

HOLD FOR MEETING

RPTR-1(1)

September 16, 2025, RPTR meeting

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MEMO TO: Alice L. Lee, Chair, and Members of the Real Property Tax Reform Committee

F R O M: Tasha Kama, Presiding Officer Pro Tempore



SUBJECT: **DISCUSSION ON COMMITTEE RULES, PROCEDURES, AND GOALS** (RPTR-1(1)) (PAF 25-095)

I. Introduction

Under Resolution 25-143, FD1, the Special Committee on Real Property Tax Reform's primary purpose is "to develop recommendations for amendments to Chapter 3.48, Maui County Code, on the assessment, classification, exemption, valuation, and collection of real property taxes." The Committee may also "[p]ropose structural reforms to promote transparency, fiscal responsibility, and alignment with County policy goals."

RPTR has posted a discussion on the Committee's goals for its September 16, 2025, meeting.

I request the Committee consider as a goal the establishment of a Real Property Tax rebate. A rebate proposal meets the defined scope of the Committee's work by proposing structural reforms to:

- Promote transparency.

By declining to spend Council-authorized appropriations in the annual budget and increasing carryover savings, the Administration can avoid policy decisions made during the fiscal year budget deliberations on the use of County funds. The Mayor can propose that spending be redirected without the extent of oversight afforded during the Council's annual budget review process.

- Promote fiscal responsibility and alignment with County policy goals.

A rebate program would have as its underlying objective a one-for-one ratio of revenues to appropriations, in keeping with the balanced-budget mandate of Section 9-5(1) of the Revised Charter of the County of Maui (1983), as amended.

A Real Property Tax rebate is not a novel concept. For example, the City and County of Honolulu has a conditional RPT rebate for properties in the Enterprise Zone (Sections 31-2.1 through 31-2.5, Revised Ordinances of Honolulu).¹ In the State of Montana, as another example, taxpayers who paid Real Property Tax in 2024 may be eligible for a real property tax rebate of up to \$400.

II. Carryover savings from the General Fund could be used to fund RPT rebates

Maui County has underspent the Council-approved budget over the last several years. Underspensing results in carryover savings, which in excessive quantities can be perceived as providing an unrestricted slush fund for the Administration.

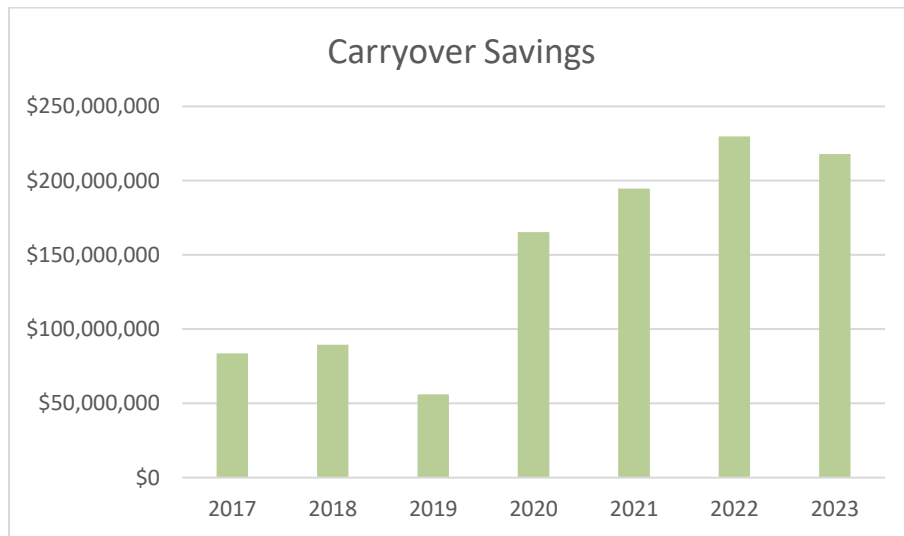
Under longstanding Corporation Counsel advice, the Charter limits the Council to an “up or down” vote on any budget amendment proposed by the Mayor.

The combination of a large amount of carryover savings and the inability for the Council to say anything other than “yes” or “no” on budget amendments gives the Administration inordinate authority. The desired checks and balances of the system are stunted.

As implemented, the system gives a strong incentive for an Administration to ignore a policy direction set by the Council in the fiscal year budget and to accumulate carryover savings to pursue efforts in a different direction. This type of impoundment of funds is being challenged at the federal level but has been accepted as a County practice.

¹ “Where a property tax rebate has been authorized by council resolution pursuant to § 31-1.2 or 31-1.3, upon proper application, any owner of a qualified business located within the enterprise zone delineated in the council resolution who owned the property used by that business on the date of the business’s first certification by the State pursuant to HRS Chapter 209E shall be entitled to a rebate from the city as set forth in the resolution.”

The amount of carryover savings has tripled or quadrupled over the Fiscal Year 2020 Budget's carryover savings, as shown in the following graph:



Policy disagreements between the Council and Administration may have been at the heart of the increasing amounts of carryover savings. For example, if the Council appropriated several million dollars of revenue for a particular policy action and the Administration chose not to encumber those funds, the appropriation would lapse at the fiscal year's end and be part of carryover savings.

Another source of carryover savings is the County's inability to fill funded vacant positions. If positions are not filled, the appropriations for those positions lapse, and those appropriations also would be added to carryover savings.

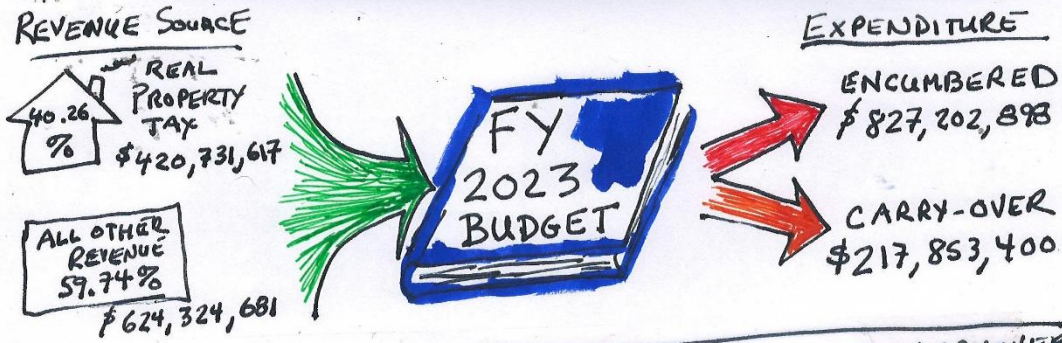
III. Real Property Tax rebate concept

Carryover savings accumulate into a pool of funds for the Mayor, who then has the unilateral authority to propose the money's use during the fiscal year. One method to address this issue is to change the RPT system so that excessive revenue is returned to taxpayers in either a direct rebate or as a credit against future tax liabilities.

A system of rebate or credit could be constructed so that the Council would have the authority to send back to taxpayers a portion of the carryover savings from a prior fiscal year before the Administration starts requesting the funds be reappropriated. The amount of funds sent back would be set by the Council. The rebates or credits would be made available before the RPT rates are set for an upcoming fiscal year.

As a theoretical example, using the carryover savings of \$217,853,400 from fiscal year 2023, the Council would be given the authority to set aside some or all of that money once identified by the Director of Finance. The amount set aside would be rebated or credited to taxpayers or some subset of taxpayers as a Council policy decision.

In this example, assume the Council were to set aside \$100 million of the carryover savings. That amount could be distributed either as a rebate or a tax credit to the property taxpayers by RPT classification. For instance, the Council could choose to provide rebates only to taxpayers in the Owner-occupied and Long-term rental classifications based on the 2023 assessed values in those categories. The graphic on the following page shows one potential calculation.



COUNCIL CHOOSES TO USE \$100,000,000 OF CARRYOVER AS THE BASIS FOR REBATES TO TAXPAYERS IN THE OWNER-OCCUPIED & LONG-TERM RENTAL CLASSIFICATIONS

CLASSIFICATION	NET ASSESSED VALUE	% of Total
OWNER OCCUPIED	\$15,113,897,963	25.66%
LONG-TERM RENTAL	1,055,040,360	1.79%
TOTAL NET ASSESSED VALUE	\$58,903,214,885	100.00%

SINCE RPT IS ONLY 40.26% OF REVENUE, ONLY 40.26% OF THE BASIS IS USED TO CALCULATE REBATES OR \$40,259,230*

THE REBATE SHOULD BE PROPORTIONATE TO EACH TAX CLASSIFICATION'S CONTRIBUTION TO REAL PROPERTY TAX



*NOTE: COUNCIL COULD REVERSE-ENGINEER THE POSSIBLE REBATE AMOUNT

PAYOUT BASED ON ASSESSED VALUE

$$\text{SIMPLE RATE} = \frac{\$40,259,230 \text{ POSSIBLE REBATE}}{\$58,903,214,885 \text{ TOTAL NET ASSESSED VALUE (NAV)}} = \$0.68348 \text{ per } \$1,000 \text{ NAV}$$

EXAMPLE:

OWNER-OCCUPIED w/ \$400K NAV	\$ 273.39
OWNER-OCCUPIED w/ \$800K NAV	\$ 546.78
LONG-TERM RENTAL w/ \$200K NAV	\$ 136.70

IV. Issues

I have had initial discussions with representatives of the Mayor's Budget Office, Department of Finance, and Department of the Corporation Counsel. They have raised the following concerns:

- The Council may not have the authority to grant RPT rebates without a Charter amendment.
- Providing rebate checks to taxpayers would pose logistical challenges. For example, where does the rebate go if property ownership changes? Also, if taxpayers prefer a rebate rather than a credit, an overwhelming number of checks may need to be issued.
- Departments would have an incentive to find ways to spend all of the appropriated funds ("use it or lose it"), which is contrary to good budgetary practices and may impact the County's bond rating.

V. Alternatives

One alternative suggested by the Administration would be for the Council during its budget deliberations to reduce RPT rates for those classifications for which a rebate is desired.

This approach would only work if:

- (1) The Administration chooses not to use any carryover savings for budget amendments after those savings have been certified; or
- (2) The Council denies all budget amendments that rely on appropriations from carryover savings before making a decision on whether to grant RPT relief by applying carryover savings to specific RPT classifications.

Another approach that RPTR could consider would involve a Charter amendment to revise the budget process so that the Council and Administration work together to create the fiscal year budget. The result would be a cooperative approach, in contrast to the current adversarial approach where the Mayor

proposes and the Council approves or disapproves. The process would involve the Administration and Council determining, with community input, what the fiscal year budget priorities should be. Through a joint effort, the annual budget could be crafted in a much shorter timeframe. Under this cooperative model, the likelihood of large carryover savings generated by the Administration choosing not to encumber appropriations would be lessened.