



**To:** Honolulu City Council  
The Honorable Ernest Martin, Chair

**From:** Kiersten Faulkner  
Executive Director, Historic Hawai'i Foundation

**Date:** January 4, 2012

**RE:** **Historic Hawai'i Foundation's comments on the Real Property Tax Advisory Commission Report**

On behalf of Historic Hawai'i Foundation (HHF), I am writing in response to your request for comments on the Real Property Tax Advisory Commission's Report as it relates to the Historic Preservation Tax Exemptions.

The existing tax exemption for residential and commercial historic properties is the City & County of Honolulu's only systematic program to encourage the perpetuation of Oahu's architectural heritage and historic legacy. The City does not employ preservation planners, historic architects, historic landscape architects, architectural historians or other qualified preservation professionals on staff, either in its Real Property Assessment Division or in the Department of Planning & Permitting; Honolulu does not have regulations prohibiting demolition of historically significant properties or mandatory design guidelines to regulate alterations to historic structures; Honolulu does not have a local preservation commission or participate in the state's certified local government program for a comprehensive preservation approach.

In short, the City has chosen a public policy that relies on a single incentive program to encourage the preservation of its heritage: property tax exemptions. The current tax exemption was the subject of intense scrutiny, fierce debate, numerous public hearings and reviews, and ultimately changes to strengthen the clarity, conditions and enforcement of the preservation program. Those changes were promulgated in September 2011 and the initial compliance period is still underway.

**HHF recommends that the City retain its existing property tax exemption for historic properties dedicated for preservation; give the recent amendments and implementation a proving time to determine if they are effective; and table the Commission's recommendations in this regard.** The Commission's recommendations could be revisited if and when the City determines that it will develop a comprehensive program for historic preservation incentives, regulations, and professional management, with accompanying staffing and administrative support.

#### PROPERTY TAX EXEMPTIONS FOR HISTORIC PROPERTIES

On O'ahu, 259 residential and six commercial properties were approved for the 2012 historic preservation property tax exemptions. Approximately 80% of the historic homes receiving the exemption are assessed at less than \$1M.

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#### Historic Hawai'i Foundation

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Historic Hawai'i Foundation was established in 1974 to encourage the preservation of historic buildings, sites and communities on all the islands of Hawai'i. As the statewide leader for historic preservation, HHF works to preserve Hawai'i's unique architectural and cultural heritage and believes that historic preservation is an important element in the present and future quality of life, environmental sustainability and economic viability of the state.

Most recent figures available (for FY11) showed total assumed foregone real property taxes of \$967,679 for historic residential properties and \$305,586 for historic commercial properties. Assumed foregone property tax exemptions for all 53 exemptions combined total about \$272 million. Historic property tax exemptions comprise only 4.7% of all foregone taxes, and represent about infinitesimal .0005% of the City's \$1.7 billion operating budget.

The City's real property tax exemption program offers owners of registered historic properties an economic incentive to preserve and protect these significant resources. The tax exemption program allows owners to have some financial relief in the face of economic pressure to demolish, subdivide, redevelop or otherwise destroy historic properties. Economic incentives for historic preservation are vitally important, and the property tax exemption program helps to make preservation of our historic homes and neighborhoods affordable when they may otherwise be at risk.

Under the current exemption, historic homes that are dedicated for preservation and that meet certain conditions of historic significance, visibility, condition, and a posted plaque may be exempted from real property tax. If the petition is approved, and if the homeowner remains compliant with the conditions, occupants of homes receiving the exemption pay the minimum property tax.

In June 2011, the City & County of Honolulu amended its property tax exemption for historic homes dedicated for preservation to clarify and strengthen the conditions for receiving the property tax exemption. Those new rules and conditions are currently being implemented and enforced. Rules were promulgated in September.

There is also an exemption for commercial properties that are listed on the Hawai'i Register of Historic Places after January 1, 1977. Owners of these properties are afforded a 50% reduction in their property tax liability provided they meet certain requirements including recording a maintenance agreement with the Bureau of Conveyances.

### COMMISSION'S REPORT

The Commission's recommendations related to the historic preservation exemption state that it feels that the flat exemption amount that is currently applied to all historic residential properties is unfair and believe that historic residential real property should be afforded relief by applying an assessment ratio that results in a valuation that is less than fair market value, and that actual qualified maintenance expenditures be allowed to offset any remaining real property tax liability but no less than the minimum tax. The Commission recommends, and assumes, that the qualified expenditures would be certified by the State historic preservation office.

### HHF'S RECOMMENDATIONS

The historic property exemptions are immaterial to the City's overall budget and are dwarfed by much larger equity issues between residential and commercial rates, homeowner exemptions and other tax policy issues. Therefore, we feel that this discussion should be framed not as a financial debate but rather as a preservation issue.

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HHF's disagrees with the Commission's recommendations, primarily because the administrative burden for appropriate, consistent and standardized implementation would cost far more than any additional taxes collected, while still not achieving preservation outcomes. As both preservation and fiscal policy, the recommendations fall short.

For the Commission's proposed system of reimbursable expenses to be successful, all work done to historic structures receiving the exemption (and, ideally, to all historic structures) would need to be reviewed by qualified preservation professionals. It is unrealistic to assume that the State Historic Preservation Division would do the City's job for it. Therefore, the City would need to establish a preservation program, with commensurate staffing and administrative support, to implement a review process to ensure that the projects are in keeping with the Secretary of the Interior's Standards for Rehabilitation, national standards that should be followed when undertaking work on a historic property.

Additionally, maintenance work is rarely done at the same level every year; some maintenance (e.g. roofing, termite treatment, painting) is done periodically as needed, and the associated expenses vary year to year. In that case, tax exemptions should be allowed to be claimed over a period of up to five years, rather than having to apply their qualifying expenditure to the tax year only in which they undertook the work.

Although a reimbursement system could assist homeowners who are committed to preserving historic properties, it does not meet the second purpose of providing a disincentive for demolition by future owners. The current flat exemption includes punitive measures (payment of back taxes with interest) should an owner fail to preserve the historic property. This is an important preservation incentive when properties transfer; it would be lost if the maintenance-only system were adopted.

The Commission also suggests that it would not be unreasonable to allow owners of income-producing residential property to receive tax relief, as sometimes it is necessary for a property to generate income in order to be preserved. HHF agrees that income-producing residential properties should be granted tax relief for maintaining their historic structures. Care should be taken, however, to ensure that the change in use does not result in the property being altered in a way that is not in keeping with the preservation standards.

**Therefore, HHF recommends that the City retain its existing property tax exemption for historic properties dedicated for preservation; give the recent amendments and implementation a proving time to determine if they are effective; and table the Commission's recommendations in this regard.** The Commission's recommendations could be revisited if and when the City determines that it will develop a comprehensive program for historic preservation incentives, regulations, and professional management, with accompanying staffing and administrative support.

Thank you for the opportunity to comment.

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