The departmental budget review reconvened on April 4, 2013 at 9:07 a.m., and proceeded as follows:

Revenue Forecasting:

Honorable Tim Bynum
Honorable Gary L. Hooser
Honorable Ross Kagawa *(Present 11:36 a.m.)*
Honorable Nadine K. Nakamura
Honorable Mel Rapozo
Honorable JoAnn A. Yukimura
Honorable Jay Furfaro

Chair Furfaro: Welcome everyone for the continuation of our budget reviews. Today, we are back in order for the purpose of going through Revenue Forecast. This was a new item added last year in our structure; we spent half a day on it, earmarking a full day today for the purpose of Revenue reviews. On a personal note, let the record show, when we adjourned yesterday I forgot to say that we were adjourned. May I ask everyone just for their patience to let me put that on the record that yesterday's Committee Meeting's were adjourned? We are back in session for the budget review on Revenues and I would like to start, first of all, by allowing anyone in the public to give testimony on today's piece in the beginning and you will have six minutes. Also, I am going to allow Mr. Bynum to make a presentation that should not exceed more than sixty minutes including Q&A but Mr. Bynum indicated to me that his presentation probably would not take that long. I want to also let you know that we have a couple pieces to pass out before we get started today and this is my fault for not passing this out yesterday. I have a reconciliation of the General Fund Account that you should all be aware of that makes up the budget forecast for the total $113,461,000 – if I could have that passed out. Scott, we should also pass out the worksheet that I reviewed with you and Finance in the past, we should pass that out today as well. You should have the presentation that was prepared by Finance on the Revenue discussion. Lonnie, did you want to give testimony this morning? Please come right on up and then I will turn it over to Mr. Bynum.

LONNIE SYKOS: Good morning. I came in this morning to thank the Council Chair and Councilmembers here for the remarkable degree of due diligence that you are engaged in. Myself and the viewing public are very thankful that the scrutiny is going on to our budget and not just the process of how we do it but what is actually in it as well. I came in this morning because the issue of revenue is coming up and the revenue is tied directly to our expenses. For me and for members of the public, we are concerned that our number of employees on the payroll rose very substantially up until last year in which essentially a moratorium occurred. For us, the question is not whether we should maintain the employment and service levels of 2012 but whether or not we actually overextended ourselves and need to look at whether reduction needs to take place not by trimming budgets but also trimming personnel. Nobody wants to lose their job and I am certainly not here to promote somebody losing their job but I am here though is to promote the concept that does not appear to exist currently. There should be metrics for our Managers and employees for what they are paid to accomplish and whether or not in fact they accomplish it. My father's career was a Safety Engineer and so I thoroughly understand what loss prevention does from the aspect of hiring a Safety Engineer. There is also separately financial loss prevention. There are other loss prevention aspects than purely the physical plant loss prevention. My question is, we increased our payroll and hired a Human Resource, Loss Prevention… I am not sure what all of their jobs encompass but we hired a bunch of $100,000 a year Managers and assuming that they have Staff and other expenses and so the question is, are they resolving the problems that the County has that they have oversight over? The most glaring one to me is Human Resources. How many hundreds of thousands or millions of dollars are we going to continue pouring into management wages and not resolve our Human Resources problems? At some point, there needs to be accountability. From my own prospective, I would have to say that unless you commit a crime publicly, it is almost impossible to get fired. No amount of failure to do your job brings a negative outcome, right? We are all sitting here – we are twenty years into trying to cite a landfill, right? All the people involved that we pay that we are now paying retirement to who failed to cite a landfill, all they got was a retirement check. In my business or job, I would fire myself, my employer would have fired me, and I would have fired my employees. I am here to say for the people watching at home, we do not want to write a blank pay check and get nothing for it. We are tired of it and so part of this discussion about raising revenues, it there is no bang for the buck… I do not want to give the buck. I rather terminate all these people and do nothing and get sued then pay all these people and still get sued. So, whatever it takes to clean it up, we need some bang for our buck from management and I am sorry if it is upsetting to the people holding the jobs or the Mayor but I am paying the bill not them. I am the taxpayer, they are the public servants. We are the one that has to keep paying a Human Resources settlements and on and on. It is time to get modernized if our Managers do not have the experience, we need new Managers. It is that simple and hiring more Managers while keeping the old ones on the payroll was just going to dig us in a deeper hole. With all the Managers out there, hopefully listening, get it done. This is why in upper Mid-West they got rid of public unions. The whole deal is the gross inefficiency and lack of accountability for failing to perform what your jobs goals are. Thank you for your due diligence and thank you for listening to my payroll talk.

Chair Furfaro: Lonnie, I want to share a couple of things with you because your message will resonates with us but I think we need to point out that many of the additions here were done by Charter Amendment. In other words, the motion in some of these areas was done by the voters. I will give you an example, $1,200,000 a year for an Audit Department; $808,000 for Boards & Commissions; another $640,000 of increases when we separated Parks & Recreation from Public Works. Those are real numbers and please understand when I say this, it is easy to look back for forty-eight weeks of a year and say "we have this and we need this" and then the other four weeks of the year, we are in the budget session and it is crunch time. I just want to point out that those were voted on by the Charter Amendments. I am going to prepare reconciliation for this group over the last six year because I am in my third year as the Chairman and we need to understand that it is easy to be calling the shots from the couch.

Mr. Sykos: Oh, absolutely. We put the pressure on you to accomplish things and then we complain when the bill comes home, I understand.

Chair Furfaro: We are preparing something that we can all read from the couch for the last four weeks. In addition to that, the State mandated to us Important Ag Lands. We also put in a Long Range Planning Department which included three individuals plus a Planner. We also found ourselves in a situation where, you are right, we are restructuring HR and it has been a year now and we got to be able to be measuring that performance. We have some difficulty emergencies, I am going through all of the emergency funding until 2006 and I will make that available to all members when we get to the Finance presentation. It is very important that we understand what decisions we made at the time. I hear you about evaluating the benefits versus the cost but when you find those three items by Charter Amendment, they added almost $2,100,000 a year and some of them have been additional cost for the last six years. That consumed a lot of what is referred to as the undesignated surplus. I heard you, I want to share that I am going to prepare a schedule that we can all have so we understand the history. Now, we are at measurement time.

Ms. Yukimura: The Chair makes a very important clarification about the additional bodies and you make a very important part about how we use those bodies or what kind of accountability we accept and demand as both taxpayers and as the Council oversight body. The importance of what you say is even more important if you will speak to the Administration because it is the Administration that hires and manages. The Council can ask questions and explain and exclaim over different levels of performance but we are not the ones who hire or manage it.

Mr. Sykos: But you are the ones with the public forum which the Administration does not.

Ms. Yukimura: Right, and I am not saying do not come and speak here but I am just saying that is where the buck stops.

Mr. Sykos: I understand and I am not bashing the fact generically the people got hired; it is what the benefit that we got for doing it is?

Ms. Yukimura: Also, on your point about Human Resources Department, it is important to know that not all the bodies there have been newly hired.

Mr. Sykos: Correct.

Ms. Yukimura: Many of them have been brought in from other Departments.

Mr. Sykos: There has been three years of public funding and testimony and we have reached a point where… what, two months to a month a half ago they finally figured out to hire a contractor?

Ms. Yukimura: It has been maybe six years since the conversation started about the inadequacies of the antiquated Personnel Department. It is really one year, I think, that the Human Resources Department has actually begun and it is less than six months since there was a change in the top leadership. It may or may not be the change that you were calling for but that has to be looked at as a separate case but I think it is important to really be clear that they are just beginning.

Mr. Sykos: I sat here and listened to the Mayors Adhoc Committee at the last two budget sessions and my perspective coming with a background understanding… look, I grew up on the island…

Chair Furfaro: Excuse me, Lonnie, I got to share with you… our rules are that you get your six minutes and we can pose you questions, you answer the questions. The point is well taken before I will recognize others, I just want you to consider the things that I said and now we are at a point where we are saying that we have to measure the value that we got from those things.

Mr. Sykos: Correct. Thank you for your statements and for the measurements that are occurring.

Ms. Yukimura: I do have one question.

Chair Furfaro: You still have the floor. I just want to make sure that we did not just expand.

Ms. Yukimura: Right. So, one place where the Council can play a role and this is my question, I agree with you that metrics are very important. Would you not say that it begins with measurable objectives?

Mr. Sykos: Absolutely. The management needs to have a list of objectives with a metric of how you determine whether or not the objective is met and then that is reconciled as we go along.

Ms. Yukimura: So, that is one place where this Council has been asking for measurable objectives.

Mr. Sykos: And I congratulate you and thank you for that. That has been a common reframe this year and thank you very much for that.

Mr. Rapozo: I agree with a lot of what you said and in fact probably all and I also agree with the Chair and his comments about the Charter Amendments. The Charter Amendments all that did was established the Department. The method of filling those Departments was administrated.

Mr. Sykos: Correct.

Mr. Rapozo: Funded by the Council. So, I share your concerns because I still believe especially in the HR arena, there some duplication of service. We still have Departments that are doing personnel issues within their Departments and I plan to ask those questions when HR comes up but that were not the plan. The plan was to relocate people to this new Department relieving those Departments of personnel matters and that has not happened and that is a concern. We do control that to some extent because we control the funding of the positions.

Mr. Sykos: Correct.

Mr. Rapozo: So, when the Administration comes up and says that we need a million dollars worth of positions for HR, we can say no. We can say that we will give you "X" amount, get your plan together, and then we fund the rest. It is Administration and Council together that has to put this Department's together and the only way that we can manage it properly is by, what JoAnn said, measurable. What the

Chair mentioned about accountability but we got to hold on to that. You bring it to us, I think; I appreciate because I think you speak for a lot of people. What your concerns are, I have heard from many people, so thank you very much for being here.

Ms. Nakamura: I want to echo some of the sentiments expressed earlier, Lonnie and that are part of the reason why I wanted to take this position was to try to bring greater accountability to government. I think from when I started to where we are now, there have been some improvements but there are a lot more that can be done. I am happy to hear that the budget group is looking at performance base budgeting; I think it is a good direction to move into. I believe that they are going to be expending some resources to get trained because it is a whole new system of looking at accountability. We can do a lot better even without performance based budgeting, we can have clear objectives and performance measures. I think some Divisions and some Departments are doing it very well, the problem is there are other major Departments that are not, that it is not accountable and there is no way for us to see from this year to last year what was done and how it can be measured. I agree totally on that point and I think it is going to take a commitment from the Council as well as the Administration to get us there. We will need to look at the resources to bring that level of scrutiny, accountability, and transparency to the public.

Chair Furfaro: Lonnie, thank you very much and as we go forward some of the changes the Council is making is very evident this year when we go through the revenue cycle, you will see that even on that sheet we have information from what we were doing in 2010, 2011, and 2012. Even on revenues, we are recording actual. It is no longer budget compared to budget and so forth.

Mr. Sykos: Big tip of the hat. That is a huge thing that the Council and the Administration is accomplishing and I do not want it to appear that I am simply here to bash the Council and the Administration. It tremendous, positive movement forward – the testimony from the Recycling… Allison, I believe, her reports on return on investment basically is what I would like to see from all Departments. She is the poster child of how to do things correctly from my vision.

Chair Furfaro: Thank you for recognizing that because as they make their presentations compared to what we got 6 years ago on a mission statement now, measuring last year's results and so forth, some progress is being made, Lonnie, thank you for your testimony. Members, I am also going to recognize that Mr. Kagawa is on an excused absence today. Mr. Bynum, we agreed on the time but if you can take the front and Tim, I am going to move to the other mic so I can watch your presentation. For the Administration, one additional housekeeping item, I would like to make Ricky aware to please when we go into Housing today to make sure that we have someone from Housing available on the rents and other concessions for Housing.

Mr. Bynum: Before I get started with the PowerPoint and I appreciate everyone's patience, the last few years have been fascinating in terms of the process but also about our efforts to access data of information in a manner that allows us to do analysis of our responsibilities to set tax rates. First, I want to acknowledge huge efforts by our Staff member Scott and also by the Real Property Tax Division to try to get pass these issues and get data for all of us in a way that is meaningful for us to make inform decisions about taxes. The frustrations I have had since I have been a

Councilmember is accessing information and a few years ago when our tax situation was changing dramatically, I really reached out to say, to the Real Property Tax that if we make this kind of rate change, if we could change our homeowners deductions, what will be the impact on the Council on accounting revenues but also just as importantly, what is the impact on the individual taxpayers? I believe it is our responsibility to understand the County of the decisions that we make but also on individual taxpayers and what the impacts and decision that we make on them. There was really no way to access that information. With a lot of ongoing dialogue of almost 2 years ago and pressure from me and others on the Council as much as possible to get that information. Last year we were presented with a spreadsheet that took Real Property along time to generate that allowed us to plug in different exemptions and different rates and at a push of button to see what the impact would be for County revenues but also for all 12,000 of whatever it is, individual taxpayers. So, then you could take that data and analyze it and say how does this impact low and moderate income people as opposed to high income people or more importantly and with the assumption that people who own million dollar homes are probably have more resources than people who own $250,000 homes. So, that was really helpful. We can say if we set the rate, push the button and so… but I also discovered that we had been given aggregate data. What did each tax category pay in taxes over a period of years? And when we finally got the raw data of all 12,000 taxpayers and we started to analyze it with help from Scott, it is like wait a minute, these numbers that we are getting from raw data do not add up to the aggregate data that we have been given in the past. It is like, oh yes, well that is because we were allocating all of the permanent home use credits into the homestead class. But in reality the homestead class has roughly 8,000 taxpayers in it and there are another 4,000 taxpayers that are scattered in the other tax categories like single family residential, Ag, or Apartment. Now, we have changed that, we did whole sale tax reform and so now what categories people fall is based on use more than zoning. So, all those things have changed around or the numbers in each categories because a lot of people moved from Ag into Homestead, this year. So, it is a really complex issue but the important thing was that the data that we had received that we made decisions based on for a number of years was not completely accurate. When we accurately distributed those tax credits into the appropriate… it gave a very different picture of our tax history and so I want to present that here today but I also want to say that this issue about collecting accurate data in a form that we can analyze quickly is not accomplished despite a strong efforts from the Real Property Division and myself and our Staff. As we sit here today, if we have to analyze a rate change, it will take several days to get the answer back. Yet, we are going to make decisions about those rates in decision making in real time. When we come right down to crunch time at the end of this budget and say, if we set the rates at this rate, how is it going to impact our overall revenue? We have a very cumbersome and complex system right now and so I want to give some history of that and I am real glad that Real Property is here today because they can correct me if I get any of this wrong. This has been an issue that Staff and Real Property and I have been working on for over a year and a half, how do we get this data in a form that is meaningful for us? That is consistent with our tax ordinance which I will get into in a minute and I do not want to get too complex but we are going to have to follow up on this as a body because the last two years I asked that we put in our budget money so we can take that responsibility. Administration, you supply us the data but on our side with our resources, we will determine how we will analyze that in a way that is meaningful for us. The County Attorney came back with an opinion saying "no, Council, you cannot do that. It is a separation of powers issues." I disagree with that and we have gone into a second round of dialogue with the County Attorney who said "well, no, you do have that authority under these circumstances and we do not have time to go into that all today but what is important for us in this budget session is… and so, basically what they said "you cannot do it with your own resources." So, the Administration stepped up and said "we will use our resources to try to accomplish this goal." And so a couple months ago, our Tax Consultant, the Administration expended close to $10,000 to get our tax data in a way that all of that data can be put into a spreadsheet, right? And that is… in order to accomplish this goal takes two steps. One step is get the data in a form that we can manipulate and then write the formulas in an excel spreadsheet or an access database to make real time quick and meaningful assessments. Unfortunately, phase two of that project has not been accomplished. Everybody in good faith tried to get it done in time for this tax season but really the bottom line came down to the only person in the County that could accurately and fairly expeditious do that work is Steve Hunt and Steve is now our Finance Director. His time is probably some of the most valuable in our County right now and it was not realistic for him to take three or four days to write those formulas. I am trusting that there was just no time, right? But that puts us in a real bind and I mean all of us collectively and that we are going to set rates and unless we just accept the Mayor's rates or the rates that are being proposed by other Councilmembers who have had days in advance to do the analysis, we are going to have problems. Do you agree with that, Steve, with a nod would do… so, I am really concerned about that problem when it comes down to crunch time. You have 2 spreadsheets that I passed out and one of them looks like this, okay? This is the real data that was analyzed by correctly allocating the credits into the proper categories. You may not understand the nuance here but the bottom line here is, we had a spreadsheet similar to this that had information that had information that was not accurate and now we have accurate information. These are what we actually billed. So, for a public policy discussion, this is the best document because this signals the intent. Now, the actual collections may have been very varied based on appeals and other late payments but this is what we bill people for taxes. For analysis, this is good. If you look at this and I will have some charts to explain it, you will see that in each category there are homeowners and none homeowners and so I wanted… our responsibility is to determine who should pay what portion of the tax burden, so, we need to know that. How much is being paid by homeowners? How much by hotels and resorts? How much for commercial or apartment? And once we teased out that data, we found that things were different. I am going into the PowerPoint now and this is the graph that we are pretty familiar with – it is our revenues over the last 10 years. Obviously, they peaked in 2008 and 2009 were our peak years for revenue and in the last 4 years our revenues have come down to 78,000,000 from a peak of 91,000,000 or $13,000,000. So, this last year, we collected $13,000,000 less in property taxes then we did the previous year. That is why we find ourselves in this bind, in my opinion, we and that collective "we" means the Council and the Administration and I take responsibility as well have not managed our revenues well at all over almost a 10 year period but certainly over the last 4 years during this down. I think that opinion is more than supported by data, by actual numbers. So, if we lost $30,000,000…

Ms. Nakamura: Tim? I have a question.

Mr. Bynum: … overall over a 4 year period…

Chair Furfaro: Excuse me, Tim, Nadine has a question.

Ms. Nakamura: Are you taking questions throughout or at the end?

Mr. Bynum: I am open to either or.

Chair Furfaro: Because I gave him an allocated time, let us hold it to the end.

Mr. Bynum: I prefer if it is a clarification and I am not being clear about something…

Ms. Yukimura: Yes.

Mr. Bynum: …that the question happens now. If it is broader, I would ask that questions be save till the end.

Chair Furfaro: Let me ask, is this a clarification question, we will accept it during the presentation.

Ms. Nakamura: I will hold it to the end.

Mr. Bynum: Okay. So, if last year we collected $13,000,000 less than the peak and then the other year… overall that is over $30,000,000 less revenue than if the tax collections would have remained the same as they did at the peak. So, where did that $30,000,000 go? Who paid fewer taxes and was it equably distributed over the… and I wish it would have been but it was not. This is through 2011 and our 7 or 8 pit classes but this data has been corrected to tease the homeowners out. So, we know what happened to our homeowners versus these other tax categories. Here, you can see all of the tax categories but by 2011 $20,000,000 of reduced revenue had gone to hotels, resorts, single family residents of people who are not homeowners or who may not live here or maybe vacation rentals. So, taxes went down for every tax category and here are the amounts, except homeowners. By 2011, when you looked at homeowners, they had not enjoyed a 10% - 15% decrease in taxes, they actually paid increases over this 4 year period. Increases of 2.1 million and if we go to last year, we lowered the tax rate from the Homestead class and made our first adjustment in rates in many years and so it did mean less property tax collection from homeowners. But in that intervening year, so this is including 2012 data, now the none resident tax categories have had a reduction in taxes in a 4 year period of $30,000,000 and taxpayers are still paying one point five million more than they did at the peak. Why is that a million difference? Because we lowered the rates, we lowered the rates and we finally gave consideration to homeowners of people that live and work here but still even with that rate reduction over a 4 year period, homeowners are paying one and a half million more while none resident taxpayers have had a $30,000,000 less. So, that is where the money went and I do not think that it was equitable or managing our system well. Our tax ordinance says and it instructs the Council, "Council, you are first to determine the revenue needs. What do you need to run the government next year, then you will determine who should pay what portion of that tax burden." And that is a policy call. How much should come from resident homeowners, how much should come from commercial, industrial, all of the different categories. But what happened over the last… since 2004 is, we have not changed rates so those 7 tax categories that are ad valorem there assessed value times rate determines their taxes. The assessed values have come down so their taxes will come down. Most homeowners are not in that system anymore, they are under the cap system that was initiated in 2004 and so homeowners automatic tax increases built in because the market is going down but yet our cap says that if you go up 2% or now the cost of living which last year it was 3.6 and this year will probably be 2.4. Now we have had a lot of look at taxes over the years… JoAnn, did you have a question.

Ms. Yukimura: Clarification, I think. I am not… How did you get to $30,000,000 loss?

Mr. Bynum: If taxes would have remained the same and if we did not allow big reductions to occur, and you paid the same rate as that peak, over a four year period the reduced revenue for most tax classes is $30,000,000.

Ms. Yukimura: Alright, thank you.

Mr. Bynum: We are at a pace of $13,000,000 a year – at least last year.

Ms. Yukimura: Okay, thank you.

Mr. Bynum: But over years, that adds up. So, in 2004 we all know that there has been a lot of issues – a lot of efforts to deal with our taxes, some successful and some not. This is a real brief overview of 2004, there was a Real Property Citizens Tax Force that met all year. The Council did not except any of their recommendations and made no changes. In 2004, the Citizens amendment, Charter Amendment passed that was going to cap resident taxpayers, actually it would rolled back their taxes to a lower level and then make sure that they did not escalate. That did pass by the voters but was overturned by the Supreme Court. The Council response at that time was to put forward the permanent home use which in my view in that era was a really good move, it was not the only way we could have dealt with the increase escalation of taxes but it recognized that there was an escalation occurring and it was an effort to protect homeowners from that. Initially, it worked. Chairman Furfaro was the author of that Bill and he said at the time this is a measure that we need to put in quickly but it is temporary until we get a kind of comprehensive reform. In 2008, it was clear that the cap was no longer functioning the way it was initially intended. It had become clear that there were some problems with some of our assessed values in 2003 on which the cap was based on the assessed values. It turns out that the assessed values in 2003 were kind of a mess and were not very credible and if I had more time, I would go into that. It was clear to the Administration at the time that we needed to do a comprehensive reform of taxes and they presented what they called the Real Property Initiative, I think it is what RPI stands for. This came from the Administration at the time. In 2011, last year I put bills forward increase the homeowner's exemption which would have had the effect combined with rates of reducing taxes for local people. Unfortunately, in my view, those bills did not pass but at the end of the budget system, at the end of the year, we did reduce the property tax rate for the homestead class and what the impact to that is, we will look at it in a minute… also in October 2011, the Administration put through 2 bills that did pass by this Council that are very comprehensive reform of our tax system. It has many good elements and we do not have time to go into it but it did not address who paid what portion of the tax burden and I think it is an undone business. I presented 2 or 3 years ago about 30 of these charts to understand how the permanent home use worked. So, this is a typical home and legally a real home in 2003 the taxes were $524 and they went up to $1,100 in one year that was an impact of a rapidly escalating that home values without making any adjustment in rates.

The cap came in and said that you are only going up 2% a year but the market rates continued to escalate. So, this homeowner and people… the cap was predictable and it made sure that you were not going to have large escalation of taxes. You see this homeowner, their taxes only went up 2% a year. So, the top purple line is what the market rate was, this home sold in 2009 and the new homeowners, their taxes went from 1,260 to 2,057. Especially in homeowner class properties turn over, housing has a lifecycle, people down size like what I am trying to do right now, go from a larger home, my kids are grown to a smaller home. Well when you have that purchase when a local person, say an older person like myself, the taxes reset. All of a sudden, we have many different versions of who pays what? It is not an objected formula, it is based on how you were capped in 2003 which was not really accurate, what neighborhood, what year did you buy your home, that kind of thing. So, a combination of taxes over the last 4 years of taxes going up for everyone that is under the cap by 2 or cost of living and the reset of taxes that are happening with sales has caused this overall increase in revenue that is coming from taxpayers. It also created inequities. I do not think it is fair that someone pays 1,100 and a person cross the street pay 2,100 for the same valued home. That is not objective. Now, these next couple slides are from the tax presentation in 2008 that the Administration made. Yes, JoAnn.

Ms. Yukimura: On the backside the 2% cap blue line? On your… what is the 2% cap?

Mr. Bynum: The blue line is how much credit permanent home use credit is required, right? Say if you look at 2007, the peak year of this home, the market taxes were 2,187 and actual taxes that were paid under PHU were 1,121 so that required a $976 credit that is how the cap works, right? Here is your market tax but we are going to credit you the difference.

Ms. Yukimura: That is the savings to the…

Mr. Bynum: To that homeowner compared to market rates. But the homeowner across the street may not be under the cap. Currently, if roughly 2/3 of our taxpayers homeowners are still under PHU and 1/3 are out or eight thousand under and four thousand not under the cap. And that is because there has been that turnover in this period.

Ms. Yukimura: Okay, thank you.

Mr. Bynum: So in 2008, the Administration at the time was saying that one of the important principles of the Real Property Tax system was equal and fair treatment of first homebuyers versus the PHU program. So the recognized it that inequities were building. One of the many things that they tried to accomplish with this comprehensive reform was to get back to market taxes, get back to the regular… so every taxpayer is treated equally. I think we can have various opinions whether we are taxing too much or too little but I think taxpayers want to know that they are being treated the same as other taxpayers in their categories. I do not think we should have these totally… anyway… we will see here… so what they proposed at the time was to increase the homeowner's exemptions dramatically to three hundred thousand three twenty-five and three-fifty. I thought that was a good idea because exemption is a progressive tax thing that puts more of the tax relief into low and middle income and less of the relief at high income. That is the kind of… have been true to all of property taxes all over the Country forever. The overall input of what they were recognizing and these are the 8 tax categories are they were recommending that homeowner taxes go down by 35%. In 2008, they were saying look, this burden of who pays what portion of the taxes, we should not be increasing it for homeowners, and we should be decreasing it. I think that is good public policy, it is tough to live in Hawai‘i and I do not think homeowners should pay very high rates that if you ask me who should pay what portion of the burden, the homeowner should have a fairly low portion of that burden. And in order to make up that revenue, they were saying hotel rates are going to go up 25%, apartment rates which are visitor industry units are going to go up 15%, single family resident rates for residents for homes that are not occupied by homeowner, they may be used for vacation rentals, they may be vacant or second homes, or long-term rentals, or short-term rentals, those taxes should go up. The proposal was to eliminate the PHU to bring fairness to the system for homeowners and to bring down the overall tax burden paid by homeowners. The impact of that is pretty dramatic and that in 2008 when this was proposed Homestead taxes were ten million. If this proposal would have passed then the following year taxes would have gone down almost four million dollars for local people. Then they would have not been under the PHU so if we kept the rates the same, there would have been a further reduction based on home values and by now, homeowners would be paying six million of our tax burden if that proposal would have passed. Last year, homeowners paid more than ten million. I wished this would have passed but it did not. Now, I said we were given data in the past about what percentage of the taxes were paid by Homestead or resident homeowners and this was the data that we were given. I presented it here last year, the Administration presented it and what we said is look the cap worked effectively to reduce homeowners taxes for the first few years but now they have gone back up because of these resets, because of the assessed values are going down and everybody else is getting tax breaks, while homeowners are paying more and so the percentage went up. This is the data we were given. When we corrected this data, this is the true data, very different. Homeowners paying overall a higher percentage of the taxes, the cap did reduce taxes in the first year or two but after that it enacted to increase taxes for homeowners. Now, look at the difference. This is what we were told and we based our decisions on that blue graph line item on the bottom. But what actually happened is on the top – the red line. Now, that is just the Homestead Class, the eight thousand that are under Homestead. When you look at all homeowners and include all homeowners, you see this graph where the cap came into effect, taxes went down pretty dramatically for homeowners but then over the intervening years went up dramatically. That last drop you see, back down to 16.27 is the impact of the rate reduction we did the last year. So, it did bring up homeowner taxes or their percentage of the burden down but it is still greater than it was in 2003 and much greater than it was in 2005, 2006, 2007, and 2008. This is what our tax ordinance tells us that these are the numbers that we are supposed to pay attention to, which pays what percentage of the tax burden.

Another way to look at this is over… these are the 8 tax categories graphed over the last 4 years or between 2008, the peak in 2012 last year, the last year that we have data for. These are the 4 big ones, a little bit easier to see. The blue one on top is the single family residents, the homes that are not occupied by local people, the homes that… although some of them may be occupied by local people because they are rentals but these are the homes that do not have homeowners exemptions. You will see that it came down and last year the Administration proposed bumping that rate and we did and so you see that blue uptick is based on the rate changes that we made last year. We did not change rates on the other major tax categories, so they continued to go down. Now, you will see a reduction in the homeowners there that is because of the rate reduction that we did but homeowners are still paying a bigger burden then they were in the past. This slide is something that I prepared for what I intended to propose this year. It turns out that it is pretty close to what the Mayor is proposing in terms of the 4 major tax categories in that… so what I believe is in 2013 those tax categories that have had a $30,000,000 reduction in their taxes over 4 years, we are in an unsustainable position, we cannot continue to have revenues well below our expenditures. But, we need to deal with the homeowners who have paid a higher burden during this downturn time that have actually paid increases in taxes and even with the adjustments we have made last year, they are still way over from what they were. So, how does that play out and some of you have seen these charts before, this is 10 homes all valued at $500,000 in our tax category, okay. The blue dots are the taxes they paid in 2011 and so these homes are all have the same value, so the taxes should be close to the same but they are not because of these various anomalies. So you have one taxpayer paying nine hundred and seventy-two and another paying one thousand seven hundred and so it is a big difference and five hundred thousand is basically the median price of all the homes on Kaua'i right now, it is around five hundred thousand. Last year… so the red line is the market taxes of these homes if we did not have the cap that is the market taxes that we set at the 305 rate last year. So, the two blue dots that are above the red line those people paid a reduction of taxes, so when we lowered rates last year, it did not lower taxes for homeowners because only a third of them or about four thousand, are at market. The rest of them are covered by the PHU. The blue dots are the PHU folks that are below the red line… does this make sense to everybody? This is a really important concept here. So, when we lowered the rates, the blue dots is what people paid in 2011 when we in 2012 the two that are above the market rate had that tax reduction. So the guy whoever that person is went from seventeen hundred down to fourteen hundred. I think that relief we gave in rates, it went to the people who were paid the highest rates already. And it helped make it a little bit fairer but it is still not all the way fair. The red line is what the market rate would be, right? So, if we eliminated the cap and kept the rate at 305 all of those people with blue dots below would have tax increases and so the proposal that I… the way to deal with this in equity that I have been suggesting for three or four years now is this, lower the taxes for residents who live here. If we did a $2 rate then the market rates would be the red line, the people above would come down and the people below who have been enjoying very low tax rates for the last 8 years, would have to pay a little more. Does that make sense to everyone? I think it is really important for us to get back to market rates. The variations that you see on the red line are based on age because we have higher exemptions for elderly people. So, there the differences in taxes are about something you can explain. This person even though they have equally valued home is paying less because they have a senior rate exemption, right? I believe it is prudent for the Council to bring equity to the Homestead Class to deal with the fact that they paid one point five million increases during a period when other business and none resident taxes have had a thirty million dollars decrease and so this would accomplish two goals. One would be to get us back to ad valorem taxation that treats everyone the same and reduce the overall tax burden being paid by our residents now in order to do that you have to make up the revenue somewhere. So, take another look at this, this is the median home price for residents is much lower than the median price of all homes on Kaua'i, we know that. Most residents do not live in the three million dollar homes. If you just look at the homeowners, a median priced home is three-eighty, so here is an example at three-eighty, the blue… and remember these are all homes that are equally valued. So, you would expect they pay similar taxes. The blue dots are what they paid in 2011 and you see the red line is the market rates at the 305 rate that we lowered. The impact of that was the two properties that are above that line had that reduction, right? Does this make sense to everyone? The people below the red line, the market rate are people who are getting various benefits from the PHU. Now, if we set the rate this year at $2 it would bring the market rate to the red line and everybody above it would get reductions and the people below it, if we eliminated it, would have to pay an increase. The biggest increase there would be from 412… so that person would have to pay a hundred dollars in taxes, an increase if we eliminated their PHU credit and had the rate at $2. But that person has been paying $420 a year for taxes when some of their neighbors have been paying $1,200 – three times as much. These inequities at the lower ranges seem greater than they are at the higher ranges. JoAnn, you had a question?

Ms. Yukimura: Yes. The assumption here is that the home exemption stays the same?

Mr. Bynum: Yes.

Ms. Yukimura: Okay.

Mr. Bynum: Now, I believe… I am going to say right now, I am going to propose this year that we reduce the homeowner's rate to deal with this inequity and eliminate the cap as soon as possible. Now, it may not be… we may not be able to do that this year and so I have already had some dialogue with the Administration about this because the other change that has happened with the Mayor and I believe Council Chair Furfaro is a recognition that we need to address this permanent home use that has caused inequities. It has out lived its usefulness but we still need to keep… and I think we are all in consensus about that. The discussions are going to be how do you do that?

Ms. Yukimura: Yes, right.

Mr. Bynum: It is not as simple as just eliminating the cap because if we did that, if you look at this rate all of the blue dots that are below the red line, if we left the rates the same would pay increases. The homeowners have already paid as a group, increases during this downturn while other taxpayers got decreases, I do not think we want to increase homeowners taxes even more. I think we need to bring it down. One way to do it…

Chair Furfaro: Excuse me.

Mr. Rapozo: You said that the exemptions would not change?

Mr. Bynum: I want to change the exemptions.

Mr. Rapozo: No, no. Councilmember Yukimura asked and this is assuming that the exemptions stay the same and you said yes.

Mr. Bynum: Yes.

Ms. Yukimura: I am talking about those charts – the assumption underlining those charts.

Mr. Rapozo: Right but if you are just lowering the tax rate, wouldn't the dots just move down in proportion?

Mr. Bynum: Right, like this. That is these two slides, see it moved down? It moves down in proportions.

Mr. Rapozo: But the other dots would also move?

Mr. Bynum: No, the blue dots are the actual taxes that are being paid by these individuals under the PHU.

Mr. Rapozo: Yes, but if you went from 305 to $2, would the market tax not go down as well?

Mr. Bynum: Let me…

Mr. Rapozo: You know what I am saying?

Mr. Bynum: You are asking a great question.

Mr. Rapozo: Without an increase in exemptions every dot would shift downwards based on the tax rate.

Mr. Bynum: Yes.

Mr. Rapozo: Okay.

Mr. Bynum: But let me be clear here, the blue dot is what people paid actual taxes in tax year 2011. Last year we reduced the rate and the red line is the market taxes that the 305 rate that we reduced it to. The impact of that was that the two homes that are above that red line, they had a tax reduction last year. I have a pointer on here… this guy right here, his taxes went from this rate to this rate because of the rate change we made. If we made a further rate chance to $2 then all of these guys taxes would go down to this market rate but the people below as long as the cap stays in place, they would stay down there. But if we eliminated the cap, some would have to pay an increase. These two would go up. But this person has been paying four ten a year for the last eight years while there were other taxpayers with equally valued homes paying twelve hundred that is the inequity. Now, if we… I believe a better way of doing these then rates is exemptions. We have not changed our exemption forever. We really need to look at that. It is too late to do it this year, I tried to do it this year but the clock ran out, I tried to do it last year and I could not get the votes. To me the big question is, how are we going to eliminate the cap next year? Are we going to leave the market rates high and then move these people up to the higher market rates? Or are we going to bring the rates down and move these people down and have only these kind of out layers pay an increase and not a huge increase, a responsible increase to get everybody on the same page sort to speak. Now, the subsequent year and I have already talked to Steve about this and somewhat the Mayor, it is better for us to use… so, we can fix it the following year, we can increase the exemptions and the rate in a revenue mutual way, so it just shifted some of the relief into the lower and middle income which is something that I think would all value. Unfortunately, we cannot do that this year but to do nothing for the fifth year in a row is not something that I would suggest. In order… if we bring that rate, it is going to impact and we will have to find the revenue somewhere else and when the Administration gets into their presentation today, we will see why…well, what their proposals are with rates. I am going to suggest that we make some adjustments to that, that we reduce the rate further for the Homestead class to set us up for a successful removal of the cap next year and what mechanism we do to do that, we are in dialogue now. Whatever the Administration is proposing, I know I am going to propose some changes that reduce the homeowners because… and if I go back to the way beginning of this, this is the outcome. Homeowners have paid even after the rate changes that we made – one point four million more over a four year period when hotels, resorts, commercial, out-of-state homeowners have had this reduction. To me, we still need to deal with that equity that pays what portion of the tax burden. This last slide is a thing that I did last year, how did these impact vacation rentals, the high end vacation rentals? This one went from twenty thousand to seventy thousand. Taxes went from ten thousand to six thousand. Well homeowners – it would be reverse, we paid increases but yet we have given reductions and this is for not managing our rates the way the ordinance tells us. If we set the percentages of who pays what, we are not going to have round numbers in the rates. We are going to say "in order to get an equitable rate at the policy level we decided, the rate needs to be $8.06." We tend to make these rounds number moves, I do not know the rationale to that. Yes?

Chair Furfaro: Tim, I think it was always our strategy to first let Planning cleanup the TVR inventory and then create the 9th category.

Mr. Bynum: Right.

Chair Furfaro: And that is in this proposal.

Mr. Bynum: Yes, and in fact next year, all of these TVR's will pay higher rates because we finally created one rate.

Chair Furfaro: I just wanted to make sure to say that we had to clean that up.

Mr. Bynum: This is showing…

Chair Furfaro: I know what it is showing.

Mr. Bynum: …the gain that they have gotten.

Chair Furfaro: Yes, but we had to have a legal position on qualifying who was a TVR to create a category.

Mr. Bynum: Right.

Chair Furfaro: And that is in effect. Tim, I have to say, I got one question… go back to your homeowners slide.

Mr. Bynum: Which one?

Chair Furfaro: The first one that showed two million one that they were extra they were paying. Yes, over here… in that four year period that we are comparing here, if you go back and really look at the fine line here, you also need to note that in those four years, there are one thousand six hundred and seventy-four new parcels that were added in a four year period.

Mr. Bynum: Not in homeowners.

Chair Furfaro: Well, I am looking at the detail but I am just saying that we did…

Mr. Bynum: No, I did that last year, I showed all the parcel changes in the Homestead class we actually have a fewer homeowners.

Chair Furfaro: Right. I guess where I am going was just that, that is why for us to get timely building permits information because that shows us how our revenue is building. The people are building on residential parcels to be Homestead qualified but anyway… very good.

Mr. Bynum: I want to close with this chart right here that I keep passing out every time I come here. These are CAFR numbers and I just want to say that in looking at these numbers, if you look close with an analytical mind, you can come to some kind of conclusions. I really want to emphasize this one in particular. If you look at the total encumbrances expenditures and transfers out, if you look at that column over 15 years, clearly the size of the County government has grown but let us look at the periods since the Mayor was our Mayor. These are not budgets, this is what we actually did and in 2008 when the Mayor became Mayor, that year, which he could not control, our spending was a hundred and nineteen million. The next two budgets that our Mayor presented, he reduced spending. Our Mayor, I think and I said this yesterday, I think our Mayor did a great job in cutting expenditures and during the initial downturn and this is not an opinion, this is what the CAFR said. We went from one nineteen to one sixteen, so two years in a row he gave us reductions and these were years where we had fixed cost increases, right? And so I believe that the Mayor appropriately responded and the Council supported him at reducing our spending as much as we could even in a period where we had fixed costs that were going up. Now, the Mayor's budget message two years ago said, we made these cuts, we have come through the difficult times and it is time to get back to normal. The most of the new positions people are talking about were positions that we had all along and we had not filled. They were dollar funded. So, the Mayor's message was like… and people over the last few days have been saying that we are in a recession… we are not in a recession. We are in a slow recovery. The worst of this is, is behind us, hopefully but that is just my opinion. That is the economic statistics of our State – unemployment is down, visitor arrivals are up, revenues at least for the State are up. The other thing you see here is that during the first two years of the downturn, we had a twenty-two million dollars increase in our fund balance and then in the subsequent years, we had… these huge fluctuations up and down…

Chair Furfaro: Tim, I got to share with you… The posted agenda today is about revenues. I know you will have time in other phases of it to talk about the CAFR and fund balances and so forth but posted agenda today is about revenue and your presentation up to this point has been very good about revenues and I appreciate it but I want to stay on the agenda item.

Mr. Bynum: Okay. Well, the point is we did respond as a County to changing times. We did make reductions. That was required because our revenue were falling. But we cannot afford for these revenues to continue to slide. I have made proposals over the last few years to increase rates, not to increase taxes but to stem the loss of revenue. Well, we did not do that and now we are going to have to make a more dramatic change then I would have liked. But we are basically brining taxpayers back other than Homestead to the rates they were paying in 2008 and they did enjoy all of this reduction but in order to efficiently run our government, we need to bring this back. We cannot cut eleven million and I challenge anybody and I will during the budget process, there are certainly some areas we can cut but if you get over a million dollars, then you are into bodies. You are into cutting… and we cannot not have an Auditor's Office, we are required by Charter now to do that and the citizens voted for that. We cannot undo the changes and I think those changes were important…

Chair Furfaro: So, on that note… I promised you an hour.

Mr. Bynum: It is forty-eight minutes.

Chair Furfaro: And now I want the balance of the time to be dealing with Q&A on the presentation please and it is focused on revenue.

Ms. Yukimura: It is related to what you were saying about revenues that the Mayor appropriately and with the support of the Council cut expenditures to match the declining revenues?

Mr. Bynum: I did not say that. I said he cut expenditures. Obviously, not to meet the declining revenue or we would not be in a negative cash flow.

Ms. Yukimura: Well, I guess I am beginning to… well, not beginning but understanding more than ever your point about not managing revenues because if you cut too much and you cut things like preventive maintenance then the backlog is far more costly in the end. So, we are not doing a service to the community if we are not managing revenues, I think is what you are saying.

Mr. Bynum: I think it is our responsibility to do that. I do not think we should see big changes either up or down.

Ms. Yukimura: Right.

Mr. Bynum: Typically the cost of government is going to go up like everybody's cost of living and so typically you would see a net increase in the fund balance a little bit each year. But when you see a fourteen million dollar change up or down in one year, something… that should not be happening.

Ms. Yukimura: And if you do not manage revenues to give incremental increases then you hit your taxpayers with huge increases?

Mr. Bynum: Right and in the upcoming years, I believe that values will go up and so our responsibility will be to cut rates so that we do not take too much revenue. When the revenues are falling then we need to bump the rates so that we do not lose all of that revenue. It is the combination of assessed value in rates. A rate increase does not always mean a tax increase. A rate increase means that you stay the same in the falling market and just like a rate decrease does not mean less revenue if the assessed values are going up. We are supposed to do it every year. Our tax ordinance say do it every year and we did not change rates for fourteen years, so obviously we were not doing what we were instructed to do.

Ms. Yukimura: Right and it is our responsibility to explain the distinction between rates and taxes. It is not a ready distinction that the people understand so we have to keep explaining it that when you raise rates, you are not necessarily raising taxes.

Ms. Nakamura: I have not been on this Council as long as some of you have but I have to disagree about your comment that we have not managed our revenues well. The reason why, it is because of the conservative budget practices by building up that fund balance that we have not had to tax our citizens at the worst possible time during the recession. We had funds to fall back on to balance our budget.

Mr. Bynum: Right…

Ms. Nakamura: Just last year Bill 2425 which was going to change the home exemption, you know we were looking at giving back 3.4 to 5.6 million to deal with this disparity and inequity issue. I think it had major consequences for this year if we had gone ahead with the full potential of that bill but we scaled back on it and I think it was a good and wise decision given where we are today. I am also very happy to hear from Steve Hunt that the Administration wants to put together a Committee to look at this inequity and to really look at, what you said, both sides – the exemption piece and the rate piece and to come back to us with a recommendation. Maybe because I have a shorter lifespan on this Council, I may have a different perspective but that is how I am looking at things.

Mr. Bynum: Well, this is just the dialogue that I want us to have and so I want to respond which is when I say that we have not managed our revenues well, I mean during this economic downturn over the last four years because our residents paid increases every year over the last four years.

Ms. Nakamura: Yes, but over the last eight years that has not been the case. So, you need to take a look at the longer… the bigger picture.

Mr. Bynum: I am looking at the bigger picture and that is why…

Ms. Nakamura: I think you are looking at a shorter timeframe and when I did the analysis over the long time period, and I think I talked about it last year, the numbers were very different.

Mr. Bynum: I would encourage you to explain because these are the CAFR numbers…

Ms. Nakamura: Those are CAFR numbers from 2008, I believe?

Mr. Bynum: This goes from 2003.

Ms. Nakamura: Okay, I can show you the numbers I got from the Administration.

Mr. Bynum: Okay. Last year if we would have given the rate reduction to… that I was proposing to homeowners then we would have had to increase rates to make up that revenue lost and we would not be doing as big of an increase based on those categories this year because we would have done it last year. To me, it is about fairness. Why would the none resident taxpayers see four years of reduction while residents see four years of increases? To me, that is not managing our finances well. Now, I agree with you totally that the conservative approach that this County as taken to finance and I would never want to change that. I am not arguing to change that. Part of that conservative approach is making sure you have enough revenues and you do not get into a negative cash flow like we are now. I am not suggesting that we are not going to remain a conservative County in terms of managing our finances but we just come through an extraordinary period and during that period, I will stick by my guns. I mean collectively "we – all of us" the Administration, the Council and to me that is worn out by this data very clearly. But I do want to clarify, I am not suggesting that we go away from the conservative practices. I was saying that we should keep it 25% reserve and I still believe we should have a large reserve and that is a conservative practice.

Chair Furfaro: We have six minutes left on the presentation.

Ms. Yukimura: The three million that looked like a loss if we gave some homeowners some relief last year would not have been a loss if we had increased the tax rate on the other categories on taxes. The General Fund balance that looked so good that so-called "helped us" was not managed properly either because it did not have a good reserve policy which is why we are in the situation that we are in now. Where we have expenditures exceeding revenues because the big General Fund balance not properly used was hiding the mismatch between expenditures and revenues. We did not see it because we kept like a cash flow, kind of covering it up because we had all this big surplus. That is why I said it would be a discipline to put in a reserve policy because it would show up sooner than the mismatch between expenditures and revenues. It would force you then to make some revenue management that you need to make over time.

Chair Furfaro: I am sorry, I just want to say that we are coming down to the time. I just want to thank you again for making mention that the cap was a temporary measure. We went through two Commissions, if I may say, to make some recommendations, values were accelerating, people needed their primary home to be protected, and the 2% cap was put out there as a temporary measure. I said that before but most importantly that when we removed the cap, it is a two prong piece. The cap just cannot be removed without having an action plan in place, that is very important and I think that was your recommendation. I also heard you say that some of your stuff by the Administration is pretty similar to what you are planning and that perhaps there is a need to look at that step this year and then create this, with Steve Hunt, the bigger question about how we manage fairness and equity.

Mr. Bynum: Yes, and I agree with everything you said. You are right, if we have to manage… last year I heard Councilmember's say "we just got to get rid of the cap." Well that would have been a huge increase.

Chair Furfaro: A two prong attack.

Mr. Bynum: But the key question for me is, this one right here. Are we going to do it by bringing the rate down and then just easing up the people that are below that? Or are we going to keep the rate high and ease up the people? Hopefully, we will bring the rate down even further. I think there is a way to do that over the next two years, in my opinion, we need to make a step in that direction this year.

Chair Furfaro: Understood and we can have that discussion when we get to actual rates.

Mr. Bynum: Right and then we will have a goal and we will see.

Chair Furfaro: On that note, your hour is up, Tim, pretty much.

Mr. Bynum: Yes.

Chair Furfaro: We have two or three minutes left that I would like to hear at least from the Finance Director on your presentation.

Ms. Yukimura: I just want to thank Councilmember Bynum and Finance Chair Bynum for this work because he has been a very consistent voice for us understanding the complexities of this. Some of the analysis tools that he has developed in conjunction with also… I want to thank Steve Hunt is going to be so useful both to the Administration and to the Council in doing its work. I just want to say thank you.

Chair Furfaro: Steve, I want to stick with the time that I allocated.

STEVE A. HUNT, Director of Finance: Sure. First, I want to acknowledge Tim as well, I know it is a passion of his. He has done a lot of work on this. The information that he as presented here, it is to my best knowledge as accurate as possible.

Mr. Bynum: Thank you.

Mr. Hunt: What I want to point out as well and I think Councilmember Bynum will agree that the point of time from which the analysis was done is from the peak to the climbing market, not leading up to the peak. So, the thirty million dollars, if you would call rebate to property classes other than homeowners well may be accurate from peak, does not speak to what they paid in additional taxes leading up to the peak. If I were to take a point in time that began in fiscal 04 pre-capped going into the cap, at that time the revenue from total gross real property revenue was only forty-seven point seven million compared to… in the peak was ninety-two million. Obviously, if I was to take from that point in time and say how much the homeowners paid versus other properties and we aggregated that compounding year to year from that base, we are looking at additional revenue about two hundred and fifty-four million dollars from all other categories compared to all owner occupants paying approximately forty-four point eight million more, homestead only paying about thirty-one point seven more. Again. It is relative that you start from the very base and go up and look at it or it you start from the peak and go down, that is an accurate statement but I just wanted that out there because I think Nadine was hitting on that. That a large part of what we built up in surplus was on the backs of other property owners, not necessarily on the homeowners. Again, they have paid incrementally year over year, they have had some certainty into what their taxes were which was one of the benefits but I also agree that there are a lot of inequities that still exist and the cap needs to be looked at. If we want to get into matrix, we need to look at other Counties and the relationship between the rates of the homeowners they have and the other classes. I do not want to be in the position where we have a dollar rate for the homeowners and $20 for timeshare, we cannot have that disproportion. Just from an historical perspective, when the State was running Real Property taxes prior to handing it to the County, it was all the same rate – land, building, and all categories paid the same rate. It was true ad valorem taxes and that rate was $14.50.

Chair Furfaro: Okay.

Mr. Hunt: I will caveat that it was based on a 16% market value ratio, it was not 100% but that works out to about eight, seventy as an aggregate rate for all categories.

Chair Furfaro: Steve on that note, we are going to take a 10 minute break. You are going to have the floor for your initial revenue presentation and then we will go right forward into that.

There being no objections, the Council recessed at 10:33 a.m.

The Council reconvened at 10:43 a.m., and proceeded as follows:

Chair Furfaro: On that note, Steve, this time is for you to make your presentation.

Mr. Hunt: Today's discussion we are going to be looking at the Fiscal Year 2014 revenues and in particular the items that I am going to be covering in this PowerPoint are those that we are proposing revenue enhancements for. After the presentation, we will also be discussing all forms of revenue which you have been provided a spreadsheet for through the Chair. As an overview, we are proposing a number of enhancements and I have detailed them out in aggregate what the impact will be if these enhancements are improved. Also, to the very right are the fund that it will affect the General Fund (GF), Highway Fund (HF), and Solid Waste Fund (SW). In aggregate the total impacts of these enhancements is approximately fourteen point one, six million. The biggest being the Real Property Tax rate changes being almost eleven million of that. The County of Kaua'i real property tax rates have been typically been lowered then the other Hawai'i Counties which I will cover on slide five. The FY proposed rate increases merely get Kaua'i County to the average of other three Counties by tax classification. By no means looking to be the forefront and having rates that are higher than other Counties. We just feel that we need to be in again, as a measure of matrix and comparison, where we are within the State.

Kaua'i has the lowest population base of the 4 Counties and next to lowest as far as the median property values. City and County has the highest property values median prices, followed by Maui, us, and Big Island having the lowest median price. Tax rates have largely gone unchanged for nearly a decade, and with the exception of 3 of the 16 taxes rates in FY13 being changed for increases. As far as the reductions, there have been a total of 71 decreases in rates since the year 2000. What I have done here is on the rates since 2000, I have highlighted in red where we decrease rates and I have highlighted in blue where we have increase rates. Again, if you look through here there are 71 rate decreases during this period and 3 rate increases, all of which incurred in our current fiscal 13.

On page five, again this is the comparison by County. If you look across the board on the residential class City and County of Honolulu which does not have a Homestead rate, so effectively this is their Homestead as well. They have a residential rate of three, fifty. Hawai'i County has a rate of nine, ten. Maui County five, seventy-five. Our current blended rate because we are the only County that has two rates at the moment that are not the same rates. Our blended rate for fiscal 13 is four, sixty-four and we are proposing a rate of five, seventy-five versus the average of the other three of six dollars and twelve cents per thousand. Vacation rental category and I am just going to say this as a point of clarification, we do not have nine classes yet. We still have eight, we replaced the Apartment category with the vacation rental category. So, it became their substitute, if you will. Comparing that to other Counties based on their apartment rates which are primarily the rates were resort and condominium activities occurred – City and County does not have one. They actually lump it into residential already. Hawai'i County is $9.85. Maui County is $6.20 – that is an average of $8.03 and we are proposing an $8.00 rate in our current blended rate or weighted average for category is apartment is $7.46. Commercial tends to be on the higher end for some Counties. In City and Council it is at $12.40. Hawai'i County is $9.10. Maui County $6.90. The average is $9.47 and we are proposing an $8.00 rate and that brings us up from our weighted average of currently of $7.34 per thousand. Similar on the industrial - $12.40 for City and County, $9.10 for the Big Island, Maui County at $7.10 and an average of $9.53 and we are proposing an $8.00 rate. Our current rate average is $7.36. Agriculture for City and County is $5.70, Hawai'i County $8.35, Maui is $6.00 that is an average of $6.68 and we are proposing $6.75 and our current weighted average is $6.01. I would like to mention on this particular category that we moved out of properties with value that have improvements on them. These were residential properties that do not qualify for Homestead but were being used residentially on Ag zoned lands have been moved in the residential category for FY 2014. So, what remains in this category, primarily, land and agricultural ventures where you have barns and possessing facilities and things that are directly related to commercial/agriculture use.

Conservation – City and County the rate is at $5.70, Hawai'i County at $9.85, Maui County $6.30 the average is $7.25 and we are proposing $6.75, our current weighted average is $6.43. The hotel and resort category, again, one of the typically higher rates – City and County at $12.40, Hawai'i County $9.85, Maui County $9.15, the average is $10.47, we are proposing a $9.00 rate, and our current weighted average is $7.80 per thousand. Homestead, again City and County does not have that rate, Hawai'i County is at

$5.55, Maui County $2.75, the average of that is $4.15, we are not proposing any changes. We are proposing to leave that at $3.05 per thousand assessed.

Ms. Yukimura: Question?

Mr. Hunt: Yes.

Ms. Yukimura: On your agriculture, when you said you took out residents, did you take out residents associate with farms as well?

Mr. Hunt: Yes. If their primary use was in residential but they had insularly farming going on and they were dedicated farming, they still would receive the benefit of the value reduction from the dedication for the (inaudible) in farming but the actual use is still classified typically as homestead. If it is a single home with farming on it, they would be in the homestead class receiving discounted land value for that portion of the land that is being used in farming.

Ms. Yukimura: But not a discounted value for the portion that is being used for residents?

Mr. Hunt: Correct.

Ms. Yukimura: So their assessed for the residential portion of the house as a comparable residents in a subdivision?

Mr. Hunt: Right, so what you are referring to is the valuation of the rate. From the valuation standpoint, that portion of the land that is carved out and none dedicated that is used as yard space, a driveway, and their residents is being… that portion of the land is being valued residentially.

Ms. Yukimura: How are you valued farm worker housing?

Mr. Hunt: We have not had that yet. That is something that we are on the books for. IAL's and other things, we are trying to figure out how exactly that is going to play into it. The farm worker housing, the structure itself obviously has to be assessed. The land underneath it, we are exploring how we are going to treat that. It is certainly has a higher use than just Ag.

Ms. Yukimura: But it is very structured so you cannot rely on it to exist as a residence in it of itself? It is very much attached to the farm. If the farming ceases the right ceases.

Mr. Hunt: Correct.

Ms. Yukimura: Okay.

Mr. Hooser: How do you value our tax other improvements like the Administration buildings or research facilities, that sort of thing?

Mr. Hunt: If the overall use is in Ag, typically it will be Ag. If that portion of it we have what is called a "multi-pit parcel" where you have one parcel that is not subdivided but has multiple zoning or uses often will have a separate landline that takes that area that is being used separately for commercial or office type structures that may have commercial tax rate associated with just that portion in the buildings.

Mr. Hooser: So, those buildings are taxed separately?

Mr. Hunt: They would receive 2 tax bills if it is a multi-tip parcel, you would get one for the Ag and one for the parcel. Similar, you would get two assessments.

Mr. Hooser: Okay, thank you.

Mr. Rapozo: Mr. Chair, did you want us to wait for the presentation?

Chair Furfaro: I think if we need clarification on the tax table, we will do it now – on the tax table. But the rest will go through the presentation.

Mr. Rapozo: I wanted to know and this is an issue that Mr. Bynum has brought up in the past, regarding the homeowner's exemption on absentee owners. Are we still granting those?

Mr. Hunt: No. The requirements…

Mr. Rapozo: Well, I will not say absentee owners… some of the vacation rentals that are owned by people that live in the mainland but claim to live here a day or two out of the year.

Mr. Hunt: There some enforcement issues but…

Mr. Rapozo: Whose responsibility is it if in fact… if I pull out a vacation rental on the tax records right now and I see a homeowner exemption, whose responsibility is to take that out?

Mr. Hunt: It is ours if we are aware of it. There some situations where a vacation rental property would be entitled to an exemption and I will go through a few of them, one would be when you have two homes.

Mr. Rapozo: Yes.

Mr. Hunt: The owner occupant lives in one and vacation rent the other. We would classify the property as vacation rental in totality because it is one parcel, it has not been subdivided. So, for the tax rate setting, they are based on the vacation rental but they actually do have the benefits of the cap and the Homestead exemption for that…

Mr. Rapozo: One property?

Mr. Hunt: Well, for that one house.

Mr. Rapozo: Right.

Mr. Hunt: And it carries for the property unless they were to CPR and then they could individually have assessments…

Mr. Rapozo: But the value of the second house is getting taxed at the vacation rental rate?

Mr. Hunt: The whole thing is taxed as vacation rental.

Mr. Rapozo: Right, okay.

Mr. Hunt: But they do have the benefit of getting another one.

Mr. Rapozo: What would be another exemption?

Mr. Hunt: Another one would be when you vacation rent for a short period of time. For instance, you lived there nine months of the year but you go to the mainland for three months. During those three months, you vacation rent, you still… one day we classify you as vacation rental but you have no other home, this is your primary residence, you file your State income tax returns, this is your home… but for three months of the year you rent out your house for short-term, that is vacation rental use.

Mr. Rapozo: And maybe this is not the right time but what is the threshold?

Mr. Hunt: Off the top of my head, we follow the IRS standards as far as what the definition of primary residence is. I believe it is a hundred and eighty plus one day's maybe is the minimum time you have to reside there. We look at where you file your income tax residential tax returns form, you cannot have it in another State, you cannot have two exemptions so, if you are claiming elsewhere, and we automatically remove you. Even if it is your primary residence and just out of neglect or misinterpretation, you did not remove it, we would look at that, find it… or hopefully we would be researching and find it. If we did find it, we remove it and for that year, you will not have it either place likely, you can come and reapply for the following year.

Mr. Rapozo: Last question, how difficult will it be for you to provide us a list of all the vacation rentals with a homeowners exemption?

Mr. Hunt: Probably not that… for me, specially, I can assign it to Real Property but me, I am here right now…

Mr. Rapozo: Oh, that is right. I forgot… Real Property would be the Department?

Mr. Hunt: Yes, they can look at what is now the pit two classification vacation rentals and find those that have exemptions attached to them.

Chair Furfaro: Mr. Bynum and I are working on getting some real clarity about even a one day rental you lose your exemption and making it very clear. So, that is coming over for comments soon. Anymore questions on this pit number that we are dealing with?

Ms. Yukimura: How do you apply the exemption to these two house vacation rental property, you have a total assessed value of the property.

Mr. Hunt: Correct.

Ms. Yukimura: And they have… if they are not elderly but they are a homeowner of that property then they get the homeowner exemption?

Mr. Hunt: Correct.

Ms. Yukimura: Against the total value?

Mr. Hunt: Correct. So, in this instance, you do not have individual values to say that there is a million dollars property, four hundred thousand is your resident and six hundred thousand is the vacation rental – two separate rates… we do not… it would be arbitrary to create that because it is one property.

Ms. Yukimura: And it is administratively more complex.

Mr. Hunt: We would just say it is a million dollars plus your exemption is your net taxable but you do not get the Homestead rate, you are paying now based on the vacation rental rate. The only caveat being if this is a transition where you had a cap all along and there is an adjustment for the cap, we are looking at what your taxes were with the cap and allowing an adjustment between last years with and without the rate. So, if you were in pit one residential because you had two homes on it and you were not eligible for Homestead and now we reclassified it because of use of vacation rental, what would the pit two rate have been that year. We are taking the difference in taxes and bringing that over to current year to say, this is an allowable increase to your cap based on use. Tim would know this as the adjustment. That is why the cap is very difficult to administrative because of all these potential changes and how the cap number impacts that. We are addressing that in terms of if there is a change in use that there is an associated allowance for tax changes to that property but it is still cap by virtue of being… a portion at least being your primary residence.

Ms. Yukimura: Wow, I would just say that you lost your cap.

Chair Furfaro: Again, I want to make it very clear that we are allowing questions on this comparative tax rate table but then we are going right through your whole presentation.

Mr. Bynum: The Homestead rate has another factor which is exemptions that affects that effective tax rate, right?

Mr. Hunt: Yes.

Mr. Bynum: I think you have calculated that in the past.

Mr. Hunt: The effective tax rate for each County and the Homestead Class.

Mr. Bynum: I do not remember all of them – Maui is at two hundred and we are at one, forty-eight. So, even though the rate is two, seventy-five – the effective rate is much lower than that, right?

Mr. Hunt: Because of the exemption amount, you mean?

Mr. Bynum: Right.

Mr. Hunt: Yes and that is again a floating… I think they decreased it to two hundred thousand. So, they started at three…

Mr. Bynum: I went from two, fifty to two.

Mr. Hunt: Or three… but they…

Mr. Bynum: Okay.

Mr. Hooser: You may have answered this already, I apologize if you did, the bed and breakfast.

Mr. Hunt: Yes.

Mr. Hooser: Does that fall under vacation rental?

Mr. Hunt: Vacation rental. Our determination of whether it is vacation rental or not is whether you are subject to paying TAT.

Mr. Hooser: So, if a person living in their home rents out one room short-term, the entire property is considered vacation rental?

Mr. Hunt: Yes, for classification and rate setting, correct. They still retain the exemption, they still retain a portion of the cap but as adjusted for the change in rate.

Mr. Hooser: Okay, thank you.

Mr. Hunt: And a rationale for that too is it is certainly within the control of the taxpayer if they do not want to pay a higher rate and they want to cease that operation, they could go to a lower rate, it is their choice. They are making a business decision.

Mr. Hooser: Okay, thank you.

Mr. Rapozo: But that is only if it is subject to TAT? So, if a resident that wants to rent out a room for long-term, that does not affect them.

Mr. Hunt: Right. Technically, they would not be eligible for Homestead if they are renting out a room but specifically if there is a room, you do not get a lease often… technically, you are not supposed to be getting Homestead if you are renting out a portion of your home even for long-term.

Mr. Bynum: That is one of the most significant things about this use is, you have these parcels with two homes. Currently our new, this year finally, this year if you are doing long-term affordable rental, you get the Homestead rate. If you are renting long-term at not an affordable rental, you get the resident rate.

Mr. Hunt: Correct.

Mr. Bynum: If you are doing vacation rental, you get the vacation rental rate. It is taxation by use. There is a strong incentive to keep rentals affordable to local, for long-term and that is a very positive change in my view. We need to educate homeowners about that. They may be doing a long-term rental and if they lowered their rent a hundred dollars, their taxes would go down and they do not even know about it, right? Have I got this right, Steve?

Mr. Hunt: I would add to that, there maybe people renting already that qualify on the rents they are charging that have not applied. We would like to encourage long-term rental and provide housing stock for our local residents so if they can do so with an affordable amount then there is some benefit to do that.

Mr. Bynum: Right, so they can move from a four, sixty-four rate currently to a three, zero, five rate.

Mr. Hunt: Yes.

Mr. Bynum: On the entire property which is a pretty strong incentive.

Chair Furfaro: Moving on.

Mr. Hunt: Down to the bottom of this table, I also wanted to point out, what I put down here for City and County, Hawai‘i County, Maui are projected fiscal 2014 Kaua‘i and the fiscal 2013 are the real property revenues. So, if we looked across the board here, 809,000,000 is what City and County collects from real property taxes, Hawai‘i County a 106,000,000; Maui County 212,500,000 and last this current fiscal number projected to be 80,200,000. If we break that by resident population, you would think and I am using the 2011 U.S. census numbers, you would think that as you are spreading fix costs across fewer residents that Kaua‘i would be toward the top as a tax per resident because we just have a smaller base to spread fix cost through. But in actuality, we fall below Maui and we are close to Hawai‘i County which has double our population and that is just resident but when you factor in the de facto basis, we are actually only below City and County at 962 compared to 818, and then Kaua‘i County at 967, and Maui at a thousand eighty-nine. You would anticipate that we would be on the bottom of this list but we are actually not, we are second from the top. That is simple economies of scale, we would have a higher tax per capita. Based on our proposals, we would go to a thousand ninety-four which brings us more in line with what Maui currently is and that is where our proposal fourteen.

Chair Furfaro: Steve, I want to thank you for that. I always bring up the example of Kaua'i County having eighty-three thousand people including the de facto population but the reality is, we have to support nine fire stations for that coverage appropriately. Thank you for doing this comparison.

Ms. Yukimura: I want to continue what the Chair has just commented on and it is often discussed at our Smart Growth Conference. The Big Island has to cover so much more land and I do not know how many fire stations that they have but that is the other factor that is not factored in here. It is not just a matter of population but it is how spread out or compacted the population is. The City of Davis has about the same population we have but it is on… say ten square miles or something like that and we are in five hundred and fifty-five square miles. So, they have two fire stations and we have eight.

Mr. Hunt: And I would discuss that in terms of fix cost and variable cost. The variable would have to do with the size but you have a certain amount of fixed cost, obviously you have a Council, you have Mayor, every County has that but we get to spread that over fewer people. Whatever our fix cost is, we cannot spread them as adequately as some of the others that have more ability to spread those costs. As far as services and things that are sized base, you are correct, those are more variable cost that tends to change based on size.

Ms. Yukimura: Right.

Mr. Hunt: It is a combination of balancing both of those.

Ms. Yukimura: Right, thank you.

Chair Furfaro: Are there anymore questions on the comparative tax rates to the other Counties, if not, I would like to go through the rest of your presentation. Only stopping for questions on clarifications.

Mr. Hunt: Turning to slide six, this is just a graphical demonstration showing again where the – the blue being Kaua'i County's fiscal 2013 rates, the red being the fiscal 2013 average of the other Counties and green being the proposed fiscal 2014. Again, the green level, with exception of Ag, falls below the averages.

Justifying the rate increases, again since 2000, Kaua'i County has lowered tax rates as values increase and you will see that in the years 2001-2008 when we had roughly seventy or sixty-nine changes during that period. Likewise we should consider increasing tax rates as value has declined which are the years 2008-2012. I know that we are in a position where it seems stabilizing but certainly for those years 2008-2012, we have utilized the remainder of our fund balance and surplus to balance the budget and we are in a position where we can no longer to do that. Kaua'i County's cost of government services is spread across fewer residents yet our per capita property tax is lower than other Hawai'i

Counties. I have covered that earlier. Looking back at Kaua'i's historical taxes, and again if you look at slide four, you can see where we started. In 2000 the rates for apartment 880 for the land, same for commercial, industrial 820 for Ag, conservation 870, hotel and resort 880 – those are very comparable with the rates that we are proposing today. For the earlier part of the 2000, the rates that we are looking at are not that dissimilar from where we were. These proposed tax increases will contribute nearly $11 million to the general fund and are an integral part of balancing our FY 2014 proposed budget. Are there anymore questions on property taxes? If not, I am going to move on to the fuel tax.

Chair Furfaro: At the end, I plan to come back each of these categories especially since I shared your worksheet with everyone.

Mr. Hunt: The proposed fuel tax increase of two cents would generate approximately $570,000 for the Highway Fund. Moving the fuel tax which is currently thirteen cents a gallon to fifteen cents a gallon still keeps our tax rates for fuel lower than the City and County and Maui. Based on a fifteen gallon vehicle and assuming two fill-ups per month, the impact is less than eight dollars per year per vehicle. Fuel taxes are not only paid by island residents, but visitors would also contribute by paying additional taxes. Monies generated by fuel taxes help support both Transportation (the Kaua'i Bus) and the Public Works Roads Division. From 1957 to 1988 the fuel tax was four cents per gallon, then it doubled in 1988 to 1989 is was eight cents per gallon, and from 1989-1999 it was ten cents per gallon. The last change to the fuel tax rate was in 1999 when it went to thirteen cent per gallon. Increase could take effect in July 2013, if no delays are incurred. It does require some filings with the State.

Comparative fuel tax rates, again, we are looking at City and County, and Maui as compared to Kaua'i. Big Island is a little different but I will explain. The fuel tax currently is sixteen and a half cents for City and County, it is sixteen cents for Maui, and we are proposing to go from thirteen to fifteen. Hawai'i County has the lowest fuel tax at $.088 per gallon, but they also have a disproportional amount of federal subsidy for their highways for Volcano National Park and Saddleback Road. They also have a lot more miles to cover on the Big Island and that probable explain why they are collecting (inaudible) in gross amounts because they cover more miles.

Vehicle Weight Tax – the proposed increase to the vehicle weight tax would contribute approximately $1,094,000 to the Highway Fund. Like fuel taxes, moneys generated by vehicle weight taxes helps support both Transportation and Public Works Roads Division and lessen General Fund subsidy requirements. Proposed rates would keep Kaua'i County at or below the rates charged by City and County and Maui. Vehicle use is directly correlated with the wear and tear of Kaua'i's roads and therefore should fund a greater portion of the repair and maintenance expense. Proposed increase would take effect in January 2014. The last vehicle weight tax increase was in May 1999 going from $0.0075 a pound to $0.0125 a pound. Comparative Vehicle Weight Taxes are shown on slide eleven. This shows the passenger weight and the freight weight. City and County is at four cents per pound for their passenger and four and a half for their freight. Maui is at two point seven, five and four cents for their freight weight. Kaua'i right now is $0.0125 and $0.025 for the fright weight. We are proposing to go to $0.02 and $0.04. Again, Hawai'i County for the reasons stated earlier have a disproportional amount of subsidy for their highways.

Next revenue item is Vehicle Registration fee.

Chair Furfaro: Wait a minute, Steve.

Ms. Nakamura: Why would it go into effect in January?

Mr. Hunt: We have to have the State, again, involved of getting this approved. From my understanding is the first time you can effectuate a change would be January 1.

Ms. Nakamura: Thank you.

Ms. Yukimura: You said that the vehicle use is directly correlated with wear and tear, is weight directly correlated to wear and tear?

Mr. Hunt: I would think heavier vehicles would contribute more to wear than a lighter vehicle on the road but I am not an expert in engineering by any means.

Ms. Yukimura: I believe that is so but I also heard that the heavier ones are disproportionately damaging. It is not exactly a correlation by…

Mr. Hunt: I think that is why the rates on slide eleven, you will see a disproportional rate structure as well. Not so much in City and County, it is only half a cent more but in Maui County in our current structure, it is actually doubled.

Ms. Yukimura: What is the freight weight tax?

Mr. Hunt: Those are for vehicles that are over a certain pound requirement and I do not know it off hand. I can probably have Dave Spanski answer that but there is a certain class of vehicle at a certain rate that qualifies it as commercial and freight and they pay a different vehicle weight tax.

Ms. Yukimura: And they underlying reason would be the disproportionate damage to roads.

Mr. Hunt: I would think that would be…

Ms. Yukimura: If you could ask Dave Spanski if he has some documentation for that, I would be interested.

Chair Furfaro: I have to remind you that we are going to come back to each of these so that you can have the appropriate person here. I would hope Dave is here when we go through that and you would be able to have the answer.

Mr. Hunt: Okay, vehicle registration fees – the proposed $5.00 increase to the annual vehicle registration fee, going from $12 to $17, will generate approximately $208,000 in additional revenue for the general fund. Like many other taxes and fees, the Kaua'i County charges the lowest fees for annual vehicle registration. If this proposed increase were adopted, Kaua'i County would still be tied with Hawai'i County for having the lowest registration fee within the State. Proposed increase would take effect in

January 2014. Comparative Vehicle registration fees – City and County is $20, Maui $17.50, Kaua'i $12.00 and we are proposing $17.00. Hawai'i County registration fee is $5, but an annual disposal fee of $12 is also imposed.

Ms. Yukimura: Is the $12 disposal fee earmarked for disposal?

Mr. Hunt: I do not know enough about Hawai'i's budget to answer that question.

Ms. Yukimura: Something we should find out.

Chair Furfaro: Ernie, can you make that note so when we come back to this, somebody would have done the research? Please state your question again, JoAnn.

Ms. Yukimura: On the Big Island there is a $12 disposal fee earmarked for disposal of vehicles e.i., it does not go into… well, it may go into the General Fund but still be used for disposal of vehicles or it may be in a special disposal fund, that is my question. Thank you.

Mr. Hunt: Our new item is the Solid Waste Tipping Fee increase. The proposed Solid Waste Tipping Fee increase going from $90 a ton to $119 a ton, it is estimated to generate approximately $1,094,000 in additional revenue for the Solid Waste fund. Currently, it is estimated that commercial users utilized about 55% of the annual landfill space. The annual tonnage has continued to decline yet fixed operational cost has remained constant. Increasing the tipping fees will may create an even greater incentive for waste diversion efforts. Solid Waste is a division that requires significant subsidy from the General Fund.

Ms. Yukimura: How do you… I mean I think the most savings are coming from the commercial sector versus the residential sector and so how do you justify the increase just to the commercial sector? In the Water Department for example does a fee study to calculate the total operational cost and then see who should be paying what based… and that is how they set their fees. Has the study been done like that?

Mr. Hunt: To my knowledge, I do not think a study has been done. These are again, if you let me get to the next slide which gets into the fee structures of the other Counties is one of the things that we are looking at.

Ms. Yukimura: Okay, go ahead.

Mr. Hunt: Comparative Commercial Tipping Fees for City and County charges a $110 a ton but they also charge a 12% for recycling fee and a $0.35 per ton State fee. I believe we pay the State fees out of what we collect there is no separation of that fee but City and County has denoted that. So their total resulting cost per ton is $123.55; Maui $73.00; Hawai'i County $85.00: Kaua'i $90 and we are proposing to go to $119.00 per ton.

Planning Permit fees – the proposed permit fee increases are estimated to add approximately $140,000 to the General Fund. Majority of these fees have not been changed since 1972 when the CZO was effectuated. These proposed fee increases are being recommended by the Planning Director and are based on the CPI multiplier, which attempts to bring fees to current dollar value. Other proposed increases are based on amount of time spent researching, processing, or enforcing permits. All fee increases must first be approved by the Planning Commission. Here is the proposed fee structures and again the current, sorry there is a typo on this – the first one should be class 1 only, second one should be class 2 only. Current class 1 fee is $5 and again that is stemming from 1972 based on the CPI calculator that should be 2755. The Planning Director has rounded that fee to a $30 fee. The class 2 permit is currently $10 again from 1972 using the CPI calculator that comes up to a $60 fee 5510 rounded it to 60. The class 3 permits from 35 to 200. Class 4 from 150 to 850 and so on. These are just permit fees that are coming to current dollars.

Ms. Yukimura: Steve, question.

Chair Furfaro: Go ahead, JoAnn.

Ms. Yukimura: This is clearly overdue so I am glad that it is happening. My question is, are you assuming that these fees will be in effect from July 1st?

Mr. Hunt: Yes.

Ms. Yukimura: So, the Planning Commission approval is also sequenced into this?

Mr. Hunt: They have been submitted to the Planning Commission for approval.

Ms. Yukimura: Okay, thank you.

Ms. Nakamura: Is that SMA fee an average? Is it based on value?

Mr. Hunt: That is a good question that I cannot answer. I think we should ask the Planning Director answer that.

Chair Furfaro: Can we send that question particularly advance to Planning and they should be prepared to have that discussion.

Mr. Hunt: Moving on. The next and final piece of our proposed enhancements is increases to the bus fares. The proposed bus fee increases are estimated to generate approximately $60,000 in addition revenue to the General Fund. The proposal will also eliminate free ridership by County employees. The proposed fees are still low enough, we believe, to encourage mass transit over personal vehicle usage. Transportation is one of our most highly subsidize Departments. I am also encouraged that payroll has been exploring already as Councilmember Yukimura's suggestion the possibility of using a pre-taxes spending option for the bus passes and initially we are getting information that that can be done in terms of cost and implementation of that, I am not sure but at least from a policy wide and an IRS standpoint, it can be done. The current bus fee schedule is $25 for monthly passes, $120 for six month passes, and $240 for annual passes. There are also individual trips that are $2 per trip for regular fare and $1 for seniors and students, and then there are contract income that comes in from Easter Seals, Elderly Affairs, and Parks & Recreation. The proposed changes to this fee structure will be an increase of $5 to the monthly pass going to $30 per month, eliminating the six month pass, and a $60 increase going to the annual pass going to $300 per year. No proposed increases are scheduled for the individual trips nor the contracting company. That concludes the revenue enhancement portion.

Chair Furfaro: That includes your initial presentation. I would like now to go through these particular revenue areas with various people that are associated with managing that. We may have to take a 10 minute break so you can get people over here to do that.

Mr. Hooser: What is the net financial impact per household to all of this increase?

Mr. Hunt: I do not have that answer because I do not know how many vehicles own, who takes the bus…

Mr. Hooser: On average though, we have about $14,000,000 in tax… what is the total tax increase?

Mr. Hunt: Total tax increase is about $11,000,000.

Mr. Hooser: For some reason I thought it was more.

Mr. Hunt: The total tax increase… oh about $14,160,000.

Mr. Hooser: And how many households?

Mr. Hunt: Well, it gets a little tricky there because most of the increases are not households. Are we going to count resorts, hotels who are a big portion of this funding that is coming from – commercial… some of these rate increases that are in the real property which is really the lion share of this tax package here, this enhancement are not to residents per say. We have not decrease in revenue so there could be people that are paying 2.4% more – some people will have a decrease where their values decline, some people may have a slight increase – it depends. It is very difficult to put a number on the average per household.

Mr. Hooser: Right. So, we do not know how this will impact the average Kaua‘i household in terms of financially?

Mr. Hunt: If I knew how many vehicles per household – primarily we are looking at vehicle increase with the registration… I do not anticipate too many of the residents having commercial tipping fees and how many come in for permits, I do not know.

Mr. Hooser: Right.

Mr. Hunt: I think the vehicle will be the biggest impact. The cost of the fuel, the weight tax, and the registration – I would have to know how many vehicles they have per household to get an estimate.

Mr. Hooser: Right. I think if we were totally straight – I mean much of this will trickle down to residents in terms of maybe not the resort but the tipping fees get passed typically, right? Businesses are paying for that so they have to… somebody has to pay for it. So, at the end of the day the consumers pay for it one way or the other whether it is tourist pay for it or residents and I think it is a fair question to ask, what the financial impact on residents will be. I know you pointed out $5 or $10 for the gas, so I do not know if you are able to crunch some numbers and maybe come back with this.

Mr. Hunt: If you can provide me the assumptions, I can crunch the numbers. I would hesitate to come up with the assumptions.

Mr. Hooser: So, the Finance Department cannot come up with the assumptions?

Mr. Hunt: Will you agree with all of my assumptions?

Mr. Hooser: No, no, no…

Mr. Hunt: It would be easier… I can answer that question if you gave me more of what you are looking for.

Mr. Hooser: I think it is a fair question to ask, how will these tax increases at so many levels impact households? I think it is also important to point out that the average incomes are declining year after year. In the recent census shows since 2008 over 11% declined in real household incomes and so I appreciate the presentation and justification but I do not believe necessarily that that is a good rationale for raising taxes just because other Counties have different tax rates.

Mr. Hunt: Again, I tried to…

Chair Furfaro: We will send over some assumptions.

Mr. Hunt: Again, I tried to do it with the best of my ability identify the years that the last changes occurred because again you are saying… there has been decrease in income sense in 2008 or whatever the numbers is… but some of these rates have not been changed since 1999, some since 1972. Collectively, we need to do a better job in looking at fees throughout the ordinance annually and making adjustments because some of these are long overdue changes and there is never a real good time but we are faced with the situation where we need to make those changes to balance the budget.

Mr. Hooser: Right and I think that is the real point. We are making these changes because we need to balance the budget we are not making them because they are paying less in Maui or less in the Big Island. We are making them because we do not have enough money to pay the bills and we need to generate money to pay the bills. That is the fundamental thing. I understand the need to justify them line by line, but at the end of the day it is because we need the money. I just wanted to recognize that that is only a part of the equation. The other part of the equation is the consumer's ability to pay and how we are managing the money. I brought that up earlier.

Chair Furfaro: This process started last year when I wanted to review these other revenue cycles. Simply became very obvious to us that people were not revisiting these rates, I mean 1972 on permits? That is 40 years. Think about that for a second. At the cost of doing business for the County over a 40 year period, we need to do this every year, that is the whole purpose. Some of the other things that would be good for us too is when we send over some particular rationale on the assumptions, look at… do you know how many vehicles are registered on Kaua'i?

Mr. Hunt: No.

Chair Furfaro: Seventy-nine thousand eight hundred cars are on this island. Current – now, they are registered. That maybe three or four cars per household. They have to make some individual decisions too but we will send over some assumptions and on that note, Mr. Rapozo.

Mr. Rapozo: As far as the fuel tax, the increase as I read your numbers, the percentage of increase projected revenue from annual revenue current is about low 15%. That is what this is showing. We are going to go from 37… 3.7 million to 4.2 million. Based on your spreadsheet, that is a 15.38% increase. So, it would be safe to assume that the people that participate in the fuel tax which is most of everyone will have a 15% increase in their fuel bill.

Mr. Hunt: No because the taxes do not make up the big portion of their fuel bill. The actual cost of gas and profit, so as prices were $2 and they have gone to $4.50 our taxes have essentially remained the same amount of taxes based on volumes of gas. So, that percentage is actually going to be much, much smaller although our portion of it is going to have a 15% increase. The actual cost to the individual is not going to be 15% that is subject to whatever the market will bear for gasoline prices.

Mr. Rapozo: Okay and the vehicle weight tax that one is a direct cost, it is not an additional, and so that is a County tax?

Mr. Hunt: Yes.

Mr. Rapozo: So that is not a surcharge on a State… on a commodity? That one is all ours?

Mr. Hunt: The vehicle weight?

Mr. Rapozo: Correct.

Mr. Hunt: I believe there is a vehicle weight that the State gets as well – there is a portion.

Mr. Rapozo: Okay, so that is not the entirely… let me see, what is the increase of the vehicle weight?

Mr. Hunt: I actually would like to get Dave Spanski up to answer some of these particulars. But there is a laundry list of registration list and taxes that are paid for that and a portion of it goes to the State and a portion of it we get. We have always had the smaller portion.

Mr. Rapozo: Okay and I guess we can wait for Dave. I just wanted to say I do agree with Councilmember Hooser that we cannot… the basis or the justification cannot be because Maui and the Big Island and everybody else… because we are all different and I said it the other day. The Chair mentioned that we had 9 fire stations, Honolulu has 44, Kaua'i has about 80 or so sworn police officers and Honolulu has almost 2,000. Yet, they have a larger base to draw from but I guess my point is the more residents the County has, obviously the more services they got to provide. So, it is not an apples to apples thing because obviously we are different. We run our island and County a lot different. A lot of it is a geographic and a lot of it is not, it is just the priorities of the Counties. I think it is a great visual to see that we are coming in line with the other Counties but we also have to understand that the services that are provided by the other Counties often times exceed the services provided by this island and yet we are paying a lot more per resident. I just wanted to make that comment.

Chair Furfaro: (inaudible) Mr. Rapozo, because I did not use the whole island of O'ahu as an example but if you take the leeward coast of O'ahu – 120,000 residents and 2 fire stations because it is compressed. So, it is hard to make those kinds of comparisons but we will send over some assumptions. I want to take this break with an announcement. I would like to spend the rest of the morning session till 12:30 with Housing here and then if we have chance, I would like to go over the Treasury Department, and then the rest of the sequence is yours and we can follow the sequence on these worksheets. I want to make sure that you understand that you have been there 41 days?

Mr. Hunt: Somewhere in there.

Chair Furfaro: So, we do not expect you in 41 days to have all of the specifics. We will not expect that until about the 60th day.

There being no objections, the Council recessed at 11:37 a.m.

The Council reconvened at 11:51 a.m., and proceeded as follows:

Revenue Forecasting – Housing:

Chair Furfaro: We are back from our short 10 minute break. Just a little announcement for everybody, we are yet to get to Housing and we are yet to get to other particulars but the cross over here is about revenue. So, members, the discussion as we talk to Housing is about revenue items in the Housing Department. It is not to discuss Housing issues that are on the later agenda. When we talk to Treasury, it is about interest earning activities. It is not about investment strategies. That comes later. We are on revenue today and on that note, if I could ask Steve, could you be with these people each time. Could we have people from Housing come up and we will focus on this particular worksheet as, I think…

Mr. Hunt: Page 4, I believe the first page for Housing.

Chair Furfaro: Gentlemen, could you introduce yourself and describe the inventor that we have for income and then talk a little bit about revenues that we get from those areas, rents, and any other concessions.

KAMUELA COBB-ADAMS, Housing Director: We are looking at our Housing and Community Development Revolving Fund, so basically these funds or development of funds that we have used in the past to either develop or provide loans for the development of affordable housing.

Mr. Rapozo: Mr. Chair, I am trying to locate where we are. We are on page 4?

Chair Furfaro: It is 4 of 6 and it starts with item 211.

Mr. Rapozo: Okay, I got it. Thank you.

Mr. Cobb-Adams: So, basically these funds… it is kind of like a revolving loan program where we loan or use them for development. I guess on a revenue side, we have loans that have been out since Iniki time and some of them are being repaid. That is basically how we get revenue – in a nutshell. Gary, did you want to add anything?

Chair Furfaro: Tell us a little bit about the establish rates at the projects that we own the asset and have others that manage it also.

Mr. Cobb-Adams: Okay, "establish," you mean the increase rates of the loans?

Chair Furfaro: The rent. The actual rental like Paanau…

Mr. Cobb-Adams: Oh, those are in different. It is not under 211.

Chair Furfaro: No, we were starting from 211, so, include all of those things.

Mr. Cobb-Adams: Okay, great I will go on.

Chair Furfaro: Anything in your Department in a way of revenue and how it is used and how we establish the rent and so forth.

Mr. Cobb-Adams: Something that I am very proud of – our Paanau and Kalepa and its Gary and the rest of the Housing team that did those projects. They set them up so that they are sustainable unlike some other Counties that do not sustain their own projects. Basically, the rents pay for all of the maintenance and operations of facility including the reserve charge. So, if you look at page 5 and 6, it says Kalepa in the Fund Description – we operate complex 1 and 4 and we collect rents basically and run a budget and basically sustain that project on its own and we do not have to pay anything to it because it sustains itself. We do create a reserve for the maintenance and major upgrades that need to happen but basically that is how Kalepa runs which is 513 and 514 is at the very bottom and on the next page Paanau 1. I think it is important to point out that Paanau Village 2 and Kalepa Phases 2 and 3, we are the Lessors of those and we have a private/public partnership and the private entity maintain their own revenue and maintenance and so we do not pay into that at all because we do not manage it. We just manage the ground lease.

Mr. Rapozo: On the 513 fund, line 2 for the proposed budget – it is zeroed out. Did you combine complex 1 and 4 together for the upcoming year?

GARY MACKLER, Housing Development Coordinator: We did. We actually started that last year of combining the 2 together. As Kamuela mentioned, those are the 2 phases of the County, not only owns the land but also all of the improvements in those phases.

Mr. Rapozo: Okay, thank you.

Ms. Nakamura: I wanted to ask you, did you say that you had a separate Reserve Fund or is this it?

Mr. Mackler: What we did when we developed Paanau Village and Kalepa Village phases is that we prepared a Reserve Study Budget for both projects which is an itemization of all of the building components that make up the project. Every component in the housing development has a use of life or a life expectancy and so what we did was we measured our components, we costed our components and we have been updating our reserve budgets annually each year to make sure that we are tracking well with the accumulated funds that we need to make the eventual replacements. Also, to make sure that we are putting in enough each year to keep pace with those future replacements and so we use it as a management tools. It really helps us, we go through it, we look at what is running out of years of useful life, we go out and do visual inspections, and we also think of ways to do preventative maintenance to expand the life of those components.

Ms. Nakamura: So, did you say that this is that replacement reserve is a separate fund or part of this?

Mr. Mackler: It is a separate fund but it is funded through the revenue of the projects.

Ms. Nakamura: Funded from this? That is really good to hear that all of that is being done because that needs to be applied to all of the County's assets. I know we cannot put it in advance but at least to be tracking the useful life and to be doing those inspections.

Mr. Mackler: It is really more efficient for us to manage the assets because of… we are able to put in what we anticipate needing to do replacements with each annual budget and rather than come back to the Council all the time asking for fund appropriations, we can plan ahead and have the funds there in the budget ordinance so that we can use them when we need to.

Ms. Nakamura: This is a concept that needs to be applied to our parks and our restrooms.

Chair Furfaro: That was the intent that we would have money available for R&M for the Parks. Let me ask you, are we in compliance with any laws that relate to association type management as to what is actually put into the reserves?

Mr. Mackler: We are not, I know that there is State law that obligates Homeowner Associations to a reserve fund. We are not subject to those laws as owners of rental properties but we really do follow the same process.

Chair Furfaro: That was my next question although we are not required to be in compliant we use that as a guide?

Mr. Mackler: Yes.

Chair Furfaro: Okay.

Ms. Yukimura: It is something that Housing can rightfully be proud of and I really appreciate the work that has been done and the model that has been set. The most important part is that Housing will continue and our people will have these houses next to Kalāheo School is a State Housing Project and one portion of it is completely blocked up because it is too dangerous for people to live in. It is because there was not proper management of the asset and that the injury to the program and to the clients are the people who could use that affordable housing. It is really very, very tragic actually. Thank you for your good work.

Chair Furfaro: Do you have a provision of bad debt in the Housing area for any rent checks that do not clear? Do we have a provision somewhere for "bad debt," if I could ask that term?

Mr. Mackler: There are charges that management imposes for none sufficient funds, checks that come back, they will impose a charge. It is covered under the lease agreement between management and the tenant.

Chair Furfaro: Can you just give us an idea of the rental rates and vacancy percentages.

Mr. Mackler: Well Kalepa Village runs almost at a 100% year around. I would say that we do plug in a 5% vacancy loss in the budget but we are really running about 1 to 2% over the course of the year. Paanau has a higher vacancy loss, I would say that we average about 4 to 5% over the year – annualized. I did not bring my rent structures with me but we do have different rent structures in each phase of Kalepa Village. I can tell you that the rents range from the low $500 up to the highest rent that we have in phase 4 which is – for a 3 bedroom unit, can go up to 120% median income, so it is a $1,175. Really, everything else in between each phase has its own structure. What we have tried to do there is address a variety of income groups so phase 1 which was built with all HOME and disaster funds is 80% and below. Phase 2 which was a tax credit phase – State of Hawai'i imposed a lower target, it is a 50% and below median target. Phase 3 is a 60% and below target and then phase 4, we have out of those 43 units, 17 of them are

HOME assisted, they are below 80% and the other 23 units are – we were able to develop under some unrestricted funds, so they can go up to 120% of median. We are trying to hit a range of targets with the development.

Chair Furfaro: So, the revenue range is approximately $500 to $1,175?

Mr. Mackler: Yes. At Paanau, the rents range from $625 up to $800. The $800 is the contract rent but we have a subsidy program that the State provides to us which is the rental assistance program. It is no longer part of their portfolio subsidies but it is an older program that we still have for a couple more years for that program. It can provide a $175 per month subsidy for a tenant that qualifies and we have many tenants in Paanau Village that do qualify for that assistance. We claim it from the State as a reimbursement.

Ms. Nakamura: I think just from a policy prospective having mixed incomes within these projects are good. It is good public policy, I think, and we have the resources to do those is excellent. I wanted to ask you that under the 211 program, the big boost in the FY2014, what caused the increase in the total.

Mr. Mackler: There is a reason for the boost. The Fund Balance is a carryover, first of all. The second line item on the budget which was anticipated revenue through HOME Disaster Program Income. Back when the Kīlauea Estates Project was developed, we provided financing – Homebuyer financing to the 49 families. We provided loans that were amortized over 30 years and now we are reaching that point of 15 years and we anticipate a number of the families will be refinancing in the upcoming year. We have been working with those families to prepare for the refinance and we have some options in the event that they cannot but when they do refinance, it will be repayments made back to the County to pay off their loans with us. So, we are anticipating the infusion of program income from that source.

Ms. Nakamura: Wow, good. In the future budget presentation with Housing, that is when we will talk about how that is spent, right?

Chair Furfaro: Yes.

Ms. Nakamura: Alright, thank you.

Mr. Cobb-Adams: We are looking relatively good but I just wanted to point out that a huge influx of money came into Kaua'i after Iniki and we are very fortunate to have that money. That money has allowed these projects to be built and also those loans to happened, so we are still actually getting back some of that revenue from these loans. We are working on other ways to do that but I just want you to understand that we are kind of in a unique situation because of Iniki. It was 41,000,000?

Mr. Mackler: Yes.

Mr. Cobb-Adams: That is a huge insertion of money into Housing and frankly we are not seeing that… it actually has protected us from this sequestration because we do have some of these incomes that are allowing us to be sustainable and we would not be in this position if it was not for that huge influx of money. I am just cautioning that it is important to understand that. They have used it very well and to the best ability but we are looking at other ways to generate revenue and try to be creative. That influx happened once and it does not last forever, we can only revolve it so many times.

Chair Furfaro: It would be appropriate for us to compliment you folks. We taken that money and managed it well – very well. It is very much appreciated. You guys certainly could be a model for the State or others. You have done a really good job there. Revenue questions?

Ms. Yukimura: I just want to acknowledge Ken Rainforth who was the Head of the Agency during many of the years when that money was being developed. Gary, you were there from the beginning too but that kind of leadership… and Kamuela is doing wonderful for picking up from there but Ken was a big part. I just want to remember him.

Mr. Kagawa: Thank you for all your work. You are like unsung hero because a lot of times, you do not get the credit that you guys deserve. You are helping our people that need the help. Kalepa, you mentioned that the low is $500 and the high is about $1,175 for a 3 bedroom. That $1,175 rentals, is there a lot of high occupancy? How is that one doing?

Mr. Mackler: They are full but I can tell you that when we open that phase of Kalepa, that was one rent, the one unit that had some resistance to filling up. It did fill up but it did take longer than the 1 bedroom and 2 bedroom units.

Mr. Kagawa: Because it is kind of getting close to where it is almost worth it to look into buying but understand and I thought about the location in Līhu‘e, rents for 3 bedroom houses in Līhu‘e is really high. So, it is reasonable. It is nice to hear that you have full occupancy right now. Okay, Paanau, the low is $625 or is it lower?

Mr. Mackler: Actually, I should correct that. That is the low rent of $625 is for the none-Home assisted units. We have 15 Home assisted units at Paanau which actually have lower rents structure. They are in the $500 range.

Mr. Kagawa: And the low ones are the 1 bedroom?

Mr. Mackler: They are all 2 bedroom units.

Mr. Kagawa: So even the $800 one is a 2 bedroom units?

Mr. Mackler: It is.

Mr. Kagawa: But they have a view?

Mr. Mackler: No, they just… if their income is higher, they do not qualify for the State rental assistance program subsidy. That is the contract.

Mr. Kagawa: And the occupancy there?

Mr. Mackler: It is usually around 90 to 95% throughout the year.

Mr. Kagawa: Good.

Mr. Mackler: We are doing well. Units have been turning over but they seem to get leased up pretty fast.

Mr. Kagawa: Well, when we have large units, I think, anything over 90% is really good. We would always like to have full to maximize our revenues but you know how people, on Kaua'i especially, I think there are other opportunities to move out of.

Mr. Mackler: Sure. We also loss some tenants to Paanau Village phase 2 which we expected. We expected that people would want to move next door. They have 1 in 3 bedroom units in that phase but it is all good.

Mr. Kagawa: I am not looking for an exact total but what is our projected surplus of loss on each… I am meaning all of them together – Kalepa… are we expecting at the end of this fiscal, where do you except that we will stand? Close to even?

Mr. Mackler: We generally try not to create a large surplus in our rental projects because by doing that it means that we are raising the rents and we are… I could say "stingy" about doing that. We are trying to keep the projects as affordable as we can but still meet our obligations to operate the projects well. I do not expect that we will be too far away from the target that is in the budget.

Mr. Kagawa: And same thing for Paanau?

Mr. Mackler: Same.

Mr. Kagawa: Good.

Mr. Mackler: Actually with Paanau, our income stream has improve quite significantly there because part of the financing was bond funding that went to develop Paanau Village phase 1 and we retired the bond financing last year – last February or March of last year. So, that really boosted our income stream not having to service the bond debt.

Mr. Kagawa: So you said that the surplus or reserve that you create, for instance like Paanau, you can use to a tenant moves out, you can do some quick repairs with that surplus?

Mr. Mackler: Well actually, we budget that in the unit turnovers in the costs to do that. We budget that in the regular operating budget. The reserve budget is for the replacement of the major building components like the roofs, for exterior paint, the appliances, the resurfacing of the parking areas, and those types of expense.

Mr. Kagawa: Okay.

Chair Furfaro: I think from a standpoint of the revenue cycle for Housing and the assets that we have, I want to thank you for sharing. We have some numbers in front of us and you continue to do a good job for us. So, we will see you when Housing comes up under Operational issues.

Mr. Cobb-Adams: Thank you.

Chair Furfaro: Steve, before we break here for lunch, we know we are going to start with the Treasurer at 1:30. Could you give us an idea of how you are going to have a step through what you lined up for us?

Mr. Hunt: A lot of these were subjects that were covered in the initial presentation, so we can kind of go through those, I think relatively quickly. I think that would probably be my choice as to go back to page 1 and start working our way down as we go.

Chair Furfaro: If we need to?

Mr. Hunt: Yes.

Chair Furfaro: So, we might actually have an early day today? Because you made such a great presentation in the beginning? So, in other words, we will not need to have anybody here from Drivers Licensing or anything of that nature that is covered by Dave, right?

Mr. Hunt: Treasury and Drivers Licensing is where we just need the one individual to cover most of this. I think there is a section on Liquor and there is a section on Police but there very small amounts and they specifically criminal assets and Liquor Fund go to Liquor Fund. I do not know if you want those…

Chair Furfaro: I would like Liquor. So, we will do that. We will come back at 1:30 and go into Treasury, Drivers Licenses, and will somebody make arrangements for the Head of Liquor to be available to us? Again, we just talking revenue and then the rest of the Q&A, the rest of the afternoon will be responded to by you, am I correct?

Mr. Hunt: To the best of my ability.

Mr. Rapozo: Rents and concessions, would that be Treasury?

Mr. Hunt: It would probably fall under Finance.

Chair Furfaro: So, you will take that?

Mr. Hunt: Yes.

Mr. Rapozo: The Golf Fund, I just have some questions about the Golf Fund.

Chair Furfaro: Are you going to take that too?

Mr. Hunt: I probably would like to have someone from Parks.

Mr. Rapozo: Yes, I would like someone from Parks here too.

Chair Furfaro: Good point.

Mr. Rapozo: Because my other questions involve the Stadiums, we are showing no budget and I am not sure what that means and we are not collecting any rents.

Mr. Hunt: I am sorry, for which?

Mr. Rapozo: For our stadiums. This would be page 2 the first item.

Mr. Hunt: Got it.

Mr. Rapozo: Vidinha and Hanapēpē Stadiums zero is across the board so I was always under the impression that we rented those stadiums out.

Mr. Hunt: I think our Budget Analyst can answer that question.

Mr. Kagawa: I think the last time Ian was here representing the Golf Course, I think he said he has been kind of delegated to manage the Golf Funds, I guess, we would like to get Ian over here. If Ian does not handle the fiscal part then Ian can represent somebody, so Ian, if you are watching…

Chair Furfaro: Okay, we will use this time now, for me, I just want to say that we got Treasury, we got Driver's License Division, we are going to have Liquor next, we are going to cover General financial, and then Parks & Recreation. Can you tell me on April 4 do we have a pro-shop operating right now?

ERNEST W. BARREIRA, Budget & Purchasing Director: We do not have. That contract lapsed on the last day of March, however, we have quite unusual for this time of year agreed to let that concession solicitation that we are currently working on with the Parks Department and we are going to expedite it with a short-term bid. I have asked them to publicize actively the need for that resource so that we can get interest parties in that are relatively short period of time.

Chair Furfaro: Okay Ernie, would you be prepared to discuss after lunch when we get to Golf how we plan to expedite having a pro-shop operational.

Mr. Barreira: From the procurement prospective, yes sir. On the elements of the pro-shop operation, I will defer.

Chair Furfaro: I want to know everything we are doing in the way of emergency solicitation, and what kind of bids we are willing to negotiate. May I ask is there any intention by the Administration to go back and visit with the gentleman that has left to actually see if we can negotiate something short-term so that we are just extending the fact that… you know, we just cannot measure this on revenue. We got to measure it on the value of the amenity of having a pro-shop.

Mr. Barreira: I can tell you, Chair, that the Deputy Director Ian Costa exercised quite a bit of due diligence with the current concessionaire to talk about staying on to have continuity of services. But he did not want to continue.

Chair Furfaro: Okay then I definitely want to have Ian here with you when we talk about Golf.

Mr. Barreira: Very good sir.

There being no objections, the Council recessed at 12:21 p.m.

The Council reconvened at 1:34 p.m., and proceeded as follows:

Revenue Forecasting – Treasury Division:

Honorable Ross Kagawa *(Present 2:30 p.m.)*

Chair Furfaro: Tomorrow we are going into more depth into your Department Steve. We will be covering Finance – Administration, Accounting, Real Property Tax Collection, Motor Vehicles and Drivers Licenses staffing and operational issues, Treasury and IT, along with Real Property Assessments. That is tomorrow's agenda. What we are going to do right now is focus on the revenue and income portion of the Treasury. On that note, if I can ask my friend to introduce himself and give us a little overview about the income cycle.

DAVID SPANSKI, Treasurer: Okay, revenue cycles you want to look at cash flow, cash balances?

Chair Furfaro: Cash flow, in particular.

Mr. Spanski: Sorry, I did not bring a bunch of handouts for everybody but Scott, if you do not mind. It is kind of like last time. What we are going to present here is the cash balances for the last five years, our reserve and money in the bank to see where we are at. We have fiscal years 9, 10 and 11, 12 and where we are at 13. So you can see, here we are in… we have not got through March yet or we have and I have not gotten that data yet. So, you can see our available cash balances as of February. In 2012 it was a hundred and forty-three point one million and at the present time at the end of February at one, twenty-six point six, so that it declining of about 17. Keep in mind, that sounds like a big reserve but your cash flow which I will show on a different slide, your expenses is going approximately twenty million dollars a month, so you got 4 months and that is eighty million dollars going out, revenues coming in which will be about fifty-five and that will be a net loss of twenty-five million. In the year, it is about a hundred and five or a hundred million in cash, in Treasury, and in investments. Now, that excludes Section 8, CDBG, Board of Water, County owned housing, financial assurance, open space and Bond Fund 2010. Any questions?

Chair Furfaro: Your 2 peeks when we send out our tax bills…

Mr. Spanski: I will show those…

Chair Furfaro: You will show it on the cash flow portion?

Mr. Spanski: Yes. What I will do is I will give you a full year of 2012 so you can see the peaks and valleys. In August, where we receive our share of our revenues and again in February, we will receive our bulk share of revenues. You can see there in that chart, went run approximately 9 months in the negative and 3 months in the positive. We have to balance that, get invested latter out so we can cover our expenses. So, that is the end of FY 2012, that is unaudited, that is just my… how it comes out. When you get the CRF, the numbers are different. It would just give us an idea of where we are, a snapshot in time. That is your full FY and then here is where we are… okay, this next slide will show you FY 2012 through February and then the following chart, we will show you FY 2013 through February. Again, so you can see right where it says total, we had a positive at the end of February of last year and positive cash flow 8.2 million. You can see that at the end of February of this year, we are at a negative 2.6 cash flow. So, you had a minus eleven million dollar swing in one year from point in time year on year. You can see the average, I used 20 on the first chart but it is actually 19.4 through February. Keep in mind again our average cash do a three year, so in March we usually want a negative 5.2 million deficit versus revenues versus expenditures. That is a 3 year average – 2010-2012. April, we run a negative 11.4 approximately. In May, we run a negative 6.6. June we run a negative 2.3 so those add up to about 25 million. (inaudible) 19 or 20 million so that is 80. I know revenues are going to be about 55 so I have a negative and that is where the deficit numbers come from – revenues minus expenditures. We are running a deficit for the remaining 4 months. That is where that… on the very first cash flow chart says that I anticipate us being somewhere in the range of cash and investments and reserves without all the restricted moneys to be about a hundred to a hundred and five million.

Chair Furfaro: Dave, of the total, just let me ask you for the purposes of cash flow management, how much of our investment portfolio is available to you that are more liquid than creating problems to deviate from our investment plans?

Mr. Spanski: Everything that we have is liquid. There is a secondary market part that is…

Chair Furfaro: Let me say again, cash for you available without having to cash in.

Mr. Spanski: Oh okay.

Chair Furfaro: Quick short-term availability.

Mr. Spanski: Okay, quick short-term availability – I have a ninety-nine million accessible if you wanted it tomorrow.

Chair Furfaro: How much again?

Mr. Spanski: Ninety-nine million.

Chair Furfaro: Penalty cost associated with…

Mr. Spanski: There might be some… there will be interest rate risks.

Chair Furfaro: Okay.

Mr. Spanski: Okay. Because you are coming in early, so your interest earn will not be as much because we normally (inaudible). Just for historical sake, I have never had to do that. We always had enough available to get us through anything. I have never had to go "oh, Mr. Bank, oh Director of Finance, we are going to miss a payment." We have never done that.

Chair Furfaro: Okay. That is the good news.

Ms. Yukimura: Do you have any recommendations as to how to better manage our cash flow?

Mr. Spanski: Bring in more cash. No, I do not know… I have been doing this for 20 years, I think I have it pretty well down. In the 2010 Bond ordinance, we went out and said hey you have eight million dollars ready, okay, I happened to have it but it was not in that exact fund. So, I was able to do that but then I was able to spend it down on the Bond Fund to get us there. Everything is pretty stable, we know that we are going to have payroll every Thursday, I mean Accounts payable every Thursday. Bi-weekly, we are going to have payroll, okay, so I know we got history of what those numbers are, where the gross is and so I just manage it and latter the investments out that way.

Ms. Yukimura: Thanks to your good management and what we do have… so, I hear you saying is that it is working pretty well?

Mr. Spanski: Well, as you can see we are spending more than what we are bringing in. We need to make some adjustments somewhere. Either reduce expenditures or increase revenues. Do you know what I am saying? If we are looking at that chart, we are here at the budget session now requesting revenues, so we can maintain our services.

Ms. Yukimura: There is a proposal to raise revenue which hopefully will get us back into a more stable position actually, and then a reserve policy could help the cash flow situation, could it not?

Mr. Spanski: Well, right now... yes. I mean it sounds good but we have always had a quote informal reserve so it is always there.

Ms. Yukimura: Yes.

Mr. Spanski: I am not going to anticipate – if we do not need to reserve fund, I am not going to put it out till next year, I am going to put it out till next year.

Ms. Yukimura: I am sorry, what did you say?

Mr. Spanski: If you have a fifteen million dollar reserve fund, I am not going to put all fifteen for next week or whatever, I am going to latter it out.

Ms. Yukimura: Right.

Mr. Spanski: But if we know something is coming up, I can bring us back in. If something matures, I do not bring it out, I will just shorten the duration of which time.

Ms. Yukimura: Yes, so, it would serve sort of a stabilization fund or resource.

Mr. Spanski: You know what it is for. You are saying that you are not going to touch that…

Ms. Yukimura: Right.

Mr. Spanski: …unless there is something that you need it for.

Ms. Yukimura: Arguably, we did not have the margin or buffer in this budget but we could really develop it, hopefully in the next budget?

Mr. Spanski: That is correct.

Ms. Yukimura: Thank you.

Mr. Spanski: But it is not something like you said, if it is fifteen million, I am not going to put fifteen million out and it is due on this day… I am going to take that fifteen million and latter it out.

Ms. Yukimura: No, it is a stabilization fund that you will have to fund too.

Mr. Rapozo: The reserve money if we did a reserve policy or ordinance would restricted funds?

Mr. Spanski: Right.

Mr. Rapozo: You would not show it in this cash flow?

Mr. Spanski: No. But I would have to show it as a caveat – out there, you have this.

Mr. Rapozo: Right but it would be in a separate fund and… so it would not do anything to this chart.

Mr. Spanski: No.

Mr. Rapozo: So, I mean…

Mr. Spanski: But you know you have it, you would…

Mr. Rapozo: For a specific purpose.

Mr. Spanski: Right.

Mr. Rapozo: Not if we run into trouble, oh we have to pay bills, so let us take it from the reserve fund.

Mr. Spanski: Right.

Mr. Rapozo: That is not what the reserve fund is for. The question is on the current trend… you trended this thing out and done a great job Dave, I appreciate it. I love it when you come here because you are to the point, you make it so we can all understand, and the charts help quite a bit for none finance people. Considering the trend that you have seen over the last 20 years, more specifically the last 10 years, how long can we withstand?

Mr. Spanski: I do not know when you look at the CAFR which one do you want to take. I think at the end of the CAFR, on page 29 at the end of the CAFR you got a hundred and fifty-six million but you got bond fund counting there and some other things in there.

Mr. Rapozo: I am just concerned on the…

Mr. Spanski: If we take that number, subtract out… because we are going to quote the twenty-seven million dollars less this year than last year.

Mr. Rapozo: Right.

Mr. Spanski: So, twenty-seven divided by… I would say if you want me to guess inside of three years.

Mr. Rapozo: Before we…

Mr. Spanski: But I am taking everything – you are going to take your bond fund, all your stuff and you are going to make some regulatory decisions.

Mr. Rapozo: So, we got three years?

Mr. Spanski: I cannot… do not hold me to that… But, if you look at the current rate, yes.

Mr. Rapozo: And that is all we got.

Mr. Spanski: Less than with that amount of money, okay.

Mr. Rapozo: Okay, scary. Thank you.

Mr. Spanski: If we end up with a hundred or a hundred and five million, your trend is that you loss twenty-seven million, you deficit was twenty-seven million, a hundred divided by twenty-seven gives you about…

Mr. Hunt: Councilmember Rapozo just to clarify when he said regulatory, he is talking about using bond funds inappropriately to balance operational budget.

Mr. Rapozo: Yes, and that makes it even worse.

Mr. Hooser: So, if we only use the funds that we are really legitimately available to use, how much?

Mr. Spanski: Well that is what I am saying, right there, that is what we have available right now. That is what I am using. I am taking out all of the things that we would call restricted…

Mr. Hooser: So, 3 years?

Mr. Spanski: Inside of 3 years.

Mr. Hooser: Okay. Without touching the bond fund?

Mr. Hunt: No, no. He is saying everything available to us because… Dave manages cash, he does not do the budget. So, if you are asking questions related to the budget and how long we can survive, we are saying that we need moneys now or we are going to have some serious cuts to balance this budget because we cannot get through this year without some regulatory issues.

Mr. Hooser: So, under a year and we are 3 years… okay, I got it. One of the major outlays is for the retirement and health funds for the County that makes… those are made monthly?

Mr. Spanski: Yes.

Mr. Hooser: And is that just under a million dollars a month also?

Mr. Spanski: I would have to check with Finance Accounting. All they do is send me a thing and those things are broken out by fund. All I get is a list… maybe I should have brought an example, but it lists – General Fund, Highway Fund, Federal Grants, State Grants, all… we got 30 something funds, I think, so all those funds are listed.

Mr. Hooser: Okay.

Mr. Spanski: But you got retirement guys in the Highway Fund, you got retirement guys in General Fund…

Mr. Hooser: Got it.

Mr. Spanski: So, it is all split up that way.

Mr. Hooser: In the prior discussion, I think it was brought up that one of the other Counties at least deposits their funds into an escrow account rather than… my question would be if we did that, what kinds of interest would you get? Instead of giving them ten million, we put ten million in an escrow fund and are we allowed to use that interest and how much?

Mr. Spanski: Well, I do not know…

Mr. Hooser: 2 or 3%?

Mr. Spanski: No, your interest rate right now, our portfolio is at less than 1%, we are at a .9. If you look at a 5 year Treasury note, it is .69 today. So, we latter out.

Mr. Hunt: For clarification, there are actually 2 – there is the monthly payment which is your proportional payment that is the current payment but there is also an actuarial lump sum payment in July which is our unfunded liability catch up payments. So, it is not spread out for the entire year including that payment, there is a lump sum payment that comes in July.

Mr. Hooser: Is that for the retirement?

Mr. Hunt: ARC, I think.

Mr. Hooser: What is that in round numbers?

Mr. Hunt: The combined, I am not sure.

Chair Furfaro: I think it is seventeen.

Mr. Hooser: A year?

Mr. Hunt: Yes, I think the lump sum is somewhere along seven.

Mr. Hooser: But we owe seventeen million a year?

Mr. Hunt: Yes our current plus our catch up is seventeen right now.

Mr. Hooser: And we are paying about seventeen million a year?

Mr. Hunt: We are paying (inaudible) amount.

Mr. Hooser: Okay.

Mr. Hunt: As far as the Trust Account goes, there are costs associated – you have to hire a manager, you have to manage the manager make sure everything is doing… and when you are dealing with a pool of funds, your return is much less than you are with a larger pool like a State portion…

Mr. Hooser: Seventeen million on the retirement side, what about on the health? Is it all together?

Mr. Hunt: On the EUTF?

Mr. Hooser: Yes.

Mr. Hunt: About fourteen million on the EUTF.

Mr. Hooser: So, seventeen million and fourteen million would be the two combined. I know from the retirement side, some Counties in the State are behind in the payments and we are not. On the health side, is it also… so called okay to let that slip?

Mr. Spanski: Why would you want to let your obligations slip?

Mr. Hooser: Well, it is a cash flow balancing.

Mr. Spanski: It is just going to cost you more in the end.

Mr. Hooser: Yes, but…

Chair Furfaro: The fiddlers do anyway.

Mr. Hooser: I guess that is a policy question, the legal question is, "can you let it slip?"

Mr. Spanski: Yes, you can.

Mr. Hooser: The health and the retirement?

Mr. Spanski: Well… because the other Counties are doing it.

Mr. Hooser: I know they are doing the retirement but I am not sure if they are doing the health.

Mr. Spanski: I am not familiar.

Chair Furfaro: You just got a preview of your questions for tomorrow.

Mr. Hooser: Okay.

Chair Furfaro: Because that is tomorrow's item. Maui goes into a separate escrow fund and it would be nice to find out what they do. Honolulu is about 68% of their liability current and on the Big Island, it is somewhere in the same. We are a little bit in the rears but we are at least 100% covering our liabilities. Those are some items that we can discuss tomorrow.

Mr. Hunt: There is some legislative pending that may force our hand anyway because we are talking about having the TAT having screens that if you are not funding it, it will come out of your TAT before that is disbursed.

Ms. Yukimura: That makes sense.

Mr. Hunt: So, it may get paid anyway.

Mr. Bynum: How come we did not know about that legislation?

Mr. Hooser: So, my question is a legal question, as well as what other trends might be. Thank you.

Mr. Spanski: Earlier, you asked about interest rates, that is what we get on our portfolio. That is just a month on month, so you can see your trend now, because we got less money to invest, I am brining it home earlier, so as go down on the curve, you cannot get that far. Just to give you an idea, that is 90 basis points and we can only go out as far as 5 year. The 5 year treasure today was .70 and our average waited, our average maturity is almost 2 years out with everything up.

Mr. Bynum: (inaudible) going to the State, we earned interest on that also, right?

Mr. Spanski: That is not in my…

Mr. Bynum: This thing that Maui puts something in a Trust Account is new information to me in the last 2 weeks and in the past we have been given assurances that all of the funds that we put in there are protected and then on here people question that again.

Chair Furfaro: That is not the case, I share with everybody my meetings in Honolulu where they are basically responded to us and the correspondences with you that they are not committing to us that they guarantee our funds only go to our people.

Mr. Bynum: The funds that we put in there in essence that are waiting for future obligations, could we withdraw them?

Chair Furfaro: I think that is a big discussion. I am just trying to answer the question, I was very concerned about that 8 months ago, I went and visited them in Honolulu and they did not… and you have that correspondence back because they had to address it to Wally, not to me, but they would not earmark Kaua'i money for Kaua'i employees. It is a fund that earns interest to answer your other question but if the funds earns the interest, not us and not on our portion.

Mr. Bynum: I am sure we will follow up on this.

Chair Furfaro: We will follow up. Cash flow questions?

Ms. Yukimura: I am hoping that maybe between now and then that they can get more information?

Chair Furfaro: Good idea.

Ms. Yukimura: So, we asked over and over again for assurances and they would give us these assurances but we would press and then there was no assurance, you know when we press for it. Chair, I think I need a request for Special Council that we might want to get Special Council to advice us on this?

Chair Furfaro: Yes.

Ms. Yukimura: I think it would be very helpful about how Maui is doing their escrow thing. When you really think about it, it is hard to see how that would work. But if somebody could… between now and tomorrow find out, that would be very important. A call somewhere to Maui? Certainly, we have some relationship with their Finance Department and then you wanted to go to cash flow, Chair?

Chair Furfaro: Yes.

Ms. Yukimura: I wanted to later talk about the vehicle weight tax.

Chair Furfaro: The point is that we should query a little bit with Maui because I think the consequence of what Maui did was this new legislation that says "hey Maui, you do not leave the money with us, we can go ahead and log on to your TAT portion." I think that is some of the things that are going on. But if you can ask someone to look for the correspondence, after I went to the retirement system and we pushed a little bit, they came back with that letter to Wally not earmarking our bonds. So, we can talk more about those parts tomorrow as well. Cash flow items?

Ms. Yukimura: 3 years if we do not do anything?

Mr. Spanski: Correct. Less than 3.

Ms. Yukimura: Less than 3, okay.

Mr. Hunt: I mean if you want to violate all the bond fund and just… literally we are trying to…

Chair Furfaro: Do not go there.

Ms. Yukimura: Yes, that is not an option for us.

Mr. Hunt: Based on our burn rate if we threw everything into the pot, we could last for less than 3 years.

Ms. Yukimura: And that is part of your rationale for requesting these revenue increases, is it not?

Mr. Hunt: Yes.

Ms. Yukimura: Because this timeline that you given us is based on the assumption that we do not increase revenues and we keep the expenditure level at what we are doing right now.

Mr. Spanski: We are not pretending, this is reality right now. That is what we are right now.

Ms. Yukimura: Right.

Mr. Spanski: If you do nothing, this is what you do.

Ms. Yukimura: So, if you do not increase revenues and/or if you do not decrease expenditures, this is the scenario that we are looking at in the next year or two?

Mr. Spanski: Correct.

Ms. Yukimura: Okay.

Chair Furfaro: Cash flow question again. So, Steve tell me, we are going through about twenty million every month you are saying basically?

Mr. Hunt: Right.

Chair Furfaro: Okay. So, how do we manage our accounts payable piece? What is actually there? Does everybody turn in a bill payable schedule to you?

Mr. Spanski: No, I do not see anything until the day before.

Chair Furfaro: Who does it?

Mr. Spanski: That would be Accounting.

Chair Furfaro: And we can keep that as an Accounting question.

Mr. Spanski: But they do give me a heads-up. If they see something big come through, they say "Dave, there is a big one, can we cover?" I respond back "yes" or "no." Or they will say "put it off another week." Again, I have not been in that situation.

Chair Furfaro: Typically for the purposes of timely payment of our bills, those payables are aged no more than 60 days? What is the strategy from how long we might carry a bill to be payable?

Mr. Hunt: Most bills have terms built into it. If it is a contract payment, there is a provision "pay within a certain period net…"

Chair Furfaro: So, it says "if payment is not received in 60 days, you will be charged an interest rate of 1.5% per…" and that is what we try to follow?

Mr. Hunt: Yes.

Chair Furfaro: Okay. Questions? Dave, it is always good to see you.

Mr. Spanski: I do not know if it is good to be seen but thank you.

Chair Furfaro: Okay. I think let us go and change gears towards Drivers Licenses.

Mr. Spanski: Let us not do Drivers Licenses – I think we should do Motor Vehicle.

Chair Furfaro: Motor Vehicle, I am sorry. Dave, are you going to present us something?

Mr. Spanski: Well, I could respond to your point. You had some questions. I know there was someone that asked something about the freight weight tax or something like that. All you need to do is go to your County Code and read the ordinance, it is all right there.

Chair Furfaro: You do not give us a break, do you?

Mr. Spanski: You do not get any breaks... So, if you look at the ordinance in Section 5-2.3 imposition of tax under Motor Vehicles. The question was, motor vehicles and other vehicles designed for County property (inaudible) carrying passengers including trucks and dah, dah, dah… it is two and a half cents per pound. That is our current one now and now it is going to four cents. That is in the ordinance and then I guess there was another question regarding the beautification fee. Again, if you go… it is on the same section 5-2.6 Beautification fee. We charge $5 and 8% of that goes to (inaudible) deposition of abandoned vehicles and the remaining goes into the Beautification Fund. Or all is in the Beautification but 80% is got to be used for abandoned vehicles the other for beautification of your roads. Mr. Hooser asked, how much is the weight tax going to affect me, or something like that? Okay, I am going to give you a scenario just on my vehicle. My registration is due March 31… well, I have a 1992 Toyota pick-up truck, the weight is three thousand nine hundred and thirty pounds. In 2010, I spent a $109.11. The County passed an ordinance to include a registration fee of $12. So, in 2011, I paid a $121.00. The State in 2012 passed their weight increases, so I went from $121 to $180. So, the first year was plus 12, the next year the State raised their fee that was a plus 59. I just paid my 2013 nothing had changed and I paid $180. Now taking the calculation of raising it one and a quarter to two cents, plus you are going to raise the registration fee of $5, my truck is going to go to $215. That is a $106 increase from 2010 to 2014.

Ms. Yukimura: Including State?

Mr. Spanski: The first year 2011, we raised it $12, we created the County registration fee. In 2012, the State increased theirs. They doubled… they increased all of their fees over… they doubled everything… a little bit more than doubled. So, the State added another $59 and now we are going to come in proposed to raise my truck another $34, so within that timeframe my truck has increased a $106 with the original amount which was 4 years ago, was only $109. So, that is the 25% per year if you want to average it out.

Chair Furfaro: Thank you for that clear explanation of we are moving 12% and the State is moving 50%?

Mr. Spanski: Right.

Chair Furfaro: Additional questions?

Ms. Yukimura: Yes.

Mr. Spanski: Just a clarification – what happens is, any time anything is raised the front line people get the attack, if you will. I think even on this floor if someone said "I did not know you guys raised the fee last year." But that was the State raising the fee. That was probably what had happened. What the State did, they raised their County State registration fee from $25 or $20 to $40. Then they raised their State weight tax from three quarters - .007 three quarter of a cent to one and three quarters of a percent. With that, on my car, it was a $59 hit because you can just the weight of your car and multiple it by three quarter of a cent and then multiple it by one and three quarters and then you can see the difference.

Ms. Yukimura: So, this money goes into the Highway Fund?

Mr. Spanski: Yes.

Ms. Yukimura: And it helps to fix the roads and keep them in repair?

Mr. Spanski: I hope so.

Ms. Yukimura: Okay. The Highway Fund is in a deficit, so that means it is being on both the State and County levels, I believe it is in a deficit. The General Fund is subsidizing road users unless we raise it, you know?

Mr. Rapozo: I got a question, real quick.

Ms. Yukimura: Sure.

Mr. Rapozo: Is the Highway Fund in deficit?

Mr. Hunt: No, the Highway Fund is not in deficit.

Mr. Rapozo: I did not think so.

Mr. Hunt: The Highway Fund helps support Departments that run deficits like Transportation…

Mr. Rapozo: Right, this money goes into the Highway Fund and that Fund is not running in a deficit.

Mr. Hunt: No. The Fund itself is not running in a deficit. Some of the Departments that it feeds to do that work for roads and for transportation are in deficit.

Mr. Rapozo: I just want to be sure that the information is accurate that the Highway Fund is not running a deficit.

Ms. Yukimura: Well are we not subsidizing the Highway Fund?

Mr. Spanksi: You subsidize the Highway Fund who subsidizes the Highway CIP Fund.

Ms. Yukimura: Highway what?

Chair Furfaro: CIP.

Ms. Yukimura: So, the question is, is the Highway Fund sufficiently repaving our roads in a timely fashion? Is it sufficient?

Mr. Spanski: You should ask the Roads Division.

Ms. Yukimura: I did.

Mr. Spanski: Okay.

Ms. Yukimura: And they could not tell me and I was waiting for this year.

Chair Furfaro: I am going to interrupt here, this part of the meeting is about the cash portion.

Mr. Spanski: Right.

Chair Furfaro: If the account is in a deficit and so forth, those are reasonable questions but to start asking about road paving... that needs to be redirected.

Mr. Spanski: Thank you.

Ms. Yukimura: This is a weight fund so the heavier your car is the more you have to pay these taxes, correct?

Mr. Spanksi: Correct. If you look at your section (B) of 5.3 it explains it right there.

Ms. Yukimura: What does it say?

Mr. Spanski: The rate per minimum for a truck of a non-commercial motor vehicle shall be the same as provided for passenger vehicle if the truck or motor vehicle has the net weight of six thousand five hundred pounds or less. So, you come and submit proof that you are not using it as a commercial vehicle then you can pay the passenger rate. Now, other motor vehicle design – the bit rigs and those guys, they pay the freight weight tax as does a trailer pay the freight weight tax.

Ms. Yukimura: And the rationale is that there is probably more damage or heavier use of the road?

Mr. Spanski: I cannot make the… I did not write the ordinance… I have never had that question posed but it would make sense that a heavier vehicle makes more damage. Maybe the State Highway Division has records like, I do not know if the County has.

Ms. Yukimura: And that that you are reading is a County law?

Mr. Spanski: Correct.

Ms. Yukimura: So, we could change it if we wanted to?

Mr. Spanski: It also follows State Statutes HRS.

Ms. Yukimura: That is what I thought.

Mr. Spanski: Right.

Ms. Yukimura: So, we do not have that much leeway in changing it?

Mr. Spanski: No.

Ms. Yukimura: Thank you.

Mr. Hooser: Just to clarify, so does the General Fund subsidize the Highway Fund?

Mr. Spanski: No.

Mr. Hooser: Are there other jurisdictions or have you heard of any other place that would be more creative with this weight tax in terms of means testing – first vehicle maybe pay one rate, and then subsequent vehicles pay higher rates to penalize people for having multiple cars. Do you know of any models?

Mr. Hunt: Again, it gets to HRS issues, does it not? If we had control of running the State guideline then we would have more flexibility but really we only have… the flexibility we have is crafting language that relates to our rates, not necessarily our policy which is HRS. I am not sure if that would be accomplished.

Mr. Hooser: Okay. Are you familiar with any other municipalities that might have different models?

Mr. Spanski: Not at my level, no.

Mr. Hooser: Thank you.

Mr. Rapozo: I have a question on businesses licenses, I do not know if that is your area.

Mr. Spanski: There is not that many.

Mr. Rapozo: I do not know if they are still on the vehicle stuff?

Chair Furfaro: Anymore vehicle questions? Dave, I would like you to verify a number for me. We have 79,000 vehicles on the island…

Mr. Spanski: Chair, I will verify. You have taxable vehicles 78,686 in the calendar year 2012.

Chair Furfaro: Then we have a bunch of trailers on top of that?

Mr. Spanski: We have 3,743 trailers.

Chair Furfaro: Okay.

Mr. Spanski: Total taxable vehicles counting your freight tax – your trucks and motorcycles of 88,071.

Chair Furfaro: Including the motorcycles, including the trailers – total?

Mr. Spanski: Correct. Taxable - 88,071.

Chair Furfaro: Thank you. Okay, on that note, can we move to your agenda item?

Mr. Rapozo: I am just trying to verify the numbers on this spreadsheet we got today. The businesses licenses are the County mandate licenses that we sell Pawn Shops and stuff like that. I noticed on firecracker and fireworks, the numbers are zero.

Mr. Spanski: The firecrackers and fireworks might go to the Fire Department.

Mr. Rapozo: Okay.

Mr. Hunt: It is the 251 Special Fund.

Mr. Rapozo: Okay. So, this is basically what the… taxi cabs, do they go somewhere else too?

Mr. Spanski: Yes. They go in the General part of the Drivers License area in the General Fund but I do not know what that number is.

Mr. Rapozo: Who issues the licenses, you folks?

Mr. Spanski: Right, the Drivers License Section does.

Mr. Rapozo: Okay, we will check with them.

Mr. Spanski: You will probably end up checking with me, I guess.

Mr. Rapozo: You will be the one? See you back tomorrow.

Mr. Spanski: Why is the Treasurer doing Drivers License and Motor Vehicle?

Mr. Rapozo: That question is for the people behind you.

Mr. Spanski: I was going to save this for tomorrow but I am at the stage where I have reached my level of incompetence.

Mr. Hooser: We will give you the Golf Course.

Mr. Rapozo: We have a lot of businesses around and I know this because when I did have a pawn shop, I was required to purchase a pawn shop license and a second hand dealer license. I know there are a lot of places here that do not have that yellow thing on the wall and I think… and it is not much. The fees of those licenses were like – one was $10 and I think the other was a $100 for the year. So, it is something that we should revisit but we can have that discussion tomorrow. I am really interested in the taxi cabs because what I think I am seeing is a lot of abuse with the taxi cabs today. A lot of people, I believe, are not licenses and they are shuttling people home under the guides and tours and without PUC. Can you just get a number of licenses for me tomorrow, I would appreciate it.

Chair Furfaro: Anymore questions for Dave? Dave, it is always a pleasure to have you around.

Mr. Spanski: Thank you.

Chair Furfaro: You make our business trips go well and thank you very much. We will see you tomorrow.

Mr. Spanski: Thank you.

Chair Furfaro: Is Liquor here?

Mr. Hunt: Chair, if I may? The document that you passed out to the Councilmembers, I just wanted to clarify what this document is. This is actually a working document for our Budget Analyst and it includes every account that we had to track and some of these accounts are no longer active, they are shown as here as account numbers.

Chair Furfaro: As account numbers with a zero next to it.

Mr. Hunt: Correct.

Chair Furfaro: I understood it to be a working document but it was something that we could track and at least… it almost left us an audit trail and you could explain to us zero accounts.

Mr. Hunt: Thank you.

<u>Revenue Forecasting – Liquor</u>

Chair Furfaro: Steve, can you give us an overview of Liquor on the revenue cycle.

Mr. Hunt: It is on page 3, Fund 204.

Chair Furfaro: Total income that we got in the past from the Liquor Department on licenses, sale taxes related to liquor sales and so forth, I do not recall any year that we never hit the income expectations but could you clarify for us again how we actually credit our income lines throughout the County with the revenues that come out of Liquor.

Mr. Hunt: And it stays within the Liquor Fund. Again, the licenses and permits are a big portion. These are revenues collected from all liquor sales that are issued, that also includes Special events. When you have a beer garden at an event, there is licensing that comes from that as well. You also have revenues from investment interest that is earned within that Liquor Fund. Those are the primary resources of income to that fund. As far as the estimate itself for this year, I might have to rely on our Budget Analyst to describe how that amount was calculated probably in the past history as well as some dialogue, I believe, with Liquor for that estimate. But it is currently at a million fifty-five as the estimate for FY 2014.

Chair Furfaro: How much do we invoice the Liquor Department for what you call "support activities" which then gets back into the General Fund, I guess. Do you have any detail on that? It should reflect as an interdepartmental transfer.

Mr. Hunt: I will rely on Ken to help me with that question because I do not know the answer specifically.

Chair Furfaro: Ken, you are being beckoned to talk to us about an interdepartmental transfer for services that we invoice the Liquor Board for that internally shows up as income to the General Fund.

KEN SHIMONISHI, Budget Analyst: It is actually on the Operating side of the Liquor Fund as, I believe, an indirect cost line item and I think it is twenty thousand. I do not have the full budget worksheets in front of me but if you look at that, I think that is what you will find.

Mr. Rapozo: Mr. Chair, it is a hundred and twenty-five thousand.

Mr. Shimonishi: Yes, I am sorry. A hundred and twenty-five thousand.

Chair Furfaro: And your income is showing up for what you guys are booking as a services rendered, it is coming back in invoiced into… what account again?

Mr. Rapozo: Indirect Services.

Chair Furfaro: Indirect Services.

Mr. Shimonishi: Indirect Cost, I think is what it is called. That line across the County actually zeros out. It eliminates – because the credit is in the Accounting – Finance Division and the other expenses (inaudible).

Chair Furfaro: Got it. Okay. Ken, thank you for coming up. It is always good to see you as well.

Ms. Yukimura: The projected revenues is a million plus over… oh FY 2012 which was seven hundred forty-five thousand that is quite a big jump and we do not know what the revenues are for this year? Do we have three quarter year, or half year figures?

Mr. Hunt: I do not have that information.

Ms. Yukimura: I just wondered how we got to this projection of a million.

Chair Furfaro: Well it would be good for us to answer JoAnn's question, it is a very legitimate one, can we go to the 6-month financial report that we have that shows the trend as to how much as actually been reflected as revenue? JoAnn, you are looking at a one year projection, right?

Ms. Yukimura: Yes.

Chair Furfaro: And compare it against that?

Ms. Yukimura: Steve the figures here for FY 2010, 2011 and 2012 – these are actuals right?

Mr. Hunt: Yes and the revenue.

Chair Furfaro: Thank you for doing that Steve, it is very helpful and consistent with what we were asking for in a way of actuals. Thank you very much.

Mr. Hunt: Thank the Analysts, they are the ones who prepared it.

Mr. Hooser: How are the funds? Is it a flat fee or is it based on the size of the business? How are their fees determined?

GERALD RAPOZO, Investigator: In the month of June is when they renew their liquor licenses and that is what they pay their basic fees. So, whether it is funded $80 a year, so they pay the basic fees during renewal time in June and then in July we get their sale reports. At that time, we send out the bills to them and calculate a percentage fee and that is due in September.

Mr. Hooser: So, it is a flat fee plus a percentage of sales?

Mr. G. Rapozo: Yes, the initial – the licenses renewal fee is a set fee and then the percentage fee will be based on their liquor sales.

Mr. Hooser: And is this bar and/or super markets both?

Mr. G. Rapozo: Every liquor licenses issued as a set fee.

Mr. Hooser: And different fees for a bar as opposed to a super market?

Mr. G. Rapozo: Mainly $480 for a general license meaning beer and wine and that is retail stores, restaurants, bars, etc. Hotels pay $900 a year. Wholesalers pay $1,200 a year.

Mr. Hooser: Again, plus the percentage?

Mr. G. Rapozo: Yes, and based on their sales, we figure out a percentage and they pay percentage fees.

Mr. Hooser: And how are these… how do we determine whether they are accurate sales or not?

Mr. G. Rapozo: It is based on what they report to us.

Mr. Hooser: Do we look at their tax returns?

Mr. G. Rapozo: Only if we have reason to believe that they are not recording properly then we do an audit.

Chair Furfaro: Let me add to that because I have a little bit more experience. Have we stopped the quarterly revenue reporting from the hotel?

Mr. G. Rapozo: Yes, we do only the annual.

Chair Furfaro: And that is what I am worried about the fact that that was a cash flow item for us. As the General Manager, I am required to verify the sales, make receipts available, and then pay the bill quarterly which will send in a substantial amount of my money to County. I think just before I retired, they changed that to only annual reporting.

Mr. G. Rapozo: Probably in 2006, maybe.

Chair Furfaro: I retired in 2007, I think, but the reality is, now it is annually, to follow up on Mr. Hooser's question because our income tax has to be available to the County at the same time. What do you guys verify the quarterly revenue reports against the annual…?

Mr. G. Rapozo: We do not compare anything. They submit their annual sales report in the month of July and that covers the previous fiscal year.

Chair Furfaro: Well, that was nice of you folks to change it to only once a year, it used to actually provide a check quarterly from the hotels but I guess… they do not compare it to a tax piece?

Mr. Hooser: It seems like it is a potential large area of income that may need closer scrutiny in terms of establishments are paying their fair share, so I do not know whether between the Liquor and the Finance Department whether we do more frequent audits, or how do you verify independently through their tax returns that these establishments are reporting accurately. I would imagine the nature of the businesses there are a lot of cash transactions, basically, so… thank you.

Chair Furfaro: On that note, all of the hotels are required basically for their owners to have a cash audit but I think what Mr. Hooser's point is, that is not true to the small bars, so it could be a concern there. No hotel would probably manipulate its liquor revenue to actually end up their liquor licenses because then nobody will stay with them but the smaller ones that is a very good point from Mr. Hooser. Mr. Rapozo, you have the floor.

Mr. Rapozo: Your revenues all derive from licenses and fees and no General Fund money?

Mr. G. Rapozo: Correct.

Mr. Rapozo: And your rates and fees that you charge, is that governed by State statute or the County…

Mr. G. Rapozo: The Liquor Commission's rule.

Mr. Rapozo: Oh, Commission?

Mr. G. Rapozo: Yes.

Mr. Rapozo: So, we have no control over what…

Mr. G. Rapozo: You would have the final say if fees are raised then the Council will have the final say. It would have to go through the process of public hearings and so forth.

Mr. Rapozo: Do you know if our fees are consistent with the other islands?

Mr. G. Rapozo: It is probably less.

Mr. Rapozo: I know you guys come back. We will send over a communication to maybe do a comparison from the different Counties because I think I agree with Mr. Hooser, this is… I am concerned about the under recording as well. I do not know why we changed from quarterly to annual but even with annual I would assume that we should be attaching the tax returns. When is the annual report due?

Mr. G. Rapozo: In July 31.

Mr. Rapozo: Which they should have already done their taxes for the prior FY, oh, wait they go calendar which makes it a little tough.

Chair Furfaro: I think that is a good discussion. Also, on our financial because you are reporting the liquor at the end of the year, there is no way that we can verify the million dollars because there are no quarterly reports coming in. They are recording it at the end of the year.

Mr. Hunt: And to that end, to date, the Fund balance of Revenues are booked. Beyond the 6-month to date it is nine hundred thirteen thousand three hundred and ten dollars for FY 2013.

Chair Furfaro: So, you are basically saying the million dollars might be soft?

Mr. Hunt: Based on the current that we have today, that seems like it might be a little under, yes.

Chair Furfaro: Okay.

Ms. Yukimura: What is under?

Mr. Hunt: Under estimated, possibly.

Chair Furfaro: They under forecasted the million.

Mr. Hooser: According to the ordinance that the funds except for the administrative fee must only been spent with the Liquor Department, basically, and is that a County ordinance?

Mr. G. Rapozo: No, that is a State law.

Mr. Hooser: Is the administrative fee fixed by State law? I mean, we talked about the hundred and twenty-five thousand or whatever that number was… that does come to the County, is that… well I guess my point is that are we allowed to get more money from this fund to support the services the County provides?

Mr. Hunt: I would have to get back to you with that.

Mr. Hooser: Okay.

Mr. G. Rapozo: The State law is pretty specific, all moneys used from liquor fees can be used for cost and expenses directly relating to operational and administrative cost actually incurred by the Liquor Commission.

Mr. Hooser: Administrative cost?

Mr. G. Rapozo: Yes and the operation of the department.

Mr. Hooser: So, that would include employee cost, fringes, percentage of overhead… I would hope that we would want to interrupt that as broadly as we could for the County without negatively impacting the liquor operations of course. Thank you.

Chair Furfaro: Mr. Kagawa, I know that you are in and out from those training programs, did you have questions?

Mr. Kagawa: No.

Chair Furfaro: Okay.

Ms. Yukimura: Is it true that you have to return moneys to the businesses if we do not use it for administrative purposes?

Mr. G. Rapozo: Yes and how it is done is, by the end of the… when we figure out the percentage fees what we do is, the rollover that is put towards what the licensees would pay us so it lowers the percentage fee.

Ms. Yukimura: Oh, so how much you collect the next year?

Mr. G. Rapozo: Yes, so that goes back to the licensees.

Ms. Yukimura: Right. Are these moneys, and it may not be a question that you can answer, are these moneys for cash flow purposes?

Mr. Hunt: It is a fund that must stay in the fund.

Ms. Yukimura: Yes, right. Okay, I was just wondering.

Mr. Rapozo: Yes, it is even beyond restricted. You cannot use that money and this is a hint, a clue for the presentation is that what was the average give back every year?

Mr. G. Rapozo: Last year the carryover was four hundred and forty-five thousand.

Mr. Rapozo: Four hundred and forty-five thousand that we collect and we brought it up last year with Eric, he was here at the budget, and we need to find ways to use the money. Mr. Rapozo, by the way, that is my brother and I know my mom watches this every day, so, Gerald look at the camera and say "hi mom." She is going to be tickled. But you mentioned earlier about audits, you mentioned earlier about how we can target some of the recording that would be an avenue to hire external auditors. These are clues not to waste the money but to more make the department more efficient utilizing the funds that we have available. So, we cannot use the money for cash flow, we cannot use the money for anything else but we can use it to make that department more efficient and more effective. That would be my clue to the Liquor Department and the Administration prior to their presentation.

Chair Furfaro: Yes, it would be a good clue to make sure that our internal auditors make sure that we are recovering the hundred and twenty-five thousand that we invoiced for the year that we are invoicing the appropriate amount for all the support services that we give them.

Ms. Yukimura: Gerald, I am a Toast Master so we use your liquor conference room, it really could use a refurbishment. The chairs are falling apart and seriously the carpet could be change and I think… but in that respect because it is clearly a room that you use for Liquor Commission purposes.

Mr. G. Rapozo: We do.

Ms. Yukimura: Well… that is just a suggestion.

Chair Furfaro: I guess the message here is, that Liquor Conference room seems to be the collection point for all the various different chairs, tables, and you may need to have a purchase of some furniture fixtures and equipment. And of course, storage for your records.

Mr. G. Rapozo: I know the Boards and Commissions Office did supply the recording, the mics, and sound system.

Ms. Yukimura: Well, that is an indirect service.

Mr. Rapozo: That we pay for a hundred and twenty-five thousand dollars.

Ms. Yukimura: Right. It really is… and it is not pretending. It is for real that we are using County services for true Liquor Commission and other administrative expenses, so please look into that.

Chair Furfaro: Finance, if you could look into that because we never pretend here. It is needed.

Mr. Hunt: I will look into that. I wanted to comment too on the estimate – the nine hundred and thirteen received, I am advised that it is frontend loaded most of those fees come in September - October so to project that out to the remainder of the year, we may not be that soft on our estimate for FY 2014.

Chair Furfaro: Thank you for that clarification. Do we have any more questions for the Liquor Department? If not, Mr. Rapozo, I am going to excuse you.

Mr. G. Rapozo: Thank you.

Chair Furfaro: I want to say thank you very much. Are my notes correct, are we going to go to Parks now? Where are we going next? I am going from Liquor to…

Mr. Barreira: Good afternoon Chair, I think what we wanted to do, with the Chair's approval, because we had not until very early this morning expected this level of detailed revenues presentations from our Departments, if we could limit our presentations today on revenue to the Finance piece, for the resources that are here.

Chair Furfaro: That is not the intention; that was not the policy of this Council last year. That is the whole reason when I wrote this schedule, we expanded it. We want to deal with revenue separately. Are you telling me that we are not prepared to talk about the Parks Department?

Mr. Barreira: Yes sir based on what we expected…

Chair Furfaro: When will be ready?

Mr. Barreira: They could be ready obviously when they come in to do their presentation unless you want it soon?

Chair Furfaro: No, I would like to make sure that the next time I send over a schedule and I get back an approval that we are taking the whole day to talk about revenue, if there is a question about that it should be raised then not now. But I will be glad to accommodate you today.

Mr. Barreira: Very good sir. If you wish to discuss the rents and concessions, I can have our Budget Analyst do that presentation?

Chair Furfaro: Let us do that.

Mr. Barreira: Very good sir.

Chair Furfaro: Staff, make a note that we might have to have some additional time for Parks and Recreation because we are going to save… and you know what before I start with the two of you with this presentation, it is possible to take the tape change and caption break now? Mr. Bynum, you are leaving at 3:00 today? Okay.

There being no objections, the Council recessed at 2:41 p.m.

The Council reconvened at 2:54 p.m., and proceeded as follows:

Revenue Forecasting –

Chair Furfaro: Mr. Rapozo, I am prepping for next week's posting, could I turn over the meeting to you as Vice Chair of the Committee of the Whole from this point?

Mr. Rapozo: Sure.

Chair Furfaro, the presiding officer, relinquished Chairmanship to Mr. Rapozo.

Mr. Rapozo: These are the Budget Analysts that you keep talking about?

Mr. Hunt: These are the Budget Analysts who have been a phenomenal help to getting us to where we are in clarity and transparency.

Mr. Rapozo: Questions?

Chair Furfaro: Excuse me, were we going to cover rents and leases with this group?

KEN SHIMONISHI, Budget Analyst: I was hoping, before we got into that, maybe we could just run over the worksheet really quick because I did not think there was any kind of overdone, before we jump into other categories. I think this might be a good idea to see the flow of…

Chair Furfaro: Excellent.

Mr. Shimonishi: Basically what we did, Ann and I, was we looked at the revenue reports that comes out every month or in this case at the end of each year. We took those reports and split them into an excel worksheet which is what you see in front of you. I apologize because had I known we would be going over this worksheet in this level of detail, I would have tried to put a little bit more formatting and presentation skills on it but this is just a working document and what we use to build the revenue portion of the budget. As you can see on this worksheet the first column is the fund number then the fund description, the source that is identified in the accounting or finance system, the first column there, source four hundred being taxes and then the account number 401 real property and then the element and then the object which further defines the account number down to the specific account number. Then you will see the actual amounts that were recorded for the County's Fiscal Years 2010, 2011, and 2012, and then what we have budgeted for the FY 2014. Looking at that account description column, if you go down to the first shaded section, you will see ORD "ordinance" real property tax and if you go across that budget 2014 year, ninety-one million two hundred two thousand five fifty-four. That tie directly into the two page ordinance as far as the real property tax number goes. So, this is what makes up that section. Below that, public service company tax, three million seven twenty-three, eight, zero, nine and again that ties into the front page of the ordinance. Further down you will see all of the motor vehicle plates, replacement plates, and so on. I do not know why we lumped in the dog licenses and so on but the highlighted section there ordinance (inaudible) a hundred fifty-three thousand, three, fifteen. Continuing down the next highlighted section, business licenses, two hundred sixty dollars that was there from the previous years, the formatting that we followed. The next section below that we have our non-business licenses for the building structure equipment, the electrical code, and plumbing, and so on… the next page over, you can see the highlighted total of a million one eleven. Again, you can compare these numbers over the last three actual years versus what we are budgeting.

Ms. Yukimura: Ken, can I ask a question? This non-businesses licenses that is basically… sound like permit charges? You said building code?

Mr. Shimonishi: That is the description on the actual accounts. We are pulling this information right off of our financial system.

Ms. Yukimura: Okay.

Mr. Shimonishi: We are keeping the consistency of how it is being recorded at least.

Ms. Yukimura: Yes, I understand the format. That is very good. I just wanted to know the source.

Mr. Rapozo: Okay, continue. You left off on non-business licenses.

Mr. Shimonishi: Right and below that we have rents and concessions. The highlighted amount and if you go across there, the hundred fifty-eight thousand, six, sixty-nine. So, you can tie that back to the ordinance. Below that, the interest of six, seventy-three and then the State TAT of thirteen million, four, eighty-five. There are some moneys there for the other State grants or State Burial of Veterans population of five thousand. Below that, some of the things have been lumped in together under General Government, the re-registration fees that duplicate certificates, so, that section there. The darker color on the Summer Fun and the youth athletic, I believe, is going into the line item that is titled as "recreation" again on the ordinance. That along with camping permits of fifty-two thousand. Below that we have the bus transportation of eight hundred and fifty thousand and the miscellaneous of a hundred seventy thousand three, twenty. So, that makes up the line items as far as the General Fund goes and the total of which on the bottom there is a hundred thirteen million, four, sixty-one, three, forty-four.

Mr. Rapozo: Thank you. We will start with the top, so we will start off with Real Property.

Mr. Kagawa: On page one, I want to focus on what really matters, so I am going to focus on the Real Property Tax and I just have a few questions. If I look at the delinquent line, line two, is that delinquent taxes that we collect or is that how much we accrue? Is that all cash basis or just accrual?

ANN WOOTON, Budget Analyst: Yes, this is all actual revenue.

Mr. Kagawa: Cash that we collect?

Ms. Wooton: Correct.

Mr. Kagawa: For delinquent taxes. Where do we keep track of how much is owed, the accrual?

Mr. Hunt: Total delinquencies.

Mr. Kagawa: Is that on this page?

Mr. Hunt: No. That would be an obligation… we are only dealing with revenue. It gets booked in the fiscal year that the revenue comes in. So, some of these moneys like the big four point seven million in fiscal year 2011 was moneys probably owed for maybe 8, 9, 10. So, when you collect it, it gets booked in that fiscal year.

Mr. Kagawa: Okay.

Mr. Hunt: But it is not necessarily associated or budgeted from the current year.

Mr. Kagawa: Escrow, can you describe that? Escrow a negative number on line three.

Ms. Wooton: That is a credit amount.

Mr. Hunt: These are likely paybacks from settled disputes when you have the Board of Review dispute and there are taxes that are being contested and when those settlements are done, those moneys go out. Again, they are going to go out in that fiscal year but may have multiple prior years that they were related to.

Mr. Kagawa: I assume that the FY 2012 the negative 4,311,738 was all related to maybe 1 big case, no?

Mr. Hunt: It was probably all compounding of several years of cases. I know there was 1 in particular Keālia, a big property had been subdivided and then CPR and then there were some back taxes owed because we did not get that information timely. We backed taxed for 08, 09, and 10 and in doing so some of the documents that we received were not as accurate and we had parcels that were double counted. So, some of that money were given back to the Keālia once we were able to reconcile the double counting.

Mr. Kagawa: So, basically we collected… we over billed them?

Mr. Hunt: We did and it was done with what is called a "P38" which is an adjustment to the tax year from prior years. So, these were moneys that were essentially never budgeted or booked. They occur also with omitted property, omitted buildings when we find something that was built 3 or 4 years ago, you go and back tax them for the years, they add it to the assessment record that they owe back taxes, and when that happened it comes in that year that you actually collected.

Mr. Kagawa: I am still a little foggy on that one but… I am good for page 1. Thank you.

Mr. Hooser: Back to the delinquencies, what are the numbers like over a hundred and twenty days delinquent, right now?

Mr. Hunt: I do not know that answer. It is coming up in Real Property Collections at tomorrow's discussion as to what their delinquencies rates. I know it has dropped because we collected on quite a bit, I believe, in the report that was given in the budget presentation was about 10.4%. I think we are down to around 5% now in delinquents now.

Mr. Hooser: 5% of a hundred million dollars or so?

Mr. Hunt: Again, I do not have the number handy. I am sorry.

Mr. Hooser: I think that would be a source of revenue if it was collectable.

Mr. Hunt: And certainly we are making strong efforts to collect. Typically what happens is the… not wanting to foreclose on anyone's property obviously we tend to allow them to accumulate and we bill on penalties and interest and typically have gone as far as 3 years before you actually have the foreclosure sale. We are down getting that to 2 years and the goal is to start doing it after 1 year.

Mr. Hooser: I know you send notices on a regular basis showing the penalty but I do not believe you send notices saying that you are late, you better pay up now…

Mr. Hunt: No, we do send those notices and actually the Attorney's get involved by a certain period. I am not sure when that is but the Attorney's start sending the liens and more forceful letters to get them to pay.

Mr. Hooser: Okay. Are we working page by page, Chair?

Mr. Rapozo: Yes.

Mr. Hooser: So, I am going to drop to the Businesses Licenses.

Mr. Rapozo: Okay, any other questions on Real Property? Licenses and Permits, any questions? I did have a question on the firecrackers, I assume that… I was told that they went over to the Fire Department. This does not look like we sell a lot of these licenses.

Mr. Shimonishi: Correct. The firecracker and fireworks revenue is actually reported in the 251 fund that is used by the Fire Department.

Mr. Rapozo: Correct.

Mr. Shimonishi: For their training and so on.

Mr. Rapozo: But what about the other business licenses that we have listed here, we do not sell many of them?

Ms. Wooton: Apparently not because we are not recording very much revenue there. Some times when we see this kind of trend where we had revenue in prior years and then all of a sudden you got a big donut or something… Ken and I start digging into it to make sure that the revenues are hitting the proper accounts because it happens sometimes when you get a new person doing the deposits…

Mr. Rapozo: Yes and they put it somewhere else?

Ms. Wooton: Right. So, we do dig in a little bit to make sure that the revenues are hitting the proper accounts. Of course sometimes we have to set up new accounts which would divert the new revenue to the new account. Similar to what Ken has mentioned about the Fire Department's fireworks and firecracker.

Mr. Rapozo: But the business licenses should be in this account.

Ms. Wooton: Yes.

Mr. Rapozo: I know I talked about the pawn broker and the secondhand dealer license, it is not on here. Is it somewhere else?

Ms. Wooton: It could be placed into one of these other types of revenue accounts. Whenever we know that we have a new revenue source of funds or if we discover that maybe a certain type of revenue is hitting another revenue account that might be improper then we go ahead and set up a new revenue account. Maybe next year you might see a new revenue account and it will not have any history account.

Mr. Rapozo: How difficult is it to get a listing of all the businesses licenses issued in the last year from… I know you buy it from where you pay your vehicle tax. Is that something that is computerized or manual? Can we check?

Ms. Wooton: Can we check? We will put it down as a question and respond back to you.

Mr. Rapozo: Yes, if we can get it by tomorrow, if not, as soon as you can. I want to make sure that it is fair, I know that you have some businesses that are paying that and it is not much. That is something we got to revisit. But for those that are not paying, I think we should definitely pursue. Who does the taxi cabs?

Ms. Wooton: The taxi cabs are done through our Drivers License Division and I noticed that there is no revenue here, so that might be… and I know there are a lot of taxi cabs driving around, as you had mentioned.

Mr. Rapozo: If I remember correctly and I think JoAnn was the only one here when we did the taxi cab ordinance and it was based on a lottery system. We had only so many licenses.

Ms. Wooton: Right.

Mr. Rapozo: I believe we have more taxi cabs than licenses right now. Again, it is not fair. So, Drivers Licenses you think might be the one?

Ms. Wooton: Yes and then we can further explore what is going on with the taxi cab, the revenue, and where is it going?

Mr. Hooser: I am just noticing on the electronically and plumbing specifically comparing 2010 to 2013 it seems like a significant drop. Is that because of business activity? On the plumbing, for example, it goes from 114,000 to 65,000.

Mr. Hunt: I think it is just declining permits coming through.

Mr. Hooser: So then the 2013 would be an estimate expecting further declines?

Ms. Wooton: Correct Councilmember Hooser.

Mr. Hooser: So, you would be surprised then if the economic activity changes?

Ms. Wooton: Correct. We hope to be more surprised.

Mr. Hooser: Thank you.

Mr. Rapozo: Any other questions for non-business licenses? If not, we will go to rents and concessions. I talked about the Vidin and Hanapēpē Stadium and you wanted to hold off for Parks on that one? Okay.

Ms. Nakamura: I have a question. On the first line item there on the rent and concessions, is that for the rental of the Kaua'i War Memorial Conventional Hall?

Ms. Wooton: Correct.

Ms. Nakamura: Okay. Do you see the usage as declining?

Ms. Wooton: That might be better answered by Parks but I know we did some renovations last year, so we did a little bit of adjustments on the revenues downward. We knew that the revenue would not be as high as anticipated primarily because of the lack of the usage. This year from my understanding it should be back up to par.

Ms. Nakamura: Thank you.

Mr. Hooser: On the Līhu'e Shopping Center, it is zeroed out from two hundred something and then now thirty-four. Can you explain that?

Ms. Wooton: That was our Big Save rental. That is where other revenue was posted for the Big Save Store rental and now the only renter we have that should be deposited there as revenue is the Workwise, the State that is right next to where Purchasing is.

Mr. Hooser: I think there was some discussion of using that space for a food center or something. There was no revenue anticipated from that in the coming year?

Mr. Hunt: Part of that is depending on the Space Utilization Plan and how fast that comes to fruition. So, when we know there will be rentable space, we will budget for it but I am not sure as to whether that plan is going to be established and enacted within Fiscal 2014. Because there maybe improvements that need to be done to this structures in order to make it rentable and there is going to be construction time and funding that will be going through in order to get that. We are only looking at as to what we know we will be getting in revenue for certain during Fiscal Year 2014.

Mr. Hooser: So we are expecting that space to remain vacant during Fiscal Year 2014?

Mr. Hunt: I think that is probably a better question for Public Works because I am not sure on the timing and the proposals that they are considering right now.

Mr. Hooser: Right but for budget purposes right now, the budget anticipates it being vacant or no rental income?

Mr. Hunt: Correct.

Mr. Hooser: Thank you.

Ms. Nakamura: On the line item "center parks" what is the source of that revenue?

Ms. Wooton: Just off the top of my head, I would say that it is like the neighborhood centers.

Ms. Nakamura: Rentals and then if they want to use the pavilion at Lydgate, it might go into there?

Ms. Wooton: Correct.

Ms. Yukimura: You have the line item "spouting horn venders" but you do not have to two million dollars in income because it is not a revenue line item, right?

Mr. Hunt: It is actually in the Special Fund, it is in 209. It is not in General Fund. At one time, it probably was which is why we are accounting for it but since the Legislation enacted it to make it a Special Revolving Fund, we moved it to 209. The income is not two million. The actual annual income is more like four hundred and forty-six, the balance on the ledger is closer to that one point nine remaining.

Mr. Rapozo: Not anymore.

Ms. Yukimura: And you said "209?"

Mr. Hunt: 209 is not there because it is not part of the Operating Budget.

Mr. Shimonishi: Just for clarification that this worksheet supports the revenues that are showing up on the ordinance – the 2 page Operating Ordinance.

Mr. Rapozo: Okay. Anymore on rents and concessions? If not, Mr. Kagawa, you had a question on interest.

Mr. Kagawa: In 2010, we collected over four million in interest earned and now we are down to six hundred fifty thousand for next year and that is because our reserve is dissipating?

Mr. Hunt: It is more of the bond issuance and the Fund Balance that is there so that the larger funds support greater interest but as you expend those bond funds down, you have less interest accumulating.

Mr. Kagawa: Okay. So, it is a combination?

Mr. Hunt: Yes. And obviously the rates have gone down a bit on your investment.

Mr. Kagawa: Next question, under "checking" when you a negative balance, it is not an interest earned, it is interest paid, right? You have a negative in 2010, 2011, 2012 – we all had negatives under the checking. What happened there? Then this year we have actually a positive twenty-five thousand.

Mr. Shimonishi: I think we put the twenty-five in just as a placeholder but we would have to go look back at what are the (inaudible) that is actually going through that so-called checking line. We know that it is not our actual revenue, it could be bank charges or something, but we will have to verify that and research that.

Mr. Kagawa: Do you know why it is a negative balance for the prior years?

Mr. Shimonishi: I guess that is the reason why we have to look back and see what is flowing through that to actually spend up a negative number on our revenue report.

Mr. Kagawa: Mahalo.

Mr. Rapozo: And you folks will have that available? How long does that take? You folks are up tomorrow, right?

Mr. Shimonishi: We can take a look at it and see what kind of transactions are going through it but I do not know if we will have the full…

Mr. Rapozo: That must not be a revenue account?

Mr. Hunt: My suspect is that it is probably bank charges, possibly insufficient fund chargers, or those types of transactional charges.

Mr. Rapozo: Okay. Anymore questions? Next item, Intergovernmental Revenues. Interest TAT and the State, why is the State Burial Fund, why did that drop? Did they change the allocation or appropriation? I believe we get paid about four hundred dollars per burial, it used to be, I do not know what it is now. The trend is typically, I would say an average of about 15, 000 to 20,000 is that something that they reduced? Did we get capped on that as well? I would not be surprised if the State capped us on that too. Can we check on that as well because it is per burial rate?

Ms. Wooton: Correct. We can check on why we estimated so low. Sitting here and looking at it off the top of my head, I am not sure.

Mr. Rapozo: Okay. I appreciate that. Charges for current service, any questions? Other revenues, any questions? What was Sundry and I think I asked this question last budget and I cannot remember what the answer was but, was it the wash soap and dryer cloths in Jay's hotel that we… I forgot what it was… Does anyone remember?

Ms. Wooton: Yes, we did research what was in the Sundry account last year and it seem to be like copies of maps and like a catch all type of scenario. It was good that we looked at it because there were something's that we saw hitting that maybe should have gone to other revenue sources.

Mr. Rapozo: In progress, I understand that this is a working document so you guys are seeing a lot of this for probably the first time at this level. Mr. Chair, we have pretty much gone through all the revenue accounts.

Chair Furfaro: First of all, thank you very much. I need to get things posted for next Council Meeting. I did not have a lot of time on that worksheet but Ken and Ann, that worksheet was very much appreciated. We are trying to understand all the revenue and you folks made it easier, thank you. I am going to let you finish up the meeting because Jade is working on something that I need to sign off on.

Ms. Nakamura: Under "Youth and Athletic Program" we are going from about \$50,000 – \$60,000 down to \$15,000 this coming FY. I was just wondering why the decrease? Oh, I see it above. You are splitting it up. Okay.

Mr. Hooser: I would imagine that there is grant income from various grants and normally a portion goes to Administrative cost and does that show up on this sheet?

Ms. Wooton: That does not appear on this particular document because those funds are not part of the Operating Budget. So, there not part of this document. Each grant award that is given to us that we have administrative costs that are eligible are actually run through that particular fund like 250 or 251 and sometimes there are credits that come back to the General Fund if it is Admin type of scenarios. It does not appear on this particular document, if I recall what your question is.

Mr. Hooser: What kind of number will we be talking? Is it a big number?

Ms. Wooton: Last year we had twenty-five million dollars in expenditures in Federal Grants, so if you look at 10% of that…

Mr. Hooser: So, it is two and a half million dollars…

Ms. Wooton: And that is just in general because not all grants allow Admin costs.

Mr. Hooser: For example, that two and a half million dollars would go… and these are just hypothetical numbers would go into the General Fund?

Ms. Wooton: It would probably be credited back to the owning Department of the grant. So, those types of entries would be made within the Department.

Mr. Hooser: It seems like the purpose of that is to pay for the Administration of the grant, right?

Ms. Wooton: Correct.

Mr. Hooser: It also seems like it kind of supplements the operation of the Department.

Ms. Wooton: Well it relieves the burden of the management of the particular grants – of the General Fund having to manage the particular grant.

Mr. Hooser: When we are going over the different Department's is there a line item for those items?

Ms. Wooton: In the Operating Budget? No. There is not. Unless there is match requirement for the particular grant then that would be imbedded into the Operating Budget.

Mr. Hooser: Okay.

Mr. Rapozo: The Operating Budget only shows the expenses, so I am not sure if you can do a run on a report, like this, for each of the accounts. Is that doable? So we can see the revenue even from grants and with the accounts is outside of the Operating Budget. Is that something that time consuming?

Ms. Wooton: If you wanted to see the revenue generated from our Special funds, that would have to be done separate because…

Mr. Rapozo: Is it tough to do?

Ms. Wooton: It is couple reports that we can run.

Mr. Rapozo: Can we get that too – just on the Special Funds.

Ms. Wooton: If you have more questions surrounding Federal grants, the OMB A133 single audit is part of our financial audit every year, that is done, and that provides with a pretty comprehensive list of expenditures that we had in that fiscal year.

Ms. Yukimura: Ann did you say twenty-five million a year is what we… well we do not spend it…

Ms. Wooton: We spend.

Ms. Yukimura: We spend twenty-five million a year in grant money?

Ms. Wooton: In Federal Grant money.

Ms. Yukimura: Which is the bulk of our grants?

Ms. Wooton: Yes.

Ms. Yukimura: Or are there other grants?

Ms. Wooton: We have other types of grants. We have donations, State grants, private foundations provide us with grants as well and of course when it is a new grant, they come before this body for approval.

Ms. Yukimura: Right. I concur with Councilmember Rapozo that it would be good to see that layout and you said you would be able to?

Ms. Wooton: We could run some reports but I would not say I would have something like that available for you tomorrow.

Ms. Yukimura: Sure. Thank you.

Ms. Nakamura: I need to ask you a question regarding the camping funds, with the increase of increase in camping sites at Lydgate does that impact the fees in anyway? It looks like it is going down rather than up.

Mr. Shimonishi: We can check on that and maybe have someone answer from Parks.

Ms. Nakamura: Okay.

Chair Furfaro: On the Federal grants understanding that tomorrow we are going to start with the Administrative side of Finance and Accounting but you said you would not be able to have that for us by tomorrow? Could you give us an idea of when we could expect that? If it is a week from now, it is a week from now… because it is something that we need to get closer to.

Ms. Wooton: If you give me at least a week because I definitely make sure that that document is camera ready for you to review.

Chair Furfaro: So, if we can make a note of that – next week Friday.

Ms. Wooton: Yes, Council Chair.

Mr. Kagawa: Re-registration fees – in 2010 it was forty-six thousand, 2011 it was $72,000, and 2012 it was $81,000, and this year we have $50,000. Is that Drivers Licenses registration? I know that the Drivers Licenses… I actually complained to the Councilmembers, the other year, I said "the fee really went up a lot," and you all called me so thank you for that.

Mr. Rapozo: That is not exactly what you said either.

Mr. Kagawa: Oh! It was because I did not have enough cash that day and did not have enough to pay and I was kind of surprised that it went up. The explanation was great. It was because we did not raise it for 10 years and when you look at it that way, of course it is going to be a big jump. Why has it gone down though? It is not like we have fewer drivers, we have more drivers. Do you know why their budget is down? Is it because we made the licenses good for a longer period? Maybe… so that might be the answer. I know we had it every 4 years or something and now it is every 8 years? Actually, it might not be that bid of increase because you are getting double the length. Okay… Well if that is the reason, I am satisfied with the answer. Thank you.

Ms. Yukimura: Where are your Convention Hall fees? When was it when we last raised the fees there, do we know? I guess that is a question for Parks? Okay. Staff, you help us remember that question for Parks Convention Hall fees. Why do we not allow credit cards for payment of licenses fees and other fees and I do not know if that is appropriate for discussion now or tomorrow but I just do not want the opportunity to past.

Mr. Hunt: There is a cost because the financial institution that allows you to use your processing charges a fee and that can range depending on the number of transactions and the amount of the transactions in anywhere from 2% up to 4% per transactions. That is a cost that either have to be absorb or added on as a convenience and I think that has been some of the challenges. I know when Real Property Collections had started using that and people were starting to pay their property taxes frequently using the credit card because they wanted miles and other things like that, there was a substantial reduction in the net revenue that the County receives from those property taxes because they have to pay that corresponding transactional cost.

Ms. Yukimura: Are there new ways of processing credit cards that do not carry those kinds of fees?

Mr. Hunt: Not that I am aware of. I know it is competitive on rates, so you can shop rates but I do not know of anyone that processes with no fee.

Ms. Yukimura: I know that Ernie was mentioning that we were carrying over the charges of up to $250,000 at one point.

Mr. Hunt: The would seem fitting with the Real Property Taxes when you pay even if the third of the property taxes say $25,000,000 we are being paid with the credit card and you figure 2% of that amount, it is a pretty substantial amount.

Ms. Yukimura: People use ipads and iphones now to charge credit cards, those all carry fees like that?

Mr. Hunt: Absolutely. That is the purpose of having that is for the financial institution to make their revenue. That is their juice for using that convenient service.

Ms. Yukimura: So, we could offer credit cards but they would be with this additional fee to the payer?

Mr. Hunt: There are 2 ways to do it. It is either you pass that along as a convenience fee which is added to the bill or you have that absorbed by the County which means less revenue for that convenience.

Ms. Yukimura: As far as the Golf Course, I have no problem charging it to the payer, right for that convenience? I do not think it will stop people from using that method of paying. I think there is a little bit more concern about… I saw a young mother in line, she said "I came yesterday and they did not except credit cards, so I am back in line again now with my check book." She said that it helps her to pay with a credit card because then she had the cash flow ability because they are on tight budgets. I do not know if they would pay the extra charge but people should have the choice as long as it is full disclosure that there is an additional charge.

Mr. Hunt: I am not an Attorney and do not pretend to be one but I know in some of the gas stations where they were offering lower for cash. They started to run into some legal issues as… you cannot charge more just because I choose to use a different source of payment. Those may have been resolved but I know it had been an issue in the past where you cannot have 2 sets of structures with the same product just depending on how they choose to pay for it. Again, for most businesses, grocery stores, they do not add on that fee, they absorb that fee. It is a convenience, it is built into their budgeting, and it may generate more traffic and revenue. It is an economic decision that the businesses make but it is something that you have to consider, I guess, when you set your fee structure. One, can you do it? Is it constitutional? And two, do you have to address all your fee structures within the County to those places that are going to be using that type of transaction.

Ms. Yukimura: Well, it is done all the time though, you can pay by credit card, and you do not have to pay by credit card… you can go credit card, check, or cash. So, why would we not offer people that choice and if they choose the credit card choice, they pay an extra amount.

Mr. Hunt: If that was the decision of the body then I think we should be looking at developing a reserve account to budget for the amount of fees it would be associated with those transactions.

Ms. Yukimura: Wait. Are you assuming that we are going to be paying for it? I am talking about them paying.

Mr. Hunt: Like I am saying in most instances whether you pay check, debit card, credit card, all of those fees that are associated with processing the debit and credit cards are absorbed by the vendor.

Mr. Rapozo: Let us end it there because it is a great discussion and I will tell you that KIUC, City Mortgage, Nissan Motor Financing allow you to pay your bill on-line with a credit card and they charge you a fee. That is your choice. I do not think it is illegal to do that. I do not think it is illegal to charge more if you want to use a credit card that is an Administrative decision. The choice is, what we absorb the cost which I think is a lot if you start taking credit cards for all the fees and licenses and real property or you set a percentage or fee to offset that. I think that is the right way to go. It you just offset it with a fee – a convenience fee. I do not think it is illegal. In fact, I use it all the time. It sucks because if you are close to your due date of your bill, you got to pay it on-line and they charge you, in fact, City Mortgage is $15. Of course, it is a mortgage payment…

Mr. Hooser: The State of Hawai‘i accepts credit card payments for your General Excise Tax payments on-line and charges a fee. So, it is done frequently and I agree that it would be a service not just to accept credit cards but doing it on-line as well. My question is and it is probably here and I know we are going to talk about Parks and the Golf Course. The revenue for the Golf Course, there must be a line item somewhere in this, what page is that on?

Ms. Wooton: Golf is in 503 Fund.

Mr. Hunt: Page 5 starting about the middle.

Mr. Hooser: Okay. Is the 2014 estimate based on having a pro-shop now, or not? We do not have a pro-shop now, right?

Chair Furfaro: We will be having that discussion in Parks. That is a good question but I think we need to have the Parks people to answer that. Mr. Hooser brings up a legitimate question, for the last 90 days of this year, are you making any adjustments because we do not have one. Forget about the budget for next year. What are we doing about the rest of this year? Are you taking that into consideration and I think that is a legitimate question that Mr. Hooser asked.

Mr. Hunt: The answer to that is no. It has not been factored in. As you know, you are well aware that there is a money bill before you to bring to Golf fund at around $51,000 but that does not consider the loss of this revenue for the remainder of this period.

Chair Furfaro: So, it is going to be $51,000 plus, plus, plus?

Mr. Hooser: And also it looks like you are expecting food and beverage to be operating July 1?

Mr. Shimonishi: I think just for clarity the actual departments like Golf and Housing and they actually populated the projections based on their assumptions, rounds or what have you. It may be that they provided these projections prior to the actual Lessee vacating the premise. I do not think they would have counted in the revenue, so I think those questions should be directed at Parks.

Mr. Hooser: Got it.

Ms. Nakamura: At some point, I think it would be good to look at what is that cost? Where would it be best applied to the County? This is also about ease of doing business with County, being user friendly, being able to do things expeditiously, and if you do it on-line maybe that is less bodies you need in the Office processing information. There might be other ways to look at savings and providing a better service. I am not sure what that would involve in looking at what those costs are.

Mr. Hunt: You would need to identify those fees that you would want to have that convenience for and making sure that we are getting competitive bids as to what the cost would be so that we are not addressing items that are so small that the transactional costs may not warrant.

Ms. Nakamura: So maybe a mini study to layout how you might approach it and then come back to us after the budget is over, and then we can have that conversation about how to approach this.

Mr. Rapozo: I think it is about 2%. You can probably get it lowered depending on the volume, the amount of transactions but in some cases you have to pay per transaction as well. So, it can get pretty costly but it would definitely keep cars off the road because they can pay their stuff from home.

Ms. Yukimura: Yes.

Mr. Rapozo: And I was serious about that too. I was not trying to be funny.

Ms. Yukimura: You are absolutely correct on that. I think Council Vice Chair's point is really well taken. We could save money as well in the processing part. Especially when you are at that window which is for vehicle registration, and weight taxes and so forth, I mean the lines are so long now too. So, if people could pay at home or at least they do not need to come back twice like this poor woman did, you would be reducing the line. Steve, you should do a pilot project and study the cost from there.

Mr. Hunt: Brandon Raines is doing an on-line survey to assess within the community what on-line services, our consumers, our tax base, would want to have. Based on the results of those we are looking at implementing some of these initiatives and that certainly could ducktail in if people are asking to have these services on-line, to pay on-line. We will get some feedback and identify those that are the most popular, the most requested to have on-line services.

Ms. Yukimura: But they could do it either on-line or in person right, too?

Mr. Hunt: Oh, yes. We are just identifying those that, as far as enhancing our capabilities for technology, what people would want to see on-line as well.

Ms. Yukimura: Thank you.

Mr. Rapozo: Anyone else? If not, thank you very much. I am sure we will see you tomorrow morning.

Chair Furfaro: I just want to make sure that I summarize what we agreed to. Although today was for revenue, we are going to wait till we here from the Parks Department in their Operational revenue. We wanted to hear from them the question asked by Councilmember Yukimura, we want some discussion about Convention fees, we want to also understand status of selecting securing a pro-shop operator, we want to get an update on the restaurant operation which is reflecting currently right now a July 1 operation. Steve, we also want to know that with the money bill coming up what additional exposure do we have on the net adjustments for the balance of the year considering a pro-shop is vacated. We reserve those questions for the Parks Department and Ernie, we want to make sure that they are prepared. The whole idea of this day being for revenue was to be able to get into those discussions across the board but we will hold this to the Parks review. Steve, how will we initiate… are we talking post budget some meaningful discussion about credit cards options for the County to expedite service to the community. Do you see that as a future discussion?

Mr. Hunt: Yes, I see that as a post budget discussion.

Chair Furfaro: Okay.

Ms. Yukimura: One more thought on that. Is there any other County that is allowing for payment by credit card? It would be good to research that because if they are already doing it, they may have invented the wheel.

Chair Furfaro: Any closing comments from other Councilmembers? If not, we are going to be in recess until tomorrow at 9:00 a.m.

There being no objections, the Council recessed at 3:47 p.m.