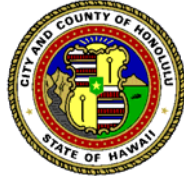


# CITY AND COUNTY OF HONOLULU

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## Setting the Record Straight: The Fiscal 2009-2010 City Budget

By Mayor Mufi Hannemann

This past Friday, I was faced with approving or vetoing a City Council-approved operating budget that was a slightly trimmed version of one I submitted in March. My hesitancy about this decision was not about the content of the budget, but how it would be financed.

When I submitted my original budget, I pointed out that we were facing a \$128-million shortfall, and that was only after imposing \$70 million in restrictions and cuts. Only after making those painful decisions were we forced to consider fee and tax increases.

Given that scenario, I detailed for public review a financial plan that included fee increases and a residential property tax rate of \$3.59 per \$1,000 of assessed value. But to blunt the financial impact on the average homeowner, particularly those with lower incomes and the elderly, I proposed to offset the increase with a \$75 tax credit. We subsequently worked with Council Budget Chairman Nestor Garcia to increase the credit to \$150.

Unfortunately, our collaborative effort fell by the wayside. The full Council instead adopted a \$3.42 residential real property tax rate, without the tax credit.

Had the Council adopted the proposal that Councilmember Garcia and I developed, the owner of a \$300,000 home would pay \$16.31 less than this year, versus \$97.82 more under the Council's adopted rate. The owner of a \$600,000 home would be paying \$106.04 more in property taxes under the Council's rate, versus \$41.38 more under our proposal. Most alarming of all, the Council's rate will enable the owner of a \$2-million home to pay \$106 *less* in property taxes than under our proposal.

In effect, thanks to the Council, lower-income homeowners will be subsidizing owners of higher-valued properties and investment properties. This discrepancy is even more pronounced for elderly homeowners.

Some detractors of the tax credit concept contend that giving such a credit is tantamount to "overtaxing." They suggest that we would create a surplus to give back to the taxpayer via the credit. On the contrary, the tax credit is a simple, efficient mechanism to temper the regressive nature of the property tax. It allows lower-income homeowners to pay a proportionately lower share of the tax.

While I was not authorized to veto the property tax rates adopted by the Council, I did have the authority to veto the budget. However, I was very grateful to Councilman Garcia and his colleagues who helped craft a budget with expenditures pretty much in line with my administration's recommendations. That budget also included money to expand Charter-mandated recycling, a priority of ours.

After due consideration, I felt that it was in the public's best interest to move forward. I decided to signal my displeasure over the tax rates by letting the budget take effect without my signature.

Insofar as the mayor does not have the authority to veto the Council's tax-setting resolution, I hope to remedy this situation by working with the Council to allow the real property tax rates to be set through the Council's adoption of an ordinance, which the mayor can veto, rather than a resolution, which cannot be rejected.

We must continue to generate sufficient revenue to provide basic City services, but without imposing too heavy a burden on property owners, particularly those who are of lower income and our seniors. Consequently, I will be reintroducing legislation to establish a homeowner real property classification. By doing so, we can separate investors and speculators from true homeowners, and we can set different property tax rates for the two groups. We could propose higher rates for residential properties owned by investors and speculators, and ensure they do not benefit off the backs of the true residential homeowners.

We would continue to grant the basic homeowner's exemption and multiple exemptions for the elderly. Furthermore, laws already in place provide for a circuit breaker to protect those on fixed incomes. Having the new homeowner classification would not preclude the mayor or Council from proposing a tax credit as an additional safeguard for our elderly and lower income homeowners.

Our sister counties all have a homeowner class or something similar, and these have been in place since the 1990s. Only Oahu does not.

These are difficult times for us all. Just as businesses and families are watching their spending, so too is City government. Yet we also face demands for more services and assurances of public safety. We have to balance these demands while being fiscally responsible. Having a homeowner's property classification will go a long way in helping us meet that responsibility. As the City Council moves forward in considering our proposed homeowner classification bill, we hope the public will join us in supporting the measure.