnity Association is not hospitals, because hospital is listed as charitable.

Mr. Hubbard: For Section 5A-11.9 Nonprofit Medical, Hospital Indemnity Association; Tax Exemption, the code reads, "Every association or society organized and operating under Chapter 433, H.R.S., solely as a nonprofit medical indemnity or hospital service association or society or both shall be, from the time of such organization, exempt from real property taxes on all real property owned by it."

Councilmember Cowden: Is that like an urgent care? What is it?

Mr. Hubbard: I do not know what Chapter 433, H.R.S. is.

Council Chair Rapozo: Can you send us the list of the five (5) and then also the list of three hundred five (305) of the Charitable Use.

Mr. Hubbard: Okay.

Council Chair Rapozo: I have a feeling a lot of people are abusing that, I do not know why, I just have a gut feeling...because it is based on use, right?

Mr. Hubbard: I do not think 5A-11.9 is based on use.

Council Chair Rapozo: Section 5A-11.9 says, "all properties owned," so they could have an investment property and be exempt from property taxes, and I do not think that is what this Council wants to do. Can you provide us with the list of five (5) for 11.9 and the three hundred five (305) for 11.10? That is two (2) areas that I think we have to really look at. Do you have the revenue lost on these?

Mr. Hubbard: I do not.

Ms. Matsuyama: On this one, the 11.9, if we assumed that all of them would have been commercial, the revenue lost would have been about one hundred ninety-one thousand dollars ($191,000).

Council Chair Rapozo: You can get that to us later.

Ms. Matsuyama: Okay.

Council Chair Rapozo: I would assume the Charitable Use is significant though.

Ms. Matsuyama: Pretty big.

Council Chair Rapozo: Thank you.

Mr. Hubbard: Manufacture of Pulp & Paper, exempt from real property taxes for a period of five (5) years. We currently have none. I do not believe any of us can remember when we had our last one and there is no value exempted.

Council Chair Rapozo: These are the ones that we have to clean out.

Mr. Hubbard: Okay. Crop Shelters is the next one. Structures used for the protection of crops for commercial agricultural or horticultural purposes. Exempted for a period of ten (10) years. There are currently five (5) that we have on the books. Total value exempted is two hundred thirty thousand dollars ($230,000). Revenue lost would be one thousand one hundred fifty-eight dollars ($1,158), with tax classifications of Ag, Residential, and the Homestead tax rate.

Councilmember DeCosta: You are talking about commercial crops, I am talking about a small farmer with a shed to put his or her feed for animals, or versus Hartung's large warehouse out on the Westside, who is storing their feed that they are going to sell at market price, do they get the same tax break as the commercial shed?

Mr. Hubbard: Let us talk about what a crop shelter is, and I am going to the Ordinance for this. "Any permanent structure constructed or installed on any taxable real property consisting of frames or supports and covered by ridged plastic, fiberglass, or other ridged or semi-ridged translucent material," so I do not think it includes a warehouse, but I think it would include the growing barns and the nursery-type areas.

Council Chair Rapozo: Or windbreaks...

Councilmember DeCosta: But we are giving a large company a tax break if they have those types of crop shelters, but when they sell the crop to our local people, I do not know if they are giving that break to the constituent also.

Council Chair Rapozo: It is just a very small amount.

Councilmember DeCosta: Yes, I just want to make sure...why are we giving tax breaks to a large industrial commercial company?

Mr. Hubbard: Dedicated Lands in Urban Districts—this would be a dedication for a period of ten (10) years, for landscaping, open space, or public recreation. Exempts from assessing the value for the real property or that portion thereof. We have none. I think we had a very few to have ever made it into the office and there is zero (0) value exempted. Air Pollution Control Facilities—we have none, and there is nothing exempted. Alternative Energy Improvements includes traditional solar water heaters. Our office does not pick them up, and what we mean by "picking them up," we do not assess them at all, so we do not try to cost them out in our valuation process. Next, we have the Commercial Alternative Energy Facility, and this has two (2) possible applications that are exempt from real property taxes, except half of the assessed land value. We have four (4) of those. The value exempted for the Commercial Alternative Energy is ten million three hundred eighty-six thousand dollars ($10,386,000), our lost revenue eighty-four thousand one hundred twenty-seven dollars ($84,127), they are all Industrial. In addition to our Commercial Alternative Energy Facilities, we have one (1) taxpayer that pays the in lieu tax of one percent (1%) in gross income. It is a one-time option that you have to declare when you are applying for this exemption for the very first time. For that one (1) taxpayer, the value exempted is one million three hundred seventy-nine thousand two hundred dollars ($1,379,200). Revenue lost; I think is seven thousand six hundred fifty-one dollars ($7,651). To caveat that slightly, we believe that taxpayer pays more on the one percent (1%) than they would have if they selected the top portion, so I do not necessarily know if there is an actual revenue lost there, but revenue lost for real property taxes...

Councilmember Cowden: Is that Green Energy?

Mr. Hubbard: That is not.

Councilmember Cowden: Or what was Green Energy?

Mr. Hubbard: That is not Green Energy; that is the Kapa'a Solar Project, I do not know the name of it.

Councilmember Cowden: I know where that is.

Council Chair Rapozo: I know you folks are short-staffed, but do we do periodic inspections of some of these exemptions, not just this one here? To make sure that they are still doing what they supposed to do to qualify for the exemption. In that case, you said they applied one-time and that is it, fixed, they have one (1) chance to opt-in. It does not seem like it is an annual, once you apply, you got it.

Mr. Hubbard: On the one (1), I do need their annual tax income statement to calculate what they are...

Council Chair Rapozo: For the one percent (1%).

Mr. Hubbard: Yes, for the one percent (1%).

Council Chair Rapozo: Let us say for the ones above that.

Mr. Hubbard: For the ones above that, no, we do not do annual inspections, but your question was not particularly related to these two (2). We do annual inspections, not "annual," but we do inspections especially for our home exemption, which is the bulk of what we pay out, we try to do what we can to audit those. Ag Dedication has some built-in compliance that we have to go out to the property when it is inspected. I would like to say that we would like more staff to do more compliance.

Councilmember DeCosta: The Commercial Alternative Energy Facilities, does that include the Kaua'i Island Utility Cooperative (KIUC) solar farms that they have all over Kaua'i?

Mr. Hubbard: Generally, KIUC would fall into the Public Utilities Commission (PUC) category, so it would not.

Councilmember DeCosta: Is that PUC category cheaper than this category?

Ms. Matsuyama: We will get to that next.

Mr. Hubbard: We will get to that, but no, it is not.

Councilmember DeCosta: Okay, thank you for that.

Mr. Hubbard: Fixtures Used in Manufacturing or Producing Tangible Personal Products, this is manufacture and equipment that we do not tax, anyway from real property taxes. We do not have any, I do not remember a time that we had it...

Council Chair Rapozo: So, that is going to go away?

Mr. Hubbard: Okay.

Council Chair Rapozo: I am asking. I am assuming that you will be submitting what you folks are recommending taking out...

Ms. Matsuyama: Yes, basically all the have "None"...

Council Chair Rapozo: All gone. Thank you.

Councilmember Cowden: I am not trying to get someone on this, but Island Soap Company, they mostly do everything right there on their property, but there are people who make craft fairs and they are making soaps, shampoos, I actually try to buy what I can from our people. Would that mean that too? If they had a barn where they are making all their shampoos, lotions and soaps...

Mr. Hubbard: I think it could possibly mean that. Real property taxation, we do not pick up personal property, and we consider these fixtures and machinery to be personal or business equipment.

Councilmember Cowden: Oh, okay.

Mr. Hubbard: And therefore, we do not tax it anyway.

Council Chair Rapozo: I think this has probably been here forever and no one even caught it, because we do not tax machinery...

Councilmember Cowden: Okay.

Mr. Hubbard: Public Property—this spans a few sections in Chapter 5A. It is exempt from all property taxes. This is federal government, state government, county. Our valuation in the amount of exemption, we pay fairly little attention to valuing federal government, state properties, and even some of our own county properties. We are exempt from property tax.

Councilmember Cowden: Post offices?

Mr. Hubbard: Post offices are a little different. They are taxable for a portion of...generally they do not own their post office. Līhu'e is a little different.

Councilmember Cowden: Wildlife refuge, or something like that.

Mr. Hubbard: Wildlife refuge, I am not familiar with the ownership of that.

Councilmember Cowden: When we go to the National Association of Counties (NACo), federal properties actually pay money to the counties, but it does not seem like we have very significant size, but federal properties do pay a type of...

Council Chair Rapozo: We have a very small check from the federal government for Kīlauea, I believe, right? Payment in lieu (PIL) of taxes, that is what it is called. We do not have enough federal property to make a tickle.

Councilmember DeCosta: Real property tax belonging to the state government—I noticed the value...it looks like it is one billion dollars ($1,000,000,000). We just had a meeting last week, Agribusiness Development Corporation (ADC) lands, which are state lands, that sit out on the Westside that do not get any property tax, they do not pay.

Mr. Hubbard: ADC, we would charge taxes on because when they are leased out, and we know about the lease, then we will...

Councilmember DeCosta: Correct, but as long as they do not lease it out, they pay nothing on it. They can leave the land unleased until they can get the desired money, which I brought that to apparent that the local farmers cannot afford the money that they are assessing per acre until the large corporations can afford it, and that is why they sit down paying no taxes, because they have no incentive to lease it out to smaller farmers until the large commercial person can pay what they want. Gosh, I am smart. Thank you.

Council Chair Rapozo: We are still trying to get ADC here.

Councilmember DeCosta: We have not, but we will. Trust me, we will.

Council Chair Rapozo: Staff, again, just reminded me that we pulled out of PIL, so we do not get PIL, we do not do that anymore, probably not worth the manpower to process the paperwork.

Mr. Hubbard: Low & Moderate-Income Housing—we have twenty-seven (27) properties. Value exempted, one hundred million dollars ($100,000,000). Revenue lost, eight hundred forty-one thousand dollars ($841,000), spans tax classifications of Ag, Residential, Commercial, and Residential Investor. These properties are real property used for any low- to moderate-income housing project that is owned by a qualified entity; the County of Kaua'i Housing Agency determines eligibility and determines the term of the exemption. They are subject to no minimum tax. Historic Residential dedications, we have seven (7) of these properties. The value exempted is fifty-six million dollars ($56,000,000). Total revenue lost is five hundred thirty-seven thousand dollars ($537,000). It is a ten-year dedication for a historic residence that is on the Hawai'i State Register qualified or approved under the State of Hawai'i Historic Preservation Division (SHPD), and if it is homeowner-occupied, they will receive one hundred percent (100%) exemption. If it owned by a nonprofit...all other properties receive a seventy-five percent (75%) exemption. You can see we no longer have any homeowner occupants. We have three (3) vacation rentals, one (1) residential, two (2) residential investors, and one (1) commercial property.

Council Chair Rapozo: Chapter 5A-11.22 is titled "Historic Residential," which would tell me that it is a residential property that we are going to register with SHPD, but when I look at this, you are telling me none of these are residential.

Ms. Matsuyama: Not owner-occupied.

Council Chair Rapozo: These are all commercial operations. Oh, there is one (1) residential.

Ms. Matsuyama: None are owner-occupied.

Mr. Hunt: The structure of the buildings are residential, not the use, necessarily. That is the distinguishing...when they register the building with SHPD, that they actually are doing a residential structure. Now, we have residential structures that are doing commercial use, vacation rental use, or sitting vacant, or used part-time as second homes, but the structure itself is a residential...

Council Chair Rapozo: But only in this section we tax as...

Councilmember Kuali'i: On the building and not the use.

Council Chair Rapozo: ...not use. Do we not tax as "use" and everyone else.

Mr. Hunt: Tax rate is set based on use, correct. All these are subject to the rate associated with their use...

Council Chair Rapozo: Yes, but we are giving them seventy-five percent (75%).

Mr. Hunt: Value reduction.

Council Chair Rapozo: Yes, which is...

Mr. Hunt: Yes.

Council Chair Rapozo: That is why we are losing almost five hundred thousand dollars ($500,000). To fix this, and we could require non-commercial activities.

Ms. Matsuyama: The code needs to either explicitly prohibit certain activities or uses, or just modify to make sure it is an owner-occupied property. It is the use factor that...

Council Chair Rapozo: This goes across all the classifications, for me personally, I am not speaking for everyone. Why would someone who is making money, like in some cases, significant amounts of money, qualify for a tax break and pay less taxes than our local families who have to work two (2) to three (3) jobs, that troubles me. I am not blaming you, because this has been here before all of us. What would your recommendation be as far as these? Do a non-commercial restriction or specify what we do not want. I hate when we have to specify, I want to be able to just say, "If you are in business, sorry. If you live there and have a business, you get commercialized home use."

Ms. Matsuyama: Maybe the best way is to "toss it over" to Matt at the Office of the County Attorney. Tell the Office of the County Attorney what we want to specifically prohibit and then they can write it up, because there is certain verbiage in this one that makes it such that vacation rentals are allowed.

Council Chair Rapozo: Just looking at Residential Investor, I do not know what the use is, but the market value is twenty-one million dollars ($21,000,000). Exemption is fifteen million dollars ($15,000,000). Net taxable goes to five million dollars ($5,000,000), their tax rate is nine dollars forty cents ($9.40) because it was obviously in the Residential Investor, so their tax reduction is one hundred fifty thousand dollars ($150,000)—one (1) property.

Councilmember Kuali'i: The top one too.

Council Chair Rapozo: Same with the Residential Investors, now that may change when you move into Residential, but with the tiers, they are still pay at the higher level, so they are still going to get one hundred fifty thousand dollars ($150,000) saving.

Ms. Matsuyama: Tax relief.

Council Chair Rapozo: That is insane, I think.

Councilmember Cowden: Grove Farm Museum, would that be an example of Historic Preservation or is that nonprofit?

Mr. Hubbard: That is nonprofit.

Councilmember Cowden: So that would fall under nonprofit. My guess is a handful of these houses, I am almost certain, are on Weke Road in Hanalei.

Ms. Matsuyama: You are correct.

Councilmember Cowden: Some of these houses are houses of historic value that are part of what defines that area that belongs to families. If they sold, almost certainly, knowing how the sales move, they might be torn down. Some have been, of those historic houses are sold and changed, but I think just to sort of...would it be a correct answer to the Chair's question that some of these houses that are in there, they might have been owned for fifty (50) years, they are owned for a long time, that is the only way they can even hold on to the house, because a vacation rental does not pay the tax. It does not pay the tax. Usually, you do not make enough money, on Weke Road to pay the tax.

Council Chair Rapozo: I do not know. Again, I do not want to talk specific properties or owners, because you can find an outlier on every class, but I do have an issue with these types of tax breaks on people that are making money. Do we even monitor the twelve (12) days per year that each of these properties are supposed to be open to the public?

Mr. Hubbard: The visual access requirement that you are talking about is visual only.

Council Chair Rapozo: Visual, really?

Mr. Hubbard: So, it does not prescribe us to go and walk on private property. The only difference out of this group is the Kīpū Kai, not the Councilmember, the place...

Council Chair Rapozo: He owns the place.

Councilmember Kuali'i: I wish.

Mr. Hubbard: ...is inaccessible for visual access from the public, so they have to provide tours, and they set that up with Roberts, they advertise it in the paper for the twelve (12) days and they give us a report after.

Council Chair Rapozo: Okay, that is one (1) of them.

Mr. Hubbard: That is one.

Council Chair Rapozo: What about the rest?

Mr. Hubbard: If we receive complaints that they were not visual accessible, someone mentioned that most of them are on Weke Road, we have Weke Road, if the hedges are too high, then maybe can you see them from the beach. I do not know the answer to these questions...

Council Chair Rapozo: So, as long as they are visible from the beach, it is okay?

Mr. Hubbard: We are only telling you what the Ordinance says.

Council Chair Rapozo: Listen, please, do not take this as being directed at you all. That is why the workshop is so fun because we can all have a "talk story" session, but what was the legislative intent of this bill, when it was created? I do not know; I was not here. I can probably assume that it was for those that are going to make these facilities open to the public or visible by the public, it is a nice museum or an old plantation manager's house, not to give them this tax break, so they can put up a twelve-foot-high hedge, but say, "No, you have to go to the beach..." Again, not directed to you folks, just trying to figure out how we are going to fix this.

Mr. Hubbard: Most of the driveways are going to be on Weke Road and some of them do have gates, to your point.

Council Chair Rapozo: Better yet. Could you send me the addresses of these? I will personally drive out there with my friend Billy DeCosta, so he can talk to the owners while I video...I do not want to be a "jack rabbit," but...

Mr. Hunt: The other thing is getting them on the historic list, you have a pretty stringent criteria, you have to have significance as to why that property should be on the list and when you do that and register, you are also subjecting yourself as the owner to a bunch of stringent requirements, terms of if you ever decide to remodel or build, you have to do it within a certain style that was to that era. There are some restrictions on that.

Council Chair Rapozo: If I was saving one hundred fifty thousand dollars ($150,000) a year, I could deal with that.

Mr. Hunt: Yes, and every five (5) years, they actually have to submit a report from either an architect or a structural engineer as to the weather-tightness of the...that they are spending the money to maintain the character.

Council Chair Rapozo: I understand, Steve. I understand and appreciate those who do that, because I would love to see these historical buildings stay, but again, it does not lesson their impact to the community. Services that they receive...I am just saying when we talk about having a fair system, when I see transient vacation rentals (TVR), I am thinking they are not even living in the house, it is a Historic Residential exemption, but they are not even living in the house.

Councilmember Cowden: I just want to be a jack rabbit, too.

Council Chair Rapozo: Go ahead.

Councilmember Cowden: I spend a lot of time in those houses, eat dinner in those houses...

Council Chair Rapozo: Unfortunately, I do not.

Councilmember Cowden: Their children go to Hanalei School, they might live here for nine (9) months out of the year, it is not like it is a vacation rental. They might vacation rental it for...just to be...a lot of these places become a vacation rental just so they can pay their taxes. People live in there for eighteen (18) or twenty-two (22) months straight, I am not even trying to defend them, it is just that when we are mocking them, they are people who give so much to the community. They are here, their kids go to school here. This is not the way that you are framing it. We are doing something kind of funny, but just so you know that it is not as you are saying.

Council Chair Rapozo: I am not mocking. I do not think I mocked them—what did I say? For a one-hundred-fifty-thousand-dollar ($150,000) savings a year, I would register my house. My house is a historical house, it is old.

Councilmember Cowden: But you are presuming that they are renting it every week.

Council Chair Rapozo: I am presenting it as what it stated on this form—vacation rental, vacation rental, vacation rental...

Councilmember Cowden: Because if you rent it at all, you have to be a vacation rental.

Council Chair Rapozo: Well, that is a choice, you could live in that house.

Councilmember Kuali'i: Ask them how long.

Council Chair Rapozo: You can live in that house and get a Homestead rate, that is the choice.

Councilmember Kuali'i: How long do they have to rent it out for it to be classified as vacation rental?

Mr. Hubbard: That is going to be one (1) day. Most of these have the Transient Vacation Nonconforming Use (TVNCU) permits.

Council Chair Rapozo: "Most"?

Councilmember Kuali'i: But they can get another classification...

Mr. Hubbard: I would think all.

Council Chair Rapozo: They better all have a TVNCU permit.

Mr. Hubbard: I do not think any of them are in the Visitor Designation Area (VDA).

Council Chair Rapozo: Right, that is what I am saying.

Mr. Hubbard: But I do not know that off the top of my head.

Council Chair Rapozo: Well, I know. Everything on Weke Road is not in the VDA, so they better have a TVNCU permit or they are illegal. Again, I do not have a problem with vacation rentals, I have a problem with illegal ones.

Mr. Hubbard: Absolutely.

Council Chair Rapozo: I have a bigger problem with illegal ones with tax breaks. I apologize for my anger, but we went through this in 2008, and we went through this time and time again, we really did what we could to grandfather everyone in. I do not buy this, "We have less illegal TVRs today," honestly, I do not, because the TVNCU number, that they have on that sign, some of those numbers are used more than once on different sites. Let us not go there today.

Mr. Hubbard: Okay.

Council Chair Rapozo: But send me those addresses and I will go check them out.

Councilmember DeCosta: I wanted to jump in on the "jack rabbit" category, but I am more like a "cottontail rabbit." I brought this to your attention, I believe about real property tax about Kīpū Kai and that piece of land that no one has access to see and they get the historic preservation, they work with Roberts bus, I know a little bit that local people do not ride Roberts bus, usually tourists ride Roberts bus. I think they need to do a better job as to make this available, because I know all of the Councilmembers here would love to see Kīpū Kai. There are people in the community who would like to see Kīpū Kai. If they are having that preservation, they better be letting local people see Kīpū Kai. If they can bring a tour bus up there, believe me, we can drive our personal car. I am going to personally look into this and see if we can have access to go in there, because that is a forgotten gem that the Waterhouse family has been getting away with for long time. There are a few more areas on Kauaʻi also that is a gem that we are going to get it, but that is for another meeting. Cottontail, out, right now.

Councilmember Carvalho: The residential part on this list, can you explain that again?

Mr. Hubbard: The residential on that list is...

Ms. Matsuyama: I think he is talking about the use versus the structure.

Mr. Hubbard: All of them are houses or dwellings that we provided the exemption to and that is what qualifies for the Historic Residential dedication. I am hoping that I am answering your question.

Ms. Matsuyama: It does not necessarily matter what your use is, as long as there is a structure that is used for residential purposes, then you can qualify for this exemption. That might have not been the intent when this was created, I do not know, but that is the way that is interpreted, so that is how we have to implement.

Mr. Hubbard: For Kīpū Kai, only the historical residential portion of the property gets the seventy-five percent (75%) exemption. It is several hundred acres, but only a small portion of the property receives the exemption, because that is where the historical structural structures are.

Councilmember Kuali'i: When Mr. Waterhouse passed away in his will, he left it to the state after his nieces and nephews pass away. Patsy Sheehan was one of his nieces, but it does not continue staying in the family, so eventually it will all be state property, and it is limited by its use. It can only be agriculture, marine biology, things like that. No development. You will never see a hotel there.

Council Chair Rapozo: For clarification, let us look at the first property, Residential Investor. Market value is thirty-three million two hundred eighty-eight thousand two hundred dollars ($33,288,200), you are saying that is the value of the structure alone?

Mr. Hubbard: That is the market value of the property. On that property, I would assume that there is only one (1) house.

Council Chair Rapozo: You were saying earlier that it only impacts what is registered.

Mr. Hubbard: Oh, yes.

Council Chair Rapozo: Only the house is registered, right?

Mr. Hubbard: Only the house is registered.

Council Chair Rapozo: You are telling me that parcel is...the value is thirty-three million dollars ($33,000,000) for the structure?

Mr. Hubbard: I do not think so, I think it would be the entire property.

Council Chair Rapozo: Right, so I am confused. Because you said only the house, only the structure, and not the property, but I cannot imagine, unless it is a hotel or a mini resort, that must be one (1) mega structure.

Mr. Hubbard: I meant the structures and the grounds underneath the property.

Council Chair Rapozo: Okay, earlier you said it was only the structure and not the property.

Mr. Hubbard: I appreciate the clarification.

Councilmember Kuali'i: When he talked about Kīpū Kai, he meant it was not the entire ranch, but it was Mr. Waterhouse's house, which sits on the beach there.

Council Chair Rapozo: Yes, that is just one (1) of these parcels.

Councilmember Kuali'i: And land can be valuable too.

Council Chair Rapozo: Again, the historical preservation when it is recorded, it records the property and the land as well?

Councilmember Kuali'i: Under the house.

Mr. Hubbard: Correct.

Council Chair Rapozo: So, whatever was registered is what we give them an exemption for.

Mr. Hubbard: Correct.

Council Chair Rapozo: Okay, we will take a look at this one.

Councilmember Kagawa: I have to ask one (1) question today, right. Is there a historic commercial exemption?

Mr. Hubbard: There is not. Commercial structures are precluded from this section of the Ordinance and we do not have an ordinance that provides the commercial. In that particular tax classification of commercial, we are looking at a Kapaʻa property that has mixed use both commercial property upfront and on the back part of the property, there is an old house, and we are giving the Historic Residential exemption to the house only.

Mr. Hunt: You could have a situation where a residence was built as a residence, but is in an area that is mixed use or underlying commercial zoning underneath the land. In that case, because of the residential structure is what is qualifying to be maintained in its esthetic beauty, that would qualify even though the actual use inside that residence has been converted to commercial.

Councilmember Kagawa: I grew up in Hanapēpē, so I am just picturing Hanapēpē Town. The complaints from new owners having purchased Aloha Theatre, they had horror stories about the Historic Preservation status that they had, they could not do anything to it, the building became unsafe. What is the benefit? But now, we can see there is a benefit to residences, so I am curious why commercial was not in place to protect them from taxes if they are restricting them from doing anything to it. This does not make sense.

Councilmember Cowden: You bring up a really important point. Hanapēpē Town, if that ended up looking like Safeway Shopping Center, it would completely change the entire essence of it, so having historic districts is really important. I even think about Kilohana. Is that historic preservation? No, because it is commercial, even though that is a house. What incentive is there for them to leave Kilohana beautiful like it was versus tearing it down and putting something like what is across the street? I am not picking on Safeway Shopping Center, I know it is basically the same, but how do we keep that? Even the East Kaua'i Community Plan, how do we keep it to have some character, why do we not incentivize that?

Councilmember Kuali'i: It is a state law.

Councilmember Cowden: Could we incentivize it if we wanted to?

Mr. Hubbard: I think that would be through land use instead of taxation, planning and permitting, and those sorts of requirements, instead of through taxation.

Council Chair Rapozo: There is no limitation for a commercial building to get registered right?

Mr. Hubbard: We are not going to give them a tax break.

Council Chair Rapozo: Yes, so the discussion is really whether or not this Council wants to give that same benefit to the commercial properties that they do to the residential properties, which to me would make sense. If we are going to give a residential that is TVRing their house, then why would we not give...of course understanding that to maintain the requirements of the historical certification is not cheap, it is very expensive, because you must upkeep and every time you do something, you must get permission, like this building here. I would agree that if the direction is to continue with the Historical Residential, we would grant that same benefit to the commercial properties on the island. It would just make sense.

Mr. Hubbard: I think Honolulu does that.

Councilmember Kagawa: My thing about Hanapēpē Town was about buildings being unsafe, I am not saying we should change the character to a Safeway. The other point was...the place you had your pawn shop, that service station right next to the Līhu'e Theater...the roof was leaking and they were prevented from just redoing it because they said it was the first gas station on Kaua'i. You can pay millions of dollars, but if you look at the setup with the commercial businesses behind, it makes no sense, so to me if we are going to restrict them, then give them an adequate tax break or change the law somehow, to allow them to do things that makes sense. What is the significance, really, first gas station, is that really historical and significant?

Council Chair Rapozo: They recorded it that is why, which was interesting.

Councilmember Kagawa: I know, but in the end, they wanted to change it and they could not.

Council Chair Rapozo: They could not do anything to the roof, I was there and those people were complaining because all they could do was buy this very thick paint, because they could not replace the roof and the materials that roof was made of they could not get, so they had to get thick paint and paint over the leaks. It was bazaar and they spent a lot of money.

Councilmember Cowden: Is it now closed? I think it is done.

Council Chair Rapozo: Yes, they are done.

Councilmember Kagawa: If we are thinking about the island and economy, what makes sense, then we need to relook at historic overall, commercial as well. Thank you.

Council Chair Rapozo: Can you send the list and then we will check it out. Next one.

Mr. Hubbard: Other exemptions, there are two (2) in here, there is Department of Hawaiian Home Lands (DHHL), I would not pay too much attention to the counts, those are constantly maintained over the years when we used to give a minimum tax to DHHL properties. Now, we do not subject them to minimum tax or any real property tax at all. Also, under this chapter, there is the Public Utilities, which will pay the in-lieu tax of the one point eight, eight, five percent (1.885%). On Public Utilities, we have fifty-four (54) properties, exempting out roughly two hundred fifty million dollars ($250,000,000).

Councilmember Kagawa: How do the other islands handle this exemption? I know it was first brought up when I first came in, right, Council Chair Rapozo, in 2014, they wanted to raise it a little bit to recover trash service, road improvements, and then we voted against it, because we said that the Hawaiian home lands are not owned by them, they are leased. It was a way for the County of Kaua'i recognizing what has been done to the native people, but how do the other islands treat Hawaiian home lands on real property taxes?

Mr. Hubbard: All the other counties issue some form of real property tax and Steve, I believe, is familiar with Hawai'i Island.

Mr. Hunt: I am familiar with Hawai'i Island, but I also believe all the counties were all the same, whereas the first seven (7) years, they were exempt from all taxes, including minimum tax. Once the lease is recorded and you have a basically a leasehold interest to a Hawaiian family, if it is vacant land for the first seven (7) years or they build a house within that first seven (7) years regardless, they pay no taxes. After the seventh (7^{th}) year, the land is subject to minimum tax, so if they still have not built after the seventh (7^{th}) year, they pay minimum tax, and if they build, they now pay the value of improvements, they pay tax on that at market, and they pay minimum on the land still. They basically recognize that for the land portion, you pay a rolled in minimum tax because the minimum tax could cover your improvements too, so it kind of goes away, but no tax on the land essentially, and then the improvements at market.

Councilmember Kagawa: What are the minimum tax amounts on Hawai'i Island, roughly?

Mr. Hunt: I believe it is two hundred dollars ($200), I think we had an earlier slide on that.

Councilmember Kagawa: How much is Kaua'i?

Mr. Hunt: We are one hundred fifty dollars ($150).

Councilmember Kagawa: One hundred fifty dollars ($150) minimum tax, so we are still...

Mr. Hubbard: But we do not charge minimum tax on DHHL.

Mr. Hunt: We continue the minimum tax beyond the seven (7) years.

Councilmember Kagawa: I thought it was like twenty-five dollars ($25).

Mr. Hunt: Used to be.

Councilmember Kuali'i: They raised it.

Mr. Hunt: A long time ago, it used to be twenty-five dollars ($25) and then it got moved to one hundred fifty dollars ($150).

Council Chair Rapozo: We raised it to one hundred dollars ($100), and so now it is zero ($0)?

Mr. Hunt: For DHHL, yes, it is zero ($0), no minimum tax, but for islandwide, the minimum tax is one hundred fifty dollars ($150).

Council Chair Rapozo: You are saying "min" tax...

Mr. Hunt: Minimum tax, I am sorry.

Council Chair Rapozo: I am hearing "mint."

Councilmember Kagawa: Do people on Hawaiian Home Lands, after the seven (7) years, do they pay real property tax?

Mr. Hunt: No.

Councilmember Kagawa: Zero ($0). Kaua'i is zero ($0) and the closest island, Hawai'i Island pays...

Mr. Hunt: If it is vacant land, they will pay the minimum tax, yes.

Councilmember Kagawa: Two hundred fifty dollars ($250).

Councilmember Kuali'i: What you said about the trash is incorrect, because they pay.

Mr. Hunt: They do pay.

Councilmember Kagawa: They pay for their trash can?

Mr. Hubbard: Yes.

Council Chair Rapozo: Well...

Councilmember Kuali'i: Yes, because it is on their bill.

Council Chair Rapozo: Hang on. Because I just checked into this. They get billed for it.

Councilmember Kuali'i: Like everyone else, I get billed and I pay. Some people do not pay...

Council Chair Rapozo: But not everyone pays.

Councilmember Kuali'i: Yes, like everyone else.

Council Chair Rapozo: One of the things we need to have a discussion with DHHL is that...

Councilmember Kuali'i: Individuals, not the Department. If someone does not pay their bill, you go after the individual, not the Department. They are not responsible for how I pay my bills or not.

Council Chair Rapozo: Well, hang on, hear me out. For the regular person like me, I pay tax. I do not mean to be "anti-Hawaiian," trust me. I am just saying that if I do not pay my trash bill, then I pay my property tax that offsets the cost of solid waste and someone needs to be responsible for paying that bill, I agree with you, it should be the user, but what options do the County have?

Mr. Hunt: I think one of the key differences is the threat of foreclosure. Most properties, we can foreclose on, we cannot foreclose on DHHL lands.

Council Chair Rapozo: Right, correct. So, there is no remedy...

Mr. Hunt: The enforcement of it is difficult.

Council Chair Rapozo: There is no remedy.

Councilmember Kuali'i: But would you want to throw someone out of their house because they did not pay their trash bill? No.

Council Chair Rapozo: I am not talking about...no.

Councilmember Kuali'i: We have a housing problem. Let us be real.

Council Chair Rapozo: I am not talking about evicting someone because they did not pay the trash bill, what I am saying is someone needs to pay. If we are not able to collect any property tax, then again, I think DHHL should be the ultimate responsible party for those bills—someone needs to be. If I am renting from a condominium, right, and if I personally do not pay my rent or my trash bill, the bill goes to the condominium owner.

Ms. Matsuyama: The association.

Council Chair Rapozo: We cannot do that at Hawaiian homes and last I checked, correct me if I am wrong, the last I checked, it is about eighty-nine thousand dollars ($89,000) in the red from unpaid trash can pickup. Now, I am not sure if we can stop trash pickup, because that just creates an opportunity for littering. I am not trying to be anti-Hawaiian, I am just saying let us call it as it is, and we have an issue with collecting bills. I do not have a problem with the minimum tax.

Councilmember Kuali'i: I want to see the numbers on what the issue is.

Council Chair Rapozo: Well, we can get that from you.

Councilmember Kuali'i: Yes, not from them, necessarily. Collections bills.

Council Chair Rapozo: It will come from them because it is taxed...

Ms. Matsuyama: Collections bills.

Mr. Hunt: It runs through...

Councilmember Kuali'i: Trash pickup?

Council Chair Rapozo: Yes. Not the pickup, the bill.

Councilmember Kuali'i: Unpaid trash bills. Just show me it for everyone and not just Hawaiian Home Lands.

Councilmember Kagawa: I just wanted to get clarification, because I think ten (10) years ago or so, you folks told us to go with no bill because billing them at twenty-five dollars ($25) was not worth the administrative cost of processing and sending out a bill. Now, at the higher amount, which similar to Hawai'i Island, I think this Council needs to look at.

Councilmember Kuali'i: Yes.

Councilmember Kagawa: Because at some point, everyone needs to contribute and a minimum tax bill is really a big break already. I think it is time for consideration. At that time when it was twenty-five dollars ($25) and then proposed to one hundred dollars ($100), even that was not really worth the time for the Department of Finance to process. If you folks can come back with some of the comparisons with the other islands, I certainly do not want Kaua'i to be the harshest against the Hawaiian people. I want us to be the most generous, but then again not...whether zero ($0) is really the fair and equitable way is the question.

Councilmember Kuali'i: I can tell you, too, and maybe some of you were here, maybe you remember the minimum tax was jumping up to one hundred fifty dollars ($150), so those old *kūpuna* who were paying the minimum tax, all came in here and said "how dare you raise my bill seven hundred to eight hundred percent (700% - 800%)" and the Council responded to that saying, "twenty-five dollars ($25) to one hundred fifty dollars ($150) is not a lot of money, no matter how you look at it." The principle of these are native Hawaiian people on homestead lands, all of these lands in Hawai'i were owned by the native Hawaiian people at one time. So, in one way or another, it was taken from them. This moral thing that this County can do by not charging the difference from twenty-five dollars ($25) to one hundred fifty dollars ($150), is just a small payback to the Hawaiian people. Even though it does not seem like much to anyone, it is the principle and they will come in here if we go back there. Do bring me the numbers and also find out for me what the other counties are doing, because I think they are moving in the direction of where we are. We are the rightful position of no taxes for people on Hawaiian Home Lands, yes, they pay for their trash, we are in the right place, and other counties are moving towards that, and if we move backwards, then we will end up behind them. Look into that too please.

Councilmember DeCosta: Since we are talking about equitable and equality for all, because I am not Hawaiian, like Council Chair Rapozo, but again, my wife is Hawaiian. What about the Portuguese who have four (4) generations of pineapple land in Kalāheo and Lāwa'i and they finish paying their mortgage, and finish paying for their land, and you folks still charge them property taxes. Hawaiians do not need to pay property taxes on their land, but the Portuguese who had pay off their land...

Councilmember Kuali'i: Maybe they can get a tax break in Portugal.

Council Chair Rapozo: They do, I think.

Councilmember Kuali'i: This is Hawai'i.

Council Chair Rapozo: I guess we can go buy property over there.

Ms. Matsuyama: Just to go back to Councilmember Kagawa's question regarding the minimum tax. It is hard to see, but the bottom line over here is the comparison by county; City and County of Honolulu and Maui County have the highest at three hundred dollars ($300) and Hawai'i Island is two hundred dollars ($200).

Councilmember Kagawa: Okay.

Council Chair Rapozo: There is a point that is counterproductive to process these parcels at...so, if we are charging twenty-five dollars ($25), I have to believe it cost more to process, it just has to.

Councilmember Kuali'i: That is why they raised the minimum, right?

Council Chair Rapozo: I do not know if it is a symbolic minimum, everyone will pay taxes, but again, it is really the practicality of how much does it cost for us to process it, and if the cost to process it is one hundred dollars ($100), and if we are not willing to charge one hundred dollars ($100), then we should not charge anything. It should not be a symbolic charge. It should really mean something. In today's world, it probably cost more to input this program and put a minimum tax versus a zero ($0) tax, but that is on a property tax.

Councilmember Kuali'i: When you talked about the other counties and then you talked about the separation of the land and the structure, we do not tax that way, do we?

Mr. Hunt: We have now a single value, so they are compressed into one.

Councilmember Kuali'i: It changes then, like apples and oranges to compare them if they do it separately and you do it altogether.

Mr. Hunt: Yes, if they are taxing separately on the land and the building, yes.

Councilmember Carvalho: That compressed value was recent...

Mr. Hunt: When we went to tax on use and we combined the value, I think the issue became the separation on market modeling, when you are coming up with the total value based on comparable sales, and it does not necessarily add up to the cost value based on individual components. An example is you can buy land for three hundred thousand dollars ($300,000) and it costs you two hundred dollars ($200) a square foot, you build a one-thousand square foot building, your cost value on that is five hundred thousand dollars ($500,000), but you replicate that and they are selling for seven hundred fifty thousand dollars ($750,000) all day. Partly is entrepreneur incentive, why would you build this, getting away from cost and getting to market. How do you compensate for that additional two hundred fifty thousand dollars ($250,000) in value that is there on the market because you have the sales to validate it? Does it go to the land, does it go to the building, does it go somewhere in between on an allocation basis, and we did not want to have circular arguments about the components of value when the tax rates are the same and we are taxing the total value, we just had to break that tie between the individual components.

Council Chair Rapozo: Is that standard across the country or is it still...the majority of the places is still going land and structure.

Mr. Hunt: I would say majority are still doing land and structure and some have just decided to stick all the value and improvements, whatever the differential is, but obviously that creates some skewing when your cost is two hundred dollars ($200) a foot, but you are assessing it at five hundred dollars ($500) a foot, and then say how can you justify that? Yet, the total value will be the same. We run into the same when the market reverses, right. When your cost is still high, but the market is not recognizing it, because we are paying less, we have not had that in a while, but we have been there before. How do you allocate the potential lost—is it in the improvement or the land.

Council Chair Rapozo: Are there any further questions on the Other section?

Councilmember DeCosta: I just saw the facial expression of our audience when Steve was talking, some of our audience disagreed with you on that...on the land and the home assessment across the country, they are not doing it like how we are. I believe you, Steve Hunt, but I am also very curious about our people in the audience who seem to have a strong opinion.

Council Chair Rapozo: I think Steve said majority of the other places are still doing land and building separate.

Mr. Hunt: But they are employing market modeling to come up with the total value, so you are coming up with the total value, it is just what means of allocation. Sometimes if it is an investment and you want to write off depreciation, you want to know what the improvement value is. We might be overstating that improvement value by putting it all into the building if we were to do what many municipalities do.

Council Chair Rapozo: Credit Unions.

Mr. Hubbard: We have twelve (12) credit unions. Value exempted is thirty million dollars ($30,000,000), and our revenue lost is two hundred fifty thousand dollars ($250,000). They only pay three hundred dollars ($300).

Councilmember DeCosta: What is the definition of a credit union versus a bank and why were credit unions established a long time ago, and is the same establishment a long time ago current today? What is the definition of a credit union and if it differs from a bank?

Mr. Hubbard: A federal credit union means a credit union organized under the Federal Credit Union Act of 1934, Chapter 12 U.S.C. Chapter 14, as amended, and state credit union means a credit union organized under the Hawai‘i Credit Union Act, H.R.S. Chapter 410, as amended.

Councilmember DeCosta: What do they do different than a bank? Why do we charge a bank tax and we do not charge a credit union? My parents and grandparents went to the credit union in the plantation days, because it was set up for the plantation people, but we do not have plantations today. Can you explain that to me, so I can get caught up?

Mr. Hubbard: I do not know if there is more to explain. If you are a credit union, you pay three hundred dollars ($300), if you are a bank, you pay...

Councilmember DeCosta: Credit unions give out scholarships, I know that, but if we were collecting taxes from them, our County can give out those scholarships. You should fix this.

Councilmember Cowden: It is us.

Councilmember DeCosta: Excuse me?

Councilmember Cowden: It is us. We make that decision, not them. We set the ordinance, not them.

Councilmember DeCosta: Okay, perfect. I am going to set an ordinance.

Council Chair Rapozo: Are credit unions nonprofits?

Ms. Matsuyama: They have members.

Council Chair Rapozo: But they are nonprofits.

Ms. Matsuyama: I do not know if they are...

Mr. Hubbard: Not-for-profit, I am not sure what is...

Council Chair Rapozo: I believe they are nonprofits. My question is why would we just not have them get the nonprofit exemption? We have two (2) exemptions that could be combined. Part of this workshop is to figure out how we can clean this up.

Mr. Hunt: The clarification on the nonprofit is, it is charitable use, so what would be the charitable use that a credit union is providing?

Council Chair Rapozo: But there is another...the one that had churches...

Mr. Hunt: Again, you have to be a qualified nonprofit, whether it is a 501(c)(3) or depending on the code section, you have a requirement to be met, but just because the property is owned by a nonprofit, does not mean the property is non-taxable, it actually has to be a charitable use that is occurring on the property by that registered nonprofit whether it is through lease or ownership in order to qualify for the exemptions. Again, let us use Catholic church, if they received a donation of a chunk of land in Kalāheo and they do not have a church on it, they are not using it for any charitable use, just because they own it as a nonprofit or a church, they still pay market taxes on it, there is no break for that. If they build a church on it and they start having services there, then they qualify because the charitable use is established, so it is the actual use that drives the exemption, not the ownership. The credit union could be a nonprofit, but their operation is more commercial in nature, what is the charitable use.

Councilmember Cowden: If a credit union is in a shopping center, they just got a unit in the shopping center, does that somehow give the shopping center a little bit of a discount?

Mr. Hunt: It does, so what happens is you will calculate the prorated a square footage in the total leasable area and you will exempt out a percentage from as an exemption of the value, that is correct.

Councilmember Cowden: I do not have a strong opinion, but it helps me to understand how a certain credit union can be a beachfront property, right? We have big beachfront pieces of property that got purchased by a credit union and we are seeing the growth of all these locations, it certainly helps when they do not have to pay property tax.

Councilmember Kagawa: I wanted to help clarify that. The credit unions are highly regulated by the federal government and standards whereas for-profit institutions like your First Hawaiian Bank, they are there to make a profit, they can pay whatever they want to their employees. Credit unions are highly regulated, so they have guidelines to follow that ensure that they are more managed and serve their members, whereas banks serve their corporate owners. That is the difference that I get and I think a small community like Kaua'i with a lot of local people are beneficiaries in credit unions, and that is why Kaua'i is unique. We are very small and rural.

Councilmember DeCosta: I appreciate Councilmember Kagawa's explanation; it helps me understand. I also want to say I saw a new building come up in Līhu'e, not to long ago we went to a dedication, was that a credit union building?

Ms. Matsuyama: I do not know which one you are talking about.

Councilmember DeCosta: At the mall. There is a new credit union in Līhu'e, that was just built. It is huge. You folks do not know that? Do you know why you do not know that, because we do not charge them taxes.

Councilmember Cowden: Was it a long time ago?

Mr. Hunt: We would know if we did not charge them taxes because they would have to come in and apply for the exemption and they probably will be, and same like with the beachfront, if they actually build on it, then they will probably be coming in and applying for it.

Council Chair Rapozo: Give me an example of a nonprofit that does not have a tax exemption.

Mr. Hubbard: Chamber of Commerce.

Council Chair Rapozo: Okay, because they are not charitable.

Mr. Hubbard: Oh, I am sorry, that does not have. I thought you said, "That does have."

Council Chair Rapozo: I think most of them have, I was just trying to think...because I noticed in the Charitable section, cemeteries are in there and that is not too charitable. There is no activity in that. I am not trying to be funny, I am just trying to figure out is our current standards or our current requirements, does it exempt any nonprofit from getting this exemption? What is a non-charitable nonprofits?

Mr. Hunt: Non-501(c)(3).

Council Chair Rapozo: Credit unions, right?

Ms. Matsuyama: Yes.

Council Chair Rapozo: Credit unions are a non-charitable, but are there any other examples of that?

Mr. Hunt: There are some non-501(c)(3), but none come to mind off the top of my head, but some that do not qualify because maybe they are lobbying or doing other activities that will not allow them to be a 501(c)(3), because the Internal Revenue Service (IRS) essentially determines that.

Council Chair Rapozo: So, if we were to just...rather than separate credit union from charitable and just keep one and just say for 501(c)(3)...

(Councilmember Kagawa was noted as not present.)

Council Chair Rapozo: ...which would make it a charitable organization, I do not think you can have a 501(c)(3) if you are not charitable, and I do not know this. I am just thinking 501(c)(3) gives you the ability to collect donations and not have to pay federal and state taxes, right? Maybe we have to look into this, but if we were to change the existing charitable one to 501(c)(3) and then the credit unions could technically fit in that, if they are a 501(c)(3)...

Ms. Matsuyama: I do not think the Chamber is a 501(c)(3).

Councilmember Bulosan: 501(c)(4).

Ms. Matsuyama: Yes, I think they are under a different designation, and I am not familiar with all the different charitable organizations. There is 501(c)(6)...

Councilmember Cowden: At least the business council I was on was a 501(c)(6).

Mr. Hubbard: Let me give you a couple examples that we struggle with, since this is a workshop. We had in the past, a gentleman wanted to run a vacation rental under a not-for-profit. They came in and said, "We are going to do vacation rentals, but mostly it will be used for underprivileged kids and their families that come over from the mainland." We had a very difficult time approving, and I do not think we did approve that in that venue because it was not going to be one hundred percent (100%) for the underprivileged kids, I think they were going to do some market rentals. There was another example that we recently had. A gentleman was a pastor of an online church that he formed. He was going to lease it to his church and he came in and said, "My house in Kīlauea is the parsonage," and we had to get the Office of the County Attorney involved, because we did not one hundred percent (100%) believe that an online church should have a parsonage if the church is online. If we open it up to all 501(c)(3), 501(c)(4), or just write a list, we would be missing Mr. Hunt's most important point of are they providing a charitable use, the County will want to subsidize.

(Councilmember Kuali'i was noted as not present.)

Mr. Hunt: I can think of another example. We had a church that was not getting enough revenue from their regular parish donations, so they leased a portion of theirs to a for-profit to help augment income and they basically said, "The income is helping us with our operations, therefore, can we use that." We responded, "No, that portion that you took out and leasing for-profit comes out and you lose that portion of the exemption, because that is now not a charitable activity."

Councilmember Cowden: I know we had a rather robust Turo operation running out of a church organization, did that get managed or discouraged? They had twenty-five (25) cars.

Mr. Hubbard: I am not familiar with that one.

Ms. Matsuyama: Of course I was not here when charitable exemptions were created, but I thought the purpose was for giving a relief to services that the County would have otherwise needed to provide, so do we need to provide cemetery? Maybe, we would need to provide cemeteries if they did not exist elsewhere. It was just to augment services that the County would otherwise need to provide.

Council Chair Rapozo: Which would make sense.

Ms. Matsuyama: Yes, but then it expanded and there are these examples of...

Council Chair Rapozo: This whole period is where we have to go back to the legislative intent and make sure we "shore up" these sections to get to where the original intent was.

(Councilmember Kuali'i was noted as present.)

Councilmember DeCosta: Back to what you were saying, Mr. Hubbard, about the charitable entities renting out the house to the less privileged kids or the kids who are underserved, I think every family has those kids, like kids that do not take their laundry basket or leave the milk and cookies out on the table. I have that in my house, so I would qualify for that, right, my kids are underprivileged, they do not know how to take their dishes to the sink or laundry room. I am being facetious. This credit union thing, I really think you need to investigate this. I bank in several different banks and credit unions, and when I went for a home equity line, I did not get any special treatment from the credit union than I did from the bank. What I did was brought in my income statements, I had my assessed value on my home, I can borrow up to seventy percent (70%) of the assessed value, I could only borrow this much, because I can only pay back thirty percent (30%) of the assessed value. They will not let you borrow seventy percent (70%), even though you have a higher assessment value; they will let you borrow what you can pay. The credit unions did not give you any better rate or opportunities than a bank, yet we take a revenue loss on them, so I would like us to investigate that type of thing, and we will too as a governing body.

Council Chair Rapozo: Credit unions, back in the day, were set up just for the plantation camps, because they did not have the ability to drive into town. They would do their banking in the camps that they were working and living at and back when this came up for the credit union exemption, I was here, and we supported it strongly because there were some small credit unions, Kōloa Credit Union, Kaumakani Credit Union, all these little credit unions that were being threatened because they could not afford...they did not have all the...because of all the banks. They pled their case and said, "As long as we still have to pay these property taxes, it is going to be more evident of selling or merging with some other credit union." We did this back then for that reason. Fast-forward ten (10) years or whatever it was, all of those little credit unions are gone, they all merged. Now, we have some powerhouses here, Gather, Kaua'i Federal, and these credit unions are big. I guess the question that we are going to have to discuss throughout the process is if there is a need for this exemption, like we did ten (10), twelve (12) years ago, whenever it was. The credit unions are now competing with banks. They do the same...remember back, the credit unions were doing savings, checking, and possibly some investment bonds, and now the credit unions are actually offering the same insurance services, all of these different types of services that banks, and they are actively in competition with banks. The real difference is that the members of the credit unions basically own the credit union, right? The members are owners as opposed to banks. There is a huge difference there. We will move on. That is one that will have to take up more discussion on. Safe Rooms.

Mr. Hubbard: Safe Rooms receives a forty-thousand-dollar additional exemption. It does not have to be tied to a homeowner exemption, currently we have sixty-six (66). Value exempted is two million six hundred forty thousand dollars ($2,640,000). Lost revenue on this is eight thousand two hundred forty-five dollars ($8,245). I have the definition, "Windowless room designed to resist the effects of wind pressure and windborne debris."

Councilmember DeCosta: It is a set amount no matter how big the safe room is, correct?

Mr. Hubbard: Correct.

Councilmember DeCosta: Because I heard we have a big safe room being built in Kīlauea on someone's private property, really big. I just wanted to know if we had a set amount.

Ms. Matsuyama: Forty thousand dollars ($40,000), flat.

Councilmember DeCosta: Okay, thank you.

Council Chair Rapozo: Sixty-six (66)? What is a typical safe room? Is it a basement? I hate to spend time on this, because it costs the County eight thousand dollars ($8,000), it is not like it is worth our time talking about it, but I am just curious what the heck is a safe room.

Mr. Hubbard: I do not know what a typical one is, but...

Council Chair Rapozo: But we have sixty-six (66) of them.

Mr. Hubbard: ...when I purchased my home, my home came with a safe room and it is probably a six by eight (6x8) room, if I am guessing; concrete walls, concrete ceiling.

Council Chair Rapozo: Do you stuff your family in there when there is a hurricane?

Mr. Hubbard: It has a lot of surfboards inside.

Council Chair Rapozo: Well, then we do not need that exemption.

Councilmember Cowden: I remember when the conversation came up and that was after the hurricane, sometimes people have space that actually works. I know in Kīlauea, in different places, there are some people who welcome in their neighbors and I think it was part about being able to encourage and identify safe places for people to go. Kīlauea is the first safe area all the way to the end of the road. What this was trying to inspire is giving people a reason to take care of themselves and hopefully a few neighbors and a few other people who they cared about and that is why that was set up.

Mr. Hunt: Yes. That is correct. It was done basically because we have limited shelter space and we wanted people to have their own shelter space and take off some of the burden.

Councilmember DeCosta: I am going to Mike Hubbard's house for safety.

Council Chair Rapozo: Next. We have until 12:45 p.m. before we take a break, so if we can get through the exemptions before then, we can come back after lunch and start on the tiers.

Mr. Hubbard: A Tax Credit for Homes of Veterans with Wartime Service, it started in 2008 as a one-time credit of one thousand five hundred dollars ($1,500), and now it is really for active deployed military serving in a combat or hazardous duty zone, granted a full exemption of real property for their primary residence. The application must be received and be filed by June 30th of the tax year for which the exemption is claimed. Must submit official orders issued by the United States Department of Defense, subject to no minimum tax. We currently have zero (0). If anyone is seeing this on television, you have a few days to come in and apply, if you have military orders.

Council Chair Rapozo: How long is the exemption for?

Mr. Hubbard: While they are deployed. Some people have spanned two (2) tax periods.

Council Chair Rapozo: Yes.

Mr. Hubbard: Most people only do the one. It could be National Guard.

Councilmember Cowden: For the record, I support that. If people are off to war, it seems like a big deal.

Council Chair Rapozo: That is one of those that you hope you never use, but it is there if our people do not. Okay, Kuleana.

Mr. Hubbard: Kuleana exemption, we currently have twenty (20). Value exempted twenty-three million two hundred fifty-five thousand dollars ($23,255,000) and lost revenue one hundred seventy-five thousand one hundred seventy-two dollars ($175,172), comprised of tax classifications of Ag, Conservation, Residential, and Residential Investor. The properties must be owned by a lineal descendant of the person that received the original title to the *kuleana* land. Used for owner- or family-occupied purposes, agricultural use, or vacant. It specifically excludes vacation rental uses. It is a one-time application subject to minimum tax.

Councilmember DeCosta: I am wondering if the gentleman is still present and wondered if his situation would qualify for that.

Councilmember Kuali'i: No.

Council Chair Rapozo: Who?

Councilmember DeCosta: Because you said it have to have the original name on the deed and that is hard when generations later, the deeds go to different family members, someone dies...

Mr. Hubbard: There are two (2) difficult things to get past on the Kuleana exemption. One, prove lineal descendent, which you need the Office of Hawaiian Affairs (OHA) to help you with and the second is if it was a *kuleana* title, I think it was around the Māhele time...

Councilmember DeCosta: So, this only applies to Hawaiian families, this would not apply to a Portuguese or Filipino family. This is just strictly for Hawaiian people that were here a long time ago, when they had ceded, crown, and *kuleana* lands, so Councilmember Kuali'i and Councilmember Carvalho's families.

Councilmember Kuali'i: Not mine.

Councilmember DeCosta: Well, you can make believe.

Councilmember Kuali'i: You have to have the *palapala*.

Councilmember DeCosta: Thank you for that clarification.

Mr. Hubbard: Next is the Automatic Fire Suppression System exemption. The Office of the County Attorney basically gave us an opinion that this exemption was repealed in 2021 due to the automatic repeal language that was already in the bill. We currently have none and there is zero (0) out there.

Council Chair Rapozo: This will be removed from the list. Okay, thank you.

Mr. Hubbard: Mixed-Use exemption, we have talked about it recently if a parcel is both Commercial and Residential use within the same building, it is entitled to a one hundred thousand dollar ($100,000) exemption for each residential unit or one hundred fifty thousand dollar ($150,000) exemption for each residential unit that participates or could qualify in our Long-Term Affordable Rental program. Requires an annual application. In 2023, we have four (4) parcels that receive this exemption, for a total of seventeen (17) residential units. Value exempted one million three hundred thirty-eight thousand five hundred dollars ($1,338,500), and lost revenue of ten thousand eight hundred forty-two dollars ($10,842).

Councilmember Cowden: I am surprised that is such a low number, four (4) parcels. It seems like a lot of people qualify for that and they just do not realize, would that be the case?

Mr. Hubbard: It could be the case.

Ms. Matsuyama: Possible.

Mr. Hubbard: Tree Farm exemption, we got rid of this last year prior to our Ag Dedications, and they were grandfathered in, so we currently wanted to show you that we have fourteen (14); value exempted twenty-six million dollars ($26,000,000); and revenue lost at one hundred eighty-four thousand dollars ($184,000) over tax classifications of Ag, Conservation, Industrial, Homestead, Residential Investor rates.

Council Chair Rapozo: So, those grandfathered will continue until the use changes?

Mr. Hubbard: Exactly. Other Tax Relief Programs, our Long-Term Affordable Rental (LTL), this is affordable rental application, a program that people are renting out at ninety percent (90%) area median income (AMI) or below receives a homeowner exemption or if Bill No. 2900 passes, Owner-Occupied Residential tax classification receives the three percent (3%) assessment. Annual application is required unless they have provided a three-year lease and then it can be honored for every three (3) years. The current count of the LTL is one thousand five hundred seventy-seven (1,577). Whoever compares our PowerPoint from earlier in the year, you are going to see this is dramatically less but this is the correct number, so that is one thousand five hundred seventy-seven (1,577).

Councilmember DeCosta: I proudly participate in this. I rent out two (2) of my homes to local families, but I can tell you what a small problem with this is, I struggle with this with my ethics, but you can make a lot more money renting this out to market value rents right now. I heard from our constituents that we might have to raise that low-income rent. You have it really low compared to what the market is charging today. Just like your assessed values went up, prices of homes went up, rent for what people are willing to pay went way up too. For a person like me, I have to be true to my ethics, I sit here and I represent everyone out there, so I cannot just talk to the talk, I have to walk it, right, so I walk it, but you talk about renting out a three-bedroom, three-bathroom for two thousand one hundred dollars ($2,100) to two thousand two hundred dollars ($2,200), when people across the island rent for four thousand dollars ($4,000) to five thousand dollars ($5,000) for that same house.

Mr. Hunt: The program was never meant to be an offset of the tax savings.

Councilmember DeCosta: I understand that, but we are moving into another era within the last five (5) to seven (7) years where there is a lot of people from the mainland who work online and come and get that house from you.

Mr. Hunt: Correct, we understand...

Councilmember DeCosta: That is why the number went down.

Mr. Hunt: We understand that the market rents have significantly gone up, but we also play the other side which is what people can afford to pay. Yes, there is an incentive for staying in the program, and a lot of that is the cap. There is built-up suppression of market value, so it is not just the tax rate savings, but also the cap that is beneficial, that keeps people in the program.

(Councilmember Carvalho was noted as not present.)

Councilmember DeCosta: The three percent (3%) cap, you are talking about.

Mr. Hunt: Correct. That compounding every year...

Councilmember DeCosta: Are we not moving that cap, or are we?

Mr. Hunt: No if you stay in that LTL program you retain that cap. Once you leave, you go to market value and it could potentially be doubling in value in addition to an increase in rates. While you can make it up by charging market rent and recoup that over a period, we understand both from the landlords' side, but also from the tenant side. What the ninety percent (90%) AMI is determining is really what are local income struggling tenants can afford to pay, not what the landlords think they should be getting, which is the difference, and I have to admit it is a balance. Every year we struggle with that because obviously that gap has grown between what we are stating here is what people can afford and where market is headed.

Councilmember Cowden: The United States Department of Housing and Urban Development (HUD) rate, that is what they will pay. We set our own low tax threshold, even though we want to fall in line with HUD, right, but it does not have to?

Mr. Hubbard: We are at ninety percent (90%) AMI.

Councilmember Cowden: For whatever it is worth, we had this discussion that it gets back to zip codes is that an area in ʻEleʻele is going to be able to need to rent for lower than ʻAliomanu or Hanalei. We have a lot of challenges with it, but it is better than nothing.

Councilmember DeCosta: You cannot say that we are going to leave ʻEleʻele at an *x* amount and then we are going to give the same property tax break and let Kīlauea or ʻAliomanu rent at a higher rate, that is being unfair if you ask me.

Councilmember Cowden: Well, I mean it is comparable to the area. We have such an extreme variation of property values.

Councilmember DeCosta: Can I speak, Council Chair?

Council Chair Rapozo: Are you going to get into a debate?

Councilmember Cowden: No, I do not want to get into a debate, I just wanted to say that it needs to be somewhat tied to HUD.

(Councilmember Carvalho was noted as present.)

Councilmember DeCosta: An ʻEleʻele family, dad working two (2) jobs mom works one (1) job pays one thousand six hundred dollars ($1,600) for a two-bedroom, one-bathroom. That two-bedroom, one-bathroom should be one thousand six hundred dollars ($1,600) in Kīlauea. Why would we let them raise it to two thousand five hundred dollars ($2,500) and receive the same tax break as the people in ʻEleʻele?

Councilmember Cowden: It is just that houses are going for six hundred thousand dollars ($600,000), nine hundred thousand dollars ($900,000)...

Councilmember DeCosta: Then live in ʻEleʻele.

Council Chair Rapozo: It is like San Francisco or D.C., every time I visit a place, I look to see how much the rentals are. San Francisco is nuts. It is like four thousand dollars ($4,000) for condominiums.

Councilmember Cowden: We have metropolitan crisis in these tiny rural communities.

Council Chair Rapozo: If you jump out of the LTL program, you get hit with the removal of the cap. Your base just goes up. With the tiering system, it may...depending on how we structure these tiers, it may provide a much bigger incentive for them to remain in the LTL.

Councilmember Cowden: Yes.

Council Chair Rapozo: If we structure the tiers properly, depending on the value of the property, but we will have an opportunity to...I hate to say "play around," but to play around with that spreadsheet to see that in different areas, what impacts will be and how big that incentive to keep that property in LTL would be.

Councilmember Kuali'i: When the count of one thousand five hundred seventy-seven (1,577), did you say it was dramatically less a year ago?

Mr. Hubbard: When we reported.

Ms. Matsuyama: Yes, we reported inaccurate numbers when we did this in February.

Councilmember Kuali'i: Has there been major changes over the years, like people leaving or coming.

Ms. Matsuyama: It has been growing.

Councilmember Kuali'i: It has been growing. That is good. The other thought was the rents that to get into the program, you have to charge these rents, but it also could be that if we want more people to get into the program, we need to give more relief or more of an exemption as an incentive.

Ms. Matsuyama: Essentially, it is a business decision, but we have to make the decision hard for landlords, to be honest with you. If you compared the red to the green on each of these things, that is where the rental incomes are going, so now someone who has a studio can go from charging their tenant one thousand five hundred thirty-two dollars ($1,532) to one thousand seven hundred thirty-five dollars ($1,735). They could increase their rent by two hundred dollars ($200) this year on their tenant. If you increased the ninety percent (90%) on top of this, it would really make it unaffordable for the tenant side.

Councilmember Kuali'i: What does the program provide, only the three percent (3%) cap or does it provide something else?

Ms. Matsuyama: The Homestead rate.

Councilmember Kuali'i: Which is much less than the Residential rate.

Ms. Matsuyama: Especially since we brought it down.

Council Chair Rapozo: Did you ever do an analysis of, let us say, a subject property and studios are incredible because people are charging three thousand dollars ($3,000) a month, which is...the one thousand seven hundred dollars ($1,700) is if the landlord pays the utilities.

Ms. Matsuyama: Correct.

Council Chair Rapozo: If they do not, they can only charge one thousand five hundred dollars ($1,500). Let us just give them the higher amount, one thousand seven hundred dollars ($1,700) versus two thousand five hundred dollars ($2,500), that is the market right now. What would the tax benefit be at one thousand seven hundred dollars ($1,700) with the cap and the lower tax rate versus the higher tax rate and the no cap on the market, how long would it typically take for them to make out?

Ms. Matsuyama: It would probably all depend on when they got in with the cap.

Council Chair Rapozo: Generally speaking, if I took my house out and I do not have a rental, I only have one (1) house that the bank owns, but if I had a rental property, is the incentive enough for me to keep it in long-term affordable, in your opinion? Is the tax savings worth it to me or would I make more money if I just pay the higher tax...

Mr. Hunt: You would make more money if you got out.

Council Chair Rapozo: And go market.

Mr. Hunt: At the current market rents, yes. You would probably recoup in the neighborhood of three (3) to four (4) months of market rent versus the low rent and probably pay for your increase in property taxes. Provided it did not jump up into the Residential Investor class, in which case that maybe would have been a longer...

Council Chair Rapozo: I am just talking about right now. The incentive right now is probably not strong enough to move people into this program, but you are saying to make that happen, we would deviate from the lower rents. If we allowed people to get charged more in this program, they would get the tax benefit but you would basically take more people out of the rental market.

Mr. Hunt: In all honesty, if we were to go that direction where we are trying to make it even, we would probably not only give them zero ($0) minimum tax, we would probably have to pay them to stay on the program.

Councilmember DeCosta: I am going to get fired up, because I was in a rental unit for a long time, my wife and I rented a studio in Kalāheo, I worked three (3) jobs, I washed dishes at JJ's Broiler. A lot of these people do not need to get a second or third job because the rental income is low and we target what they can make. We do not target what they...where is their will to go out there and get the American dream? I got the American dream just to make sure that my two (2) tenants can live comfortably because I did the low-income program, so I can get the little tax break, but I can probably make more money, but I do not because I am helping out people. I see my tenants, they went surfing in the afternoon, they come home at 3:00 p.m. and they are with their boards going surfing. I cannot surf, even in my dreams, because I am working two (2) jobs. We have a problem that we have to try and assess a little bit. I see people shaking their heads, whether they agree with me or not, but...

Council Chair Rapozo: They are agreeing, do not lose it.

Councilmember DeCosta: I like those two (2) women, they are actually my friends.

Council Chair Rapozo: Are there any further questions? So, you think we are at where we should be and any deviation would...

Mr. Hunt: The deviation would hurt the tenants, not the landlords.

Council Chair Rapozo: I just want to make sure we are doing the best we can to encourage more people to jump into that program. Is the incentive not enough? Slide No. 36.

Mr. Hubbard: Home Preservation. You must have the Home exemption to be eligible, you have to own it for ten (10) years with no change in ownership other than transfers between family members. If there are multiple dwellings on the property, each has to be owned by an owner-occupant qualified for the Homestead tax rate. The homeowner has a net taxable value exceeding seven hundred fifty thousand dollars ($750,000). The income of all owners does not exceed one hundred thousand dollars ($100,000). There are no delinquent taxes on the property. The tax bill will be three percent (3%) of all owners' income or a minimum of five hundred dollars ($500). Currently, we have nine (9) properties. The credit amount in actual dollars is fifty-four thousand five hundred ninety-four dollars and thirty cents ($54,594.30).

Council Chair Rapozo: Is there an income restriction on the Home Preservation?

Mr. Hubbard: There is, and that has not changed since the inception.

Council Chair Rapozo: That is probably why we do not have more people in the Home Preservation. I do not remember when this started, but that was the legacy land, where we did not want families losing their lands. I can see how a lot of people would not even qualify. One hundred thousand dollars ($100,000) is not rich, not anymore. Do we need to look at that? They can only put one (1) house in this.

Mr. Hubbard: Yes, their primary residence.

Council Chair Rapozo: The one that they live in.

Mr. Hubbard: Correct.

Council Chair Rapozo: Should it matter? I go back to the Historic Preservation...we do not have an income limit on that?

Mr. Hubbard: Right.

Ms. Matsuyama: No.

Council Chair Rapozo: Again, we are trying to allow these people to keep their homes, but we have an income restriction here but we do not have one on...and that they are allowed to do business. For me, income should not matter on a Home Preservation if it is family land. If you have been there for ten (10) years, I am thinking out loud, you folks tell me if you disagree.

Mr. Hubbard: Okay.

Council Chair Rapozo: If the idea of this Home Preservation is to allow the family to keep that family home, I do not understand why we put an income restriction, if they can only use it once.

Mr. Hubbard: If you do three percent (3%) of one hundred thousand dollars ($100,000) and you fit...it is three thousand dollars ($3,000), how many of our homeowners pay more than three thousand dollars ($3,000), I bet you it is a smaller percentage.

Council Chair Rapozo: Right.

Mr. Hubbard: Of our thirteen thousand (13,000).

Council Chair Rapozo: Is this even necessary?

Mr. Hubbard: Well...

Council Chair Rapozo: Because they have a cap.

Mr. Hubbard: Definitely at one time when the Haraguchi's made the front page in the newspaper, it was necessary thing.

Council Chair Rapozo: I do not want to go into specifics, I am just saying...

Mr. Hubbard: Absolutely. That is when it came about. The "necessary" would be for that valuation of property, something that is very speculative and is at a different wealth reaches on the island. If we want to talk about protecting legacy lands on Weke Road or these high-income environments, this has been our tool. Now, if we want to change it and modify it...

Council Chair Rapozo: I do not like the selective legislation. What happens on Weke Road and what happens in ʻŌmaʻo Road, what is the intent of the legislation? Is it to allow one (1) family to keep their property? That is not being fair and consistent. I look at the title, "Home Preservation," and the intent, I thought, was to allow families...trust me, I do not have no "dog" in this fight, because I own nothing. I had family members in ʻŌmaʻo that had a lot of land and they were land rich/cash poor, but they had to sell because they could not afford to keep it. I am just saying we are giving these perks or benefits to other classifications or programs, we are taking very little taxes from them, but if we have a family that has been living in this home and maybe ten (10) years, again, I am thinking out loud, maybe that is too short, maybe it is fifteen (15) or twenty (20) years.

Councilmember DeCosta: Fifty (50) years.

Council Chair Rapozo: If you can establish that is your legacy home and that is the home you are going to keep for your family, then we should allow you to do that and not cap it with an income requirement, because most people will not qualify.

Ms. Matsuyama: This was for retired people that have lived, so they are on fixed income, that is why you cannot make more than one hundred thousand dollars ($100,000). At that point, seven hundred fifty thousand dollars ($750,000) was a low value. It is for people that have been in their house for a long time, obviously, because they have to have a homeowner's exemption, they are now on fixed incomes, so they retired, but they are value of the house has gone up so much, that they might not be able to afford the increases. That is why there is the cap. That is why there is the income limitation, you cannot make more than one hundred thousand dollars ($100,000).

Council Chair Rapozo: Do you remember when this was enacted?

Mr. Hunt: I think it came around about the same time as the tax on use and the breaking from the tax cap and moving to the assessment cap, so somewhere around 2014. We do have the Very Low-Income program and this was sort of meant to save people that are above that, are not going to qualify for the circuit breaker on the Very Low-Income because their property values are just a little bit out of reach, and their income is a little bit out of reach, but it is the only property they own, they do not own other properties that we wanted to have at least a carved out program for an outlier, if you will. We also did not want to have someone who has market value of a thirty-million-dollar property, moved here exactly ten (10) years ago, and maybe has one million dollars ($1,000,000) in income and three percent (3%) is less than what they would be paying in property taxes.

Council Chair Rapozo: I am suggesting that the ten (10) years be longer, because if we are going to look at legacy lands, it is not a ten-year investor, but if we provide...you have to come here as it has been a family property. You are not wanting to make it a family property. No, it is a family property and my intent is not to sell. My intent is to keep it in the family. I do not know what the number is, but that is something I will definitely be looking at. I do not even know why value would even have...why value? My house will never hit seven hundred fifty thousand dollars ($750,000), my house is very small.

Mr. Hunt: The two (2) other caveats aside from the income and the value threshold to qualify has to be owner-occupied and if there are multiple on the same property, each one has to have an owner-occupant.

Council Chair Rapozo: So, for me, my house is nowhere near seven hundred fifty thousand dollars ($750,000), so I would not be able to qualify for a Home Preservation.

Mr. Hunt: The big qualifier in this one is not owning other property.

Council Chair Rapozo: Yes, I do not.

Mr. Hunt: So, whoever is on title, could be your kids on the title, and your kids have another property, now it disqualifies you, because collectively...who is getting the break. That is just another one that, from a legacy land point may not work necessarily because we are talking about only owner-occupied properties.

Councilmember Kuali'i: Is this the legacy land exemption. This is what you were saying where those seniors who were on a fixed income and the value of their house has just gone up so much that the age exemption and even the income exemption is not helping them, and it could be pushing them out of their house, and we want them to be able to stay in their house.

Mr. Hunt: That is correct.

Councilmember Kuali'i: Maybe the way we title these things need to be more clear, so that if we need this legacy, maybe that is something else.

Council Chair Rapozo: I think it is what you said when this was designed to take care of one (1) situation, and I am not saying it was the wrong thing to do, I think it was maybe the right thing to do, but if we are calling it a "Home Preservation," it should be applicable to as many people as possible.

Councilmember Kuali'i: Is it a home preservation for everyone or is it a home preservation for seniors?

Council Chair Rapozo: Well, it should be a home preservation for anyone that wants to retain that parcel in their family and it comes with some requirements. You cannot have a Residential Investor and take advantage, so I understand keeping it strict, but these values no longer apply today, because of the natural inflation.

Councilmember DeCosta: I agree with Council Chair Rapozo, I think he should be able to keep his house even if his house does not qualify because of that number. You are saying that your house is not worth that number.

Council Chair Rapozo: It is not.

Councilmember DeCosta: Right, so why do we not put something like a dedication of how you do Ag, you have to go in and dedicate it for twenty (20) years, remember before with the old plantation folks, what if we do a category where you dedicate your family property for thirty (30) years, you can never sell it. If you sell it, you go with a roll-back tax on them, and then now you protect all these properties and no one is going to sell. I do not want to sell. I have kids.

Council Chair Rapozo: We at 1:00 p.m. Let us come back at 2:00 p.m.

There being no objections, the Committee recessed at 12:50 p.m.

The Committee reconvened at 2:00 p.m., and proceeded as follows:

(Councilmember Kagawa was noted as present.)

(Council Chair Rapozo and Councilmembers Carvalho and Cowden were noted as not present.)

Councilmember Kuali'i: Order. Microphones, please. Council Chair Rapozo and Councilmember Carvalho are in a meeting. They will join us as soon as possible. I think Councilmember Cowden is walking up the stairs. Back on the slide that is Home Preservation, I believe, and then Agriculture.

(Councilmember Cowden was noted as present.)

Mr. Hubbard: Chapter 5A-9.1 is Agricultural Dedication. This program was significantly amended in 2022. The term changed from a 10- or 20-year down to five-year dedications, all rollback penalties were removed. We removed the requirement to also record the dedication with the Bureau of Conveyances, and created a variety of ways to cancel the dedication without penalty. Assessed value now equals five percent (5%) of the market value giving a ninety-five percent (95%) subsidy to agriculture operations. Our current count is one thousand two hundred sixty-four (1,264) Agriculture dedicated parcels. The value exempted is one billion three hundred forty-eight million one hundred sixty-seven thousand seven hundred dollars ($1,348,167,700). The estimated revenue loss in tax classifications of Agricultural, Conservation, Residential, Commercialized Home Use, Homestead, Residential Investor, Commercial, Industrial, and Vacation Rental rates is a little over nine million dollars ($9,000,000).

Ni'ihau Minimum Tax. The island of Ni'ihau currently pays forty thousand dollars ($40,000) annually. Council at any time, and upon significant change of the use may amend the minimum tax including the abolishment of the minimum tax set. Of course, we only have one of these, value exempted is nineteen million dollars ($19,000,000), potential taxes, one hundred thirty-one thousand dollars ($131,000), potential taxes at Agricultural rate and because they also had a dedication, I believe the revenue loss was ninety-one thousand dollars ($91,000).

Councilmember Cowden: Vice Chair? I just want to ask...we just did this, so they only have one Tax Map Key, right?

Mr. Hubbard: That is right.

Councilmember Cowden: Okay, we received some lambasting over it. Just to restate, they have all different kinds of uses on the land, so we cannot decide what use to apply for that. We looked and this is about the amount of tax that they were paying over the last number of years, so we have one (1) parcel that is why it is set that way. We recognize they do not have most of the services like ninety-five percent (95%) of the services that the rest of the county has. I received some backlash a little bit this week.

Mr. Hubbard: Next, we are going to move on to the assessment cap which comprises of the Homestead and Commercialized Home Use.

Mr. Hunt: As mentioned, the cap on the assessment applies to those that are in the Homestead tax class which include owner-occupants with an exemption and also those that have the LTL designation that participate in the ninety percent (90%) AMI rental and below. It also applies to those that are in the Commercialized Home Use tax class where they have a homeowners' exemption, but they also have other uses on the property. The 2023 and fiscal 2024 tax rate was lowered from three dollars and five cents ($3.05) to two dollars and fifty-nine cents ($2.59), essentially that is a rollback of about fifteen percent (15%). So if you are looking at the compounded taxes at three percent (3%), assessment growing at three percent (3%), this roughly took off about five (5) years' worth of compounded assessments for those properties that have been in there for a long term. Those that are new just received basically a fifteen percent (15%) reduction to their rates right off. The difference is really about less than a percent (1%) if you were going back five (5) years to compare their taxes to what they would be today, if they were maximizing at the three percent (3%). Skip to the next slide, please.

Broken down, the savings from the cap, as well as from other sources, if you look at the total savings for the Homestead class, it is about five billion four hundred million dollars ($5,400,000,000) in suppressed value of which the slightly larger share over three billion dollars ($3,000,000,000) comes from the cap itself, with another two billion two hundred seventy-five million dollars ($2,275,000,000) in reduction coming from exemptions from multiple sources not just the Home Use, but other compounded exemptions. Then there is about another eighty million dollars ($80,000,000) in value that was on Homestead properties that were benefitted from having an Agricultural Dedication. If you compare the total market value in this class, which is about eleven billion seven hundred million dollars ($11,700,000,000) to the actual taxable amount of six billion two hundred fifty-nine million dollars ($6,259,000,000), they are roughly paying on about fifty-three point forty-three percent (53.43%) of their value. In dollar relief, I broke it down by the different programs, but in total it is about fourteen million dollars ($14,000,000) in tax relief to this category from various tax relief mechanisms and there are three hundred forty-three (343) parcels in this category of just under twelve thousand (12,000) that pay only the minimum tax.

Commercialized Home Use, the same exercise, roughly a little over one billion dollars ($1,000,000,000) in total reduction. Again, more coming from the cap than exemptions, about six hundred forty-three million six hundred thousand dollars ($643,600,000) in relief from the cap, and another four hundred thirteen million one hundred thousand dollars ($413,100,000) from the exemptions and about eighteen million two hundred thousand ($18,200,000) to eighteen million three hundred thousand ($18,300,000) from the Agricultural Dedications. Again, the relationship between net taxable value and total market value is about one million four hundred thousand dollars ($1,400,000) to almost two million five hundred thousand dollars ($2,500,000), so they are paying on roughly fifty-six point five percent (56.5%) of their value. In dollar relief, that equates to about five million four hundred twenty-nine thousand dollars ($5,429,000) in tax dollar relief, and in this category for Commercialized Home Use, we have eight (8) that are paying minimum tax. To look at this graphically, because sometimes maybe it is easier to look at a chart rather than numbers, the arrows are pointing to the actual net assessed values. For the larger graph, you are seeing the eleven billion seven hundred thousand dollars ($11,700,000,000) and the six billion two hundred fifty thousand dollars ($6,250,000,000) is what they are assessed at. The difference between the top and where that arrow points to under the Homestead, is the relief and similarly you can see that under the Commercialized Home Use. Fewer properties, so it is not as dramatic as looking at the Homestead, but again, about the same ratio, a little over fifty percent (50%) reduction there. Again, as mentioned, it applies to properties with the Home exemption or participated in the LTL program. It provides a three percent (3%) ceiling and a three percent (3%) floor from the point at which the property qualifies for the cap and that is upon approval of the Home exemption. For 2023, three billion seven hundred million dollars ($3,700,000,000) in total relief from the cap and revenue loss of about eleven million two hundred thousand dollars ($11,200,000) that aggregates both categories: the Homestead and the Commercialized Home Use.

Councilmember Cowden: I have a question.

Mr. Hunt: Yes.

Councilmember Cowden: When we are looking at Slide No. 42, with the assessment cap, we are looking at the market value. We are planning to take out Residential, oh no, we have it, Residential Investor, it is here, alright. We still need to figure out how we are going to make up that money.

Mr. Hunt: That might lead into the tier discussion later.

Councilmember Cowden: Yes.

Mr. Hunt: Yes. Finishing up again on Slide No. 43, about eleven million two hundred thousand dollars ($11,200,000) in total cap relief in dollars.

Slide No. 44, takes the Homestead and we have been talking averages, but I also want to include the median, because I am sure you are aware there is some skewing in value from people who have either gotten into the cap more recently at much higher elevated assessments or you have people either lose or gain a dedication, or an exemption, or you have had an addition that was not covered by the cap because everyone asks, "Why does it go up more than three percent (3%) in the category?" It is not always the same properties that are participating. You could have growth by having more parcels in, and again, some of these changes when you get cap resets, when someone who was not originally in the cap becomes a member of Homestead because they claim this is their primary residence. It is a moving target, but those who have participated, are subject to that three percent (3%). If you look at the median, the median market value is about one hundred seventy-eight thousand dollars ($178,000) lower and similarly, the assessed is also lower at five hundred ninety-two thousand dollars ($592,000) as compared to the seven hundred fifteen thousand dollars ($715,000), and the median net taxable, and I think this is very germane, is four hundred nine thousand four hundred dollars ($409,400), so what this basically says is, half of the properties in this tax class are at hundred nine thousand dollars ($409,000) for assessed value that they pay taxes on. Is it four hundred nine thousand four hundred dollars ($409,400) or less? If you equate that with the tax rate of two dollars and fifty-nine cents ($2.59), that means a tax bill of one thousand sixty dollars and thirty-three cents ($1,060.33), or less. Some will go all the way down to seventy-five dollars ($75) as a minimum tax if they have the income exemption. Again, if you look at the ratio of the net taxable to market, it actually lowers as well, it drops from fifty-three point four percent (53.4%) on average to fifty point nine percent (50.9%) is what they are paying on as a median as opposed to an average.

Councilmember Kagawa: Question.

Mr. Hunt: Yes.

Councilmember Kagawa: Can you go over what the difference is between the Median and the...

Mr. Hunt: And the average?

Councilmember Kagawa: Yes.

Mr. Hunt: Okay. The median is the mid-point. If you have, in round numbers, if you have twelve thousand (12,000) people in the Homestead class, the median would be the value associated with the number at six thousand (6,000).

Councilmember Kagawa: Okay.

Mr. Hunt: Right? Basically if you lined them up from low to high, take the mid-point that would be the mid-point and lower.

Councilmember Kagawa: Okay.

Mr. Hunt: When you start talking averages, you are now, you could have a property that might be double or triple that are actually skewing that average up higher.

Councilmember Kagawa: Okay. So, what do these numbers do?

Mr. Hunt: These numbers tell us...

Councilmember Kagawa: Okay, so the average is 182, so yes, it is exactly what you just said that the average is almost 200,000 higher...

Mr. Hunt: Right.

Councilmember Kagawa: Because of...

Mr. Hunt: Because you are skewing. So when you get a new applicant that comes in at a two-million-dollar price, just bought the property, new homeowner, maybe from the mainland, moved here and settles in. All of a sudden they started in the cap, they are starting to put in more expensive properties, which is skewing that average up. As opposed to the median, which is more what I would call more what I would call our regular local folk that are in that program.

Councilmember Kagawa: Like Zuckerberg's house, maybe.

Mr. Hunt: If he became a homesteader, yes, right. He is not.

Councilmember Kagawa: He has a fabulous house.

Mr. Hunt: Yes.

Councilmember Kagawa: No, I just made that up.

Mr. Hunt: Let us go to the next slide. So these again, I went back to the averages, only we did not have enough time to present the median on this chart, but it essentially shows the light blue is the change in market over time. So, going from an average of six hundred sixteen thousand eight hundred ninety-four dollars ($616,894) up to the most recent of nine hundred eighty-two thousand three hundred eighty-five dollars ($982,385), but the purple below is actually what the actual assessments have been doing. Because of the cap and the exemptions, the net taxable has stayed relatively stable and low, although we have seen some skewing a little bit to the averages because of more expensive properties getting in.

Councilmember DeCosta: I noticed on this first column in 2019 versus 2024, if you look at the six hundred sixteen thousand dollars ($616,000) versus the three hundred ninety-five thousand dollars ($395,000), you are over half, but over here you are under the half. Actually over time, the homeowner is actually gaining in the pull away from what they are paying versus what the assessment value is.

Mr. Hunt: Right. The three percent (3%) has sheltered them and giving them...

Councilmember DeCosta: It has helped a lot.

Mr. Hunt: So maybe it is better at sixty percent (60%) and now it is down to fifty percent (50%).

Councilmember DeCosta: Basically in another decade, that cap would even help that homeowner that much more.

Mr. Hunt: Yes.

Ms. Matsuyama: If values are increasing.

Councilmember DeCosta: I know how to read scales.

Mr. Hunt: Next slide, please. I did the same exercise for the Commercialized Home Use, as well. Just sort of looking at the average compared to the median, and again, there is a substantial difference because of skewing in that as well. You might expect that because of the alternative uses of the property. They are more valuable if you have both a home use as well as some sort of commercial activity on the property. The ratio, if you will, of the net taxable that they pay on is a little bit higher, fifty-four point six percent (54.6%) on a median and fifty-six point five percent (56.5%) on the average is higher than the fifty point nine percent (50.9%) and fifty-three point four (53.4%). Next slide. This is just again that graphical representation of how market values and net taxable values have changed over time.

Councilmember Kagawa: Question. If you have an example of Commercialized Home Use such as the person who has a silk screening business at home, is that?

Mr. Hunt: Yes, if it is commercial to the point where it is open to the public, I think the most classic example we have, I have seen some dentists that actually have the dentist office below and above they have the house or behind the house. They are actually doing both commercial and using it as their primary residence on the same property. Then you also have properties that are two homes, you have one...

(Council Chair Rapozo and Councilmember Carvalho were noted as present.)

Councilmember Kagawa: Yes. The person doing the silk screening is probably taking Homestead, right? I mean, you would not want to ruin that.

Mr. Hunt: If he comes home and takes his work home and has a garage converted into some sort of studio and he is not having people come to his property, there is no parking stalls, and he is just basically doing "homework" if you will, he is doing that, it is not going to be reclassified. If he is actually having people coming to a place of business on property, then it becomes more commercial and then it would be triggered into that Commercialized Home Use.

Councilmember Kagawa: Yes. Because it would not even get the approvals because when you apply for the commercial with the...

Mr. Hunt: You need a use permit.

Councilmember Kagawa: ...parking stall, you need to get a use permit.

Mr. Hunt: You need a use permit for that level.

Councilmember DeCosta: I wanted to comment on that. That cap actually helps a long-time homeowner. But a new homeowner that gets into the market right off the bat, let us say a college graduate comes and wants to buy a home for a million dollars ($1,000,000), we do not help that young local couple.

Mr. Hunt: They do not immediately benefit from the cap.

Councilmember DeCosta: Right. But also the new mainland person moving here and wanting to surf Kaua'i or be a part of our community, they are also not protected, because they are going to get in the same way that our locals are getting in, right?

Mr. Hunt: I would not say they are not protected, they just start the protection later, so that they are not benefitting from the cap. They still get the benefits of the exemption, they still get the benefits of the lower rate, and they get the benefit of assurance of a level cap going up.

Councilmember DeCosta: Level cap moving forward.

Mr. Hunt: Moving forward, right. But they are also likely qualifying, if they are able to buy a home, they are qualifying with probably more income than someone who is retired. There is that disparity too, if someone is obviously able to afford and buy a new home, then they may be able to afford more taxes, as well.

Councilmember Cowden: I have a question. Can you describe what happens if we have a dip in the market and the price, because when we have an interest rate hike or a big economic bump, sometime we have a dip in the market like we saw in 2008? This assessment cap works in reverse?

Mr. Hunt: The assessment cap has both a ceiling and a floor. Essentially you are allowed a six percent (6%) variance from year-to-year up or down. Properties that are still below market value, say your market value is one million dollars ($1,000,000), your assessed value is five hundred thousand dollars ($500,000), and the market value drops from one million dollars ($1,000,000) to seven hundred thousand dollars ($700,000) in one-year and we have a thirty percent (30%) reduction. Your five hundred thousand dollars ($500,000) is still going to go up three percent (3%) because it is still below the seven hundred thousand dollar ($700,000) market, so you are going to have those that are still going up in a down market until they reach that nexus where they cross and then in which case, they would be going down at three percent (3%). Properties that bought in at one million dollars ($1,000,000) and the market drops to seven hundred thousand dollars ($700,000), they can only go down three (3%), so their assessed value is going to be higher than the market value.

Councilmember Cowden: Whereas, if they were not covered by the assessment cap, but they are in what we have been calling Residential and the valuation of their house dropped two hundred thousand dollars ($200,000), then their taxes are going to drop that much...

Mr. Hunt: Their assessment will drop. Tax rates are set separately, but, yes.

Councilmember Cowden: I mean their rate would be a reflection of the full drop.

Mr. Hunt: Yes, if the value decreased on something that is not subject to the cap, they would see the full benefit. In that case, I would call it a benefit, but the drop in value would be reflected in their assessment. Not necessarily their taxes.

Councilmember Cowden: It would be a value relative to taxes.

Mr. Hunt: Right.

Councilmember Cowden: Sometimes I think people do not quite understand that property values do not always go up. And if they go down, you have worse problems than the three percent (3%) even if it is in a down market, if you are really low anyway.

Councilmember DeCosta: This still worries me a little bit about our local residents wanting to get into the housing market and despite the large increase of assessed value in the current market, they do not have the protection, right? Because they do not have the cap except when they first purchased a home, then the cap starts from there.

Mr. Hunt: Right. Once they apply and receive the Home Exemption, then their cap starts. That is right.

Council Chair Rapozo: Which is why I think a lot of the assessments, the increases in our tax revenues came from all the new property sales that occurred, it reset the cap and all of those properties that were maybe being assessed at five hundred thousand dollars ($500,000) and then it sold for eight hundred thousand dollars ($800,000) to nine hundred thousand dollars ($900,000). I think that is what I struggle with because what happens with that extra unanticipated revenue? This should not be a process for generating extra revenue for the County. We should not be...and it is going to happen, because of the structure of the cap. The fact that we generate unexpected revenue should not make this County spend it. Just say, we do not really know where to spend on. How do we set this up so whatever we make that is unexpected gets returned to the taxpayers in some way of a credit or, because when we get the budget, now we are looking at the new baseline, the new resets of the caps.

Mr. Hunt: Right. Property owners that are recent purchasers which I had Megan run the other day, in the neighborhood to five hundred (500) to seven hundred (700) new homeowner applications annually. We are talking maybe four percent (4%) to about five point eight percent (5.8%) of the Homestead class each year. What we do not have data on is, there is probably a certain number of turnovers, let us say for argument's sake, twenty percent (20%) of that Homestead class is turnover from people who have passed away, moved away, or for whatever reason. The majority are probably still under the cap still benefitting from when they got in. The majority of the properties are long-term Homestead. We have a very small segment of the market that is spiking up the total aggregate value and distorting, because we are not seeing the class moving at three percent (3%) a year, we are seeing it moving higher than three percent (3%) because of these resets, because of someone does a remodel or construction that is not covered by the cap; all these things that contribute to that.

Council Chair Rapozo: When we do our budget and our forecasting of revenue from tax, we are not taking that into account.

Ms. Matsuyama: It is.

Council Chair Rapozo: Do you folks figure seven hundred (700) new properties will generate "X" amount? One of the things I do not know if we, building permits, do we look at the building permits that is outstanding and how much value is going to be increased to that class, which equates to a certain amount of generated new income, or new revenue? Is that all taken into account?

Ms. Matsuyama: Yes, so you have to remember that the valuation date is still October 1st. October 1st is going to be whatever the budget is. Whatever the use is as of October 1st, that is the revenue number, assessed value number that we are using to present the budget. It is not like someone is going to come after we do the budget and it is a new unexpected revenue, it is going to be in the following year's budget.

Council Chair Rapozo: I see.

Ms. Matsuyama: Next October 1st date. I do not think there is this gap of unanticipated revenue that we now have. It is all going to be reflected on October 1st.

Council Chair Rapozo: Okay.

Councilmember DeCosta: I do not know if this is the time for constructive information.

Council Chair Rapozo: It is time for a question.

Councilmember Cowden: I have a question.

Councilmember DeCosta: I can craft mine.

Council Chair Rapozo: Of course you can.

Councilmember DeCosta: I want to craft a question for the great minds sitting here. This extra revenue that we will generate from the new sale of these homes that are assessed much higher, those are property tax dollars that we can use in CIP projects that can possibly help all of our constituents across Kaua'i. I understand Council Chair Rapozo is saying about giving the money back to the people, but if the money came from new homeowners and it can benefit everyone, including the three percent (3%) tax homeowners, with CIP projects to improve infrastructure and God knows what we need to build on this island, would you folks want to give that money back or use it to benefit all taxpayers?

Council Chair Rapozo: No, I think what Reiko is saying and I misspoke: When would we get our evaluations and budget, that is going to be the revenue for that year, because any changes would be reflected in the next tax year. That is why they are smart.

Mr. Hunt: And we do not track separately, here is the old homeowners and here is the new homeowners and here is the differential on revenues. It is a class in total. It is difficult for us to give you how much revenue came from a cap reset or someone's remodel or something like that. I do not think it is feasible for us to do that.

Councilmember DeCosta: But you see my question process. To make sure that everyone benefits from the taxable income.

Mr. Hunt: I think when we get back into the discussion on tiers, that might be where you might say, "We want Tier 3 Revenue." You can show us what the value and the revenue is and we want to say that goes to affordable housing from this particular class or something like that. There could be some ways to potentially earmark and look at specific sources of revenue that are tied to rates and thresholds by class.

Councilmember Cowden: I hope this is a simple question. Is there a trend of property turnover that is relatively consistent? You said five hundred (500) to seven hundred (700) new homeowners annually. Did we have a big bump during COVID or was it pretty consistent?

Mr. Hunt: I think we actually went down a few this year on the Homestead class. I mean nominally. It was not like a big change, but it might be down fifty (50) or one hundred (100) count or something like that.

Councilmember Cowden: Yes. I am seeing some of the Board of Realtors, I am sure they must have that on their website. I just always hoping we are holding onto our residents. I am always really curious when we have turnover, I know in COVID a lot of the turnover was in the vacation rental properties. People could not hold on to it in the economic shutdown so then those changed hands. I really try to keep an eye on how many people are selling when they do not want to be selling. I want to see how much we lose people and try to have that be as a business indicator so that we know when we are having our worse problem in a part of our dashboard of what is important.

Councilmember Kuali'i: You know that hard date in October where we are broadcasting what the revenue and real property taxes are, that is why we have had some people come before us and tell us that they bought a new property outside of you know where we are halfway through after October, and their liability is from the prior owners' tax bill, if you will.

Mr. Hunt: That is right.

Councilmember Kualiʻi: If they change the use to lower, to Homestead, they will not get that lower tax rate until after they register it again in the following October?

Ms. Matsuyama: That is right.

Councilmember Kualiʻi: But it does work both ways because if their use goes down, they get lower later and pay more earlier, but if their use goes up, they have benefitted from that lower rate from the prior owner.

Mr. Hunt: That is right. Someone who comes in and buys a property that was previously owned by a homeowner, they get their benefit, their exemption, their income, everything that was associated with the certified assessment.

Councilmember Kualiʻi: Even though they are going to use it for a higher use.

Mr. Hunt: Right. Then they use it the following year, unless they come in and apply for their own potential relief.

Councilmember Kualiʻi: That was kind of a follow-up. I have another question for later.

Councilmember Cowden: I think the biggest problem with that is financing. If someone is trying to buy a first home and they are buying it—that is where I think our policy fails. If we tax high to try to force people out of being an empty home or vacation rental, it is near impossible for that ever to change back into at least a vulnerable homebuyer. You can have a cash homebuyer who typically is from somewhere else with quite a bit of wealth, but for someone here to buy a house being pressured out of residential sublets, it is very difficult if they are going to have to pay the mortgage. We have talked about that a lot and about why we cannot do it, but I still want to say, "Ouch"—that we cannot do it because it invalidates our policy.

Councilmember Kualiʻi: My question is on Slide No. 8. Can you put Slide No. 8 up again? In the second half of all these presentations we are asking questions as we go, but in the beginning we were just going through it. On Slide No. 8, you show all the home exemptions, and I think you have ten (10) examples, and you show 2016 and then 2013, and then it chose every one of them are benefitting from the cap. Then you saw the dollar amounts and everything. Now, the column where you show the eight-year change, that is just the tax difference from 2016 to 2023?

Mr. Hunt: That is right. If you look at the actual tax column, which is the one right before the cap and the relief...

Councilmember Kuali'i: Actual tax.

Mr. Hunt: It is the difference between the two whether that went up, down, stayed the same.

Councilmember Kuali'i: So, in seven (7) years, Example 1, their tax bill went up seventy dollars ($70)?

Mr. Hunt: Right.

Councilmember Kuali'i: You show a bunch of them that is seventy dollars ($70), seventy-eight dollars ($78), one hundred thirty-seven dollars ($137), and nineteen dollars ($19). Those all seem very, very modest. Is this a clear representation of most of the taxpayers in the Homestead category, if they did not do anything like change from Residential to Homestead, or change of classification? If they are going from Homestead to Homestead, the cap...and the other thing is, how many are in the Homestead category, and how many of them actually use the cap? Is it one hundred percent (100%)? How does it work?

Ms. Matsuyama: Anyone that is not new will use the cap.

Councilmember Kuali'i: Anyone that is not new.

Ms. Matsuyama: Right. That is why in these examples, the cap was new in 2016. So you see that their total relief from the cap is zero ($0). But then we fast-forward eight (8) years, and now they have been in the program for a while, now their relief from the cap, in the first example, goes from zero ($0) to nearly two thousand dollars ($2,000) that they are benefitting from the cap.

Councilmember Kuali'i: To me, when we just look at numbers, it seems like if this is representative of most of them, that means in a reasonable amount of time, there was not even a reasonable amount of increase.

Ms. Matsuyama: I would say that this is also reflective of the new rate.

Councilmember Kuali'i: Okay, the new rate.

Mr. Matsuyama: Yes. You have the cap and the...

Councilmember Kuali'i: You just passed, I thought just, oh, you are including the new thing just passed already? The tax relief with the much lower rate?

Mr. Hunt: The two dollars and fifty-nine cents ($2.59), yes. These are projected bills.

Councilmember Kuali'i: Okay. So then that would be, oh, you called tax year 2023 the prior year?

Ms. Matsuyama: Yes.

Councilmember Kuali'i: Because it is actually fiscal year...

Mr. Hunt: Fiscal Year 2024, Tax Year 2023. Yes.

Councilmember Kuali'i: Okay. Now, I get it. So we cannot tell by this what just the cap did because it includes the cap, the exemption, and the reduced tax rate.

Mr. Hunt: If you had a higher rate, some of these relief measures actually would have been more.

Ms. Matsuyama: Yes. So you can see the relief from the cap is this one column, the relief from the exemption is another column. Both are affected by the lowering of the rate.

Councilmember Kuali'i: Yes. So we do not know what the relief is from the lower rate? Because it is multiplied into those other totals.

Mr. Hunt: The rate relief of fifteen percent (15%) which essentially rolled everything back about five (5) years, right. You asked me if this is representative of all, it is hard to say, I will not disclose who all these properties are, but I can disclose the first two is my parents is Number 1 and my in-laws is Number 2.

Councilmember Kuali'i: How many properties are there total from that other slide? Nine thousand (9,000), when you did the tiers.

Mr. Hunt: Right, that in the non-tax.

Ms. Matsuyama: That is not capped.

Councilmember Kuali'i: So that is the non-capped people.

Ms. Matsuyama: On this slide, you will see the quantity of each of the exemption holders. So, five thousand two hundred eight (5,208) properties are older than seventy (70) years old and get the two hundred thousand dollar ($200,000) exemption. These all get the cap, too, right. Five thousand two hundred eight (5,208), they get the two hundred thousand dollars ($200,000), and the cap. Same for the three thousand four hundred twenty-six (3,426) and four thousand seven hundred eleven (4,711), so add those folks all up.

Councilmember Kuali'i: Wait, you get either the seventy (70) years or the sixty (60) years, you do not get both, right? So, if you take the larger, wait...

Ms. Matsuyama: Yes.

Councilmember Kuali'i: They get both.

Mr. Hunt: When you reach the threshold, you get the additional bump up, if you will. You start at one hundred sixty thousand dollars ($160,000)...

Councilmember Kuali'i: Are we double-counting if we take five thousand (5,000) and add three thousand (3,000)?

Ms. Matsuyama: No, not double-counting.

Mr. Hunt: No.

Councilmember Kuali'i: So, they are not getting both.

Mr. Hunt: No. It is showing who gets the two hundred thousand ($200,000), the one hundred eighty thousand ($180,000), and the one hundred sixty thousand ($160,000).

Councilmember Kuali'i: So if you have five thousand (5,000), three thousand (3,000), or four thousand (4,000), that alone is twelve thousand (12,000).

Ms. Matsuyama: Yes.

Mr. Hunt: I think there are thirteen thousand three hundred forty-five (13,345).

Councilmember Kuali'i: There are more cap people than non-cap people. You know that other 9,000-figure.

Ms. Matsuyama: Yes, yes.

Councilmember Kuali'i: Basically, you are saying, it is everyone who is in the cap. Everyone in this category that meets this...

Ms. Matsuyama: Owner-occupied. Any owner.

Councilmember Kuali'i: Not new, you said.

Ms. Matsuyama: Well, the new ones are getting...but they are starting to cap, right? So you have to think of it as, "I buy your property, I am not going to inherit your capped amount. I am going to start my own new capped amount and it will be around market value," right. In the first year, they are not going to get any benefit of it, but after that, assuming market values go up, they are going to benefit from that.

Councilmember Kuali'i: If the exemption amounts were good and if the rates were correct, and with the tiers, we can adjust them every year, right? And you, with the expertise on how to work the numbers, you could tell us how to do what the cap is doing now. The cap is preventing drastic increases in assessed value, market value, from making drastic increases to our home-occupied homeowners. But we can to that with the new tiered system and adjusting the rates, right? Is there any consideration in the future, I know the public will go, "Aww!" of using a new system and removing the cap?

Ms. Matsuyama: It would be really hard to unravel the cap.

Councilmember Kuali'i: Okay, I was just asking. I thought that you would have the mechanism to have this same end result once you have tiers.

Ms. Matsuyama: I mean in the overall...

Councilmember Kuali'i: Then the Council has an even more important responsibility every year, because we would literally have to change the rates every year, to account for the change in market values, but you are saying the cap is just a safety valve, if you will. And you cannot necessarily trust every Council...to do the right thing.

Ms. Matsuyama: What you are explaining is kind of what Maui does. Maui does not have the cap, but they do tier Owner-Occupied rate and they set their thresholds on their rate every year.

Council Chair Rapozo: Reiko, just some clarification on this chart, because all these ten (10) properties—do these properties remain in the same cap or are you taking resets accounting in here, as well.

Mr. Hunt: There are resets in here, there is new construction in here, changes in tax class in here for Commercialized Home Use to someone who filed an LTL and got the Homestead. There is a variety in this. Some of them have remained constant throughout and others have had changes.

Council Chair Rapozo: Do we have some parcels where the effective tax rate is significantly higher than what we are seeing on this chart? I mean, the highest here at one dollar and fifty-seven cents ($1.57).

Mr. Hunt: We have one at two dollars and thirty cents ($2.30), I think Example 6. It is below the two dollars and fifty-nine cents ($2.59), but they are not receiving as much benefit. Even if their taxes went down considerably, getting out of the Commercialized Home Use...

Council Chair Rapozo: Correct. Is that typically the average? Are these the numbers that we see or...I guess what I am trying to say, we do not "cherry pick" properties just so we could keep the effective tax rate low.

Mr. Hunt: No, no, I did not "cherry pick."

Council Chair Rapozo: It just seems like, I mean, low effective tax rates for the amount of increases and assessments that we have had.

Mr. Hunt: I think if you look at Example 8, which is, I believe, is the lowest one at forty-five cents ($0.45) effective rate, it is because it was started as a very reasonably priced condominium, because condominiums qualify as well, and it had an exemption, it got the full exemption, but very little of it was taxable. When you look at the market value to the taxable value, big disparity. So, what they are paying taxes on is significantly lower. We would call that progressive taxing, right? So you are paying lower because you have a lower value, but you get the same exemption as someone who does with a very high value property.

Councilmember DeCosta: Councilmember Kuali'i almost answered my question. We are asking our people to trust government. To keep their taxes down, we have a cap in place, and we are (inaudible) so we can trust the new Council if we are ever going to get re-elected. This is the best Council we have had in a long time who are for the people versus that cap that ensures everyone that their taxes are not going to go up. I do not want to remove that cap.

Mr. Hunt: Let me clarify. It actually ensures that their assessment will not go up. Not taxes, because you still have the authority to change the tax rates. In this case, we have never changed the tax. It has been three dollars and five cents ($3.05), since I think we have started the cap. It was consistent going up at three percent (3%) on the taxes, but in the event values did change and you needed to raise new revenue, you could have done an offset if values came down and wanted to raise the taxes. In this case, we actually lowered the tax rates for this year.

Councilmember DeCosta: But we still will keep that cap for the people, right?

Mr. Hunt: The assessment cap.

Councilmember DeCosta: The assessment cap.

Mr. Hunt: It provides a certainty on where values go regardless of whatever happens.

Councilmember DeCosta: Let me ask you this. Why is Maui so successful? Because we know Scott on Maui does a great job, but why are they so successful? What do they tweak that we are not tweaking that their system, and I have read it from our constituents, I think one of the Maui girls stated, "What are they doing better than what we can do?" Tell me.

Mr. Hunt: They are implementing tiers. They have tiers, they have been implementing the tiered rates.

Councilmember DeCosta: And the tiered rates is where they can be very conservative with certain groups that cannot afford it and be very not so conservative with groups that should be able to afford it.

Mr. Hunt: That is correct. They have the ability to...

Councilmember DeCosta: Along those lines, without hurting someone's feelings...

Mr. Hunt: And I do not know where their fifty-five million dollars ($55,000,000) was earmarked from, but it probably came from an earmarked tier, I suspect.

Ms. Matsuyama: Going back to this County comparison slide, Maui does not have the assessment cap, so they had that red check "X" by the assessment cap, because they do not have it. But, you will see that right now their thresholds are one million dollars ($1,000,000) and three million dollars ($3,000,000), and that again, is set every year by resolution. They do tier their Owner-Occupied tax class and I believe they have reduced the first two (2) tiers by a nickel ($0.05) this year, and they have increased the top tier. Just to give you an idea of what Maui is doing.

Councilmember Kagawa: I guess on Maui, by not having that cap, they are subject to...

Mr. Hunt: Forces market...

Councilmember Kagawa: Yes, like Councilmember Cowden said on the North Shore. I am sure they are looking at, so these folks that live on the North Shore ask themselves, "Why is our bill going up so much?" I mean, what are we getting more than someone who lives on the Westside receiving access to parks, roads, et cetera. It is all worse without the cap with those types of situations. So Maui, that situation would be...where is the most expensive place like North Shore Maui would be Lahaina, Wailea. They do not really have a North Shore. Kihei, is new, but not really super rich. Anyway, I am kind of thinking I would like to get away from ad valorem, actually, for people who have lived in their houses year after year, and to be affected like how when we talk about Mary Silva, because our market is going crazy. The house next to me two (2) years ago was at five hundred thousand dollars ($500,000), maybe a little over. And then she just sold it for nine hundred thousand dollars ($900,000). In two (2) years, we do not have inventory, and again, a local family bought it, they just come together and put the money together and they do whatever they can to get the location that they want. I am thinking that if that is going to be used as a comparable for that homeowner, I mean, you know, it is like wow, it is not really...

Mr. Hunt: Theoretically, the cap has kind of broken ad valorem, because it is suppressing—the market can do whatever it wants, but you are limited. The big issue is it is the time invested. The longer you have been in the cap, the more benefits you have, if you will. It does help the long-time owner, but it does not address Councilmember DeCosta's concern about the new owner.

Councilmember Kagawa: You are going to get in at the higher rate.

Mr. Hunt: It could also potentially, again, disparities in income also. The new owner may have a better job, higher paying, it is hard to say.

Councilmember Kagawa: Exactly. I mean, I get it. I know when I bring up the suggestions like that, it seems to be a no-brainer, but then we kind of done it right, the way we have it. If there is a better way, I hope we can get suggestions because this is, no matter how you slice it, the cap is that prevention.

Mr. Hunt: If I were to look just at this chart again, objectively, between the rates, the cap, the exemptions, and the credit, I really think Kaua'i is the most protective of the Homeowner class. The benefits are the greatest, that is objectively. I do not own here anymore, so I am kind of looking at, saying, "Okay, yes."

Councilmember Kagawa: Yes, but you are a Kaua'i boy.

Mr. Hunt: Yes.

Councilmember Kagawa: You know you are coming back home.

Mr. Hunt: Priced out.

Councilmember Cowden: I am following up on what Councilmember Kagawa is saying. I wish there was something other than ad valorem, and I like how we are looking with what we are calling "Steve's Bill" with flexibility, but you can make a mistake and it can be quite predatory even without an intention. We could have really hard outcomes and do you know of any other good pathways, what other good places do you think ad valorem? I know ad valorem, which would mean "at value," that did not always seem be what was everywhere. I get that it is good as our County bills are going up, but is there examples of something else?

Mr. Hunt: I think ad valorem as a general policy is a good way to approach it with tax relief measures for protection. But what happens is you need safety valves, outliers that do not seem to fit any of the protections and that is where we get into why we probably have as many exemptions and programs as we do is because we recognize that while it works great for eighty percent (80%) of the properties that in our homeowners, there are certain one that just do not seem to fit.

Councilmember Cowden: My brain also goes to business and commercial, because if your shopping center's price goes up and things go up, there is no cap for that. We have no cap for Commercial. I do not really know what is coming. It might go down. We do not know what is coming. But that is the problem, we do not know, so it is hard for all these business people, homeowners, counties to anticipate what is coming. So, we could tier Commercial, right? Maybe that may be a helpful way? I think I would like to see Commercial be tiered, because I think that we could crush our little businesses, we already have crushed a lot just with different policies and I think small business is essential to keep healthy.

Ms. Matsuyama: Assuming Bill No. 2900 passes, when you folks do set tiers and rates, the values you are setting those on are already set. You are not chasing a moving target, because every year you set them, October 1st would have passed already and our valuations are set, right? You will know what the Medians, Averages, and the Counts are when you do set the tiers.

Councilmember Cowden: We have been squeezing Residential Investor really hard. The scary side of stalking Residential Investor. The good side is we are not going to squeeze vulnerable people, but the downside is where are we going to get that money? Without Residential Investor, where does, say, a thirty-million-dollar not lived in full-time home fall in our new Residential plan? What would they fall under? Just Residential, right?

Mr. Hunt: We are not going to have Residential anymore. It is going to be called Non-Owner-Occupied Residential and it will be collaborative class of formerly Residential and Residential Investor lumped together.

Councilmember Cowden: If someone has their Non-Owner-Occupied Residential that is a long-term rental versus high-end non-rented house, how is that differentiated?

Mr. Hunt: The only way we will be able to differentiate right now is going to be on value.

Ms. Matsuyama: Slide No. 3 that Mr. Hunt went over, it kind of addressed some of your questions. If you have a long-term rented home, it will probably will not get tier 3, in this example.

Councilmember Cowden: This three million dollars ($3,000,000) is probably really low. Let us just say whatever a long-term rental property...

Council Chair Rapozo: Before we get into the tiers, are there any other questions on the exemptions? We ought to move off of that and focus on the tiers, because I think that is where the majority of the discussion will happen. Do you have a question on exemptions?

Councilmember Kuali'i: It is on the assessment cap, Slide No. 41. You show the column on Homestead and the column on Commercialized Home Use. Then you show the count of minimum tax parcels, so three hundred forty-three (343) and then the count on minimum tax parcels, Commercialized Home Use, eight (8). It would be helpful to know what the totals are in each of these categories. And then I think an interesting thing would be to know, as far as the relief we are providing, what one tax parcel, if you will, what is the highest amount of relief? What is the lowest amount of relief? What is the average relief? And what is the median relief? So just to follow-up for that slide, Slide No. 41. The minimum tax parcels was just however they got to minimum, right? So, sometimes when you apply the cap and whatever their situation is, the minimum is put on that person when it calculates to lower than one hundred fifty (150), so no one will pay lower than one hundred fifty (150). If it calculates to something lower than that, they pay one hundred fifty (150).

Ms. Matsuyama: That is correct.

Councilmember DeCosta: I have one on classifications. Can you folks give us a quick description of what is the difference between the Conservation class and Agriculture class? I know the price of six dollars and seventy-five cents ($6.75) per one thousand dollars ($1,000) assessed value is the same, but why is the Agricultural land assessed so much lower than Conservation land when Agricultural land can draw revenue and Conservation does not necessarily draw revenue?

Mr. Hubbard: I do not think it is lower, is it?

Mr. Hunt: Actually, look at the median and average values for Conservation and Agriculture. Agriculture has a median of two hundred nineteen thousand dollars ($219,000) and an average of six hundred ninety-three five hundred fifty-three dollars ($693,553), and you compare that to Conservation, has a median of sixty-six thousand two hundred dollars ($66,200) and an average of five hundred eighty-six thousand eight hundred forty-seven dollars ($586,847). From an assessment standpoint, conservation is actually lower and it is probably reflective of what you can do with the property.

Councilmember DeCosta: Conservation land is cheaper for a landowner to put their land in versus, Agriculture?

Mr. Hunt: They do not "put in," it is zoned. When you are zoned, often there is a State Land Use District that goes along with Conservation, as well. So, it dictates what you can do. In many you might be able to get one house, but depending on going through the SMA process or other processes to get that. So it might be more difficult to do that. For Agriculture, I think there is a combination that is both. The properties that are in here are typically vacant land, because once you improve it and you use it, it is moving into Residential or Residential Investor or whatever the threshold is on that, or even Homestead, if you are owner-occupant of that property. The ones that remain in here are primarily these classes are based on land zoning. So the zoning dictates the classification and the rates are the same, but the values are a little bit different because typically you can do a little bit more with Agriculture than Conservation.

Councilmember DeCosta: So the Agricultural value is more than the Conservation value?

Mr. Hunt: On median and average, both, yes.

Councilmember DeCosta: It is not what I interpreted it to be. I thought Conservation was higher. I ran some numbers with you folks one time on some of the larger Conservation parcel...

Mr. Hunt: There are some phenomenal pieces that, based on their location and the ability to put one home, have some high values, that is correct.

Councilmember DeCosta: Okay. That is probably where I got it.

Council Chair Rapozo: Councilmember Bulosan.

Councilmember Bulosan: This is a little bit of a weird question, I am trying to figure out how to ask it. But of all the tax classifications and exemptions, which ones cost the most to implement? I guess another way to...

Mr. Hunt: Staff time.

Councilmember Bulosan: Staff time yes, or, which one is hard for us?

Mr. Hubbard: Residential Investor definitely has been the most tedious tax classification.

Councilmember Bulosan: And as far as exemptions?

Mr. Hubbard: Exemptions Income Exemption.

Council Chair Rapozo: Which one?

Mr. Hubbard: The Income Exemptions. Very low-income tax credit and additional Home Exemption.

Mr. Hunt: But it is on gross income, so you have to review the tax return and identify the items that are part of the gross income.

Ms. Matsuyama: Most people do not, myself included, and would not even know how to calculate it, so they just drop off their tax return and say, "Can you figure out which one I am better off in?"

(Councilmember Kagawa was noted as not present.)

Mr. Hubbard: There is no member from the public that would be able to calculate it themselves.

Councilmember Bulosan: I think that is a big point. Just this thinking of efficiency of maximizing, you know, how we help people, but at the same time, let us be super honest with everyone that staffing is not getting better ever. Feels like it.

Mr. Hunt: It is a double-edged sword because it does take quite a bit of staff time to process and do that, but at the same time, it is a very targeted relief probably to those that need it.

Councilmember Bulosan: Have you explored other means of providing that help without it being so expensive to administer?

Ms. Matsuyama: I do not think that there is a way to avoid an annual filing because income fluctuates so much. So, I mean, we could just use one line, we could just use AGI, whatever it is. But, it is not as fair and targeted as we would like.

Mr. Hunt: I think what causes us to get away from AGI is when you have an applicant for a low-income exemption that had an original portfolio was at one hundred million dollars ($100,000,000) and they went down to ninety million dollars ($90,000,000), so they have a loss, and their AGI was a negative number. We are like, "This is not what the program was designed for."

Council Chair Rapozo: Are there any other questions?

Councilmember Kuali'i: For the seniors that are on fixed income, they are getting social security, it really does not change much every year. And for some of them, if their income is so low, they do not even file taxes, but you allow them to do that?

Mr. Hunt: Yes.

Councilmember Bulosan: The reason I bring that up is because most times, well from my observation and experience, the people who make the least amount of money spend the most amount of time trying to get the most of their money. So, it is often those people who are hit the hardest have to fill out billions of paperwork to just get the little help that they need. On the back end, as a government entity, we are spending the most time trying to help the most needy through the longest of processes. I am just trying to find out ways that we can streamline the help without adding more for you folks and us.

(Councilmember Kagawa was noted as present.)

Mr. Hubbard: Thank you.

Council Chair Rapozo: Any other questions on exemptions, programs? If not, we can go to the tiers. Mr. Hunt, we talked about the difference of the fixed number versus the percentage of median and average for setting exemptions. Right now, we have an opportunity to work on the exemptions and how we get to the exemption. Let us start with the exemptions first, and then we can get into the thresholds for the tiers, because I know, Mr. Hunt, we had a chat before the meeting, and I kind of wanted to have an open discussion with all the councilmembers. I think the exemptions should be fluid, I think it should move with assessments, and right now, the only way we do that is by ordinance, right? We have to amend the ordinance if we want to change the exemptions level. I am not sure if, I think the Grassroots Institute actually did a...if we had proportionately increased our exemptions over the years, it would be significantly higher than one hundred sixty thousand dollars ($160,000) that we currently offer, because the assessments are so much higher. That is the first discussion I want to have, Number 1, and Mr. Hunt, I want you to share what you shared with me this morning—the fact that we can have it fixed at a specific number regardless of what the assessments are, or have a discussion on how we can set a percentage of the average or median. Mr. Hunt, if you could clear the difference of the average or median assessments. So that way, as assessments begin to get out of control, the exemptions follow. Then the Council does not have to worry about passing a new bill. Then when we get the budget, when everything is in place, when they do their taxes, everything is already set based...so if you have a year that the assessments go crazy, then the exemptions will follow. Mr. Hunt, let us start with that and talk about the pros and cons of fixed versus variable.

Mr. Hunt: Let us start with market and assessed. We already have a break between what happens in markets. The market certainly has rapidly increased in the last few years, decade really, but the assessments have not. The assessments have been more stable at three percent (3%). If you look on an individual basis, that three percent (3%) is pretty clear. If you look at the category, it is increasing more than three percent (3%) only because we have new people coming into the program. That in itself is the challenge. How to give an exemption to someone who is coming in that maybe needs a higher exemption because the market value that they start the cap is higher versus not giving a blanket exemption to everyone who is in the program already, which essentially rolls them back to probably what they paid in taxes before the cap began—eight (8), nine (9), ten (10) years ago taxes. I think that is the challenge. If you have a flat or even a percent value based on applying that one tail, if you will, of the curve with the high values to the entire populous of the Homeowner and Commercialized Home Use, you are going to be rolling back taxes for people that are below what they paid when they got into the cap. I think that was one of the concerns that I think what we expressed as the Administration, was what is the goal? Is it to get back to where you began and not have any appreciation? Our concerns are obviously if the cost of government continues to increase, we have collective bargaining, we have all these services that we provide and those have gone up, our utility bills have gone up, our vendor contracts have gone up. There has to almost be a cost of inflation built in. The cap provides that. The question is, is three percent (3%) the right number? Maybe it is not, maybe it is. If that is the level growth for the most part, people in this protected category are not seeing increases in taxes beyond that assessment. In fact, we did with the lower tax rate this year, actually we rolled them back about five (5) years. When we start looking at the triggers, you have a flat...if you were to increase the flat exemption, say you went from one hundred sixty thousand dollars ($160,000) basic to two hundred thousand dollars ($200,000) basic exemption, and then had tiers up for the next ages, benefits those that are on the lower threshold because again, that flat amount coming off the assessed value has more benefit on a percent basis to properties in the lower valuation than it does to someone in the higher tiers of that valuation. If you do a percent, they all get the same percent, but someone who is on the higher tier is getting a much larger exemption compared to someone at the lower tier. On a dollar amount, those who are in the high tier are going to benefit more.

Council Chair Rapozo: Just like the pay raises for government workers, right?

Mr. Hunt: Right. Your SR-12 versus your SR-28...

Council Chair Rapozo: The entry-level person gets six dollars ($6.00) more and the upper-level person gets two hundred dollars ($200) more, it is just how this thing works. It is based on an equal percentage across the board. Councilmember Cowden.

Councilmember Cowden: I think if you did percentage on the assessed value that helps to deal with the fluctuation between what I call zip codes. When you have the assessed value, if someone had a cap for whenever it started, I have had this house for twenty-one (21) years, but if we have had an assessed cap for quite some time, your percentage is not going to be nearly as much as if your assessed value was market rate. I think particularly when we are talking about those people who are just buying a house and it is everything they can do to stretch and reach and borrow from mom, grandfather, and whoever else to buy that house, their exemption would be at a percentage would be a little bit higher. It seems to me that that is the most fair. If you do not, because then you are not going to have that problem on the bottom end, are you? I mean it seems like you would not.

Mr. Hunt: To me if you are taking a percentage, it is the same thing as playing with the rate. If you want to lower everyone at fifteen percent (15%), you lower the tax rate fifteen percent (15%). It is the same as giving a fifteen percent (15%) exemption.

Councilmember Cowden: When you give that exemption, you are going to be able to helping the imbalance of where the properties, or maybe it does not. Maybe some of these are a really expensive house in a less costly area, right? They have a much better income. I know right across the street from me, one of those workforce houses that were built for one hundred eighty-five thousand dollars ($185,000) that are about twenty (20), twenty-two (22) years old, one went on the market for one million two hundred ninety thousand dollars ($1,290,000) last week and it sold over asking within a few days. I doubt there is someone living in it. It is probably a construction company putting their workers in it. I do not know yet, I will look. That is just buying up the houses. It is not even people living there. For some of them at least in the area where I am.

Mr. Hunt: If I could put it in numbers to that. To explain where we are going on the exemption percentage versus the tax rate. If you have a one-million-dollar market value property and you want to give a thirty percent (30%) exemption to it, so that they are only paying on seven hundred thousand dollars ($700,000), so you knock off three hundred thousand dollars ($300,000) and they are paying on seven hundred thousand dollars ($700,000). If you have a dollar tax rate associated with the seven hundred thousand dollars ($700,000), that generates a tax bill of seven hundred dollars ($700), right? If you were to take the same one million dollars ($1,000,000), give it no exemption, but lower the tax rate to seventy cents ($0.70), you still end up with the same taxes, right? So the exemption has a percentage and tax rates are the same triggers.

Councilmember Cowden: Alright, I understand what you are saying.

Council Chair Rapozo: Councilmember Carvalho.

Councilmember Carvalho: You clarified that, you mentioned earlier the fifteen percent (15%), that would be across the board, right?

Mr. Hunt: Right. What happened when we took our tax rate for the Homestead class from three dollars and five cents ($3.05) to two dollars and fifty-nine cents ($2.59), it was a fifteen percent (15%) reduction in the tax rate. Essentially, it rolled back, if your property had appreciated at three percent (3%) a year, granted there is some compounding, so it is not exact. Let us just say, it was not compounded, three percent (3%) a year, you are at fifteen percent (15%) appreciation and you roll it back fifteen percent (15%), you are right back to what you paid five (5) year ago.

Council Chair Rapozo: If the value had changed.

Mr. Hunt: If you are under the cap. If you were new to the cap, you would not have received as much, well you would not have had tax because you were new.

Council Chair Rapozo: Yes, but three percent (3%)...

Mr. Hunt: You would just get fifteen percent (15%) off your tax bill.

Council Chair Rapozo: Three percent (3%) increase every year compounded after five (5) years is much more than fifteen percent (15%).

Mr. Hunt: Not that much more.

Ms. Matsuyama: Fifteen point three percent (15.3%).

Mr. Hunt: Fifteen point nine (15.9%) something, just... under sixteen percent (16%).

Council Chair Rapozo: Yes. So you are not rolling back to that.

Mr. Hunt: Almost.

Council Chair Rapozo: You are going backwards but...

Mr. Hunt: Yes. Four-and-a-half (4.5%). It is close. Even the three dollars and five cents ($3.05) to the two dollars and fifty-nine cents ($2.59) was not exactly fifteen percent (15%), it is fifteen point zero eight percent (15.08%) versus fifteen point ninety-eight percent (15.98%) or something. There is still a point, you are paying less than a percent (1%), point eight five percent (.85%) more in today's dollars than you did five (5) years ago.

Council Chair Rapozo: Councilmember Kuali'i.

Councilmember Kuali'i: It sounds like Chair is just asking to have a way of the exemptions increasing and so when we establish the basic home exemption of one hundred sixty thousand dollars ($160,000), the twenty thousand dollars ($20,000) under the age seventy (70), the additional twenty thousand dollars ($20,000) for over age seventy (70), and the income exemption of one hundred twenty thousand dollars ($120,000), those dollar amounts are put in place. When where those put in place?

Mr. Hunt: 2015, maybe? 2014, 2015, somewhere around there.

Councilmember Kuali'i: How often should we look at increasing that?

Mr. Hunt: I think what Ms. Matsuyama said earlier is when you are on market, you need to look at it all the time. If your market is jumping, that means your assessments are jumping, too. We have broken from...our assessments are not tied to market anymore. Well, they are, but they a very limited adjustment to market three percent (3%) in one direction or the other direction.

Councilmember Kuali'i: That is the reason you did Home Preservation, right? That older couple on a fixed income when their house value keeps going up and this exemption we are not keeping up to help them, then you are trying to help them with the Home Preservation. That is only if it gets so high that it is over seven hundred fifty thousand dollars ($750,000).

Mr. Hunt: Right.

Councilmember Kuali'i: There are probably people in between there that are not being helped enough with just this small of exemption.

Mr. Hunt: At the time what happened in that particular situation was the income was too low. They made too much to qualify for the income exemption which would have given them some relief where they could have paid the in lieu of the very low-income but they were well above that fifty percent (50%) of AMI.

Councilmember Kuali'i: Yes, yes.

Mr. Hunt: We needed a program that took out another outlier that did not really help with the rest of the program.

Councilmember Kuali'i: They can add the basic, the age, and then the income to get them to where they need to be.

Mr. Hunt: Correct.

Councilmember Kuali'i: Potential three hundred twenty thousand dollars ($320,000).

Mr. Hunt: Right. Someone who benefited from the three hundred twenty thousand dollars ($320,000) and potentially three percent (3%) of their income if they made fifty percent (50%) of AMI or below, this particular property just did not, none of those really benefited because they started at a much higher value and their income was much higher than what was going to qualify for these tax credit programs.

Councilmember Kuali'i: Thank you.

Council Chair Rapozo: Councilmember Cowden.

Councilmember Cowden: My question, what it is really centering on, because I am still trying to figure out as we remove Residential Investor, which is taxing what I have called a non-resident that lives here. I have a lot of compassion for that community, but where I see two (2) reasons that we tax them higher. One is we want to discourage purchasing housing for either investment, because we need the housing for different placement. Other thing is, this is a big thing to me, is they do not pay state income tax, right? State income tax is what supports our schools and our social services. What do we have in our new paradigm that is going to be making up for that? I think comparatively, somehow, in their communities, real property tax typically pays for the schools. We still need to have them help pay for our schools and social services. I do not want to hurt those people but how are we getting the money out of those people? If someone lives here in the thirty-three-million-dollar house, it is going to be different because they are going to be an occupant. I do not quite see the difference between a long-term rental and an empty house. Do we want to completely get rid of that? How are we dealing with that? If it is long-term rental, that person obviously lives here or someone lives here. How do we deal the part-time resident, how are we going to deal with that one?

Ms. Matsuyama: I think we are going to answer that one with the tiers.

Councilmember Cowden: I am just trying to see how that tier happens because you could have a really nice house and live here, right? Then you would have Homestead on that really nice house and you are going to pay with the tiers if they did live here. If they live here and they file an N-11, they are probably paying out the nose in state income tax, right? The person who does not live here, who lives somewhere else, they do not have to pay income tax. While I like the idea of getting rid of Residential Investor or at least change that name to something that is more meaningful, how are we actually addressing that with tiers?

Council Chair Rapozo: The higher value property is going to pay a higher tax.

Councilmember Cowden: If they rent that higher-value property long-term, they would still pay the same taxes as if they did not live in the house.

Mr. Hunt: I think what you are going to find, depending on where the thresholds are set, is very few properties over a certain value are going to be rented long-term.

Councilmember Cowden: Okay.

Council Chair Rapozo: Yes, I think we just discussed this...

Councilmember Cowden: That is right. So you can buy a house for forty million dollars ($40,000,000)...

Mr. Hunt: You are not going to rent it long-term.

Councilmember Cowden: You are not going to rent it (inaudible).

Mr. Hunt: Correct.

Council Chair Rapozo: Alright. That kind of deals with the exemptions. Thresholds is another thing that we are going to have to deal with. Thresholds and rates. Again, for me, I think the threshold...rather than we sit here and arbitrarily pick a number like, two million dollars ($2,000,000), four million dollars ($4,000,000) and six million dollars ($6,000,000) and just plop them up there and start tweaking numbers, again, I would like to entertain the thought of setting a percentage for the threshold based on the median assessment values across the island in that class. When budget time comes, we will discuss tax rates for the different tiers, not thresholds. Every time you tweak a threshold in this class, or this tier, it is going to affect the other—there are six (6) moving parts. You have three (3) tiers with two (2) variables. That is six (6) variables we are going to have to tweak versus getting a system in place where the threshold will be given either fixed, which I do not support. I would rather see a moving scale that is directly impacted by the activities or the actions of the market or the assessments and then we deal with the tax rates. I do not know what your thoughts on that are. I think you sold me on the fixed number for exemptions. I see your point—I think that is a better way to go, because we can control the rates. As far as the thresholds, we are guessing here, we do not know what the market is going to look like next year and the year after. If we can agree on a percentage then we can kind of have an idea where we are going to be.

Mr. Hunt: We can go through and look at some of the rates and tiers to get an idea. This is 2023. We are not even talking...we will be presenting data for you to 2024 when we actually get to decision-making on these rates. For discussion purposes, if we can kind get an idea by looking at thresholds how many properties fall within each category. If you look at Column E, which has the count, every time you change the threshold that will change. Let us take the Non-Owner-Occupied, change it to 13 because that is where Resident Investor use to be, we will get an idea of how many properties fall above and below that, right?

Councilmember Kuali'i: You do not have percentages on this one.

Mr. Hunt: I do not on this one. I have one that breaks out on the Non-Owner-Occupied Residential. I can have other spreadsheets specific to that math because that is the one that obviously that is probably going to be the biggest discussion, because we are combining the Residential Investor with the Residential. We are going to have to come to some sort of agreement on rates.

Councilmember Kuali'i: I think the percentages help because it allows us to see, like in that one, right?

Mr. Hunt: Yes.

Councilmember Kuali'i: Seventy percent (70%) of the people...

Mr. Hunt: Under a one million dollars ($1,000,000).

Councilmember Kuali'i: ...and then twenty-six (26) are in the middle and only five percent (5%) is at the top.

Mr. Hunt: Correct.

Councilmember Kuali'i: That means you really pinpointing the highest rates for a very small amount of people that are at the top, right?

Mr. Hunt: Correct.

Councilmember Kuali'i: The percentages are helpful I think for all categories.

Mr. Hunt: When we get down to providing this in the future...

Councilmember Kuali'i: Tier 1 changed to one million three hundred thousand dollars ($1,300,000).

Mr. Hunt: We moved it to one million three hundred thousand dollars ($1,300,000), yes, just now.

Council Chair Rapozo: No, your Tier 1.

Mr. Hunt: Yes. Anything one million three hundred thousand dollars ($1,300,000) and below. Once you move this second tier...

Councilmember Kuali'i: Okay, I got it.

Mr. Hunt: Yes. It becomes between one million three hundred thousand dollars ($1,300,000) and two million dollars ($2,000,000).

Councilmember Kuali'i: Now we have seven thousand two hundred (7,200), so that is like...

Mr. Hunt: Right. You notice on Column G, the red number, the nineteen million dollars ($19,000,000), that is still revenue lost, because we basically said that the rate has not changed. We have the rate set at the current residential rate for all properties including...

Councilmember Kuali'i: The rates would not all be the same necessarily?

Mr. Hunt: No. That is where we would actually be...

Councilmember Kuali'i: We would be having tiers, right?

Mr. Hunt: Correct.

Councilmember Kuali'i: Add ten cents ($0.10) to each one. That is all the reasons you see a difference.

Councilmember DeCosta: You have your accounting cap on.

Council Chair Rapozo: Hold on. Someone is going to have to type this and you folks are all talking over each other. Please, one at a time, Councilmember Kuali'i.

(Councilmember Kagawa was noted as not present.)

Mr. Hunt: This is one I specifically carved out just for the Non-Owner-Occupied. There is a blended rate, so you can actually see when you are putting the threshold amount and the rate where that break-even begins. In this case, for one million dollars ($1,000,000) and below, everyone pays the five dollars and forty-five cents ($5.45), but as you set the rate to nine dollars and forty cents ($9.40), you do not actually hit nine dollars and forty cents ($9.40) until you are almost over seven million dollars ($7,000,000). Anyone who was formerly in Residential Investor, until they get to seven million dollars ($7,000,000), they will actually be paying less than they did under Residential Investor. Now, granted there is going to be people that were in the Residential class, not the Residential Investor that are going to have properties above one of the thresholds, they are going to be paying more. That is sort of the blending of the rates, if you will. It is no longer a cliff, it is feathered-in and depending where you set the threshold and the rate, you will see that as a blended rate as though it were a flat rate for the entire amount.

Council Chair Rapozo: Getting back to my original question about the threshold being fixed or percentage, what are your thoughts?

Mr. Hunt: I think it has to be a fixed number, but that fixed number could be based on a certain percentage of properties that it equates to. If we want to have fifty percent (50%) of the properties be in the first threshold, whatever that rate ends up being at the fifty percent (50%), then that becomes the threshold for the first one and if we want to encapsulate the next up to eight-five percent (85%), ninety-five percent (95%), what does that equate to, so that you are only having ten percent (10%) or less on that final tier, that could be one way to approach it.

Council Chair Rapozo: Yes.

Ms. Matsuyama: I think as much as you put in ordinance is going to reduce your flexibility later on, right?

Council Chair Rapozo: Our flexibility comes with rates.

Ms. Matsuyama: Right.

Council Chair Rapozo: Not thresholds. That is what I want to avoid. Imagine if we had to pick thresholds and rates, seriously. Seven (7) councilmembers who all have different ideas of what the threshold should be. The thresholds should be set by the market or the market actions, and that way the threshold will be set based on the formula that we decide on.

Mr. Hunt: Personally, I do not think tiering every class is necessary either.

Council Chair Rapozo: Right.

Mr. Hunt: You might want to focus on a few and then...

Councilmember Kuali'i: Chair, you are saying that we could pick percentages like we wanted...

Ms. Matsuyama: Maybe we should go to—sorry, I am cutting off. Maybe we can go to the Owner-Occupied, because we have these values right here. I think that Council Chair Rapozo is saying is you take this...

Mr. Hunt: Four hundred nine thousand four hundred dollars ($409,400)...

Ms. Matsuyama: Yes, median taxable value and let us say, one hundred twenty percent (120%) of that is going to be your first tier. And then you say...

Councilmember Cowden: Times two (2).

Ms. Matsuyama: Two hundred percent (200%) is going to be your top tier and then you would, let us say this goes back to three dollars five cents ($3.05) and you could keep it the same, which, I think what Council Chair Rapozo is saying is to put it in ordinance to say that the first tier is going to 120% of, and then...

Council Chair Rapozo: Yes. This will prevent what happened with Residential Investor. People went to sleep and their properties were valued in Residential and then it jumped to Residential Investor, right, because the assessments went up?

Ms. Matsuyama: Yes, but this would have the feathering-in effect, right?

Council Chair Rapozo: Yes, and somewhat of a predictable future for...versus waking up and "Oh my God!" Although it is not as impacting as Residential Investor, because it is tiered, so you will only pay the difference. It is going to be as much more palatable. Again, for me I rather not have to sit here and do...it is not being lazy, it is just that it is going to make it twice as complicated when we have to figure out rates and thresholds. Again, one point, you folks had the whole thing, right? You folks did the two million dollars ($2,000,000) and then "oh, let us drop it to one million three hundred thousand ($1,300,000)," just arbitrarily. It had nothing to do with the market. It was just let us just drop it to one million three hundred thousand ($1,300,000) and it crucified a lot of people. The intention was not bad. Sounded good, but if this fluctuates, I mean, and moves with the assessments, then maybe it is a lot easier to deal with.

Mr. Hunt: I was asking Mr. Hubbard whether the assessment notices are going to print the tiers. Are you using prior years' information to help set the tiers for the current year, because it becomes circular? How do you know...you have not certified the values, you have not gotten all this, so how do you sort of adjust...

Council Chair Rapozo: You would have to use the last...

Mr. Hunt: Prior years.

Council Chair Rapozo: Correct. You would have to use the prior year, and again, that will set the threshold, which we would manipulate the rate. The threshold would be determined and it would be set on the best information we have which is the prior year's assessments, right? Again, I am thinking out loud because this is a workshop. Obviously, you are not going to hurt my feeling if you disagree. I am just trying to figure out what is the best way to get through this in the fairest way possible. Councilmember Bulosan.

Councilmember Bulosan: Circling back in Bill No. 2900 that we are looking to propose, you are giving the Council the ability to adjust the threshold? Okay. I am echoing from a different perspective. I agree where Council Chair Rapozo is going with this, not just to go on the side of things. Timing-wise, when you folks come to budget and we are fumbling with this, philosophically, I am trying to figure out what parameters do I create for threshold and then create for tax rate. It is really hard to hold both at the same time and adjust accordingly. It is wonderful to have the flexibility, but at the same time requires way more knowledge to then decide the threshold and the tax rate.

Ms. Matsuyama: Yes. I still think that at the time you are going to be equipped with that knowledge. Right now you are going to set a percentage and probably the percentages are going to be different by tax class. So, you are going to be setting a percentage that you do not even know if you are going to tier that tax class or not, right? We would set the percentage now and rates would all be the same and that is how you would effectively not tier it. I am assuming that your Owner-Occupied percentages would be different than your Non-Owner-Occupied or Vacation Rental. They are all going to be very different. You are not going to use this two hundred percent (200%) and one hundred twenty percent (120%), you are going to use something very different. I think also right now you might want to look at the counts to see how many people you are affecting and you would not be able to manipulate that every year if you set the percentages. I am throwing things out there because...

Mr. Hunt: I think ultimately, too, we have to balance the budget. The Administration is going to come in with recommendations and then if you disagree with the recommendations, then you can potentially move the tiers or rates.

Council Chair Rapozo: Right. It is no different than what happens now.

Mr. Hunt: Right.

Council Chair Rapozo: Like I said, for every class you get six (6) variables with this system and it is going to be very hard to come to consensus, I think. I could be wrong.

Councilmember Cowden: I want to say, I like the one hundred twenty percent (120%) times the median, but we will remember if the valuation of the houses goes down, the people with the caps are going to be a little adversely impacted. I think that is a valuable way to start and if it was up to me, I would not make them all the same. I would start with a formula so that we are going to be kind of shifting, so it does not just look like there is no "teeth" in it. I want to ask you which of the classes do you think makes sense to tier? I can think of probably four (4). Which ones would you be inclined to tier?

Ms. Matsuyama: I cannot speak because we have not really discussed any of this. Vacation Rental might be one, Commercial would be another, and this one, the new combination of Residential Investor.

Councilmember Cowden: Yes, to me I think the Non-Owner-Occupied Residential, Owner-Occupied, Commercial, I think because you want a little Hanalei liquor store not to be charged the same amount as the big box store. I would think Commercial, both or all three (3) classes where people live in and I think the other thing that I just wonder, just asking, is Resort? If you have something little like the Coral Reef Motel versus a very large, I do not want to single out any particular property, but a property with a brand name that is international. You know, where they have a very big piece. Maybe that would be the Hotel and Resort would be.

Ms. Matsuyama: You look at these counts now, there is almost three thousand (3,000) parcels, right, out of the three thousand five hundred (3,500) that are under a million dollars ($1,000,000).

Councilmember Cowden: Are those condominiums?

Mr. Hunt: CPRs, yes. So they have taken either timeshare units or even sometimes hotel rooms and created an individual CPR, so they get a separate assessment.

Councilmember Cowden: Condominium Property Regime, so CPR.

Mr. Hunt: Yes.

Councilmember Cowden: Okay.

Mr. Hunt: The aggregate may be a large value, but the individuals are going to be small.

Councilmember Cowden: I am no expert in this area. I am just saying when we look at having tiers, how we can protect the shave ice stand from something that sells something with an average selling price of quite a lot of money. There is a big variance in business.

Council Chair Rapozo: I think that the issue with the commercial, and I know Councilmember DeCosta brought it up when we had a discussion with budget and I know that the Mayor had the same concerns, was the fact that the owner gets the benefit and it does not always necessarily get passed on to the tenant. I am not sure how we do that. That is what this workshop is about, to figure out how to balance and equalize that. We cannot mandate that the landlord pass on the savings to the tenant. There is no way we can do that. Councilmember Bulosan.

Councilmember Bulosan: I just want to follow up on that. It is one that is stuck in my head, that thought process, and at the same time small business here in Hawai'i is the hardest place to do business. A lot is from tax and this is the only place where we can as a County have an effect in a positive way. I would advocate for a tier system just with the fact that we want to encourage small business somehow. How we do that is still in this discussion.

Council Chair Rapozo: I have these great ideas, but it requires manpower. If you were landowner, you come in and prove you are passing on the savings on to your tenant or you have a lease with the tenant, whatever, but that is a nightmare for you folks and I realize that. Councilmember Kuali'i.

(Councilmember Carvalho was noted as not present.)

Councilmember Kuali'i: Can you show the Non-Owner-Occupied again where you have the percentages? And you have the three (3) different rates there, right? Which is five dollars and forty-five cents ($5.45), nine dollars and forty cents ($9.40), and ten dollars and forty cents ($10.40).

Mr. Hunt: Yes.

Councilmember Kuali'i: You show that column on the right, right? You said something about...

Mr. Hunt: The blended.

Councilmember Kuali'i: All the way to seven million dollars ($7,000,000). Why could we not do the same thing to set the rates for the other categories, and go backwards by saying, "As a policy value, we want to include the biggest amount—seventy (70%), seventy-five (75%)—in Tier 1?" So most people, and everyone is paying that anyway, even the ones paying higher, right?

Mr. Hunt: Yes.

Councilmember Kuali'i: The cliff that you are avoiding. You are going to pay that amount, right? Most people would be paying the lowest amount, seventy percent (70%) and then twenty percent (20%) for Tier 2 and five percent (5%) for Tier 3. If we took those percentages right up there in the left column and then backed it in by going back to this column, you could come up with rates for every category, right?

Mr. Hunt: Actually, those rates on the side are determined by your tiers and your rates, so you cannot go back the other direction.

Councilmember Kuali'i: But you started with just five dollars and forty-five cents ($5.45) and then you went up, up, up, up, up, up.

Mr. Hunt: Ms. Matsuyama, if you want to go change the nine dollars and forty cents ($9.40) to...

Councilmember Kuali'i: All you need is a starting rate.

Mr. Hunt: So, seven dollars ($7). See how all the blended rates change now.

Councilmember Kuali'i: We have rates now, right? That could be the starting rate? How did you come up with the five dollars and forty-five cents ($5.45) for one million dollars ($1,000,000)?

(Councilmember Carvalho was noted as present.)

Mr. Hunt: Again, just for example, this is not a suggested rate. We took the five dollars and forty-five cents ($5.45), because that is what the current Residential tax rate is.

Councilmember Kuali'i: Yes. That what I am saying. You have a starting point.

Mr. Hunt: Yes.

Councilmember Kuali'i: If that is what the current rate is, you put it in for that category...

Mr. Hunt: Yes.

Councilmember Kuali'i: You run this whole column there and now you have all these increasing rates, increasing rates, increasing rates. You go to the left here, you see the percentage. You say I want seventy percent (70%) to be in Tier 1 and then you go around there and you get to seventy percent (70%). When you go to your total pool and you can back it in that way is what I am saying. Which is also on market value because that column is market value, right? That third column before tax rate? Five million eight hundred thousand dollars ($5,800,000), six million dollars ($6,000,000), six million two hundred thousand dollars ($6,200,000), that is the assessed market value.

Mr. Hunt: Yes. That shows what the tax rate would be for that particular value. If you had this value, this is what it would equate to as a flat tax rate.

Councilmember Kuali'i: Yes. When you know the value, you put it into that column and you can go backwards, once you have the starting amount.

Mr. Hunt: Right. That blended rate that you are trying to come up with, you have to kind of know what that is. I mean if it is the seven dollars and thirty-one cents ($7.31) is the effective rate for the entire category, then you have to have that as your target, I guess.

Councilmember Kuali'i: You came up with it for this category, right? The blended rate...

Mr. Hunt: The blended rate takes the property that is at the threshold and it calculates that times the first rate, plus how much over that incremental is relative to the value and calculates that difference. That is how you get the blended rate. It is like a weighted average of the taxes.

Councilmember Kuali'i: How is the blended rate affecting the five dollars and forty-five cents ($5.45), nine dollars and forty cents ($9.40), and ten dollars and forty cents ($10.40)? I thought you were getting it from...

Mr. Hunt: No, it is the opposite. The rates affect the blend. Not the blend affect the rate.

Councilmember Kuali'i: That is so that you know you are getting the revenue you need?

Mr. Hunt: Right now, we are not four million seven hundred thousand ($4,700,000) short of what we got from fiscal 2024.

Councilmember Kuali'i: Yes, but not quite this category alone, that is total, right?

Mr. Hunt: Just this category alone.

Ms. Matsuyama: Yes, these two (2) categories are combined.

Councilmember Kuali'i: Okay.

Mr. Hunt: So we used to get seventy-five million seven hundred thousand dollars ($75,700,000) between the two (2) categories, Residential and Residential Investor, now we get seventy million nine hundred thousand dollars ($70,900,000).

Councilmember Kuali'i: Is it going to take an additional year for us to stable out since this is representing bringing two (2) categories together after one (1) year?

Mr. Hunt: It depends on what the goal is. If we can absorb a two million dollar ($2,000,000) or three million dollar ($3,000,000) loss collectively...

Councilmember Kuali'i: Yes.

Mr. Hunt: Can either absorb through the budget or absorb by increasing rates and tiers in another category to offset it. Those are the options, right.

Councilmember Kuali'i: So this exactly you gave us is an example that loses four million seven hundred thousand ($4,700,000) in revenue?

Mr. Hunt: If we use these thresholds and these rates, correct.

Ms. Matsuyama: Councilmember Kuali'i, can I ask a question? Are you trying to get to the percentages?

Councilmember Kuali'i: Yes. As a policy value, right? You can say we want seventy percent (70%) to be in Tier 1, twenty percent (20%) in Tier 2, and five percent (5%) in Tier 3. Then, using that other market value column, that is how you got to the rate of nine dollars and forty cents ($9.40), and that is how you got to the rate of ten dollars ($10). I am just saying you could reverse the numbers and get to the rate, especially if you have that starting rate, right? If five dollars and forty-five cents ($5.45) per million is already a starting place.

Mr. Hunt: I think if you set the thresholds first and you set the policy of how much revenue, whether it is break even or revenue loss you are willing to absorb, then you can play with the rates after the thresholds have been set. I think that is the process that you would go through.

Councilmember Kuali'i: If what Council Chair Rapozo was saying, because I am fine, I am good with numbers, I am fine with every year having to establish the rate and the thresholds. I can do the math. But if the Council wants to put a formula, like a way that you talked about that percentage earlier, a formula in place so that it is tied directly to the market, which we should do every year anyway, could that be written into the bill? Whatever that formula is to tie to the market.

Council Chair Rapozo: If you are saying seventy percent (70%)...

Councilmember Kuali'i: That is just a policy...

Council Chair Rapozo: Let us say the Council wants seventy percent (70%) to be in Tier 1. We are not saying rates. We are saying we want seventy percent (70%) of the people in...no, this is not owner-occupied, whatever. We would take the again, you would go to your net taxable assessments and then take seventy percent (70%) that would be your threshold.

Councilmember Kuali'i: I am just saying seventy (70%) of the payers.

Council Chair Rapozo: Right.

Councilmember Kuali'i: Of the taxpayers.

Council Chair Rapozo: Correct.

Ms. Matsuyama: It is just another way of codifying the thresholds.

Council Chair Rapozo: Whether we come here every year and say we want seventy percent (70%), we do that calculation here or you set it up that way so that it will automatically happen? We get handed the seventy percent (70%).

Councilmember Kuali'i: We could establish those percentage breakdowns differently for the different categories based on policy values.

Council Chair Rapozo: Absolutely.

Councilmember Kuali'i: The same way we would establish rates, right? But instead of trying to come up with dollar amount thresholds, we would say how much should be in Tier 1, Tier 2, and Tier 3, then go back to the market and see where the market is and take the first seventy percent (70%) and put them in Tier 1, and take the next twenty percent (20%) and put them in Tier 2, and the top five percent (5%) which is going to be the top, and then we know at least value-wise, we have broken it down like that. Now we can go back in and also value-wise, establish the rates for those different categories.

Ms. Matsuyama: I think it is a matter of if you folks want to codify the percentages? Or if...

Council Chair Rapozo: No, no. I am not saying that. I do not want to codify that.

Mr. Hunt: Maybe resolution with a recommendation with comments in percentages.

Councilmember Kuali'i: Yes, we could do that really...

Council Chair Rapozo: I am trying to get away from having to amend a law. That is just ridiculous.

Ms. Matsuyama: Okay.

Councilmember Kuali'i: Yes. And we could do that soon after October. We do not have to wait for budget to start working on what that resolution would be.

Ms. Matsuyama: Yes, I mean...

Councilmember Kuali'i: The budget does not start until March. You have plenty of time.

Ms. Matsuyama: What is going to have to happen is March 15th, Mayor's submittal, that is going to come over with Administration recommendations, but prior to that, I mean, we are going to be sitting with you folks to say, "What is your direction?"

Council Chair Rapozo: It is 3:40 p.m. What I want to do is actually have another workshop. It want to have another day that we can actually—I am not...sure how if you folks are able to come over with some recommendations or with some figures in this.

Ms. Matsuyama: For tiers.

Council Chair Rapozo: Yes, for tiers. I do not know if you folks are at that point yet. We do not know what the budget will be.

Ms. Matsuyama: Yes, it is kind of hard, because this is all old data. It is all last year's data. The valuation is not set yet for next year.

Council Chair Rapozo: Go ahead.

Councilmember DeCosta: Yes. It is not rocket science; whether it is old data and old rates, we want to make sure that we are not going to raise taxes on the seventy percent (70%) of the people that fall into that tier. We do not want to raise taxes for the poor and middle class. That is pretty much what it basically is. That is what we are seeing right now. I hate to categorize it, but it is the truth. That is why we are having this workshop, right? When we do our numbers and plug in our numbers, we want to make sure the people, these assessed valued homes that is one million dollars ($1,000,000) or one million three hundred thousand dollars ($1,300,000), is not going to pay any more taxes. They will be okay with paying the same that they were paying. The ones that are higher than that, up to the two million dollar ($2,000,000) threshold, we are going to make sure that they are not paying that much more than they are already paying now. It is not that much more of an assessed value. If you are talking about the homes that are over three million dollars ($3,000,000) or ten million dollars ($10,000,000), or whatever, we have some expensive homes on the island, do we really care what taxes they pay? Do they care what taxes they pay? They have money to pay, I am sure they can pay more taxes than the poor family has to pay. That is what I am saying. I know I pay my fair share of taxes on ten (10) acres. I pay almost five thousand dollars ($5,000) in taxes. It is right, that is making sense, right? That is pretty much what we want. Work these numbers, so we can have a balanced budget so we can take care of services and our CIP projects without gouging our taxpayers and keeping the low and middle class people paying what they were originally paying and give them a great rate and if we need to tax the rich, we are going to tax the rich. I hope the people sitting in the stands are not the rich people. If you are, I am sorry.

Councilmember Kuali'i: I think if it is the top five percent (5%), you could probably say it is the super-rich.

Councilmember DeCosta: I know about three (3) of them who live on this island (inaudible) one percent (1%) they can pay for everybody.

Council Chair Rapozo: We still will be talking about Residential, there is still Commercial and still Agriculture, there are so many categories that I wanted to touch base on. I know there are, and I wanted to really cover, and I do not want to get into that today because we are running out of time, but I did want to talk about what Councilmember Cowden talked about. Some of these large landowners paying very little tax. I would like to have a better understanding of how that is happening, I mean parcels that are agriculture and anyway...I want to have more discussion on the other classification as far as the tiers go and where we would want tiers, where we can we do without tiers? We do not need tiers in every single class. Another thing I wanted to finalize, because at some point we have to draft a bill...I am not sure if you folks are going to be drafting...Bill No. 2900 or Steve's Bill or whatever it is. Steve's Bill already went through the repeal. We are going to have to have a new bill that is going to identify and specify what we are going to do. I want to get some clarity on what exemptions or programs we are going to keep and get rid of. I think we identified some today that we have absolutely no use for on the paper mills and all of that. I mean why, my God, why is that even in the books?

Councilmember Cowden: I think Council Legal Analyst, will have it finished by tomorrow morning.

Council Chair Rapozo: Councilmember Carvalho.

Councilmember Carvalho: To clarify, I would like to hone in on the Residential part of it and maybe we can develop a process and a template. That is what I am hearing, right? We can go all over the place with the numbers and all that. There is much more to do also. I am trying to make sure we are on the same page for the Residential part.

Ms. Matsuyama: I think so. I mean I hesitate to do this on the floor with old data before...if Bill No. 2900 is going to go through as-is, then really, there is really no need for this, honestly, until we get to budget time next year.

Councilmember Cowden: Oh.

Ms. Matsuyama: Then we will have current data, right?

Councilmember Kuali'i: After October.

Ms. Matsuyama: Yes.

Council Chair Rapozo: I kind of want to have at least an understanding of where out councilmembers are as far as how they want to treat the different classes. What I do not want is to be rushed during budget time.

Ms. Matsuyama: Oh yes, yes.

Council Chair Rapozo: You know, whether I think it is just, okay, if it is the seventy percentile (70%) that is going to go into Tier 1 and Tier 2, and I really want to have that discussion and see at least where we are at so we have a starting point. This is some heavy-duty stuff that we have never seen in this County before and I hate to have it drop when the budget comes and then we are tweaking things. I think if we can set the policy of where we want to be on this class...Some classes, like I said, may not need tiers. I would love to identify that before—I would have an argument should we tier this or not in March.

Councilmember Kuali'i: We can do it in November.

Ms. Matsuyama: I kind of manipulated the Owner-Occupied tiers to reflect seventy percent (70%) and five percent (5%). I mean obviously it is not one hundred percent (100%). Obviously, I did not really touch these rates, but we also have in here a breakdown of actual (inaudible) property so you can see what we just did to all these properties. You can see by property, if they are under the first threshold, their rates are still going to be the two dollars and fifty-nine cents ($2.59). Then you have some higher-value properties here and their rates are going to be higher. You can kind of see by property within this spreadsheet, and then there are summaries for each tax class here, as well.

Councilmember Cowden: Council Chair Rapozo?

Council Chair Rapozo: Go ahead.

Councilmember Cowden: What I think is really is important and what I would like to see is that we move on it quickly. My experience being in this job, two (2) years is not very long and there are all kinds of changes in the Administration.

I would like to be moving forward on this before we have significant changes in the Administration, because we could be potentially talking to different people, I mean, certain positions in the Administration, than we start this conversation three (3) months from now or four (4) months from now and we have different people at the table. I think that that is a problem. These folks gave us a really good explanation of all these tiers, but that was in the last Council. Sort of like we have review it, review it, review it, and I think it is a mistake to push it out five (5), six (6) months, or seven (7) months. Certainly right before next to budget. I think we can get closer.

Council Chair Rapozo: I think today presented a lot of good information and at least I think we understand where we are at and what we need to do. Are there any other suggestions?

Councilmember DeCosta: It is fresh in my mind. It is like going to school, right? You just got an education briefing and take the test. I do not want to waste three (3) months and then take the test later. I agree with Councilmember Cowden. I would like to keep this going. I want to add a little bit to what Council Chair Rapozo said about our agricultural land and why we sit on this agricultural lands that are so cheap and large parcels, we have some large landowners with large parcels of land. We have to remember that we built that monster and it is a monster because we do not allow development in rural areas. We are the only island that do not allow landowners to subdivide more than once. These landowners and our General Plan says that we do not want urban sprawl in rural areas. We do not want to look like Maui, we do not want to look like Oʻahu, we want to look like Kauaʻi. Who can really live on Kauaʻi right now? I will tell you who can live on Kauaʻi. It is the very wealthy who can afford to live here, not our kids. One of my friends who sits back there, told her son there are only sixteen (16) homes for sale for one million dollars ($1,000,000) or less. Sixteen (16) homes and everything else is over one million dollars ($1,000,000). As a school teacher, I am not qualified for a one million dollar ($1,000,000) loan. What is ten percent (10%)? One hundred thousand dollars ($100,000)? I do not have ten thousand dollars ($10,000) in my bank account. Who has one hundred thousand dollars ($100,000) to put down on a house? Even five percent (5%)—that is fifty thousand dollars ($50,000) for a one million dollar ($1,000,000) house. Who qualifies for that loan? What I am trying to say is that we do not allow our large landowners to develop their land or cut their land, or subdivide their land more than once, there is not going to be a supply, it is done. And those large landowners who will not cut their land at one time, they do not know what they will do with their land. They are so nervous that "I have one shot to do this land management project." It is bigger than just sitting here and talking story, we have some big decisions to make.

Council Chair Rapozo: That is the next workshop.

Councilmember DeCosta: I know we are not going to plan it, but it is all true what I said.

Council Chair Rapozo: I think that it just another workshop. Administration, do you have any suggestions as far as how we are moving forward? Again, thanks for being here today, we all really appreciate it. I want to have one more session here, it may not be the whole day, but just at least wrap up what we are trying to get a general consensus of what we are going to hit going forward as far as the classes and I do not know what you folks think.

Councilmember Kuali'i: Maybe if we can go through this stuff further, if we have any further questions, we can send it to them and they can bring it next time. Then maybe also we could share, is it an Excel spreadsheet?

Mr. Hunt: Yes.

Councilmember Kuali'i: So we can play with it ourselves.

Councilmember Cowden: Yes, that would be nice.

Mr. Hunt: Make sure it is one that we cannot mess up.

Councilmember Kuali'i: It would be our own copy. We cannot share ours.

Council Chair Rapozo: I want to ask that those of you that stayed all day, if you did want to come up and testify based on after what...I know I told you folks we would only take it upfront, but being that you folks are the iron women and iron men here, if you folks did want to come up and share, please come up and...

Councilmember DeCosta: Your constructive *mānā'o* would be very worth it right now. I have seen a lot of eyebrows, and winking, and nodding, you folks have some stuff going down. You have to state your name again.

Ms. Schemp: Alright, my name is Heidi Schemp and I did write a couple of notes down at a certain point. One thing, can we have more than three (3) tiers? Sometimes when I am looking at those tiers, it just does not seem like enough of a breakdown. She is right, one million dollars ($1,000,000) right now for a house is nothing, so having Tier 1 at four hundred eight thousand dollars ($408,000) for Owner-Occupied is like every single person that would buy a house from now to eternity would automatically be put in Tier 3, That it is either going to fall off the rails, I feel. The other thought was if one tax class is owner-occupants, then what is the point of having to do that tax exemption to lower the value one hundred sixty thousand dollars ($160,000), because everyone in there is Owner-Occupant, right? It would get rid of that paper that we would have to do, but the exemption would be not necessary, right? I was really excited about the thought of the historic building for commercial properties with retail. I think a lot the value of having our towns look like old Hawaiian towns, it is usually the shopping centers. I think of downtown

Kapaʻa, I think of Hanalei, I think of Hanapēpē, Kōloa Town, right? That is where I really see the historic value of keeping things looking really...like when people come to visit, they are like, "Your towns are so cute!" I mean you have a little bit of that going through a neighborhood and Hanalei is a good example of maybe a few houses over there, but for the most part is people see that value in the commercial space and those are open, you know. You go to the old Hanalei School where the surf shop is and you go, "Oh wow, this is a school back in the day." Allowing that to keep going and flourishing, I think fully needs to be incorporated into this plan. A question was when we were talking about the cesspool to septic conversion, and we are talking about homeowner values and having it reset, I believe you have to go into the Building Division and get a permit for that septic conversion. Is that going to reset people's property values? If that is, that is going to be a huge problem coming down because everyone is going to have to do it.

Council Chair Rapozo: Yes.

Ms. Schemp: And, she is a monster. One more thing, when we were talking about credit unions being on beachfront or oceanfront, maybe instead of lowering their tax rate to three hundred dollars ($300) or whatever it was, maybe we do a percentage. I want to encourage them, but zero ($0) would not be a good plan either.

Council Chair Rapozo: Thank you. The one million dollars ($1,000,000) that we saw was not a proposal.

Ms. Schemp: The what?

Council Chair Rapozo: The one million dollars ($1,000,000) that we saw on Tier 1. That was not a proposal. I want the public to understand that that was not the proposal. That was for demonstrative purposes. We are not even at that point yet. I do not want the people freak out that everybody is in Tier 3.

Ms. Schemp: Yes.

Council Chair Rapozo: Yes, that was not a proposal.

Ms. Schemp: Okay.

Council Chair Rapozo: Not yet.

Ms. Schemp: Is there anything else?

Council Chair Rapozo: Thank you.

Ms. Schemp: Alright.

Council Chair Rapozo: Anyone else?

AMY FRASIER: I think when we spoke earlier before you talked, we all said one thing that is very confusing. I understood everything until we got to the tiers. I do not even know how to explain that to someone else. What I get the most worried about is that we cannot control the market at all, none of us can. If you throw out arbitrary numbers for tiers, even if you cannot control them, but there are some things we cannot control when you fall into them. I am really comfortable with Homestead, we have a lot of things to protect people who own their homes. It seems like we have done a great job on that. We also know going forward, people who are from here cannot afford to buy homes. Most of them are going to be renters. How are you going to protect that class going forward? When there are only sixteen (16) homes on the market under one million dollars ($1,000,000) and they are all close to one million dollars ($1,000,000), then we know where their new assessed values are going to go. How do you protect the person who has a long-term rental that is not in the affordable rental program to offer a long-term rental? There are one thousand five hundred (1,500) homes in the long-term rental program and those will stay in that program because they are protected by the cap. There is no incentive at these new assessed values to put a home in a long-term affordable rental program. At the current valuations, it does not makes sense. You have to be careful that you are creating a monster that were protecting Homestead, we have that down, but now anyone who not in Homestead is going to be at risk at whatever their market value is and we cannot control that. Homes in different segments of the market are worth more than others, but even areas that did not see that kind of value increase will continue to go up. As these go up, everything follows. We might sit there and say today that we are good in Hanapēpē. It is not like the North Shore, but the reality is we could right back here talking about values in Hanapēpē have skyrocketed because it is still affordable for some people a million dollars ($1,000,000) and one million five hundred thousand dollars ($1,500,000), but not necessarily for the people who grew up here. I still think there is something we are missing that is not this idea of, "Oh, they are wealthy, they can afford it." What about the people that live here that do not already own and do not qualify for Homestead? They will not even afford to rent. That is where my concern is. They will not even afford to rent. We are not going to see that one thousand five hundred (1,500) in long-term affordable housing go up with the kind of values we are seeing. I think there should be a cap offered to people who are offering long-term rentals.

Council Chair Rapozo: I do not know about a cap, but one of the ideas is tiering for Non-Owner-Occupant for rentals.

Ms. Frasier: Every year are you going to pick a number that we think the majority of long-term rentals that are less than two million dollars ($2,000,000), so we will pick that? How do you do that?

Council Chair Rapozo: We have to do something. The problem is we do not want everyone jumping out of the affordable program and getting into the second tier...

Ms. Frasier: No, affordable is good. Most people that are in there, why would they ever leave because they have the protection of the cap...

Council Chair Rapozo: Right.

Ms. Frasier: ...with these rising values. How do you incentivize people?

Council Chair Rapozo: If we incentivize for non-affordable rentals with a cap, right? Then you are saying we should put a cap.

Ms. Frasier: I am just saying why would someone who has to buy a property at over one million dollars ($1,000,000)...there is no incentive to offer a long-term rental.

Council Chair Rapozo: The tiers will be an incentive.

Ms. Frasier: The tiers will be controlled by value.

Council Chair Rapozo: No, you suggested or asked that we put a cap for long-term rentals that are not in the affordable range. That is what you just said.

Ms. Frasier: What I understand from what we were looking at, the long-term rentals and homes that sit vacant...they are just second homeowners, are going to be in the same category, right?

Council Chair Rapozo: Correct.

Ms. Frasier: The rates are set by value. In our mind, we might think that, "Oh, someone at one million five hundred thousand dollars ($1,500,000) can afford a little bit more than this category." But the problem is that we cannot control the values. There are a lot of homes that are long-term rentals that are two million dollar ($2,000,000), three million dollar ($3,000,000) homes. It is just the reality. If all of a sudden, there is no incentive...right now if you are long-term rental, you stay in the Residential rate versus a Residential Investor. As long as you are prove that you are doing a long-term rental, you save about thirty percent (30%) in taxes, where once this goes away, you do not have that incentive. You hope that your property value stays low enough and you do not get thrown into different tiers depending on...it is hard to comment on because we do not know what those tiers are, but you hope that whoever is deciding on the tiers that year understands where the market is at.

Council Chair Rapozo: Yes. Again, I think the tier system, the homeowner is Owner-Occupied.

Ms. Frasier: Yes, that one is good.

Council Chair Rapozo: That one is good. When you are looking at the Non-Owner-Occupied...

Ms. Frasier: Right. Most of our people who live here are renters.

Council Chair Rapozo: Right. We set a tier, again, the low-income will go...they get the same benefit as the homestead or home exemption. The people that are renting out, basically they will in Tier 1, if they are long-term rentals and maybe market rentals.

Ms. Frasier: Long-term rentals will always divert to the lowest tier within that category?

Council Chair Rapozo: No. What I am saying is that we will have the opportunity to set the tiers based on the rentals. If you have a long-term rental and, I am guessing, we are not there yet... One of the thoughts I had prior was that we would provide an incentive for the gap market. I am not talking about the folks who are renting their house out for ten thousand dollars ($10,000) a month, I am talking about the ones that are trying to cover their three thousand dollar ($3,000) mortgage because that is what four thousand dollars ($4,000)... there is a need for gap housing. There is no need just for the low-income.

Ms. Frasier: Yes, I guess we did not talk about that today. It made me feel like anything that is at a certain value would be tiered up.

Councilmember DeCosta: That is what you are bringing up. You are bringing up the gap and Council Chair Rapozo is saying we are going to address that gap. I made a comment in a few meetings before, but we do not have gap housing. We do affordable housing, low-income housing, and one hundred twenty percent (120%) AMI housing, eighty percent (80%) AMI. We do not do the housing for the doctor, police, school teacher, and marriage. We do not do that...we have to do that. I can see we need to do that for the rental unit also.

Ms. Frasier: Right.

Councilmember DeCosta: Council Chair Rapozo would think that possibly tiering the assessment value of that home, the three-million-dollar home, I do not know if a school teacher or police officer can rent that home. Maybe they can rent a two million dollar ($2,000,000) home or the one million seven hundred thousand dollar ($1,700,000) home.

Council Chair Rapozo: I do not know. Again, that is one of the things we talked about with the tiers. We have that opportunity to target the relief where we want it to be. This is Day 1.

Ms. Frasier: Yes.

Councilmember DeCosta: We appreciate you and your friend staying the entire time. That was really awesome.

Council Chair Rapozo: Is there anyone else wishing to testify? If not, I call the meeting back to order. Is there any final discussion? Go ahead Councilmember Bulosan.

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

Councilmember Bulosan: This is amazing. I think one of the challenging parts about trying to make this fair at the same time making sure that we provide the services that we already do. There is not a lot of flexibility and looking at this possibility is allowing us to do that and address things that we were not aware of. I would be for another workshop that is a little bit more focused that allows us to look at some of the things we discussed today.

Council Chair Rapozo: Is there anyone else?

Councilmember Cowden: I am for another workshop in the not too distant future.

Council Chair Rapozo: I am sorry?

Councilmember Cowden: In the not too distant future. I do not want to until late fall or next winter. I want to do it before September.

Council Chair Rapozo: Councilmember DeCosta.

Councilmember DeCosta: I actually gathered a lot and not just from this workshop. I learned a lot from our constituents. Listening from Mr. Pratt and I had a call from Mr. Chipper Wichman and even the Ho'okano's, they are really worried about their family legacy lands that might be evaporating right from under their feet. We need to look at that—families that have had their parcels for how many years. How do we ensure they keep that without allowing large, very wealthy landowners qualify for that same tax break? We cannot pick and choose who we help, but I would definitely like to meet with you folks and look at something we can do for these preservation parcels. Jeff Lindner, he was all over the place today, but one thing I did learn today from Jeff Lindner is that the Water Department is at a very crucial stage. You have infrastructure. Lack of infrastructure means lack of development.

Lack of supplies means demand is high and the price is high. We need to fix that. Maybe we need to look at water and how we are going to take back water and run it as a more transparent entity. I learned about gap housing that you are very interested in curbing, Council Chair Rapozo and our constituent out there. Gap rental. We have not addressed that and that is a huge area. The cap. I am a little bit worried to take away the cap. People do not trust government and now we are going to ask our constituents to trust us and we are going to remove the cap from all these families who have benefitted for a long time. There are a lot of issues that we need to talk about and I am excited to not only talk but make stuff happen, actually. Thank you.

Council Chair Rapozo: Is there anyone else? Councilmember Carvalho.

Councilmember Carvalho: Appreciate the discussion and everyone being here and navigating through all the different tiers. At the end of the day, what is the final for all of us to really reach out and make it work and fit into the overall? I think the workshop is needed so I look forward to the new workshop coming up again. On that one, we need to hone in on this, where we are going to go on this, what is going to happen, hopefully, and go from there.

Councilmember Kuali'i: So with that, *mahalo nui loa* to the folks from Real Property Tax and Finance and to everyone who participated today for their testimony. This is just the beginning. It is a big job. We are really look at totally overhauling our tax system. I think having the tools so that we can make policy decisions. The numbers help us make the decisions, but ultimately, we are making valued decisions as a whole. We had a lot of questions today and we will follow up, give us a list of that, give us a list of this with more details. I think we can expect that and hope for the return from them. I would recommend everyone go back through your stuff because you might have other questions and send them over before we get together again. I see the value in waiting on really digging into the tiers, putting in numbers, rates and percentages, after we have the new numbers in October. I am fine with meeting again to keep going, but we do not want to mislead the public with wrong numbers. October is still plenty of time before we start budget in March. As far as the big work of starting to determine the number for next year, that should not happen until after October. Following up on what we have done today, I think we still have more to learn and probably have questions we do not even realize right now. I do appreciate all of the work. I know this spreadsheet has probably been years in the making and is a valuable tool.

Council Chair Rapozo: Is there anyone else? If not, thank you Real Property Tax and Finance. We thought October, but we need to work backwards because we have to pass the bill by October. Take away your posting requirements, public hearing, committee meeting, first reading, second reading...

Councilmember Kuali'i: No, I am talking about the numbers for next year's budget, not the bill. The bill, of course, we have to do.

Council Chair Rapozo: Yes. That is what the whole purpose of this is. To determine what, in fact, we will be doing. I do not want to wait too long...

Councilmember Kuali'i: The bill puts the tool in place. It does not put the policy values of what we should establish that the tiers to be or the rates to be. The tiers and the rates should not come until after October.

Council Chair Rapozo: We are not talking about...

Councilmember Kuali'i: What we do today...

Council Chair Rapozo: We are not talking about the rates. We are talking about the exemptions. Everything we talked about today...

Councilmember Kuali'i: Yes, exemptions. Let us go.

Council Chair Rapozo: Right. We do not have that much time. If you think about it, we do not have that much time. I am looking at the calendar, I was hoping to do it in July, and we have two councilmembers who are going to be gone in July. We do not have a lot of time and...

Councilmember Kuali'i: There are a lot of pieces to this.

Council Chair Rapozo: Right. I would love to have the...I guess July is not going to work. It just is not. I am looking at the availability of the councilmembers, so it has to be in August and we will get a date. We will work with you folks and your availability, as well. You folks need to be here and I do not want to commit you folks to a date right now. We will post it like we always do and hopefully after that that meeting, we will be able to have enough information to introduce a bill and have that bill go through the process. With that is there is... go ahead.

Councilmember DeCosta: One last thing. I want to reach out to Ms. Matsuyama, Mr. Hubbard, and Mr. Hunt. My gratitude to you three (3) folks. Big-time gratitude. I do not want to speak for all my constituents here, but I trust you three folks, Ms. Matsuyama, you have two (2) little boys growing up in this subdivision. Do you want them to go away to college and come back? I know you have the best interests for your two (2) boys. Mr. Hubbard, the twin girls and your son, I know you want them to look forward to a home like you have on German Hill. I know that. That is your plan. You are not going want your twin girls to live away, right? They want to come back and maybe live in ʻŌmaʻo on ten (10) acres of land. I do not know, but they are going to come back and live on Kauaʻi. And Mr. Hunt, you have been with the Mayor's Administration, right? You need to be good because we keep you around. You are on Big Island and we keep you around, so I know you are good. Please, I going to beg the three (3) of you, keep Kaua'i in your hands when you come up with some numbers for us, some formulas and some tax rates. I know you can lead us, I know you can. I know you will, actually and together we are going to try and solve this problem. Thank you.

Council Chair Rapozo: Thank you.

The motion to receive the Committee of the Whole Real Property Tax Workshop for the record was then put, and carried by a vote of 6:0:1 (*Councilmember Kagawa was excused*).

Council Chair Rapozo: That ends today's workshop. Thank you.

There being no further business, the meeting was adjourned at 4:14 p.m.

Respectfully submitted,

DonnaLee Brinkerhoff
Council Services Assistant I

APPROVED at the Committee Meeting held on August 16, 2023:

MEL RAPOZO
Chair, COW Committee