BUDGET AND FINANCE COMMITTEE

Council of the County of Maui

MINUTES

April 21, 2014

Council Chamber

CONVENE: 9:01 a.m.

PRESENT: Councilmember Mike White, Chair
Councilmember G. Riki Hokama, Vice-Chair
Councilmember Gladys C. Baisa, Member
Councilmember Elle Cochran, Member
Councilmember Donald G. Couch, Jr., Member
Councilmember Stacy Crivello, Member (in 10:38 a.m.)
Councilmember Don S. Guzman, Member (out 10:46 a.m., in 10:49 a.m.)
Councilmember Michael P. Victorino, Member (out 11:00 a.m., in 11:06 a.m.)

EXCUSED: VOTING MEMBERS:
Councilmember Robert Carroll, Member

STAFF: Michele Yoshimura, Legislative Analyst
Chancy Hopper, Legislative Analyst
Jordan Molina, Legislative Analyst
Yvette Bouthillier, Committee Secretary

Ella Alcon, Council Aide, Molokai Council Office (via telephone conference bridge)
Denise Fernandez, Council Aide, Lanai Council Office (via telephone conference bridge)
Dawn Lono, Council Aide, Hana Council Office (via telephone conference bridge)

ADMIN.: Sananda Baz, Budget Director, Office of the Mayor
Mark R. Walker, Deputy Director, Department of Finance
Scott Teruya, Administrator, Real Property Tax Division, Department of Finance
Marcy Martin, Real Property Technical Officer, Real Property Tax Division, Department of Finance

OTHERS: Aimee Anderson, Society for the Prevention of Cruelty to Animals Maui
Lisa Paulson, Executive Director, Maui Hotel and Lodging Association
Robert Thweatt, Vice President, Kaanapali Ocean Resort Villas
Gena Kraft, President, Kaanapali Ocean Resort Villas Homeowners Association
Wesley Nohara, Director, West Maui Soil and Water Conservation District

Dick Mayer
Thomas Croly
Others (5)

PRESS: Akaku: Maui Community Television, Inc.
Melissa Tanji, *The Maui News*

CHAIR WHITE: . . .*(gavel)*. . .Good morning. The Budget and Finance Committee will please come to order. I'd like to welcome Committee Vice-Chair Riki Hokama.

VICE-CHAIR HOKAMA: Chairman.

CHAIR WHITE: Good morning. And our Council Chair Gladys Baisa.

COUNCILMEMBER BAISA: Good morning, Chair and thank you for a busy weekend. I realize that we put you to work all weekend. Thank you. And Staff also.

CHAIR WHITE: Yes, well, they put in many hours this weekend.

COUNCILMEMBER BAISA: Yes.

CHAIR WHITE: And Mr. Victorino and I went to Honolulu for a meeting with HSAC which was good. And I'd also like to welcome Mr. Couch.

COUNCILMEMBER COUCH: Good afternoon, morning.

CHAIR WHITE: Good morning.

COUNCILMEMBER COUCH: Evening.

COUNCILMEMBER BAISA: When you're in here it doesn't... *(inaudible)*...

CHAIR WHITE: And Don Guzman.

COUNCILMEMBER GUZMAN: Good morning, Chair.

CHAIR WHITE: Good morning. Mike Victorino.

COUNCILMEMBER VICTORINO: Aloha and good morning, Chair. And thank you for the hard work this past weekend too. Appreciate it.

CHAIR WHITE: You're welcome. And Elle Cochran.

COUNCILMEMBER COCHRAN: Good morning, Chair. Aloha.

CHAIR WHITE: Good morning. And we have our Budget Staff who's looking very bright and cheery compared to what they probably should be looking but...we have our Committee Secretary Yvette Bouthillier and Analysts Jordan Molina, Chancy Hopper, and Michele Yoshimura. And we're joined this morning by Sandy Baz.

MR. BAZ: Aloha.

CHAIR WHITE: Aloha. Mark Walker, our Deputy Director of Finance. Scott Teruya from our Real Property Assessment Office, and Marcy Martin also, our Chief Technical, or Technical Officer, I believe. So welcome to both of you. Nice to have you back. And with that we'll begin our testimony for the morning. Our first testifier is Aimee Anderson.

...BEGIN PUBLIC TESTIMONY...

MS. ANDERSON: Good morning, Council Chair. Good morning, Council members. Happy belated Easter.

CHAIR WHITE: Good morning.

MS. ANDERSON: My name is Aimee Anderson and I'm testifying this, today for SPCA Maui and as an individual. You do have a couple of handouts that I left with your assistants. Based on the testimony provided to the Council on the evening of Wednesday, April 9th, regarding a series of dog attacks in a Haiku neighborhood, my focus this morning is going to be on the egregious flaws occurring with the current system of animal law enforcement. First, an update on what happened after the Paia meeting of April 9th. No action or communication efforts were taken on behalf of the Humane Society following the community meeting. The dogs remained at the owner's home without any compliance check. This was day 20 since the fourth attack. On Friday, April 11th, Officer Debbie Redd drove to the victim's home unannounced. She tried to justify her actions regarding the dog attacks. The victim shared her affidavit and plans to inform the Mayor of the action, or I should say lack of action, by MHS. An hour and a half later, Officer Redd called the victim stating that she had removed the two dogs from the owner's home and had euthanized one of them. As former Director of Animal Control and having over 21 years of experience in animal control, I can say without hesitation that multiple serious breaches of enforcement occurred since the initial attack in July 2013. If the proper procedures and protocols had taken place after the first attack, the next three attacks would not have happened. Additionally, the Humane Society and the current system of law enforcement is not enforcing established State and County laws, including addressing feral dog packs, dangerous dog compliance checks, open view violations of codes and laws to name a few. Why is this happening? Why does it take four serious dog attacks, some requiring surgery, and all taking place in one neighborhood before any action is taken by the Maui Humane Society and before the offending dogs are deemed dangerous? The answer is in my written testimony that you folks have received. You will see that the funds within the County, MHS grant for public safety enforcement have been shifted to sheltering operations internally by MHS. You will see that law enforcement funding has been declining in the past several years while sheltering funding rises. The end result is declining hours are being applied to law enforcement and public safety. I propose that the Maui County separate general animal management funds into two separate contracts: one, a law enforcement contract used solely for animal law enforcement, and two, a shelter operations contract used solely for shelter operations. My written testimony today suggests the designation of $475,000 for the animal enforcement contract and 800,000 to cover the County's portion of sheltering operations. These numbers basically have been extrapolated from previous MHS budget amounts and requests. These funding amounts reflect moderate adjustments from fluctuating levels of funding between Fiscal Year 2005 and Fiscal Year 2014, and compare well with funding levels in other communities. Additionally, I suggest appropriate performance measures be established and applied to the Animal Control Officers' daily performance requirements. However, it is hoped that the new Executive Director of MHS will be required to fix this important issue. Installing proper animal control and law enforcement on Maui must be addressed before the next victim is not alive to attend a community meeting. Mahalo.

CHAIR WHITE: Thank you, Ms. Anderson. Members, questions for the testifier? Mr. Couch.

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And thank you, Ms. Anderson, for being here. Now you, you mentioned potentially separating the duties. What are the requirements for being certified to actually give citations, if we move it to another...the animal control portion, to another organization, what are the certification criteria and... *(inaudible)*...

MS. ANDERSON: There is no legal certified, certification requirement. The Mayor has the authority to appoint, as paid or volunteers, anyone as an Animal Control Officer. Yes. There are no...we don't have any like State Humane organizations that have training criteria or requirements so that, that can be an arbitrary situation.

COUNCILMEMBER COUCH: But you, you have the ability to issue citations, is that correct?

MS. ANDERSON: Yes. That would be, that would be by appointment by the Mayor because he can appoint anyone to be an Animal Control Officer and then there's County Code and HRS that instills police powers to Animal Control Officers to not only issue citations but to conduct arrests.

COUNCILMEMBER COUCH: And that's not with any training with the Police Department at all or?

MS. ANDERSON: Not legally required.

COUNCILMEMBER COUCH: Okay. Thank you.

MS. ANDERSON: You're welcome.

CHAIR WHITE: Members, other questions? Ms. Anderson, my recollection was that there were more than two dogs that were involved in that. Do you know what's happened to the...or if anything's happened to other two dogs? I thought there were four.

MS. ANDERSON: There were four. Two of the dogs went missing which in itself is a violation. I think the owner was playing a bit of a shell game. The Animal Control Officers went and conducted, my understanding, investigations at other locations where the dogs might have been hidden and did find them. I believe one was at the owner's mother's home. I don't know the disposition currently of those two dogs.

CHAIR WHITE: Okay. Thank you. Ms. Baisa.

COUNCILMEMBER BAISA: Thank you. So if I understood correctly, two of the dangerous dogs that have done the attacks, one was euthanized?

MS. ANDERSON: That is my understanding.

COUNCILMEMBER BAISA: The other one is, what happened?

MS. ANDERSON: Don't know the disposition of that.

COUNCILMEMBER BAISA: You don't know.

MS. ANDERSON: No. There is not much transparency, even though transparency was promised in April 2009 by the Humane Society CEO, however, quite the opposite has happened. It's like Fort Knox trying to get any information from that organization at this point.

COUNCILMEMBER BAISA: I'm really dismayed because you know how hard we worked on that dangerous dog bill --

MS. ANDERSON: Yeah.

COUNCILMEMBER BAISA: --forever and forever, and this Council passed it --

MS. ANDERSON: Yes. You did.

COUNCILMEMBER BAISA: --because we really wanted to see this taken care of and this is really disconcerting to me.

MS ANDERSON: Yeah.

COUNCILMEMBER BAISA: I'm, I just can't believe that this happens.

MS. ANDERSON: Well, I have to agree with you. I did a lot of leg work on that law as well, doing a lot of research throughout the nation as to get some good dangerous dog laws which we have the best ones, including Oahu, to this day, and I'd like to thank all of those people that participated in that process. Unfortunately, like anything, you can have wonderful laws but if they're not being enforced then they're not going to do any good whatsoever.

COUNCILMEMBER BAISA: Absolutely and that is so true with any law that we have. And so, you know, listening to that story that night was really painful and I felt very sorry that, you know, anybody had to go through that. But I think that something that we will have to follow up on, hopefully, when we get through the throes of Budget. As you know, it's just so hard to focus on other things when we're --

MS. ANDERSON: I know. I know.

COUNCILMEMBER BAISA: --trying to decide where all the money's going to go.

MS. ANDERSON: I know.

COUNCILMEMBER BAISA: But I really appreciate you folks coming to tell us. Thank you.

MS. ANDERSON: You're welcome. And I do want to clarify, for those that may not know this, I'm with State Special Police. The uniforms are very similar to animal control so I just want to clarify that so there's no confusion.

COUNCILMEMBER BAISA: I don't think your uniform matters. You're going to be an animal person no matter what you wear.

MS. ANDERSON: I know.

COUNCILMEMBER BAISA: Thank you.

MS. ANDERSON: Thank you.

CHAIR WHITE: Any further questions, Members? Thank you very much, Ms. Anderson.

MS. ANDERSON: Thank you.

CHAIR WHITE: Our next testifier is Lisa Paulson and she'll be followed by Roger Thweatt.

MS. PAULSON: Good morning, Chair and members of the Committee.

CHAIR WHITE: Good morning.

MS. PAULSON: My name is Lisa Paulson, Executive Director of the Maui Hotel and Lodging Association, the legislative arm of the visitor industry. Our membership includes over 150 property and allied businesses in Maui County, employing over 20,000 residents and representing over 19,500 rooms. First, I would like to thank all of you for your support in the past and I know all of the long hours and hard work you're putting into, into this so we do appreciate it. On behalf of the Maui Hotel and Lodging Association, I am here to ask that you not increase the Real Property Tax rate for the Hotel/Resort and Time Share classifications. I also respectfully request that if rates do need to be raised that the proposed category increases be more fairly distributed across all classifications. I have attached two charts to my testimony, a historical real property rate increase by category and a comparative chart of property tax valuations versus the taxation amounts brought in by each category. In the past 10 years the Hotel/Resort and Time Share categories largest rate increases were 8.4 percent and 7.1 percent, respectively, just three fiscal budgets ago. We then had two lower increases the last two fiscal years only to be presented with yet another proposed large increase for Fiscal Year 2015 of 6.5 percent to both categories. The proposed Fiscal Year 2015 Real Property Tax increases are the largest requested ever of $36 million, 62 percent of this will come from the Hotel and Time Share categories. Additional...additionally, if we were to look at the increase in property valuations alone there is already an increase of over $20 million. These increases are being considered at a time when year-to-date Maui visitor expenditures are down 5.8 percent and visitor arrivals are down 2.8 percent. The cost of doing business and the tax rates in Hawaii are increasingly making it more difficult to be competitive and for businesses to be profitable. Continuously increasing the rates and fees will only diminish our properties' ability to compete in a price-sensitive resort destination market. We need to ensure the continued success of our industry for the County's economy to be sustainable. Thank you for the opportunity to testify.

CHAIR WHITE: Thank you, Ms. Paulson. Questions for the testifier, Members? Seeing none, thank you for coming this morning.

MS. PAULSON: Thank you very much.

CHAIR WHITE: And Robert will be followed by Gena Kraft.

MR. THWEATT: Good morning, Chairman White and Council members.

CHAIR WHITE: Good morning.

MR. THWEATT: My name is Robert Thweatt and I am a timeshare owner at the Kaanapali Ocean Resort Villas. My wife and I have been coming to Maui for over 15 years, and I might not actually live here, but timeshare has made it possible for me and my wife to imagine what it would be like to do so if only for a single, short week every year. Since my purchase in June of 2005, my wife and I have enjoyed annual visits to Maui's beautiful beaches and golf courses. We love saying hello to familiar faces at our resort where they always welcome us home and refer to us as "ohana" which makes us feel very welcome, especially at the Kaanapali Golf Course where the staff always remembers our names. My wife and I are avid golfers and have played all the golf courses on Maui several times. We have dined at the golf course cafes and my wife loves to shop in the pro shops and everywhere else between, you know, to and from the golf course, including farmers markets and craft fairs. I want to do my part supporting Maui. I am proud to say that Kaanapali Ocean Resort Villas Association has devoted so much time and effort to community service and has made donations to help local clubs, charities, and organizations, and I am proud of the positive feedback my association received from our work in the community. I also make personal annual contributions in the form of taxes. General Excise tax at 4.167 percent on all purchases, Timeshare Occupancy Tax at 7.25 percent of the fair market value of my timeshare unit, and on top of that, Real Property Taxes at the current rate of $15.55 per thousand dollars in assessed value. In comparison, Hotels and Resorts are taxed at only $9.40 per thousand. Under Mayor Arakawa's current proposed Budget, time...Budget, Time Share will be taxed at $16.56 per thousand at a $1.01, at $1.01 is the highest dollar increase of all the Real Property Tax categories. In comparison, the proposed rate for Hotels and Resorts is increased by 61 cents to $10.01 per thousand. I heard that, with great hope, that Mayor Arakawa will not propose raising Real Property Taxes this year if the State moves, removes the cap on distributing Transient Accommodation Tax to the counties. As the Council considers their own proposal on Real Property Taxes this year, I hope the Council members will also remember and consider the Mayor Arakawa's promise as well as my testimony. I might use my timeshare unit similar to how a hotel guest uses their hotel room, but there is an important difference between hotel tourists and timeshare owners.

MS YOSHIMURA: Three minutes.

MR. THWEATT: Timeshares guarantee repeat annual visitors like myself. In fact, timeshares have a positive impact by providing guaranteed support to the community every year. We support local business every year, donate to local causes every year, and pay local taxes every year. We simply want to share in Maui's tax burden fairly and equally. every year as well. I hope to see positive discussions and resolution to this increasingly unfair tax burden in the near future. Thank you.

CHAIR WHITE: Thank you very much, Mr. Thweatt. Questions for the testifier, Members? Seeing none, I'll just say that this Council has been generally not terribly supportive of the Mayor's projected, or proposed increases on your taxes. We'll see what happens this year.

MR. THWEATT: Okay. Thank you.

CHAIR WHITE: Thank you. Glen Kraft will be followed by Wes Nohara. I'm sorry. Gena --

MS. KRAFT: Yes.

CHAIR WHITE: --not Glen.

MS. KRAFT: Good morning, Chairman White and Council members. My name is Gena Kraft and I am a timeshare owner at Kaanapali Ocean Resort Villas. Thank you for this opportunity to speak again to the Council. When I look around the world at different countries and the inalienable rights that vary from nation to nation and from citizen to citizen, I'm so grateful for our United States of America. Our founding fathers had to overcome disparity and dictatorial rulership to reach a state of fairness and equity, creating a forum like this one where we can come as a citizen and bear witness in front of those in authority. But it is not without discomfort that I come before you today in recognition of the disparity that I continue to experience as a member of the timeshare classification in Maui County's Real Property Tax revenue budget. If the equity of this treatment was self-evident I would not be here today. My family and I hold title to a Maui real estate ownership deed, as do 14,000 other families that as the president of their homeowners association, I represent. We come to Maui every year. We pay...we support local businesses through our patronage and the variety of taxes that we pay. Our timeshare resort often behaves more like a community service organization with activities like local fundraisers, local school support, and the careful way that we treat the island's resources and environment, yet we continue to be penalized through the County's tax rate schedule. The Mayor's 2015 proposal, which thank you very much, Council, Chairman White, for saying that you don't advocate it perhaps, this proposal continues a trend started in 2005 setting Time Share rates vastly higher than any other category. It's 65 percent higher than Hotels and 113 percent higher than the next highest rate which is Industrial. Under this proposal, the Time Share real estate rate tax rate would be almost 450 percent higher than the Homeowner classification. If this disparity had some basis in fact, if it had to do with the significantly greater resources we consume or the island privileges that we enjoy, commonsense would prevail and we would go on about our business, but clearly, that is not the case. Not only are we not consuming beyond our footprint, we come back every year to spend money that we earned elsewhere.

MS. YOSHIMURA: Three minutes.

MS. KRAFT: We repeatedly, we repeatedly bring our resources to the island to help fill Maui's coffers and thereby create career and job opportunities for many that live here year-round. As timeshare owners we recognize the economic requirements of this wonderful island and want to contribute our fair share but with no justifiable rationale for the disparity in the tax rate, I implore you to reconsider this decade-long trend and pursue a more fair, reasonable, and equitable tax strategy for achieving the revenues objectives of Maui County. Thank you very much for this opportunity.

CHAIR WHITE: Thank you, Ms. Kraft. Members, questions for the testifier?

COUNCILMEMBER VICTORINO: Chair?

CHAIR WHITE: Mr. Victorino.

COUNCILMEMBER VICTORINO: Yeah. Thank you and thank you, Ms. Kraft, for being here, you know, and it is a beautiful property at KOR. I've been out there a number of times and very much enjoyed it. My question to you is, what is your, or do you know what your specific share in Real Property Tax is per year?

MS. KRAFT: What my share is?

COUNCILMEMBER VICTORINO: Yeah, your share. Because this is all interval ownership, right, so 52 owners divided by, you know, I, I may be wrong, maybe some people own it two weeks, three weeks, I know there's different ownership intervals, but what is your, your family's share of the tax each year?

MS. KRAFT: May I ask for support? I'm not exactly sure that I have a number --

COUNCILMEMBER VICTORINO: Okay.

MS. KRAFT: --for you because it does depend on how many weeks I own and you're right, it's a portion of our maintenance fee.

COUNCILMEMBER VICTORINO: Right.

MS. KRAFT: Is that what your question is?

COUNCILMEMBER VICTORINO: Yes.

MS. KRAFT: How much of my maintenance fee is Time Share real estate tax?

COUNCILMEMBER VICTORINO: Yeah, yeah, yeah. See...

UNIDENTIFIED SPEAKER: ...*(Inaudible)*...

MS. KRAFT: Four hundred to $450 per week.

COUNCILMEMBER VICTORINO: Per week. Okay.

MS. KRAFT: And about 25 percent of our annual budget.

COUNCILMEMBER VICTORINO: About 25 percent of the annual budget. Okay. I know those people back there will have the accurate numbers later so we'll get that from them, but it was just a good prelude to see if you knew what you were paying. And I think that was it, that's one of the questions I like to ask because as an owner of any property, you would hopefully have some kind of semblance of what you actually pay, but that's fine.

MS. KRAFT: Yes. I wanted to be accurate.

COUNCILMEMBER VICTORINO: Okay.

MS. KRAFT: I didn't want to throw out an estimate for you.

COUNCILMEMBER VICTORINO: Understood. Thank you very much and we do appreciate it. And I, like Mr. White, we want to be fair about all of what we do, all the people of Maui County, including our timeshare. So thank you.

MS. KRAFT: Thank you.

CHAIR WHITE: Other questions, Members? Seeing none, thank you very much, Ms. Kraft.

MS. KRAFT: Thank you.

CHAIR WHITE: And Wes Nohara will be followed by Dick Mayer.

MR. NOHARA: Good morning, Chair White --

CHAIR WHITE: Good morning.

MR. NOHARA: --Vice-Chair Hokama, and members on the Committee on Finance. My name is a Wes Nohara. I am a Director of the West Maui Soil and Water Conservation District. I'm here today to testify and ask for your support for the Budget grant request under OED programs for the Soil and Water Conservation Districts of Maui County. Maui County has five Soil and Water Conservation Districts and in the past you have consistently helped to fund our request for annual operational staffing. We thank you for your continued support because these funds are absolutely needed in order for the Soil and Water Conservation Districts to carry out and deliver our programs and services. Currently, the four Soil and Water Conservation Districts on Maui, which are West Maui, Central Maui, Olinda-Kula, and Hana, receives $72,100. And Lanai-Molokai Soil and Water Conservation District receives $15,450. However, for 2015 we are asking for an additional $60,000 for staffing positions that was cut by the State Department of Health. We know that this is a lot of money that we're asking for, however, these staffing positions are absolutely critical because without these staff personnel, we the districts, would have no one to handle communications, daily walk-ins, field projects, and other daily requirements. Every district is made up of five volunteer directors. Most of our directors have full-time jobs and still volunteer their time, skills, and resources to serve Maui. We estimate that of the 25 volunteers in Maui County, we collectively contribute about $250,000 annually to serve Maui County. Our programs and services include technical support for Maui County's Grading Ordinance. We provide conservation plans for agricultural land users as mandated by State law. We provide technical support for the Coral Reef Task Force. All five Soil and Water Conservation Districts serve on the Tri-Isle RC&D board. Some of our current projects include Lahaina flood control, a Lahaina temporary flood control project, and the Lahaina Watershed project, Lahainaluna drainage plan, Southwest Maui Watershed plan, Upcountry waterline project, Kula storm water reclamation project. Over the last 30 years our programs and services brought in about $30 million of Federal funds to Maui. More importantly, our projects helped to save people's lives and property. It supports our island economy and helps protect our land and marine environment. The strength of the Soil and Water Conservation Districts is that we are community based.

MS. YOSHIMURA: Three minutes.

MR. NOHARA: We are made up of experienced and knowledgeable members of our communities and we have a history of building and developing partnerships. Through these partnerships we are able to leverage and deliver projects and services to Maui County. Projects and services such as the Honolua Watershed, over 44 catchment basins from Honokowai to Kapalua, reducing sediments entering the coastal waters by 60 percent, and we brought in about $15 million of Federal monies. Lahaina temporary flood control, four miles of storm water diversions and basins and about $150,000 in Federal monies, and much, much more. In short, we feel that the budgetary funding to support the districts are important. They are much needed and it is a tremendous benefit to the people and communities of Maui County. Once again, we ask for your support and your approval of this Budget request. Thank you.

CHAIR WHITE: Thank you, Mr. Nohara. Questions of the testifier? Mr. Couch followed by Ms. Cochran.

COUNCILMEMBER COUCH: Thank you, Mr. Nohara for being here. You said how much was the...did the State cut from you?

MR. NOHARA: Statewide it was over 200,000 but the Maui section we estimate it at 60,000.

COUNCILMEMBER COUCH: Sixty. So that's what you're asking for?

MR. NOHARA: Yes.

COUNCILMEMBER COUCH: And did they say why they cut it in the State?

MR. NOHARA: The Deputy Director said that he wanted us to release the conservation plans to the State for them to enforce potential violations.

COUNCILMEMBER COUCH: Uh-huh.

MR. NOHARA: And we told him we would if the cooperator signs off the waiver of release and that's because we use the Federal governments' programs, computers, and they require a confidentiality clause to be signed. And if we violate that we would be evicted from the Federal government office, and right now the Federal government supports all the Soil and

Water Conservation Districts with about half a million dollars through office space, computers, training, IT support, vehicles, equipment, and all that. So we told them that we can't just release it and violate the Federal government, and with that he took the money away.

COUNCILMEMBER COUCH: Who was that?

MR. NOHARA: Gary Gill.

COUNCILMEMBER COUCH: Okay. Thank you, Chair.

CHAIR WHITE: Ms. Cochran.

COUNCILMEMBER COCHRAN: Thank you, Chair. And that was kind of the same lines of my questioning for Mr. Nohara. Thank you for being here. So you were looking for 60...and that's for Maui Countywide?

MR. NOHARA: Yes. Well, actually, it's for Maui 'cause Molokai...our conservation specialist serves only Maui island.

COUNCILMEMBER COCHRAN: Oh, okay.

MR. NOHARA: The 15,400 goes to their administrative support and she does, on Molokai and Lanai, that type of work.

COUNCILMEMBER COCHRAN: Okay. So 60 is strictly for Maui island.

MR. NOHARA: That's right.

COUNCILMEMBER COCHRAN: Okay. Thank you, Mr. Nohara for what you do. Thank you, Chair.

CHAIR WHITE: Members, other questions? Mr. Hokama.

VICE-CHAIR HOKAMA: What is the State's role in this, Mr. Nohara? Are they a required participant?

MR. NOHARA: Yes. Under Chapter 180 State law, they're asked to be the host of the Soil and Water Conservation Districts and we're hosted through DLNR. And so DLNR is our parent agency, you could say, and supposedly the bulk of the funding comes through DLNR, however, DLNR, after all said and done, each District gets about $2,000 to operate.

VICE-CHAIR HOKAMA: So what do they expect with $2,000?

MR. NOHARA: That's what I've been asking for the last eight years going to the Legislature and to DLNR, and again, I will be having a meeting with DLNR in about a month, with William Aila to discuss that very issue.

VICE-CHAIR HOKAMA: So, so this is set up by State statue, Mr. Nohara?

MR. NOHARA: The organization is under State law. The way...I mentioned that we are really built into partnerships and the Soil and Water Conservation District, we work with the Federal government, the County of Maui, and the State, and our local communities. And so, I guess, the County's part is that we do...we really are locally based, and so we focus on our communities here on Maui and Maui County. And so, like the flooding is...flooding control projects they're really here and not Statewide. And so the County has helped us through some funding and with that we do a lot of local work whether it be grading/grubbing reviews, conservation plans, flooding projects, waterline projects, those kind stuff.

VICE-CHAIR HOKAMA: And who services you? The Deputy Attorney General assists your...

MR. NOHARA: Our legal requirements?

VICE-CHAIR HOKAMA: Right.

MR. NOHARA: Yes. We go through the Attorney General.

VICE-CHAIR HOKAMA: You should ask 'em if you guys can sue the State. I'm serious. I got no problem going to court when need be and you guys shouldn't be afraid of going to court either when need be.

MR. NOHARA: It's been a touchy thing and we've been trying to work with our State government and Statewide a lot of us directors are about fed up.

VICE-CHAIR HOKAMA: Well, thank you for your good work, Mr. Nohara. And I will do my part to see what we can do to assist you.

MR. NOHARA: Thank you.

VICE-CHAIR HOKAMA: Thank you.

CHAIR WHITE: So I would like to just add my thanks for your being at this for as long as I can remember.

MR. NOHARA: Twenty-eight years.

CHAIR WHITE: Well, that's as long as I've been here so. Thank you, Mr. Nohara. Any further questions? Seeing none, thanks for coming today.

MR. NOHARA: Thank you.

CHAIR WHITE: Our next testifier is Dick Mayer and then we'll go to our District Offices to check in with them.

MR. MAYER: Thank you, Chair White and Members.

CHAIR WHITE: Good morning.

MR. MAYER: Ms. Baisa this morning said, my, at a Budget meeting you're here? It's probably the first time I've ever been here for a Budget meeting. Few items first I just wanted to mention. I would urge you to keep in the Budget the Kula Community Center lands. I would also urge you, in the revenue side, that the bike tours coming down Haleakala be assessed a fee to pay for the pullouts that are needed along the roads. Perhaps just like rental cars they...rental cars...the car industry pays for roads through the gas tax but the bicycle people never pay for the use of the roads and I think it would be in order that if each bike coming down would have a $2 or $3 fee assessed to it, you would then quickly get the money to get the pullouts and it's really a safety issue to get those things out. People are trying to get around those cars, around those curves on the Kula Highways. It's a quite dangerous situation. With regard to the timeshares which we heard about this morning, I would urge you not to reduce those rates. There's a reason why those rates are higher and that is because timeshares reduce employment and what we need to do is have every incentive possible to make sure our local residents keep their jobs. As one hotel after another decides, okay, or building, or condo decides to move into the timeshare area, we end up reducing employment on this island and that is something we should discourage. So I would urge you not to consider reducing the timeshare rates. Most of the residents in those timeshares are fairly wealthy. I don't think it's a huge assessment. Yes, it sounds higher than the local residents' but I think that they generally can afford it and if they can't, they should be aware of the cost when they buy their units. My main reason for coming today, and I would urge you to take a look at that green sheet of paper which was handed out in the packet. This deals with a revenue, potential revenue source that so far has been not considered. I listened the other day when you talked about the water meters and what kind of rates should be charged for the meter, for the rates, et cetera. As you may know, the County paid for several studies to be done on impact fees and these fees just never...the Administration has not sent these fees to you, and I would urge you to take a good look at it. There are two studies done that you paid for in previous Budgets, and I have these impact fees studies that were done here during the period 2010-2012 period and ordinances, as well, were drafted to allow these fees to be established. They have not been sent to you and they would provide an excellent source of revenue. Let me just mention the summaries really from those two studies. On that, on the second page there, you'll see the numbers at the top, that deals only with transportation to help pay for the roads and highways in the County. And as you'll see there, if you, along the top part of that chart, you'll see there a bunch of lines that's written horizontally, but what those, what that stands for, right under that you'll see DU and G...KGSF, et cetera, those are assessments for different types of properties. DU stands for dwelling units --

MS. YOSHIMURA: Three minutes.

MR. MAYER: --the KGSF stands for thousands of gross square feet. In other words, by assessing hotels, industrial plants, et cetera, a fee you will get the money to pay for the infrastructure that this County sorely needs. This is an untapped source. For example, we have Target coming in, Costco came in, many other businesses come in, we didn't assess them an impact fee right now and yet they come in, an outside company comes in here, uses the County's facilities, roads, et cetera, and doesn't pay for them. This would allow you to get money from those sources as they construct and put the impact on the County. The bottom chart there takes a look at all the other fees: Fire, Police, et cetera, and assessments again. This was all done very scientifically; you paid for it, the County paid for this study to be done. Long ago it was said that we need impact fees, how much should they be?

MS. YOSHIMURA: Four minutes.

MR. MAYER: This was done and I would urge you strongly, I could talk more about it, but I would urge you strongly, please put this into the Budget as a potential revenue source and don't always throw it on the existing residents. This would show it on the people really impacting our community. Thank you.

CHAIR WHITE: Thank you, Mr. Mayer. Members, questions for the testifier? Seeing none, thank you for coming this morning. It's nice to see you at a Budget hearing.

MR. MAYER: Thank you, Mr. White. You'll probably see me tomorrow morning as well.

CHAIR WHITE: Okay. We'll go to our District Offices and we'll start with the Office in Hana. Dawn, do you have any testifiers this morning?

MS. LONO: Good morning, Chair. This is Dawn Lono at the Hana Office and there is no one waiting to testify.

CHAIR WHITE: Thank you. And we'll go to Lanai. Denise, any testifiers on Lanai?

MS. FERNANDEZ: Good morning, Chair. This is Denise Fernandez on Lanai and there is no one waiting to testify.

CHAIR WHITE: Thank you. And to Molokai, Ella, any testifiers?

MS. ALCON: Good morning, Chair. This is Ella Alcon on Molokai and there is no one here waiting to testify.

CHAIR WHITE: Thank you, ladies. If someone happens to walk in to testify, please e-mail Staff. Otherwise, once we're done with...we just have one more testifier here in the Chambers and once we're done we'll be closing public testimony so if someone comes in, please let us know quickly. Thank you, ladies. And our next testifier in the Chambers is Thomas Croly. And if there's anyone else who would like to provide testimony this morning, please sign up in the back and be ready to come down.

MR. CROLY: Good morning, Chair. Good morning, Committee. I probably don't even have to speak my testimony. You see me here at this podium enough times. You know what my cause is and that's equity in property tax rates. I come at it from a little bit different perspective than the folks who were saying "my rates are too high". I'm not saying necessarily saying my rates are too high. I'm saying that the way that we've distributed it is unsustainable. We can't continue to build the revenues, generate the revenues that are necessary to run the County with the model that we have and the direction that we're going. You had a long meeting here about water rates and recognized that there's money that's going to have to be found one place or another for infrastructure to make the improvements that we need to, and in order to find that money you can't just continue to pile it on to the visitor industry. Back in 2004, I think we had a model that was equitable. I think that the rates that we were charging back then, the homeowner exemption that was in place back then, it still had the visitor industry paying two and a half times what the residents were paying, but I thought that that breakdown was pretty good. Since then, we've had an upheaval in values, the values went up very quickly, they came back down, and we've been chasing them with rates. But we've also gotten way out of balance with respect to what our homeowners are paying and what the industrial and business side of our folks are paying. And that's where we need to, we need to come back into, into sync. I just want you to consider that we give a subsidy, if you will, to the homeowners in Maui County of about $55 million. That's how much we reduce their taxes based on the homeowner exemption and based on the lower rate. So we have to find that $55 million somewhere. We're finding it from the timeshare folks; we're finding it from the hotels folks, and I'm okay with that except that that $55 million, I think has gotten out of balance. We have to, we have to reassess how much of a subsidy we can provide to the homeowners. And I'll also just make mention of one other subsidy that it's not in the Budget, it happens prior to the Budget, but policy drives it, and that is the subsidy that we make to agriculture. We reduce the value of agricultural lands before they're ever taxed and we reduce them to virtually nothing. Now, we can decide whether that's a good policy or a bad policy and who gets those reductions and who doesn't, but that's another revenue subsidy in the range of about $50 million. By reducing the values of those lands and not taxing those agricultural lands we're essentially giving agriculture $50 million. Again, I'm not saying that that's wrong --

MS. YOSHIMURA: Three minutes.

MR. CROLY: --I'm just saying we need to be aware that that's, that that's what we're doing. We're also doing it in the agricultural water rates, that's gets out of the property tax issue. But when some of the folks stood here and said you can raise my agricultural water rate by a nickel as long as that's enough to pay for the infrastructure, I don't think the person was grasping the idea that that $1.20 rate that they pay for water it doesn't pay for bringing them the water. It doesn't make us break even. Every gallon of water that we're giving to that person is actually being subsidized. So by raising it by a nickel, it doesn't generate any new revenue, it just maybe takes way some of the subsidy that, that we're making. So we need to look at the property taxes more from an area of where the subsidy is going. And if someone has a question, I do have a little bit of information that would benefit those paying the Time Share higher rate and as to why that rate is higher than the Hotel rate. Thank you.

CHAIR WHITE: Members, questions for Mr. Croly? Seeing none, thank you very much, Tom. And with that, is there anyone else in the Chambers that would like to provide testimony this morning? If not, the Chair will close public testimony, if there are no objections.

COUNCIL MEMBERS: No objections.

CHAIR WHITE: Okay, public testimony is closed.

...END OF PUBLIC TESTIMONY...

ITEM BF-1: PROPOSED FISCAL YEAR 2015 BUDGET FOR THE COUNTY OF MAUI (CC 14-31)

CHAIR WHITE: And we'll move into our review of the Real Property Tax certification. And Mr. Walker, would you like to proceed?

REAL PROPERTY TAX (CERTIFICATION)

MR. WALKER: Thank you. Good morning, Chairman White and members of the Budget and Finance Committee. On behalf of the Finance Department and Director Agsalog it is my pleasure to present to this Committee the County of Maui's 2014 Real Property Tax Certification. In accordance with Chapter 3.48.135 of the Maui County Code, on or before April 19th preceding the tax year, the Director of Finance shall file with the County Clerk a list of all property assessments made within the County of Maui. This list, known as the certification roll, shall identify the properties assessed by its tax map key number. Real property shall be assessed and taxes shall be levied, thereon, as of January 1st preceding the tax year. In this case, assessments are as of January 1, 2014 and sets the basis for the Council's deliberation of the tax rates for the Fiscal Year '15 Budget. At the time Mayor Arakawa submitted the proposed 2015 Budget to the Council the certification of real property assessments had not yet been completed, and the Mayor's proposed Budget included assessment projections, as well as projections of the amount of assessment value that may be under appeal. Currently, the 2014 certification roll is complete and identifies the actual net valuation after all exemptions along with the actual assessment under dispute. The certified value for revenue projections is used for the Council deliberations of the Budget and establishment of the Real Property Tax rates. The certified revenue for Real Property Taxes after deduction of the circuit breaker at the Mayor's proposed tax rates totals $261,087,045 or $1,286,370 more than the Mayor's proposed Budget. The primary difference between the Budget projections and certification is the amount of value under dispute from tax appeals. In estimating this amount, historically, we evaluate the appeals from the previous year along with our estimate based on market conditions. An additional factor for the difference is that the Mayor's Budget anticipated an amendment to the County Code for the circuit breaker which would have allowed for additional property owners to qualify for this credit. As mentioned previously, with me are subject matter experts from the Real Property Assessment Division, Administrator Scott Teruya, and Real Property Technical Officer, Marcy Martin, who have prepared a detailed handout that you all should have that breaks down what is compiled in the final certification report. And we could move into that, Chair White, if you'd like to at this time.

CHAIR WHITE: Yes. Please proceed.

MR. WALKER: Okay. I'm going to turn it over to Scott at this point.

MR. TERUYA: Good morning, Chair White and Members. Before you is a spiral-bound handbook that my technical staff put together for your use. Ones that we believe that will provide this Council with factual numbers and statistics to aid this body for tax rate deliberations, as well as provide you information for future Budget and Finance meetings. So if you take a look and open up your booklet, after the cover page is a Table of Contents and just for your quick reference. And then on Page 1 should be a chart. This chart is the summary of all 10 classifications, identifying the certified value for tax rate purposes broken down by land and building per classification. The certified values are applied to the Mayor's proposed tax rates to arrive at the projected revenue. The sum of the 10 classifications arrive at a subtotal of $259,310,555. After subtracting 297,122 for the circuit breaker credit and adding in 2,073,612 in revenue from parcels that pay minimum tax, the net total for Real Property Taxes, at the Mayor's proposed rates, amounts to $261,087,045. As you move on, Pages 2 thru 11 are a little bit more granular detail within each classification. So the details include the valuation per class, the exemption amounts, valuation on appeal, 50 percent of value that must be deducted for tax rate purposes, and the valuation for tax rate purposes. So if you quickly thumb through them on Page 2, somewhat near the top, after the heading is the Time Share class. On Page 3 is for Residential, on 4 it is Commercialized Residential. Page 5 is Apartment; 6, Commercial; 7, Industrial; 8, Agriculture; 9, Conservation; 10, Hotel/Resort, and 11 for the Homeowner class. On Page number 12 is the aggregate total from all 10 classifications for tax rate setting purposes. So I think at your leisure if you wanted more detail that you would go into these individual pages as indicated. And on Page 13 is possibly one of the better pages maybe you may want to tab. It's a summary showing the number of parcels per classification, values and exemptions, the number of appeals filed per classification and the amount of valuation in dispute. So that is a very good summary page that you may want to tab for yourself. On Page number 14 is a pie chart. This shows you a percentage breakdown of the number of appeals filed per classification. So as you see there, on the bottom, it indicates of a total appeal amount of 531 appeals filed with the County and the individual breakdowns per classification. On Page number 15 is an illustration of 100 percent of the taxes actually in dispute. When a parcel under appeal pays their taxes, the amount, treasury would put that amount into dispute into the litigated account. The funds, although 50 percent is budgeted for expenditure, it is held in suspense until the appeal is settled before the Board of Review or Tax Appeal Court. On Page 16 is...it shows you the net taxable value for the upcoming and past five, past nine fiscal years. So as you can see, the market began to rise in looks like Fiscal '07 and peaked in the '09-'10 year, began to decline, and as you see for the last two fiscal years, slightly...a slight rebound. On 17 is a page that shows you the certified values for tax rate purposes for the upcoming and past nine years. Unlike the previous page this illustration includes the appeals. So, Chair, at this time that concludes the portion of the handout as it relates to the Real Property Tax certification. I can break now or continue on as...upon the Members wishes.

CHAIR WHITE: Members, what's your pleasure? We can continue with the presentation and then. Okay. Let's, let's stop for some questions. We'll start with Ms. Baisa.

COUNCILMEMBER BAISA: Yes. Thank you very much. And thank you, Scott and staff for the good information. On Page 14, when you talk about appeals, you list 531 appeals. How does this compare with the previous year?

MR. TERUYA: I will turn to the second half of the presentation.

COUNCILMEMBER BAISA: Oh, I'm sorry. Am I jumping ahead?

MR. TERUYA: I'm sure it's gone up a little. Let me find that slide. All right. Thank you, Sandy. Sandy indicates it's on Page 12 of the second part of the handout.

COUNCILMEMBER BAISA: Uh-huh. Okay.

MR. TERUYA: So I...we have 531 this year, 499 last year, 566 the previous year, and 786 previous to that. So it has gone up slightly, but I wouldn't say it's any significance other than maybe values going up a little.

COUNCILMEMBER BAISA: Well, I was interested in that because, you know, we've had such a bad reaction to the circuit breaker legislation that I thought it might definitely be reflected here and I'm surprised that it's not more than this but it still shows the increase. Thank you. Thank you, Chair. That was my number one question.

CHAIR WHITE: Members, other questions? Seeing none, we'll move on. I know that once we get through the remainder there'll be probably a bunch of questions.

COUNCILMEMBER VICTORINO: Yeah. Right.

CHAIR WHITE: The remainder of the book provides a little more perspective and detail. So let's proceed, Mr. Teruya.

MR. TERUYA: Okay. So here we go, past the green page, I'm sorry, and I'll get into the second handout. Similar to the first one, you have your Table of Contents and then over on to page number one. This page shows a five-year history of the tax rate, well, the tax rate history by classification along with the proposed tax rates for Fiscal '15. So this would just give you some brief history and that's what the second half is, is just some statistics, for your use, to see what's happened historically. On Page number 2, this shows all the four Hawaii counties' tax rates as proposed for the Fiscal '15 tax year to the best of my knowledge, and this was confirmed last week so this is what before them, each Council at the present time. On Page number 3, this is a spreadsheet comparing certified values from '14 to '15. On the bottom left is a pie chart showing the contribution of certified values by classification. And on the bottom right is a pie chart showing the individual class contribution in revenue. So as far as the values, the Hotel/Resort class, for example, contributes 24.5 percent of the total assessments, and is proposed to contribute approximately 34 percent on the estimated revenues. The next class that has the highest contribution in value, the Homeowner class contributes 21 percent of the assessments, but only 9 percent of the estimated revenues. So I think you understand what the chart, yeah, is relating to you folks. On Page number 4 is an illustration of the revenue sources proposed for the '15 Budget indicating that Real Property Tax makes up the lion's share or 42 percent of the total revenue sources. On Page number 5 is an illustration of the certified revenue for the upcoming and past nine fiscal years. So you can see how it's grown over the number of years. Page number 6, this is a breakdown of the previous page whereby indicating an eight year comparison of revenue by classification, sometimes pictures are better than numbers. This graph is slightly different from the values chart because now it factors in tax rates. You must be aware that although values move in either direction that taxes cannot be determined...either direction cannot be determined until the rates are actually established by the Council. Therefore, for the upcoming fiscal year, the graph includes the Mayor's proposed rates as provided to the Council back in March '14. On Page number 7 is similar to the previous page. This page is a breakdown of certified values. Page number 8 is always interesting, just a breakdown by district, the Council district, indicating C for the number of parcels, R for the revenue amount, and V for assessed value. On Page number 9, we've tried to provide you with some data that may explain some of the economic trends and indicators. Over the past three years these charts have shown that construction permits, sales, and new inventory have slightly increased over the past four years. Page number 10 is a very busy page. It's...this page shows all the parcels paying minimum tax by classification. One point that we have is that some of the Members in the past asked why there are so many parcels in Agriculture receiving minimum tax. This graph shows that there are 3,423 in Agriculture paying the minimum tax, primarily due to receiving agricultural assessments for either ranching or diversified agriculture. This graph also shows that 5,809 Homeowners, 22 percent of our Homeowners paying the minimum tax. So you can probably just go on and on and read as you wish. Page number 11 breaks down the 11,711 parcels paying the minimum tax, as you can see, the breakdown, I think it's self-explanatory there so you can just take a look at your leisure. Page number 12 is a distribution of appeals filed by classification for the current and past three years. So here, Chair Baisa, is just a breakdown for you, not only by the total amount, but as it relates to each class. Page 13 identifies the upcoming and past nine-year history on appeals. This page indicates the number of appeals filed per year and 50 percent of the value in dispute that we are required by Maui County Council, I mean, Maui County Code to set aside in a litigated account until the cases are adjudicated. The County Code requires a 50 percent of the values in dispute, under appeal, is available to the Council to appropriate in the annual Budget. Page 14, this is a litigated claims summary as of March 27 of '14. On the top, you can see that we have 26 cases at the State Tax Appeal Court level, dating back to Fiscal '07, with a litigated amount of approximately $4.4 million. On Page number 15 is a ten-year history of the number of qualified applicants at the subsidy...and the subsidy of the circuit breaker program. The circuit breaker program is a relatively stable program as far as the number of qualified applicants and has been, has been put in place as a safety net for homeowners. On Page 16, we tried to show you some statistics with the circuit breaker program. On the top, you will see the credit range and the amount of people receiving the credit. The bulk of the residents receiving the credit in the 500 to $1,000 range with 8 applicants receiving a credit between three and five thousand dollars. The second lower level it shows the bars relating to the adjusted gross income of the applicants, looks like with the majority of the applicants receiving with an AGI of less than 5,000. Next, the majority of the buildings seem to fall in the one hundred to two hundred thousand dollars building value range and on the bottom is a...although age is not a factor in applying for the circuit breaker credit, the graph just shows that the majority of the people receiving the subsidy are of "older than 60 years of age". On Page 17, the page provides you a summary of the Homeowner class by ranges. On the top, this bar chart identifies the net taxable value of parcels within the Homeowner class after the 200,000 exemption is removed. So for the first bar on the left, the 0 to 81,600, means that properties that are valued up to 281,600, these 5,809 parcels will pay minimum tax. The right-hand column identifies that 60 percent of our Homeowners have a net taxable value of less than 250 and are paying less than $765 in annual property tax. On Page 18 through 20 gives you the three islands just showing you a look of how Real Property can use GIS here with the island maps and the demographics of the Homeowner class. On Page 21, this is something that we've talked about in the past where the Hotel/Resort class, this class is the majority of the contributor of value and I wanted to point out that only 246 parcels of the 10,884 make up the true 41 hotels and the rest of the parcels are short-term rental properties primarily made up of short-term condominium units. And Page 22 to the end of 41, provided to you last year, was just a reference in understanding classification for Real Property purposes. This is identical to last year's so I won't go over it unless you want me to, but this just tries to provide you with some photos per classification because sometimes it may be misleading. So that's the second half of the presentation and the last, Chair White, and I'm open to questions at the request of the Members.

CHAIR WHITE: Thank you very much. I think it would be good if you would just go through some of the pictures and just --

MR. TERUYA: Okay.

CHAIR WHITE: --refresh our memories.

MR. TERUYA: Okay. And if anybody has questions it would probably be easier to just ask them whenever you guys are...feel free.

CHAIR WHITE: What I, what I'd like to do is have you go through this and then we'll take our morning break.

MR. TERUYA: Okay. Sure.

CHAIR WHITE: And we'll take a little bit longer break so we can have time to go through the book. And you know Members, I...this is one of those issues that irritates me is that we can't hand this book out until the meeting starts and I think that's pretty lame, but I'll leave it there for now.

MR. TERUYA: Okay.

CHAIR WHITE: Because I'm sure you would all have a lot more questions if you had a chance to look at this. So we'll take...in fact, you know what, Mr. Teruya, we're just gonna, we're going to take a break from now until 10:30 and give the Members time to peruse the book so we get a lot, you know, better questions. So with that, Members, we will recess until 10:30. . . .*(gavel)*. . .

RECESS:	10:06 a.m.
RECONVENE:	10:38 a.m.

CHAIR WHITE: . . .*(gavel)*. . . The Budget and Finance Committee will come back to order so that we can proceed with questions for the Department on the certification of revenues and before we do that though, I would like to recognize that Ms. Crivello has made it from Molokai so.

COUNCILMEMBER CRIVELLO: Yeah. Good morning.

CHAIR WHITE: After an eventful morning, I understand.

COUNCILMEMBER CRIVELLO: Eventful. Adventure happens on our island with the airlines.

CHAIR WHITE: Okay. Members, are there any questions on the valuations in the first section of the booklet you were given through Page 12 of the first section?

COUNCILMEMBER VICTORINO: Right before the green, green page?

CHAIR WHITE: Yeah. Well, actually before the summary page and the pie charts at the back.

COUNCILMEMBER VICTORINO: Pie charts.

COUNCILMEMBER COCHRAN: Sorry, Chair. Where are you?

CHAIR WHITE: In the first, the first section of the book, the pages...they're about 10 pages of valuations that show all the details of exemptions and, and, and the amounts on appeal and so forth.

COUNCILMEMBER VICTORINO: Yeah, Chair? I have...

COUNCILMEMBER BAISA: Chair?

COUNCILMEMBER VICTORINO: I yield to Ms....

COUNCILMEMBER BAISA: No, no, no. Please go ahead.

COUNCILMEMBER VICTORINO: No, no. Go ahead.

CHAIR WHITE: Go ahead, Ms. Baisa.

COUNCILMEMBER BAISA: Okay. Well, I'm going to follow along on what I was asking about earlier. Of those 531 appeals, how many of them are pending or are we done with all of them?

MR. TERUYA: They are all pending. They're all for this fiscal year.

COUNCILMEMBER BAISA: Every single one is pending.

MR. TERUYA: Yeah.

COUNCILMEMBER BAISA: And how did we do last year in terms of getting through this pending stuff?

MR. TERUYA: We got through all of 'em within a couple months, three or four months. Yeah. So in this amount, this is not unusually high for us. The Board of Review will have their first meeting sometime in May to organize.

COUNCILMEMBER BAISA: Uh-huh.

MR. TERUYA: There are several vacancies that we need to fill and then they need to file out who the officers will be, and then we'll probably be starting hearings soon thereafter in later part of May, and hopefully, we'll be done by maybe October, November.

COUNCILMEMBER BAISA: That's good. Thank you. So we don't have that problem we had before of backlog. Thank you. Thank you, Chair.

CHAIR WHITE: Actually, to put it in perspective, we have one-seventh of the...or one-sixth of the appeals that we had in 2010.

COUNCILMEMBER BAISA: That's wonderful. That's good.

CHAIR WHITE: So it's significantly lower.

COUNCILMEMBER BAISA: Terrific. Thank you, Chair.

CHAIR WHITE: Okay. Members, other questions on the valuation pages? Mr. Victorino.

COUNCILMEMBER VICTORINO: Just thought you forgot that I was waiting for that.

CHAIR WHITE: Thank you for that reminder.

COUNCILMEMBER VICTORINO: Thank you. And thank you for taking my thunder 'cause that's exactly where I was going with that is, as far as the number of appeals, I was going to ask Mr. Teruya, you know, tremendous reduction from 2010, '11 to where we are today. Now, I grant you, maybe you guys have done a much better job, and I think the public, I think, understands a lot better 'cause I think we've made this more transparent through the years, however, in your professional opinion, why such a tremendous reduction?

MR. TERUYA: Okay. Well, I think, one of 'em, first of all, the height of the appeals happened in 2009. One of the results of that was because of the condo use surveys that were going out and that escalated the number of appeals. Moving forward for us, we're doing a lot of different compliance issues. So now we're doing compliance and as Marcy saying, edits, and education. I think the amount of education that we've been putting into our staff over the last five years has been a lot more than we've done in years past so that probably helps as well. A lot of times, as a result of somebody appealing in one year, with the appraiser working with the taxpayer and teaching them or letting them know what are the faults or what are the issues, I think a lot of times educating the public is the thing that's going to help us reduce the number of appeals as well.

COUNCILMEMBER VICTORINO: Thank you. And again, I was quite surprised in the 2014-15 appeals, you know, that Time Share, as much as we hear about them, was actually third amongst the appeals, falling behind Hotel and Resort, Mr. Chair, and Agriculture. And I thought the Agriculture was kind of interesting that we've had such a spike in Agricultural appeals. So if you...'cause I've heard a lot of testimony, and we all heard this in our...in various committees, lot of people are saying that the inspectors that go out somehow don't seem qualified to know what an "ag" or what farming is, and what farming is not. So Mr. Teruya, is...give us a quick overview of why you see Agriculture as in second place as far as number of appeals, especially this year, in particular. Sorry, I didn't mean to ask you one question you wasn't ready for. Sorry.

MR. TERUYA: I think first of all, for the Agriculture, we haven't...I haven't personally looked over the statistics as far as who has filed the actual appeals --

COUNCILMEMBER VICTORINO: Uh-huh.

MR. TERUYA: --but maybe Marcy might be able to tell you a little bit more, 'cause it could be A&B. It could be Maui Land and Pine that owns a lot of properties in Agricultural lands that filing their appeals so maybe she knows.

COUNCILMEMBER VICTORINO: If that's okay with you, Mr. Chair?

CHAIR WHITE: That's fine.

MS. MARTIN: First of all, the Agriculture class is very large with 8,800 parcels so the 40 parcel increase in the appeal count isn't that large, but I think it's from Lanai, the appeals. There was a large subdivision done in Lanai and the new owners want to get to know their new land and their new values. I think that's the reason for the increase.

COUNCILMEMBER VICTORINO: So, this, this large increase in Ag, as you saying, is coming from the island of Lanai?

MS. MARTIN: Yes.

COUNCILMEMBER VICTORINO: Oh, interesting. Okay.

MS. MARTIN: It's a new subdivision on Lanai.

COUNCILMEMBER VICTORINO: That new subdivision and that's where...that's located down...

MS. MARTIN: From the large master parcel.

COUNCILMEMBER VICTORINO: I see, I see. Okay. Okay. And then the last question I have and I'll let others ask is, you know, under the Hotel and Resort, again, just about one-third of the appeals are coming from that particular area. Is that from one property or is that from a multiplicity of properties throughout Maui County? In other words, West Maui more, South Maui more, or is both like even-even? What seems to...and where are they coming from when you're talking Hotel and Resort?

MS. MARTIN: The, the appeals?

COUNCILMEMBER VICTORINO: Yeah.

MS. MARTIN: The appeals are spread out mostly from condominium units, residential condominium units that are in the Hotel class. As far as I know, none of the large hotels appealed this year.

COUNCILMEMBER VICTORINO: I see. So this is more individual ownerships, condos that have been classified best and best use would be...

MS. MARTIN: Also, 50 of the STRH permit holders are appealing their classification in the Hotel/Resort category.

COUNCILMEMBER VICTORINO: Okay. Okay. Thank you, Mr. Chair and thank you, Marcy, for that clarification. At least I have a better understanding what's happening within those classifications. Thank you, Mr. Chair.

CHAIR WHITE: Uh-huh. Mr. Couch.

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Thank you, Marcy, for that, those comments and that brings up another question. You say there's 50 STRH folks that are appealing their classification? And their classification is in Hotel/Resort?

MS. MARTIN: Correct.

COUNCILMEMBER COUCH: Okay. And I know in discussing the STR bill, we talked about putting them into a kind of a mid-category. Why are they put into the Hotel/Resort at this point?

MS. MARTIN: The properties in our Hotel/Resort category all have the similar use and the legal right to rent to transient tenants for less than 180 days.

COUNCILMEMBER COUCH: So it has nothing to do with the fact, you know, when you say "hotel", you picture a big, you know, a lot of units with swimming pools, restaurants, and all kinds of amenities in there. And that has nothing to do with the definition of the classification?

MS. MARTIN: No. There are only 41 hotel operations in the Hotel/Resort category, which I think has over 10,000 parcels in that category, so the actual hotel operations that we think of over in Kaanapali or Wailea, are actually a very small number of the parcels, but obviously their value is very high.

COUNCILMEMBER COUCH: Uh-huh. Okay. So maybe either through your Department or Mr. Chair is that might be a kind of a misnomer of the classification, possibly. We're actually talking about transient vacation rental properties, including, I mean a hotel is transient vacation, I mean, they rent the room. So some sort of renaming just so...'cause we're getting...I mean, we get the call saying, hey, I'm not a hotel, I can't...I don't have a restaurant and I don't have this, and that's not the issue. The classification is based on the fact that it's less than 180-day rental. Is that right?

MS. MARTIN: Correct.

COUNCILMEMBER COUCH: Okay. Maybe we need to rename that or something, Mr. Chair. Or get that more clear because I believe, isn't...you're basing that interpretation on the fact to where it says "condominiums" it specifically down in 3.48 where it says condominiums, if they do less than 180 days, any condominiumized property then that's where you can get charged that classification. Is that right?

MS. MARTIN: Yes, that is true. And it's also the legal use that is allowed by the property: if the owner of the property is not a condominium and has been given the right to rent for less than 180 days.

COUNCILMEMBER COUCH: Okay. So, yeah, maybe sometime when you don't have a lot of work to do in your Committee, we can talk about changing the name on that and also, I think there's one other classification we were discussing, Commercialized Residential are having a hard time getting loans because of the word "commercialized" in their classification. Or refies or something like that. I don't know...we'll have to discuss that, but if we can bring that up as a...

CHAIR WHITE: They're having a hard time getting mortgages because they have the word "commercial".

COUNCILMEMBER COUCH: Mortgages and refies, yeah.

CHAIR WHITE: Right.

COUNCILMEMBER COUCH: Okay. Thank you, Chair.

CHAIR WHITE: Just for further clarification, the number of...well, when you refer to "condominiums" it's not, not just what most people think of in the Ali`i or The Whalers in Kaanapali. It actually applies to some freestanding homes and so that there's a number of different uses in that condominium classification, or the resort classification. Is that correct?

MS. MARTIN: That's correct.

CHAIR WHITE: What did you say the number of...essentially each condominium or freestanding home is one, is considered one, one TMK, whereas the hotel is considered one TMK as well even though it's got 500 rooms.

MR. TERUYA: Partially true, but the Kea Lani is condominiumized as well, so.

CHAIR WHITE: Okay. That's right.

MR. TERUYA: So it just because it's a hotel doesn't mean it's not condominiumized.

CHAIR WHITE: Okay. So the Kea Lani is actually that number of units as opposed to one TMK.

MR. TERUYA: Each unit is a TMK in Kea Lani, as well as the Hana Hotel, I believe, is condominiumized as well, Andaz.

CHAIR WHITE: Okay. And you know, therein lies the challenge, is that we've got freestanding structures being charged the Hotel/Resort rate, we've got individual condos being charged at Hotel rate, you've got...

COUNCILMEMBER COUCH: Whole buildings of condos too.

CHAIR WHITE: Right.

COUNCILMEMBER COUCH: Yeah. And, yeah, so, maybe we need to rename that a little bit more clearly. Thank you.

CHAIR WHITE: Okay. Members, other questions? Mr. Hokama.

VICE-CHAIR HOKAMA: Also under Agriculture, when we were talking about it during this term regarding dedication and other ways to improve the program, did you have a lot of appeals on those that potentially lost their homeowners exemption since they're using their homes as offices and business components? I mean, you know, we heard the guys testifying they use their homes for business purposes so have they lost their homeowners exemption benefits?

MR. TERUYA: Well, as far as that's concerned, I don't know of any that we've gone out and removed people's home exemption. I mean the home exemption is really, you own and occupy, and I believe most of them own and occupy. As far as Agriculture, I know we have disallowed, this has been probably the first year that we've gone around and actually inspected units, and have taken away agriculture use values for people who we believe were not using it for the reasons as stated.

VICE-CHAIR HOKAMA: Uh-huh.

MR. TERUYA: I think there's, moving forward, there's a huge amount of properties that are being either dedicated or in ag use that we may need to go out. I mean, a lot of that is man-hours and our priority as to what we want to tackle first, whether we want to do the home exemption or is it the ag program or is it the condo or whatever it is.

VICE-CHAIR HOKAMA: Uh-huh.

MR. TERUYA: So I think that's just a matter of where we need to put our importance as far as our next go-around in field visits.

VICE-CHAIR HOKAMA: Well, what I recall during some of the Committee's assignments was we had consensus on dedication. But let me ask you another question. It's part of 13, 14. You know on those appeals, especially on Page 15, your asterisk highlight note to us, most of the taxes on appeal in Conservation is from Kaheawa. So in Conservation you showed, I believe, five, five, five appeals. That's only for this current fiscal year or is that...you know, 'cause we know Kaheawa has filed appeals every single year over the last--what?--six years. So the five is just for the current fiscal year but does...is that the total appeals, number of cases on appeal?

MR. TERUYA: Yeah. On Page 14, if you're looking at the first presentation on the number of appeals under Conservation district that just reflects the Fiscal '15 appeals.

VICE-CHAIR HOKAMA: Okay. Got it.

MR. TERUYA: I believe in the second, Page 14, second handout on Page 14, it shows a cumulative and in Tax Appeal Court of 26 cases. I think a majority of those 26--is that correct?--

VICE-CHAIR HOKAMA: Uh-huh.

MR. TERUYA: --would be of Kaheawa at Tax Appeal Court level.

VICE-CHAIR HOKAMA: Okay. And then on 15 that total dollar value. That's basically the whole Kaheawa number? Nine hundred fifty seventy-six thousand dollars [*sic*]?

MR. TERUYA: That is correct. That is the annual for the...for Kaheawa.

VICE-CHAIR HOKAMA: Okay. I'm done at this time, Chairman. Thank you.

CHAIR WHITE: Okay. Ms. Cochran.

COUNCILMEMBER COCHRAN: Thank you, Chair. And thank you to your folks' diligence and compiling all these numbers and everything. My question is, and I think I brought this up last term, in regards to Ag zoning that have gotten entitlements. How do you...are you addressing that at all? Is that in here? I mean I'm looking at all your differentiations between how ag is classified, and you know, I think that was a question where yeah, it's ag, but no, and no, there's no intention of putting it in actual ag production, but they will one day build and they've now got all these entitlements. So zoning has changed and everything. So how...has that been factored in anywhere this time? And I can speak directly obviously to West Maui lands.

MR. TERUYA: Yeah. I think when talk about entitlements, I think the question that comes to mind, for us, every certification year starting January 1 it's based on the existing zoning. So there may be large tracks of lands that you might talk about that are Agriculturally zoned both State and County. When you say entitlements are you saying that it's now been rezoned?

COUNCILMEMBER COCHRAN: Yeah, community plan amendments occur, Change in Zoning has occurred.

MR. TERUYA: Okay. When the Change in Zoning occurs, are you saying that it's moved to urban and then Residential zone?

COUNCILMEMBER COCHRAN: Yeah.

MR. TERUYA: Then the following calendar year it will be assessed as urban or Residential. Yes.

COUNCILMEMBER COCHRAN: Oh, okay.

MR. TERUYA: Yeah.

COUNCILMEMBER COCHRAN: All right.

MR. TERUYA: Like for example, if yesterday it was Agricultural State, State Ag, and today it you pass an amendment for it to be urban, R-1, or R-2, or R-3, then this is April, so now January 1 of '15 it'll be assessed as if Residential.

COUNCILMEMBER COCHRAN: Okay. So I mean, at least that clarifies for me anyways, that it is being looked at and will be, you know, documented down and priced out, I guess, to the appropriate levels.

MR. TERUYA: Right.

COUNCILMEMBER COCHRAN: And also, and I know we put more bodies into your Department in order to address those appeals when there was the huge spike and you brought down...you were able to address all the appeals that were pending and what have you. I'm wondering if there's a way to get...I don't know if it's more assess or just the hands-on, ground-level work per se. I know you have a dozen or so assessors to do the job but a lot of it...and I know we're utilizing pictometry and what have you, but I think a lot of places deems more the on-the-ground level footwork, literally go-to-it kind of, you know. So if there's a way...do you think that it would be, you know, pay itself off, I guess, in the end? If there were more people put towards that responsibility to, you know, get firsthand look.

MR. TERUYA: Chair?

CHAIR WHITE: Go ahead.

MR. TERUYA: You know, we talked about this, probably last month, when we, when we brought out...we were talking about the program budget of Real Property. There's several things that we can do, is you can always bring the man-hours on board and I know sometimes the E/P are concerns of both, you know, the management as well as the Council. For us, there's...we've...in the last four or five years this is the most compliance we've ever done in Real Property, as far as I know. We've, we are tracking the condominium AOAO uses. We are doing the agriculture. We are doing the home exemption fraud program and working with the State as far as the returns. So the additional bodies that we did have, two in the technical section, really aided, and I mentioned to you all the unbudgeted revenue that's coming back to this County as a result of the compliance efforts. I also mentioned that there are technology and software out there that we are considering, to use imagery as a way of expediting the annual physical inspection element that we want to do. This is something that we've never done before. Other than a sale or a permit, we had...we really didn't have a way of going or any means to go to your property. So after speaking with Maricopa County and Esri Canada of the product that they are using, to require...IAAO says that we should be inspecting properties every four to six years. So that is something that we've...we are trying to look at whether or not imagery and the software will replace an appraiser. That is something that we hope to do. And so like Maricopa County said, it's just physically impossible to get enough people to look at it every single...every four to six years. And you have to use the imagery and the computer to, to, to probably be much easier and attainable to...it's at least four times faster. A physical inspection on imagery is estimated at between seven and ten minutes per parcel and physically you can't probably do it at that rate. So I'm not sure if I answered your question because it's both.

COUNCILMEMBER COCHRAN: Right.

MR. TERUYA: It's yes, we need technology, but at the same time, the initial bodies for us right now we need to probably, maybe somewhat reorg and take them away from the appraisal section and more to a project specific area like under technical to, to work the condominium program, yes, work the agricultural program. Put your people here, I want a dedicated staff to do this 24/7, not as time permits. So we know that there are several projects out there that can have a return for an investment and whether or not we choose to aid or add the E/Ps there to do that is really up to this body and our recommendation to you. So we don't mind working with you in telling you what's available, like you talk about the agricultural subsidy is at $20 million. Is this something that we want to put one or two bodies in and see if we can get a ROI on this or do we work on the condominium or the home exemption program? So you know, we know what the subsidy is, we know what it'll take to enforce it, and then it's just a matter of us agreeing or disagreeing on where we want to put our resources.

COUNCILMEMBER COCHRAN: Okay. Yeah, I mean, it does, you know, and I'm glad that you folks are, are looking at it from all angles and trying to figure out the best, you know, combined solution. And then the looking into your second presentation about agriculture, your bullet points and your photos that go along with that. The Ag zoned with no ag, and it has a home on the beach, but I'm looking at ag lands that are ag that have no, no dwelling, no anything just open ag just sitting there fallow for eons and eons seems like, yet, you know, they're just paying pennies on the acreage. So how...has the Department looked into these types of lands at all 'cause we're talking thousands of acres of this type of land, thousands.

MR. TERUYA: Yeah. We have, we have about 4,800 parcels receiving some type of agricultural use benefit. It is no doubt one of our priorities, several years ago, to address this issue. We've created the Ag Working Group. This is probably the third Ag Working Group. I was part of the first and second with Jerry probably 10 years ago. It...I don't think any committee, well, I'm not going to say none will be able to do it, but it's very difficult. We've spent years, Jerry and I have been on a task force 10 years ago that lasted about 2 years, and at the end of 2 years it seemed like we ended up at year-one because, you know, what is "agriculture"? The hardest part is where do you draw the line between subsistence and true ag? And it's very, very hard to draw that line as to what are the requirements because conditions change, water changes, elevation changes, the soils are different. So I think, I think Mr. Hokama knows the subsidy level which is at $20.5 million, do we put our resources there and start checking 'em individually? That would probably be a good idea. I think we are trying to use pictometry as one of our indicators to go, to go look at it as far as what is the intensive use of agriculture. We've...the second task force tried to use dedication as one of the things that at least from our, from the Department's standpoint, we want dedication because currently, there is nothing in the books to say what they're actually using for it anyway. So when you go out there and you don't know the intended use, it's hard to validate what are we trying to comply with? So those are the challenges the Division seeks so as much as the public wants it to be resolved, we too, want it resolved because we want to know what are the standards and what are the guidelines. So we urge any type of movement on the agriculture because for us we don't know what we're trying to comply with so I think it's been so dated, this program is back to the State of Hawaii days when they were took over of taxation. And when it came over to counties it's lot of discussion but it's such a hot topic that it's very hard to resolve. So at some point, you know, whether you get a perfect bill or at least move forward with something it'll probably be beneficial for both the public and the Department.

COUNCILMEMBER COCHRAN: Thank you, Mr. Teruya. And I think it's, you know, coming back from Korea and all their ag lands, they pay...if you're ag and you're not doing ag, some kind of growing, some kind of production then you pay top dollar in taxation. You know, it's not like oh, I'm going to build a Costco on this land and I'm all good. No, they want an actually agricultural production and that's what Goyang City is and the whole flower market grew, and that's what I'm looking at all around here. And so that's where I was hoping to maybe do something like that because they got some production going because of that sort of push, saying, listen people, this land is prime, this is how the use used to be and should be, and if you're not doing it then you're going to pay top dollar on it. You need to feed the people or whatever.

MR. TERUYA: And that's something that this body has the ability to do is to create an agricultural class and a non-production agriculture, should they wish to go that route to say, hey, yeah, if you're not going to put something to the intended use that we think it should be then you can have consequences. That's what classification is for and that's what the tax rates are for. I mean, initially Kauai County had land and building at different rates so basically if you didn't have a building value and you're going to have higher land tax rate so, you know, that's all up to this body. Historically, for Maui County, building and land has always been identical. And I think Oahu went so far that to just combine land and building to just be one rate for the classification. But I believe that's the reason why it was separated because you had the ability to tax land and building at different levels.

COUNCILMEMBER COCHRAN: Thank you, Mr. Teruya. Thank you, Chair, that's all.

CHAIR WHITE: Ms. Crivello.

COUNCILMEMBER CRIVELLO: Thank you, Chair. In line with colleague Cochran is talking about when you talk about dedicating, receiving agriculture dedication, does it have tiers or, you know, does it classify just a flat rate or, you know, you have your gentleman estates, so called, and you have your full-production, and then you also have your non-production. So is it only production that classifies the land as ag?

MR. TERUYA: Okay. I'll answer half of the question.

COUNCILMEMBER CRIVELLO: Okay.

MR. TERUYA: And then Marcy can answer the harder half. But first of all, we gotta understand that there's two different ways of receiving agricultural use assessments. One is if you're zoned Agriculture, you can receive agricultural use. If you dedicate, one of the primary reasons is maybe you don't have Agricultural zoning. You may have Rural zoning or Conservation zoning. In order to receive agricultural use with those underlying land classifications, you must dedicate. Okay. Remember that for now. But if you have Agricultural zoning and you dedicate, the reason for dedication of that was to reduce the rate in half for like a 20-year dedication. So those are the reasons why people would dedicate if you had Ag zone but you're technically are not required to dedicate on Ag zone. It's just that if you wanted to go to the 20-year dedication and receive a much smaller rate per acre then that was the reason for that. You want to talk about that? And Marcy will talk about production because it all depends on what type of soil and maybe uses --

COUNCILMEMBER CRIVELLO: Right.

MR. TERUYA: --that the rate per acre would change.

COUNCILMEMBER CRIVELLO: Right.

MS. MARTIN: So we have four different agricultural classifications. There's pineapple, sugarcane, pasture, and diversified. And each one of those has different rates depending on soil productivity. Again, these rates are pretty dated in that they are very, very low. They haven't changed since the '90s. The portion of someone's property that's not in actual agriculture production, there may be a home site or just fallow land, that portion is valued at market value.

COUNCILMEMBER CRIVELLO: Okay. Well, I tend to disagree with Councilmember Cochran's...where all lands have to be productive. We have lots of family...I have lots of family in Hana and, you know, it's just lands that we pass down generations. And there are families that are not residing in Hana right now and I guess they're...the process would be then to come to you to try and dedicate it for 20 years to be Ag and then, but if you're not utilizing the land 'cause you're not there and you're not in a position to farm it right now or to have it in production, and a lot of the lands are undivided and even going to the kuleana process takes time. So for us to blanket something like that I think is...I appreciate that you have different approaches in trying to classify the different ag lands that we have because, like you say, lots of them are predated, they've been zoned Ag forever, you know. And then how do they distinguish which is better Rural or Ag? It's the valuation that really, I think, makes the difference too. So I think there's got to be stronger consideration coming from this body on how we would want to address if all lands gotta be productive with farms or flowers or what have you. I think there's many factors to be considered. Even back home where I come from, big acreages have been that way, with pineapple, and then all of a sudden it's like it's your land and you've gotta...and most of the lands or ag lands don't have the infrastructure that's in there to actually put it into full production so it's not something that can happen right away and that's just my opinion.

CHAIR WHITE: I believe Mr. Guzman and --

COUNCILMEMBER BAISA: No problem.

CHAIR WHITE: --then Ms. Baisa.

COUNCILMEMBER GUZMAN: Thank you, Chair. I know that we've been, at least the Ag Working Group that I'm attached to, we've been working with Mr. Teruya for so quite some time and I know that he's given us some information from various other jurisdictions in which they use agriculture in a tiered system. And so we're exploring breaking up the classification for agriculture in a tiered system and I know that in some jurisdictions it does work and whether it will work here or not it's...we're still studying it. I also believe that if you look at the history of how we've treated the classification of agriculture here in Maui, it's always been a catchall. Like if it's not Urban, it's not Rural, it's Agriculture whether it's production or not. Things are just classified Agriculture so I think we need to go into further study into whether we need to go ahead and subdivide and make a tier system within the classification of agriculture. So that's where we're standing in terms of studying it and I thank RPT for all their help and assistance in trying to get through this. Thank you.

CHAIR WHITE: Good. Ms. Baisa.

COUNCILMEMBER BAISA: Yes. Thank you, Chair. You know, it kind of...I'm kind of dismayed. You know, when I came to the Council and every year thereafter, we have heard about what we need to check in order to be sure that people are getting what they're supposed to get and not getting what they're not supposed to get. And we've, this Council has tried to fund additional positions in the Real Property Tax Division to focus on checking on, you know, matters that decide whether you pay this much tax or not. And I'm kind of disappointed 'cause I'm still hearing that we have to choose whether we follow up on ag use exemptions or homeowners exemptions or whatever. You know, I really think that I would like us to be told what is it that you guys need in order so that you can follow up on all of these standards and we're not missing out on revenues because we can't get around to it. I still think that investing in the capacity to check things out would result in money that would be, would pay for, you know, would pay for the cost of people checking on things. You know, it's not fair and it demoralizes people when they know that their neighbor is getting away with something that he shouldn't be and you know, neighbors cannot turn in neighbors 'cause if you do then you live in Hell, and so you know, I really would like to see us give this Department whatever it is it needs in order to enforce the laws that we pass so that we can see the results because if ag is being done, so be it. If ag is not being done it's fairly easy to see, and you know, yes, there are times when land has to be fallow, we all understand that because we all come from, well, at least I come from a farming background, I understand that. But you know, we need to check because if we don't check it's still happening. Or if the homeowner is there or not there or if it's a vacation rental or whatever it is. What kind of resources do we need so that we could really check up on these things and we don't have to hear this anymore about we have to choose. I don't think we should have to choose. We should be able to check on everything and then we would see the results in the dollars. Mr., Mr. RPT, please. I know you're trying you're best, but you know, I hate to hear you say, I can't do all this. Thank you.

MR. TERUYA: Chairman?

CHAIR WHITE: Go ahead.

MR. TERUYA: There were additional bodies and it may seem like we're not doing anything but I just want to give you a real quick statistic as to what we're doing.

COUNCILMEMBER BAISA: I know you're doing. I just think maybe you could do more if we gave you more bodies.

MR. TERUYA: It was, it was...and I know the Council is willing to support it. I know over the past two or three years we've always come across to let you know that we did not want to expand very fast. We prefer to take the slow approach and take a body at a time and see what the return was. I know what you're saying. Yes, it would be good to get three or four more to just do it, yes, but E/P is always a concern. And you know, I have statistics here for unbudgeted revenue, just to let you know, like the last two bodies you gave in PTO--small print, sorry--ag use, removed 83 parcels, 201,000. Condominium classification, reclassified 372 units last year, result $349,000. Delinquent homeowners, worked with the State Department of Taxation, result $250,000. And these are all unbudgeted revenues that we're doing. The exemptions, PTO removed 200 exemptions, 500,000 unbudgeted for Fiscal '13-'14. Three hundred exemptions moved for 2014, two hundred and...resulting in 398,892, so $400,000. And then assessments, worked with PTO in a project, joint project of 79 exemptions removed, 203,000 for Fiscal '15. So you know, it may seem like we're not getting it all but we are doing a lot of revenue. And with the additional bodies that...

COUNCILMEMBER BAISA: Thank you for making my case.

MR. TERUYA: Right.

COUNCILMEMBER BAISA: Just think what we could do if we had more people.

MR. TERUYA: Yeah. It's...we go through projects. We did the sketch check validation using the aerial imagery and we found like--what was that?--like 5,000 parcels not in compliance. I mean how do you see 5,000 parcels this year? It's just, I mean, anybody else want to come help us?

COUNCILMEMBER BAISA: Well, Mr. Teruya, Mr. Teruya...

MR. TERUYA: It's just physically very, very hard work and that's just, that's just that project. I mean, there's so much tangents. Every time we go down somewhere, it's somewhere else. So it's like how much additional revenue...I'd hate to promise the Council that I could bring you that much more revenue but I'm sure with the body that we...the additional bodies that we receive we would definitely give it a big ROI. Yeah.

COUNCILMEMBER BAISA: I think you've given us the ROI. My question is how much more will it take for you to chase some more money? You know, if you can bring in millions and we spend 50-, 60-, $70,000, isn't it worth it? I don't understand the math. And I know none of us want to add bodies, but you know, this is the kind of investment, this is not, you know, that's going to be a drain. It's going to bring in a lot of money. We got all that money out there and we need to get it. I don't know how else to get it. Maybe our Chair is very good at figuring out how to get money. He may have a better idea than I do but I really want to chase this money. I'm tired of this. If there's ag people that deserve ag, give it to them, but if they don't deserve it then we gotta deal with it. It's not fair.

MR. TERUYA: As a...from a tax policy standpoint, I think everybody would agree that the additional bodies to get the so-called cheaters or the revenue that we need to get, it's better to get it that way than to be raising rates. I think everybody would agree, agree there. So if we're looking at compliance, I would definitely say that this probably a better tax policy standpoint to go after the people who do owe us the money than raising taxes. I mean, you should get, get it, get everybody in compliance first before you look at rates.

COUNCILMEMBER BAISA: Thank you very much. Now can you tell me how many people you'd need in order to go chase this money or could you figure it out by the time we're done here?

MR. TERUYA: I think what we can do to the Council is go back and look at what we have on the table, I mean, it's like a huge table already, so it's trying to identify everything and report back to the Council everything that we have outstanding in the different areas and, and see what it would take to get through it. And like I said, it's just...you don't want to get the E/Ps upfront and then after year-one it goes dead so you gotta be realistic as far as what additional E/Ps and what are they going to do on an annual basis like this thing that I mentioned about four to six years, every four to six years revisiting a property using imagery. So back to Ms. Cochran's thing, is do you use bodies or do you use technology? And sometime it is a combination of both and it's very hard to come before the Council asking for E/P even though we know the ROI is big is everybody is trying to reduce E/Ps and I understand that.

COUNCILMEMBER BAISA: Mr. Chair, one last beat on the horse. I really believe that this is a place where we should put money because this returns money. It doesn't drain money so that's where I'm at. Thank you.

COUNCILMEMBER VICTORINO: Chair?

CHAIR WHITE: Mr. Victorino.

COUNCILMEMBER VICTORINO: Thank you. And following in the same lines as Ms. Baisa, Mr. Teruya, is Change in Zoning and ordinances would you want to see that done also, you know, like with ag maybe tiered. I mean, you know, we have thrown a lot of ideas and I think that's maybe sometimes why I feel your hesitancy is if we, using what we have right now, would that accomplish everything or should we be working towards making those systemic changes so that when we get all of this done, we get it done right? Not do it this way and then next year, oh, we gotta change it again and that throws people off, aka the circuit breaker. You know, we made changes and now we're seeing some repercussions. Yes, it may be small, but tell the person who has been, you know, that elderly couple that has lost their, their exemption. That's not small to them, you know, and you hear 'em, and we've heard 'em. And I know there's been a lot of talk out there, why they're not, they're not appealing? Very simple, most of them told me, they give up already. They quit. You know, local style if you don't, you don't see a light at the end of tunnel, they quit, they give up. And that's why a lot of local people have walked away from even voting. But you know, I don't want to get off into a tangent, let's stick with the subject at hand. Changes that are needed not only by personnel but changes in the Tax Code itself. Do you think that's very important, Mr. Teruya? And I know it's up to us, everything's up to us. You know, it's like Mr. Taylor says, well, you decide Council and then I'll do whatever you tell me. But your opinion, you're a professional, tell us.

MR. TERUYA: Okay. If it was easy, we would only have one rate.

COUNCILMEMBER VICTORINO: Easy, okay, we do that.

MR. TERUYA: You know, there are municipalities that do that. Obviously, that's not the case here. About four to seven years ago, we had, from Real Property, we had mentioned that it may be a good idea for this Council and previous Councils to consider separating the Hotel and Resort category. We do, from our standpoint, we feel that true hotels and short-term condos may move at different market levels. You know, one may tank faster and some may recover faster and by putting one rate on these two categories that are very different should be considered or maybe considered. It would be a good opportunity because also your true 46 or 41 hotels, whatever you may call it, is your large employers, so you know, would you want them in a different tax category? Maybe. You know, does, does the body feel that it should be? These are areas that we have drafted and looked at possible legislation. It's not come forward; I'm not blaming anybody, but that is one area that you may want to consider. We're always trying to figure out what to with agriculture. We felt, from the Division's standpoint, and not from the Mayor or not from Administration, is that we feel that just by making people dedicate agriculture, put some onus on the owner to do something, and we feel that if we had given that consideration only, it may reduce the amount of subsidy in that area because everybody is going to be required to tell us what you do, what's your numbers, et cetera. So we feel that, like I said, there's no perfect bill but there is something that we need to start moving on just to get it rolling and sometimes you may find that that simple fix may solve the problem of the bigger picture of agriculture. So 'cause, you know, lot of times is properties sell and somebody's repeating a dedication or an agricultural use from a previous owner and they don't even know what they're doing. Very likely what's happening right now. So I think there is low-hanging fruit in the agriculture area that we can possibly look at, is look at all these resales and are these people still doing the use that was intended back then? So I think there areas that we can get, garner revenue relatively quickly for, compared to the overall picture because you're not going to get 100 percent compliance in any program and to think that you're going to get 100 percent compliance is like unrealistic. So you just trying to better the ball than what we had last year so.

COUNCILMEMBER VICTORINO: So with that help along with more manpower, you know, you can achieve a much higher percentage of what you've been trying to accomplish. And again, 100 percent may be unrealistic, but if we got up to 95, 93, whatever, I mean, I think there you talking the low-hanging fruit. We not changing rates, we not making --

MR. TERUYA: Right.

COUNCILMEMBER VICTORINO: --people pay unfair, their...an unfair share, right? Now we getting everybody paying their fair share or most of everybody paying their fair share. So you're saying in combination of what Ms. Baisa's talking about, what I've asked you about certain changes, small but systemic changes that can actually lead to probably where we want to be, is what you would recommend?

MR. TERUYA: Yes.

COUNCILMEMBER VICTORINO: Okay. Thank you. Thank you, Mr. Chair.

CHAIR WHITE: Mr. Guzman.

COUNCILMEMBER GUZMAN: Thank you, Chair. I have a question via different categorization. The homeowners exemption, when we...when we were going through a phase of all the foreclosures and we're just about done with that, there are times...well, most of the times when you go through these foreclosure proceedings, the home itself becomes bank owned and therefore, loses the homeowners exemption, and so that time period, it could be two to three years by the time they sell the home. Are these banks being charged for homeowners...I mean, are they availing of the homeowners exemption because they, by law they wouldn't be able to because they don't live in the property and so are we able to tax them on a non-exemption on that and recoup those monies?

MR. TERUYA: Yeah. On the transaction on the foreclosure it wouldn't, it goes back to the bank. We would get the deed from the Conveyance Office and we would remove the exemption appropriately.

COUNCILMEMBER GUZMAN: And what is the process of that? Does it...is there a lag time? Are we losing money on that or are we right on par with the process?

MR. TERUYA: The current Ordinance says the exemption, once received, it's good for the entire assessment year. So like, for example, if you were the owner as of January 1 and were receiving the exemption and all of sudden the bank took it in April 1st --

COUNCILMEMBER GUZMAN: Uh-huh.

MR. TERUYA: --the exemption is good for the calendar year or the applicable fiscal year. Now if we were to change it that would be different to say a prorated amount, you know what I mean, but that's not how the law reads now. So just...if you...if somebody was receiving a home exemption, sold the property to the next person, ultimately they are benefiting from the exemption for the entire calendar year and that's just the way the Ordinance reads.

COUNCILMEMBER GUZMAN: Wow.

MR. TERUYA: And likewise, you can't just come in in March and receive the exemption as of January 1. So you know, it's one way or the other, it's give and take, whichever way you go. Now if the law was to change to say that it is prorated as of that date that would be a different story but that's not what the Ordinance reads as today. Like you saying, like the bank takes it over from the middle of the year --

COUNCILMEMBER GUZMAN: Right.

MR. TERUYA: --theoretically if the Ordinance read it that way, you could take it away, prorate it, but that's not the case right now.

COUNCILMEMBER GUZMAN: So basically, the bank's get that... *(inaudible)*...

MR. TERUYA: For the remaining of that calendar year --

COUNCILMEMBER GUZMAN: ...*(Inaudible)*...

MR. TERUYA: --and the following year it would be removed.

COUNCILMEMBER GUZMAN: Wow. Well, is there a lag? Is there an inventory of, of that going on right now? Are we on par with collecting...not really collecting, but are we switching over the categorization on time?

MS. MARTIN: We meet the deadline every year of the January 1st so we make sure that everyone who sold the property the prior year doesn't get the exemption the next year.

COUNCILMEMBER GUZMAN: But the property has to be sold. It's not...are you keeping track...or transferred, okay, transferred to the bank.

MS. MARTIN: Correct. Yeah.

COUNCILMEMBER GUZMAN: Okay.

MS. MARTIN: Correct.

COUNCILMEMBER GUZMAN: Thank you. We'll look...I think we need to look into that 'cause there's some revenues that are actually can be recouped from that. Thank you, Chair.

CHAIR WHITE: Mr. Hokama.

VICE-CHAIR HOKAMA: Chairman, I would, I would say that I think this is very critical discussion right now. Timing-wise though, I think maybe this is something right after Budget 'cause it's hard for us to change the structural situation now for this coming Budget request. But I would agree with Real Property Administrator and others that we really going to need to look at restructuring real property taxation if we going to sustain it for the projected type of revenues we are going to need, but I think we need to look at all revenue streams to make sure that real property then is accordingly and appropriate for the tax base. And I say that, Chairman, because I would agree with the Administrator. We should be looking at the efficiencies within the current structure before we look at other options. That includes short-term investment portfolio. Are we transferring our funds timely to get the better rates especially on payment of obligations? You know, I think I've had a discussion with Mr. Baz and you, Chairman, that we might want to transfer as much as possible to the State and get the better return on investment that they now getting at 7 percent 'cause I'm sure the County's not getting 7 percent, 'cause I don't see it in our reports on interest income. But saying that, Chairman, you know, I think if Mr. Baz would work with you, I would be happy in the first quarter of the new year to have no Budget amendments and work on this type of serious philosophical discussion we need to restructure taxation for this County, and we cannot keep doing it if every meeting is taken up with another amendment request. You know, we're going to have to come and say, you gotta live with your budget at least for the first three months of the fiscal year we won't do amendments because we got other major requirements that this Committee needs to do, including our finance responsibilities, Mr. Chairman. So you know, I would say that we in the right direction, but you know, I'm like others, I would look for the efficiencies first, and I'm like Ms. Baisa, I mean, you know, before I want to look at rates I want to make sure we, we capturing as much as possible existing. And so I would agree with that, Mr. Chairman and I thank you for my comments.

CHAIR WHITE: Uh-huh. One of the items... *(inaudible)*...

VICE-CHAIR HOKAMA: Oh, Chairman, one last thing. I think one of the things that I wanted to share, especially with the Homeowner class, Residential class, 'cause in my mind we can justify, we need to tell them what is the per taxpayer or the per parcel benefit back in return from what they're currently paying because they get way more in value of services from the various departments whether it's first responders, Police, Fire, ambulance, whether it's the road, the sewer, the Water Departments, I think we can show that whatever the homeowners are paying they get more of value than what they actually paying to the County of Maui. And so I think maybe that's some of the educational components we need to do for those that think they're overtaxed, I would say, look at the benefits you get and look what you ask your County to provide that is not required to be provided, and then compare the taxation with that. Thank you, Chairman.

CHAIR WHITE: Yeah. One of the, one of the calculations I shared with the Committee last year was that, I believe the average Homeowner rate last year was $750 and the amount of services we provide out of the General Fund only amounted to about $6,200 per household, but that's a little bit of a squishy figure because that's the, that's the total services provided by, by the County divided by the roughly 52,000 households on Maui so that doesn't include Commercial, doesn't include Hotels. But, but it just gives you a sense of what that disparity is. One of the other things one of you brought up was the if somebody's doing something on a, on their home parcel whether it's conducting business or conducting rentals, I, Mr. Teruya, my understanding is that currently, under existing Code that if you are using a homeowner...if you have the homeowners exemption and you're renting out an ohana or something of that sort, does that disqualify you from having a homeowners exemption as the Code is currently stated?

MR. TERUYA: Well, no. If the...current Code says if you own and occupy, you can get the home exemption. It doesn't say you can't rent. The portions that are rented, whether you rent one bedroom or two bedrooms, the exemption cannot be applied to that, those portions. But with land value being so high in Hawaii, everybody's basically benefitting from their exemption. For example, if you have a house and a cottage, the exemption is not going to be applied to the cottage but with the 200,000 you're...half of your land and your building will absorb the 200,000 so you're basically receiving everything. The City is probably the most proactive approach as far as what they give out in benefits. For the City, it would be only applied to that property, to that home and they would probably, in order to get the home exemption every unit on the parcel must be owner-occupied, meaning if your father's living in the cottage and your father must be on title, apply and be granted the exemption to receive the category. For here, in Maui County, I think that's why the Ordinance needs to be amended, it says, I mean, be used exclusively for the homeowner. Now, I think only Maui County was generous enough not to apply the exclusive. So for example, you're receiving the exemption when you're renting portions or keeping something vacant. In the other...in Honolulu, like I mentioned, is...it would have to be used exclusively for the homeowner, meaning you're basically a single unit not with an ohana, to receive the home exemption. So that is something that I'm sure is very difficult to pass once given, but it is something for the consideration whether there should just be an amendment to the Code to say no longer be applied as exclusive.

CHAIR WHITE: Thank you. Mr. Couch.

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Back to the homeowner's exemption and when it gets removed. Do you guys...I don't imagine you would have any idea if somebody has a homeowner exemption and then they decide to move somewhere and rent their home out. That homeowner exemption stays on 'til they notify you that, that they're renting out that unit now. Is that right?

MR. TERUYA: That's correct. The Code says the owner is, is responsible within 30 days to give notice to the, to the Office, whether that happens I don't know. And I would say, I would...it would be pretty unusual, most people probably would not know to notify us.

COUNCILMEMBER COUCH: Right.

MR. TERUYA: Yeah. Unless they're trying to claim an exemption somewhere else and that's how we would find it. Yeah.

COUNCILMEMBER COUCH: Okay. Yeah. 'Cause I've heard of a couple instances and it's...

MR. TERUYA: I think even...

COUNCILMEMBER COUCH: And they didn't...they said, well, I didn't know you had to do that.

MR. TERUYA: And that's something that we've worked on with the other counties in Hawaii, trying to work on, is getting a Statewide list so that people are not claiming in multiple, multiple counties.

COUNCILMEMBER COUCH: Okay. Or even, you know, people leaving a bigger house to move into a condo and then renting out the house without providing you that because they still feel that, you know, it's my only property that I own.

MR. TERUYA: And that is something, again, we talk about as far as compliance, we are trying all the tools we can to, to go through it, you know, whether it's LexisNexis searches, I mean, these are all things that cost us money. So like I said, if we want invest in it, we're going to have to tell you 'cause, you know, it's not a free service to do some of these things.

COUNCILMEMBER COUCH: Right.

MR. TERUYA: We work with the State of Hawaii Taxation, with Pablo's office. We try to work with DMV as far as records that we can get on mailing address. Should we be working with the Department of Water finding out where the tax bills...water bills are going to? Maybe. Should we use...there's a lot of tools that we're trying to use --

COUNCILMEMBER COUCH: Yeah.

MR. TERUYA: --in trying to verify whether or not somebody is entitled to that home exemption because that is by far the single biggest benefit to anybody here --

COUNCILMEMBER COUCH: Oh, yeah.

MR. TERUYA: --is the home exemption.

COUNCILMEMBER COUCH: Oh, absolutely.

MR. TERUYA: Yeah. So, you know, there are tools that we're trying to go out there and maybe the Council will hear our wish list moving forward, you know, what type of resources we're going to use to verify somebody's home exemption. So and so far, the State Tax Office appears to be one of the better ones because at least we'll know you're filing a resident return and that's one of the biggest differences that this Council made when they amended the Ordinance and that is the, by far, the best part.

COUNCILMEMBER COUCH: Okay. Thank you, Chair.

CHAIR WHITE: Uh-huh. Ms. Cochran.

COUNCILMEMBER COCHRAN: Thank you, Chair. And to jump back on the ag bandwagon, I just want to comment on Mr. Guzman and his efforts he's been putting through with the Working Ag Group and I see that you folks have been involved also and totally, you know, in favor of figuring out this whole tiered ag approach, you know, and I just wanted to say my, my statements earlier to you is more so to those large land owners to sort of figure out a way to give them, you know, to urge them, to give incentives to them of some sort to get people who are more than willing to get on the land and put it into production. The infrastructure is there, from water to fencing to open, you know, high-quality soil and what have you, I mean, it's all the makings of doing some good stuff for this island. And it's never an intention to, you know, the, the kuleanas and the small family, family lands. But that's what I'd like to see somehow via our tax system to urge these types of tracts of land that once were, not in production today, and but I think an incentive type thing, you know is definitely needed somehow, and not to penalize anybody, but perhaps, I think "incentive" is a nicer word and I think where people can maybe buy into that. But, you know, and then chiming in on Ms. Martin's comment in regards to the rating system, I guess, you mentioned, Ms. Martin, it's all about the soil classification on how the different rates of ag is, is determined. Is that right? Can you just elaborate a little bit on that for me, please?

MR. TERUYA: That was...

COUNCILMEMBER COCHRAN: Or Mr. Teruya.

MR. TERUYA: Okay. That, that rate study or, or that study was done--what, '50s?--by the University of Hawaii. It's basically the soil productivity and the quality and lot of the rates that we're doing with agriculture is basically the rent per acre. That's how the value is established, is based on what it would rent for per acre. That's how the study was made up of. So like, for example, sugarcane--maybe what?--$1,000 per acre, pineapple was so much per acre and that's how the study was created.

COUNCILMEMBER COCHRAN: And that was a Statewide rating system?

MS. MARTIN: Yes. We adopted those rates from the State and even today, the ag leases from the State of Hawaii to individuals, they rent for a very low price per acre.

COUNCILMEMBER COCHRAN: Okay. 'Cause I'm just trying to figure out lands in like Kapoho of the Big Island where it's like no soil, dirt even, they call mulch dirt 'cause it's lava, and yet, they're very, extremely productive there. Jumping to Page 2 of your second, your second section on vacant agricultural lands. Oahu has a $8.50 price range. What...do you know what that is? 'Cause it looks like no other county has that category, if, if you know what that means? And how that could relate here. Sorry, the second half of your, your handout on Page 2 and you have our State broken down into different counties and what their taxation is in reference to ours. And third line from the bottom, vacant agricultural, and we don't have one, but Honolulu does, and Hawaii and Kauai does not. So I mean, I know that's not --

MR. TERUYA: I'm not...

COUNCILMEMBER COCHRAN: -- our town but I was just curious as to what is that and if there's a way to, I don't know, figure out what that means and if it would be utilized, could be utilized here.

MS. MARTIN: We don't know the exact answer to that but Honolulu does require dedication in order to get the agricultural use valuation subsidy.

COUNCILMEMBER COCHRAN: Hm.

MS. MARTIN: And it's somehow related to that and we can research that and get back to you.

COUNCILMEMBER COCHRAN: Okay. Well, thank you. I mean, just that I thought it could be a good point to check out to see if there's a way, how were they utilizing it and if it's productive and, you know, there's some type of return on investment there. Thank you, Department. Thank you, Chair.

CHAIR WHITE: Other questions, Members?

VICE-CHAIR HOKAMA: Chairman?

CHAIR WHITE: Hold on just a sec. Mr. Hokama, go ahead.

VICE-CHAIR HOKAMA: Thank you. Something we don't normally talk about and maybe you brought it up, Mr. Teruya, that you know, historically we've always looked at land and building at one rate. But you know, I've been reading and watching sister counties approach revenues because we all have the same concern with real property across the country. How some counties, while still supporting the nonprofits, certain educational, private educational or religious activities, has gone about and decided that maybe taxation on building is a reasonable factor to have those type of components participate and pay, I guess for those counties, a fair share of revenues to pay for certain services. And you know, I just was wondering how you see us maybe at least reviewing that option, you know. I don't have a problem still yet granting exemptions on the land for those type of charitable or nonprofit type of organizations, but if they can get that kind of money and then all of a sudden put up a $20 million building then my thing is it's kind of interesting you get that kind of money for put up that so maybe we should tax the building then, that component, and let them have the land at zero yet. Whether it's a credit union, church, private educational, I'm willing to consider that 'cause they still use services. Any comments?

MR. TERUYA: It is an interesting topic. Most recently in Kauai, I know that one of the reasons why credit unions came under fire was that, I believe it is the Kauai Credit Union, built an extremely big credit union. And that was one of the reasons first looked at whether or not credit unions should be exempt further and I think other credit unions came in to testify not to tax credit unions so heavily, I mean, to not...to keep the exemption for them. Then the topic about whether or not buildings should be a stronger or a higher tax rate because they feel that if you can build it then you should be able to support it. So I think there is some line of thought of building being higher in valuation. If this body should choose to go that route there are some things that we would have some questions about, because how would we handle things fundamentally with condominiums, because ultimately land is a percent interest of the total parcel and some identical units will have different land to building values because of percent common interest. So that is one concern that I would have in regards to how you do condominiums other than doing a market value and an allocation of land-to-building 'cause that would be the only unfair part when identical units sit on different parcels and would have a different component. So that would be my only concern but it is something that other municipalities do recognize that if you were to choose a higher rate that it would possibly be on building. And that whether you're exempt on your land that should be a component on building to general core services. Yeah, no doubt.

VICE-CHAIR HOKAMA: And again, we...that's the type of comment, you know the Committee would look forward to and appreciate but I think it's something we gotta think about if we are going to restructure for the long haul a sustainable tax structure for this County and we gotta look at everything, including that component. And that's why I bring it up now to see if there was comments and if there is any initial type of work we need to do in this Budget document. So I appreciate your response, Mr. Teruya. Thank you, Chairman.

CHAIR WHITE: Thank you, Mr. Hokama. Questions, Members? The Chair has handed out two spreadsheets this morning. The first one is green on the top and blue on the bottom and it basically outlines the...we've inserted the certified numbers in the values slot that's updated the revenues projected, and so it shows the increases in valuations amounting to just over \$100 million in value and that's generated an additional \$980,000 in taxes that we didn't have in the previous outline. So the current change in taxes with the increases in values and the increase in taxes is now just over \$37 million. The blue section below simply reflects the amount of taxes that will be generated by just the value increases without applying the 6.5 percent tax increases or rate increases, I should say. And as you'll see down below, the taxes generated go from 222.3 million last year to 243.5 million this year or approximately \$21,180,000 or a 9.5 percent increase. So that's one. The other one that I've handed out, there's been some talk about where the rates have grown and how they've moved. Back when the State gave the tax responsibility, the Real Property Tax responsibility to the counties back in 1981, I believe the rate was 6.50 and the assessed value was somewhere in the neighborhood of 60 percent or maybe it was 67 percent of, of market value, but we've switched to a market value instead of a percentage of market value so the effective rate on that 6.50 is actually \$4.50. And you know, my calculations may be a little bit off and Mr. Teruya or Ms. Martin can certainly jump in and correct any of this. But what this does is it shows the change from that $4.50 rate back in 1981. The right-hand column shows that Residential has gone up by 36 percent; Apartment, 52 percent; Commercial, 67 percent; Agriculture, 73 percent; I'm sorry, Industrial, 73 percent; Agriculture, 43 percent, and Conservation up 48 percent; Hotel and Resort up 122 percent; timeshare up 268 percent, and Homeowner is the only category that is down and it's down $2.66 from that 4.50 and that's a drop of about 59 percent. The bottom, I've grouped Residential and Apartment together and that shows their increase being $1.95 or 43 percent. The business categories of Commercial, Industrial, Agriculture, Hotel, and Timeshare, and Commercialized Residential has a blended increase of $4.91 or 109 percent. So that's just...there is significant change that's taken place since we took over the responsibility back in 1981. And the realities of our expenditures and expenses that we're facing in this year's Budget, as well as upcoming years, makes it necessary for us to take a very hard look at how we are moving ahead with, you know, with our tax policy. So with that, Members, if...do you want to continue this, the discussion on Real Property Taxes this afternoon or do you feel you've been able to ask enough questions for now?

COUNCILMEMBER CRIVELLO: ...*(Inaudible)*...

COUNCILMEMBER VICTORINO: For now.

CHAIR WHITE: Mr. Hokama.

VICE-CHAIR HOKAMA: I would say if you could give us a hint on your direction, Chairman, then that might help us determine whether or not we, we've have enough response from Mr. Teruya or not.

CHAIR WHITE: Well, I think the, you know, the Chair's feeling is, is consistent with Ms. Baisa and yourself, where I think we need to make significant efforts towards compliance and making sure that it's fair, and the Chair is not looking to, you know, any significant rate changes or upheavals in any way. I think we all know how sensitive changes to tax policy are and it's one of the more challenging things to get through this body as we've all seen from our efforts to --

VICE-CHAIR HOKAMA: Uh-huh.

CHAIR WHITE: --increase the minimum tax a couple of years ago. You know, we all agreed on it and then we had 10 testifiers, and all kinds of things broke loose. So you know, the reality is that dealing with tax issues is very, very sensitive and gets people very emotional. And so, the Chair is not looking at making any significant changes.

VICE-CHAIR HOKAMA: Okay.

CHAIR WHITE: Mr. Hokama.

VICE-CHAIR HOKAMA: And I'm sure the Committee appreciates your sense of direction, Chairman, so thank you very much for that. But saying...sharing what you did with the Committee then I would ask Mr. Teruya, you see any factors after hearing Chairman White, in your forecasting is there going to be any big changes in the amount of tax appeals we normally win versus we normally lose? You know, do you see anything happening drastically that will change the status of funds in question?

MR. TERUYA: No. I think moving forward, once that wind farm is finished off at Tax Appeal Court, moving forward we did or at least this body did amend the Ordinance as far as what is considered real property.

VICE-CHAIR HOKAMA: Uh-huh.

MR. TERUYA: We feel that moving forward, we should have a good handle on that. As far as the number of appeals, I think as we move forward, we are getting more confident that the work we're doing and the values that we're putting out are standby, we stand by it.

VICE-CHAIR HOKAMA: Okay.

MR. TERUYA: So you know, we feel that we should win the majority of appeals moving forward.

VICE-CHAIR HOKAMA: Okay.

MR. TERUYA: And as far as new construction, I think, even when you talk to the Bureau of Conveyances they do acknowledge that the number of recordings, if you look at the trends historically, they believe that it's going to be one of the better years versus the previous two. So they're anticipating more recordings over at the Bureau. There's more Building permits that being taken out right now so we can only assume that the economic outlook would be better, but then again, you don't know Mother Nature and other factors beyond that so.

VICE-CHAIR HOKAMA: Uh-huh. Okay. Thank you for that. And Chairman, some of the reasons why I think the Committee is asking key questions is, you're right, you know, even we as taxpayers are fighting what's happening up in D.C. in the District regarding tax policy and how it impacts this County, because one of the areas that we're going to find out in the next two months or less is whether they'll be Federal dollars for transportation highway projects. And I'm being told that they currently are going to notify state DOTs as of this month to start cutting back because there's no certainty of the level of funding for the transportation program. And so part of our job, then, is how do we make up potentially even loss of Federal funds for key priority projects, you know. Maybe on the STIP but if there's no money from the STIP, big bill.

CHAIR WHITE: Yeah, very big.

VICE-CHAIR HOKAMA: And you know, so Maui and others have asked for more collectors regarding transportation, and congestion, and whatnot. That's all going to be impacted big time for us, Chairman. And so, you know, my thing is besides looking for more money, we going to need to start slashing areas that has the fat because we're going to need that cash reserves, in my opinion, for the next two and a half years. Thank you, Chairman.

CHAIR WHITE: Good point. Ms. Baisa.

COUNCILMEMBER BAISA: Thank you very much, Chair. To answer your question about this afternoon, for me, there's a couple of things I would like to, to know before we spend a whole lot of time in talking about Real Property Taxes. One, of course, is I'd like to have that public hearing where we listen to what the public has to say. I've been reading what the public has to say and it's pretty harsh, and you know, there may be other perspectives. And the other elephant in the room, of course, is how we're going to be treated by the State with the TAT. And hopefully, the meeting this afternoon will give us a better clue. I'm afraid that, you know, they may play the game with us and, you know, just take it longer and longer, but if by any chance you get a clue this evening as to where they're going, it will certainly affect our discussions and where we go. So those are two things I'd like to know and then, you know, we can really sit down and talk turkey, but until we have that it's going to be very difficult. Thank you.

CHAIR WHITE: Okay. Thank you. Members, we will have...well, we'll give you all the afternoon off to work on your own Budgets and give the Staff some time to catch up. We've put in a lot of hours this weekend and we've got more to do. So we'll have the Council meeting here in the Chambers tomorrow morning at 9:00, and then we head out to Hana for the public hearing out there tomorrow night, and then back here, in the Chamber, Wednesday morning at, beginning at ten o'clock. So with that, I just want to go over one, one other thing I've handed out. You know, as you all remember the...for three years the Tavares Administration and the Arakawa Administration, in their first two years, came to us with the concept of revenue neutrality. And that was in order to increase tax rates so that the County wouldn't lose all the funds they needed with which to operate. So what I've put together here is using Fiscal Year 2010 as the base year, and I...the calculation, it's kind of hard to follow, but I you look at the boxes below the...in the middle of the page, on the right-hand side, there's two boxes. One shows the...the first box shows fiscal year taxation actual and what it would have been had we left rates the same. So had we left the rates the same, with the drop in values, we would have lost roughly $28 million, however, we increased taxes, tax rates, and by doing so the shortfall was only 17 million. So that year was a $10.271 million tax increase or approximately 5 percent. And actually, if I'm looking at the blended rates, the darker box, where it says 5.8 percent is the average rate, that's a 6.9 percent increase in the rate. And then in the next box it shows that the...at the 2010 rates, revenues in 2012 would have dropped by $47.9 million, but with the increase in rates, we only lost 23.7. So basically, that year was an effective tax increase of 24 million or 13.1 percent. Then the other boxes are simply the following years and you can take a look at that. What it boils down to is that the last, the box on the bottom, bottom right, shows this year's increases, reflects this year's values and rates. And what that means is that with this year's values and applying the 2010 rates, we're effectively paying taxes of about $58 million more than we would had we stayed at the 2010 rates. So over the last four fiscal years, the revenue neutrality and the tax increases from last year that resulted in us asking the community for approximately $165 million that we would not have gotten had the rates simply stayed the same. So I...you know, the reason we move rates is because we need to reflect our financial needs. At the same time, the fact that we have reached out to the community and asked for more money, I'm a little concerned has made us feel like we've got more to spend, and hence the...hence some of the sizeable increases that we're facing. So I share this, these three items with you just simply for you to use in your, your own thoughts and deliberations as you put together your budgets. We've, we have asked the community to step forward when values dropped by increasing the rates. Now that values are going back up, is it consistent for us to turn around and say, well, yeah, values are going up so now we can take the value increase and the...and add a tax increase on top of that? So I'm not making any pronouncements, but I'm just sharing that with you because I think it's something that we need to...I know that the public is watching what we're doing and we've all heard that nobody's terribly excited about raising taxes. But with that, Mr. Victorino and I need to jump on a plane and get to Honolulu. So with that, we will adjourn, and we'll see you in Hana tomorrow night, back here in the Chamber for our Council meeting tomorrow. *...(gavel)...*

ACTION: DEFER pending further discussion.

ADJOURN: 12:06 p.m.

APPROVED:

MIKE WHITE, Chair
Budget and Finance Committee

bf:min:140421:jz

Transcribed by: Julie Zaner

CERTIFICATE

I, Julie, hereby certify that the foregoing represents to the best of my ability, a true and correct transcript of the proceedings. I further certify that I am not in any way concerned with the cause.

DATED the 14^{th} day of May, 2014, in Wailuku, Hawaii.

Julie Zaner