

**COMMITTEE OF THE WHOLE
FY 2014-2015 Departmental Budget Reviews**

MINUTES

The FY 2014-2015 Departmental Budget Reviews of the Committee of the Whole of the Council of the County of Kaua'i, was called to order by Jay Furfaro, Chair, at the Council Chambers 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Friday, March 28, 2014 at 9:07 a.m., after which the following members answered the call of the roll:

Honorable Mason K. Chock
Honorable Gary L. Hooser
Honorable Mel Rapozo
Honorable JoAnn A. Yukimura
Honorable Jay Furfaro

Excused: Honorable Tim Bynum
Honorable Ross Kagawa

Chair's Budget Comments

Chair Furfaro: *Aloha* and good morning. This is March 28th, and we will be starting our new budget discussions for the upcoming year. I am very pleased to see the number of the Mayor's staff here to participate in our overview, and I just wanted to touch again on the order of the day. Councilmember Kagawa is on an excused absence and will not be joining us today. As has been the new practice as of about three years ago, we kind of open with the Chairman's overview of kind of the state of where the County is and I will be making that presentation between 9:00 a.m. and 10:00 a.m. The budget is done in the Committee of the Whole. The Vice Chairman of the Committee of the Whole is Mel Rapozo. So as we go through the project I will be turning over the different segments of the budget over to Mr. Rapozo. Then at 10:00 a.m. we will have an Administrative Budget Overview and we have an opportunity to hear directly from the Administration. Then at about 2:30 p.m. we will start with the Office of the Mayor, Boards and Commissions and Life's Choices. The schedule will also reflect the rules that I have put in place as of two years ago; that public testimony will start at the beginning of each day's meeting. It will not be through each segment, but since all of the meetings by the different Department Heads and Divisions is posted, that gives people an opportunity to give testimony at the beginning of each day. We do plan to recess at approximately 4:30 p.m. at each of these meetings. Now before I turn the meeting over to Mr. Rapozo, again, I want to say a warm welcome to everybody that is present this morning, and participating with us. I want to ask is there anyone in the audience that would like to give any testimony as it relates to the items posted today? Seeing no one, Mr. Rapozo, I am going to turn the meeting over to you. I will take a position at the podium.

Mr. Rapozo: Thank you, Mr. Chair.

Chair Furfaro: Thank you. Thank you, Scott. Before we go much further, I just want to point out how flexible the Council Staff is, as you noticed we have three individuals who are at rearranged modules, so they can keep track of the process. So I want to kind of carry that theme throughout today, to make sure that we have an understanding for us to get to a point, we have to be able to objectively discuss areas that we have different views on, but at the same time, please, everyone, we will remain flexible in understanding what we jointly want to agree on and accomplish. I think that is the key to a budget. A budget practice again is a forecast, with an understanding that certain strategies will be put in place for the purposes of accomplishing those goals. For today, the 28th through April 15th of 2014, will be the period for the Budget Reviews. The

dates for individual Departments are posted accordingly. The Call-Backs, if necessary, will be in the Committee of the Whole for the period of April 17th to April 25th. The Public Hearing on the Mayor's budget submittals is scheduled and posted for May 7th at 5:00 p.m. and that is the time that we will be taking comments from the public in general as it relates to the Mayor's Supplemental Budget Communication as of May 8th. Next slide. The overview of the budget schedule...there will be a period for Decision-Making of the Committee of the Whole from May 12th through May 13th. I hope we can all be very focused on that, because that is also my 42nd Wedding Anniversary and I would like to go home for some nice *kalua* and a Hawaiian plate. So if we could keep focused on my 42nd Anniversary as having an end-time of 4:30 p.m., it would be much appreciated. As far as going forward on the Supplemental Budget Communications, the Committee of the Whole Meetings on the Budget and Real Property Tax Resolutions are scheduled for May 21st. Although we have an overview from the Mayor in his proposed forecasted budget, we will be having very direct discussions about Real Property Tax on the 21st. The second and final reading of the Real Property Tax Resolution will be May 28th. Teamwork and collaboration, as I use the reconfiguration of the work desks for the team, I think it is so important that the Administration and Council Services have an opportunity to meet...we had an opportunity to meet individually with the team and each Councilmember through each step of the budget process to where we got to at this point. I want to commend everybody on what a great compliment it is to know that everybody had time to have some preliminary discussion on this submittal. Pre-budget requests for information, I believe, have been fulfilled. I want to thank the Administration for that. Because of that, I am asking, the Council Chair has requested 48-hour turnaround for the request for information during the condensed budget sessions. Please note and especially for those Department Heads, I would like to have as much detail and answers to questions done during the working sessions so that we are not burdened with a flow of questions going back and forth. It will be the Councilmembers' responsibility to actually document the responses, if those responses can be timely, it would very much be appreciated. I want us to be prepared for a very proactive dialogue and, in fact, I have correspondence to Mr. Barreira and to the Director of Finance that the big ticket items including staff vacancies and so forth, which I know Mr. Rapozo has great interest in; that when we get to the HR Department, I want to have the most current list available to us on actual vacancies as we move forward. So it is those types of communications and deadlines that I want to make sure that we are all able to do the best we can in complying.

Now challenges that we have outlined over here, the use of the Unassigned Fund Balance for Fiscal Year 2013 – 2014 of approximately \$4.4 million resulting in revised budget of approximately \$175.5 million. Some of the high-ticket item as I might point out is the Collective Bargaining amounts totaled \$3.3 million and the Recycling Program costs are concerning at the adjustments of \$700,000. The evaluation of the landfill liner at \$500,000 is only a preliminary number as I know it at this point. So these again are red-flag items that I am putting up in advance of those discussions with those Departments. Also as it deals Special Counsel, there are a lot of misgivings on Special Counsel at this moment. I wanted to show something and if we could Scott, if we could put this up here? This is what I am talking about, understanding trends versus actuals. I know Mel shares this with me, a number of times, my statement when I say, "overpromise and under deliver." You know, here is a quick review of the last three years. We keep adjusting the budget for the Office of the County Attorney, thinking that there is a savings there of what our past experience has been. In Fiscal Year 2011 and 2012, we had anticipated about one million dollar's worth of contractual expenses in the legal department. For a long time, we had been talking about having a litigation team, but we never applied it to a budget. I am sure that the discussion will come up, as we get into the

County Attorney's Office. But in the following year we cut his budget to three-quarters of a million and this year, we had cut it to \$500,000, with about \$34,000 being a carryover item from an outstanding case. So this is what I am saying that we have to be careful with about "overpromising and under delivering." The fact of the matter is we are about \$500,000 short. Yes, JoAnn?

Ms. Yukimura: Chair, with this Unassigned Fund Balance proposal of \$575,000, we actually need to add it to that \$534,000, right?

Chair Furfaro: Yes, that is what I am saying.

Ms. Yukimura: So for this year we are looking at a one million dollars budget.

Chair Furfaro: What I am saying is...it is not that we have far exceeded, but we have under delivered on what we promised in the legal department. As you can see we have been typically running about one million dollars without a strategy about Special Counsel. I just wanted to point this out in the beginning and we can have more dialogue. But you are right, and that is my comment at this point. We actually need a strategy that goes along with the budget piece.

Ms. Yukimura: I totally agree. Thank you.

Chair Furfaro: You are quite welcome. Scott, can you get us back? Thank you. Parks and sewer pumping...the plan going forward is to find an opportunity for savings with the new capital equipment purchases and these are contracted services. From the previous year, in this example, I want to share was just flat out missed in the budget. And you know, it is hard to find ourselves looking at these kind of contractual services by actually missing what almost is a quarter of a million dollars from a past practice, knowing that at the same time the new pumping truck system will probably actually save us about \$100,000 a year and I look forward that being accomplished in this new budget. But again, it is the Council's job to be able to identify each and every component of the budget and get the best information we possibly can. Also, we have the Joint Fact Finding Group for the Environmental and Public Health Impacts Study of \$100,000 and again, you know, if this is not a realistic number, what we budgeted for, we need to hear from the Administration. But at the same time, we need some compliance from those that do contracted work for us, that there is an expected...there is an expectation that they will come in for the work that we have budgeted accordingly. If not, we need to know about those variances up front. Scott, can we go to the next slide, please?

We also need to identify the impact of the Collective Bargaining Agreements. Approximately four million dollars was increased in the 2014 – 2015 budget. Now in total payroll of \$105 million or \$110 million this represents about 3.6% of wages and increases that were tied to Collective Bargaining. Actually the percentage is much higher because the total County budget includes all of those people that are under non-bargaining contracts too. So the realistic net outcome is probably more like 4.8% increase that we have in Collective Bargaining and we really need to get closer to this particular piece as it relates to true operating costs. And you know, I will use the term "focus on right-sizing the delivery systems that we have for employee staffing." I will also touch on the PT&E payroll, taxes, and employee benefits item later. We are only able to come up with about \$6.6 million in revenue enhancements to cover these increase costs. Real Property Taxes have increased to the Hotel and Resort tax category as proposed by the Administration

equals \$4.3 million. Solid Waste Tipping Fees, first reading passed...that is another \$1,094,000, as well as the Motor Vehicle Weight Tax of \$1.178 million going to the Highway Fund. The Transient Vacation Rental (TVR) renewal fees will add about another \$100,000. As you know, we had all of these on first reading yesterday in our regular Council Meeting. They are actually yet to be finalized, but they represent about \$6.6 million of revenue enhancements. Now I am going to take a moment to share with you folks at this point, too, one of the things that we need to consider and I am going to share with you later on as we go through, we will probably see some response soon to the Bond Counsel's questionnaire that they send the County of Kaua'i to position ourselves for our bond rating it relates to our ability to borrow, especially as it relates to some of our strategic thinking about monies, such as Public Access, Open Space, and Natural Resources Preservation Fund funds and our Committed Reserves. As you know our reserves are very thin at this point and, in fact our emergency reserve is only \$2.6 million. Please understand the bond agencies, all three of them are depending on reviewing our revenue enhancement plans, as well as our Real Property Tax plan as it relates to a calculation of our bond rating. They need to see an appropriate amount of revenue available for reserves or special projects that the County has set aside. If not, the consequences are that our outstanding bond rating could be compromised. I want to share that now and I am sure when we get to Finance, Mr. Hunt will have an opportunity to share more with us. But it is something for us to put on our radar screen right now especially when Mr. Dave Spanski, County Treasurer, and the budget team are available to talk about our bond rating.

The next piece is the uncertainty at the State Legislature relating to the Transient Accommodations Tax, the TAT. The Mayor and his staff have wisely put into this budget the reality if nothing changes. We are only going to get \$13.4 million from the TAT. We do know that the bills have crossed over in discussion in the Senate, which would add about \$5.4 million to the share for the County, if they lift the tax and keep us at 7.25% or, as much as \$8.2 million if they lift the tax and we get the whole 9%. But this money is not in the budget revenue forecast for the Mayor right now, and quite honestly, for good reason, because it has not been acknowledged at the State Legislature. This is a big-ticket item that we need to identify with. The Mayor has chosen to find ourselves leaving a small balance of our percentage of the Other Post Employment Benefits (OPEB) actuarial contribution and not funding it 100% this year. I do want to point out that the law only requires us to fund 20% of the retirement account. We are forecasting in the budget to fund 73%. But at the same time, whatever the outcome is with the TAT tax, I want to get a commitment from the Administration that our future liability that has exposed us on the OPEB, needs to be the first identified replenished account that we do depending on the outcome of the TAT. So another red-flag for us to keep in front of us as we go through the budget role are our bond rating and the OPEB numbers. Now the State of Hawai'i's incentives are things that we have encouraged and we continue to do so with the bills that we have introduced about replenishing agricultural inspection positions. We had some discussion about red fire ants and those items are in important to not only the tourism industry, the homeowners, as well as the Agricultural Department. But those are commitments that we have to realize unaddressed could affect the economic indicators that we have for our island, as well as the fact that the legislative correspondence that we have had to actively address all other invasive species continue to be a real highlight of things that we are pushing for assistance from the State. The failure to fund these initiatives at the State level places additional burden on the County. I want to compliment all of my colleagues, as we have responded well when it came to invasive species, but we need to keep the focus on the State about their responsibilities.

Procedural reminders, I want to point out that the proposals for additions to the budget should be accomplished with and accompanied by a proposal where you anticipate the funding to come from...either through other budget cuts or other revenue proposals. I would expect that to be our responsibility as well. To reduce items in the March 14th budget submittal, we only need a simple majority of four votes. To add items on the March 14th budget I am asking that we have five votes...that we affirm that we have the votes in the event that we have a difference of opinion on those items with the Mayor. It is very important that we understand that sending a message with five votes is a firm indicator that we want the Mayor to understand the rationale behind it and that the super majority of the County Councilmembers can affirm that vote. Please, I know I do not have to remind you folks of this, and I want to tell you, many, many people have said to me that they wish in their counties that they had a Council that is as active as ours is, and they mean proactive. That we actually address issues for the right reasons, for the right people, and we try to do it one time and the way we need to continue to do that is validate your concerns. Let us be realistic about the budget, and again, let us not overpromise and under deliver. So that is my opening of the budget. I would remind us that our job of course is to provide the essential services for the people of Kaua'i, to understand our responsibilities in our County and the island of Ni'ihau is part of that County, even though there are lots of discussion about that. That is our *kuleana* as well, to be the County of Kaua'i and Ni'ihau. To be physically responsible through the process to ensure that the decisions and commitments made today are *pono*. Okay? We are again doing it for the right reasons based on facts. And to protect and maintain our island home for not only those in it at the present, but for those future generations to come. These messages I share with you in the closing comments are all posted in our building as our commitment to the people of Kaua'i and Ni'ihau. Thank you, Mr. Rapozo.

Mr. Rapozo: Thank you, Mr. Chair. Any questions for the Chair? If not, thank you very much.

Chair Furfaro: Thank you very much, and I look forward to a mutually beneficial conclusion to our budget. Thank you.

Mr. Rapozo: We will wait for the Chair to come back.

Chair Furfaro: Thank you again. After those comments, is there anyone in the public that would like to testify? If not, we need to kind of stay with the posted schedule for the Mayor's delivery. We might actually have to take a break here. Let me get an interpretation. Did we post the Mayor's presentation, as I look at the call of the order for today at 10:00 a.m. or may we continue to proceed? What is the interpretation? The times are approximate, so we can go forward. I thought I was going to have a break to drink a gallon of water, because that was a lot of talking for 30 minutes.

There being no objections, the Committee recessed at 9:33 a.m.