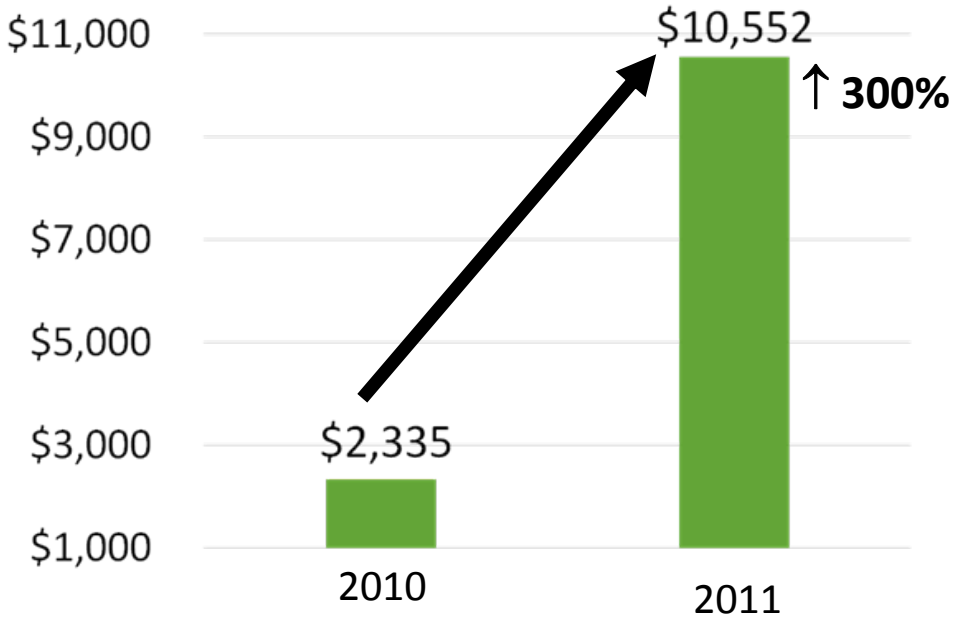
Audit of the Real Property Assessment Division

Office of the City Auditor,
City and County of Honolulu, Hawaii
Presented by:
Wayne Kawamura, Senior Auditor

Background Information – Reclassification of Homes



Reclassification of homes from residential to the commercial or industrial class caused a spike in real property taxes.

Source: Honolulu Star Advertiser

Historic Property Dedicated for Preservation

Despite multi million dollar home values, owners of historic residences can apply for a property tax exemption which results in an annual tax payment of $300

Source: Honolulu Star Advertiser

Historic Property Dedicated for Preservation

Assessed value:

$1,849,100

Property Taxes

2001: $1,991

2004: $2,726

2005: $5,479

2010: $300

Assessed value:

$6,915,700

Property Taxes

2001: $27,780

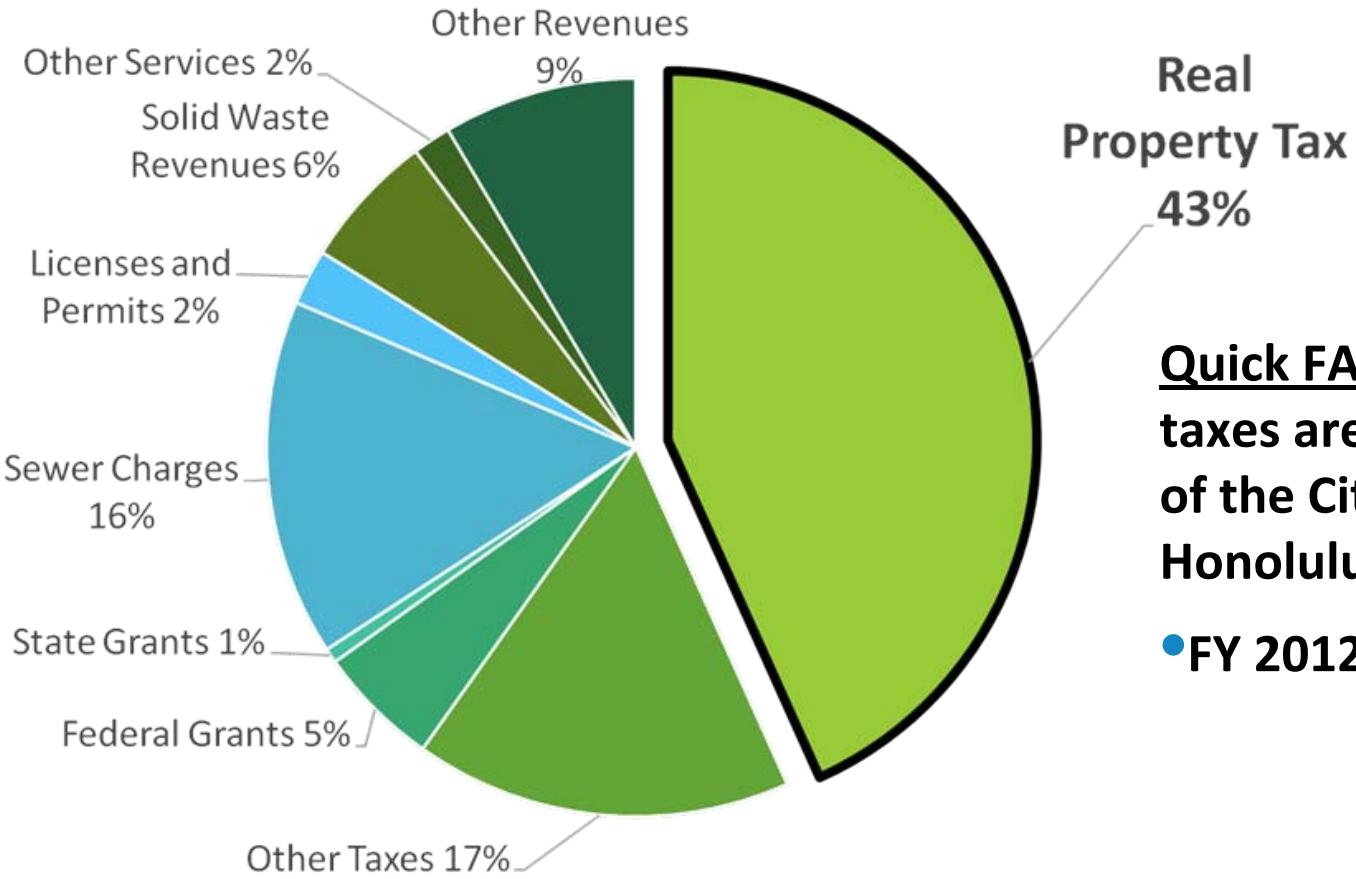
2004: $35,119

2007: $23,381

2010: $300

Source: Honolulu Star Advertiser

Primary Source of Revenue



<u>Quick FACT</u>: Real property taxes are the primary source of the City and County of Honolulu's General Fund

- **FY 2012: $813M or 43%**

Why we conducted this audit

The City Council requested a determination of whether the information produced by the real property assessment process was accurate and reliable.

Performance Audit Objective

Evaluate real property assessment processes related to the classification, reclassification, valuation, and assessment of real property for taxation purposes

Audit Methodology

To address the audit objective, we did the following:

- Reviewed and assessed the division's operational and management practices to develop the annual certified assessment roll
- Assessed data management practices in the classification and assessment process
- Assessed the use and operations of the division's information system to manage and process assessment data

Audit Findings and Results

Findings

Real properties were inconsistently classified because staff were not following best practices such as:

- performing physical inspections,
- focusing on quality assurance,
- maintaining and updating databases, or
- complying with existing policies and procedures.

Results

- Tax assessments were inconsistent or inequitable,
- Exemption and dedication property requirements were violated, and
- Taxes assessed did not reflect the highest and best use of the properties

What did we need to conduct the audit?

- Developing appropriate sample sets
- Criteria from laws, policies, and procedures
- Assessment and appraisal best practices
- Identify tax class, zone, and actual use
- Access to Real Property Data

Audit Fieldwork Approaches

No special skills needed

- Skepticism (Don’t Just Grind)
- Narrowing down from 290,000+ parcels
- Site observations & internet maps
- Using other sources of government data

Residence

Fieldwork found evidence of business activity

Residence

Taxed at the residential rate using the property for commercial activity

Residence

Historic properties are eligible for the $300 tax assessment even if the owners conduct business on the property.

What kind of impact might this audit have?

- Proper administration can maximize revenue
- Increased public confidence
- Improvement of operations
- Fairness and Equity

How was this audit useful?

- The City Council and public came to understand the cause of the problems
- Division attacked, then quietly addressed
- The department planned corrective budget initiatives for the next fiscal year
- Potential exists for more real property tax revenue
- The City Council put forth legislation in 2014 to address certain assessment issues

Thank you for your attention.

…Questions?