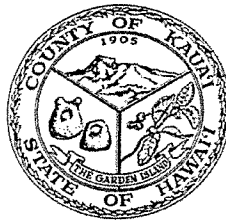


Bernard P. Carvalho, Jr.
Mayor



Nadine K. Nakamura
Managing Director

OFFICE OF THE MAYOR

County of Kaua'i, State of Hawaii

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May 6, 2016

OFFICE OF
THE COUNTY CLERK
COUNTY OF KAUA'I

Honorable Mel Rapozo, Chair
And Members of the Kaua'i County Council
4396 Rice Street
Lihu'e, Hawai'i 96766

Re: Fiscal 2017 Supplemental Budget Submittal

Dear Chair Rapozo and Councilmembers:

Pursuant to the requirements of the Kaua'i County Charter, I present to you the proposed supplemental budget for the County of Kaua'i for fiscal year 2017 (FY17). This proposal includes an operating budget of \$189,733,085, which reflects an increase of \$870,080 over the March submittal.

We appreciate the discussions we have had with the County Council regarding the budget over the past several weeks. While there have been some adjustments to our March submittal, what we present to you today is the result of recent developments and new priorities.

Most notably, this submission does not utilize any General Fund fund balance to achieve a balanced budget, which for the second consecutive year, is structurally sound. I believe this is an indication that we have shown the financial discipline to produce sustainable budgets going forward.

Allow me the opportunity to elaborate on the modifications to the proposed annual budget.

Recent Developments

The most significant development since our March submittal is the Council's passage of the **Salary Resolution**, which provides pay increases for certain officers of the county. The resolution, which was submitted by the Salary Commission following extensive research, reflects the Commission's efforts to bring the officers' salaries in line with their counterparts around the state, and to address

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the issue of salary inversions. Most of these officers have not received pay increases for the past 7-1/2 years.

The resulting salary increases and benefits of \$506,850 for FY17 will be partially covered by the affected departments as noted in our previous budget proposal.

The **turnout gear or personal protective equipment (PPE)** worn by our firefighters when they respond to fires was covered by grants for a number of years. With this funding source no longer available, the cost for the PPE now falls on the county. Rather than fund all of the turnout gear at one time, we are proposing to spread the cost over a three-year period. Therefore, we are adding \$110,000 to the budget for FY17.

Grant funding is also not available for **self-contained breathing apparatuses (SCBA)** for our firefighters. While we have not included funding in this supplemental budget for SCBAs, we anticipate submitting a money bill once an analysis and cost estimate are completed.

New Priorities

The **YMCA of Kaua'i**, an organization that has been supporting Kaua'i's 'ohana for nearly 90 years, is requesting assistance with the purchase of specialized equipment that would enable them to host age-group and high school swimming and diving state championships. Currently, Kaua'i is the only county in Hawai'i that is unable to host such events due to the lack of the specialized equipment. This puts our young competitive swimmers at a major disadvantage, as they are unable to train and participate in the highest level of swimming. In addition, Kaua'i's economy is losing out on thousands of dollars in visitor stays and expenditures as these types of swim competitions attract out-of-town teams and their families.

The grant-in-aid of \$230,000 for the improvements to the YMCA pool also aligns with the 2010 Kaua'i Comprehensive Economic Development Strategy (CEDS) Report. The report identifies Sports and Recreation as one of six industry clusters that if pursued would bolster economic growth on the island.

The **Kaua'i Fire Department (KFD)** is one of the few fire departments around the country that operates without a manager of operations. Calls for assistance from KFD have been steadily rising for the last 14 years with no sign of abating. To support the increasing workload, an assistant fire chief will oversee the Department's daily operations, directly supervise three battalion chiefs, as well as assist the fire chief with implementing the KFD's strategic plan and capital improvement plan. The creation of this new position will be accomplished through the reallocation of an existing vacant firefighter position. An additional \$76,563 has been included to fund this position.

One of the biggest concerns facing governments across the country is **homelessness**. On Kaua'i, the County has formed a partnership with Kaua'i Economic Opportunity, Inc. (KEO) and the

Kaua'i Community Alliance to address this issue. Due to an unintentional omission in the March submittal, the County is providing an additional \$106,617 to accommodate 20 additional individuals at KEO's homeless shelter. This funding also includes the cost for janitorial service, security, meals, and maintenance of the septic system. In addition, KEO is receiving approximately \$150,000 from the State, which will be used for day services for the homeless at KEO. The Kaua'i Community Alliance, made up of social service providers, will provide assessment services, mental health screenings, substance abuse counseling, job preparedness, budgeting courses, and other life skills training.

Capital Improvement Program (CIP)

The County's proposed FY17 budget of \$17,227,808 for its capital improvement program is relatively the same as our March submittal. Projects that have been added include:

The Wastewater Management Division is moving forward with plans for the third phase of the **Coco Palms Odor Control Project**, which will focus on addressing odors on Papaloa Road near its Kūhi'ō Highway junction. The odor control effort will consist of evaluating different options and developing construction documents for the preferred alternative. Previous phases have focused on addressing odors at the Coco Palms Sewage Pump Station. An allocation of \$100,000 would cover the cost of hiring a consultant.

We have also included \$135,000 in our FY17 budget to extend the sidewalk along Moi Road in Hanapēpē. Approximately 700 feet of sidewalk will be installed that connects the existing sidewalk to the larger Complete Streets project.

In addition, we have identified three park projects that will be funded through the Department of Parks and Recreation's Ho'olokahi grant program. The funding will cover the cost for materials and supplies, while the labor will be provided at no charge by the members of the Kaua'i Senior Softball Association (KSSA).

- Peter Rayno Park - \$10,000
About a year ago, the KSSA completed the construction of a large pavilion at Peter Rayno Park. Now they are ready to tackle another project, the installation of a permanent home run fence.
- Puhi Park - \$50,000
To complete the softball field at Puhi Park, dugouts and an announcer's booth will be added. The senior volunteers who have been taking care of the field preparation work over the years are looking forward to handling this project.
- Hanapēpē softball field - \$50,000

State championship games for seniors are played every four years at the Hanapēpē softball field. Having dugouts and an announcer's booth added at this field will greatly enhance the games for local and state competitions.

We are truly thankful for our partnership with the KSSA that allows us to leverage our limited tax dollars with the talent and heart of volunteers to benefit the entire community.

As for other CIP projects, I am pleased to inform you that the State Legislature Conference Committee approved funding for the following:

- Lima Ola - \$13 million in Dwelling Unit Revolving Funds
- Adolescent Treatment and Healing Center - \$5 million for construction
- Kaua'i Veterans Cemetery - \$700,000 for improvements

Conclusion

The projected tax revenues for FY17 of \$119,149,436 remains unchanged from our March 14 estimate based on the County of Kaua'i's certified real property tax assessment. However, at Council's recommendation, we have included in our supplemental budget additional revenue of \$107,550 for underestimated electrical and plumbing permit fees and camping permits, as well as additional revenue from the dog and cat license fees that are collected by the Kaua'i Humane Society.

Aside from the modest increase in revenues, a structurally balanced budget was achieved by reducing the Solid Waste RFP consultant contract line item by \$250,000, making other operating cuts to the departments' budgets totaling \$142,000, and utilizing \$820,000 that was initially set aside as an increase to the General Fund fund balance.

The state of the County's finances continues to improve with real property taxes projected to grow by approximately \$6.46 million (or 5.7%) over FY16 and the Unassigned Fund Balance has now reached \$26.1 million. Although this represents a significant improvement over previous fiscal years, keep in mind this also represents the county's reserve, for which a sound policy is being developed under the guidance of GFOA. Nevertheless, with current and possibly future collective bargaining increases, anticipated "spiking" adjustments to the Employee Retirement System, and the increased debt service for a new bond issuance on the horizon, conservative fiscal management remains imperative for this County.

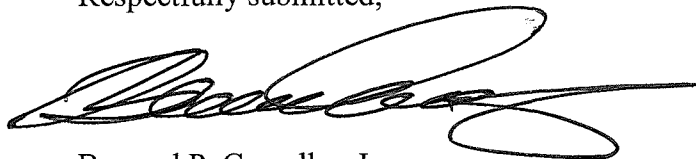
It is disappointing that the state Legislature has once again chosen to cap the Transient Accommodations Tax (TAT) revenue for all of the counties at \$103 million for FY17, with the possibility that this cap could drop back to \$93 million in FY18. When you consider the current projected increase in overall TAT for FY17 is an estimated \$29 million and there is potentially an

additional \$15 million in TAT that could come from the recent AirBnB legislation should the Governor sign HB 1850, it seems unfair that the State may get this additional \$44 million from the visitor industry while the revenue to the counties that provide the bulk of the services and resources to the visitors remains flat. To put this in perspective, a \$44 million windfall to the State is nearly 43% of the capped TAT amount that is shared by all four counties. This does bring additional attention to the need to diversify the County's revenue sources, and in particular, those from non-residents that utilize our resources. Continuing to divert the excess TAT revenue solely to the State also forces the County to look closely at the numerous services that the County affords state agencies as well as whether or not we can continue to fund these services.

In closing, we thank all of the members of the County Council for the dialogue we have had and are pleased that this proposal represents a structurally sound and sustainable budget.

We look forward to working with the Council to finalize this budget, and moving into the new fiscal year with optimism for the future.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bernard P. Carvalho, Jr.", with a large, stylized flourish at the end.

Bernard P. Carvalho, Jr.
Mayor

C: Nadine K. Nakamura, Managing Director
Ken Shimonishi, Finance Director
Ernest W. Barreira, M.S., Assistant Chief Procurement Officer/Budget Chief