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KAUA'I COUNTY COUNCIL
BUDGET MESSAGE FOR THE FISCAL YEAR 2014-2015

I. Introduction

The Kaua'i County Council's \$179 million Operating Budget and \$32 million Capital Improvements Projects (CIP) Budget for the Fiscal Year 2014-2015 (FY 14-15) represents a fundamental shift in the way government intends to do business going forward. Hours of discussion, deliberation, compromise, and extensive debate resulted in a budget that is balanced, fair, and in the best interest of the County of Kaua'i and its residents.

This year's budget session reflected a desire for new beginnings. It has been referred to as a "reset" year, where improvement in management and new ways to do business were encouraged in all areas of County government. In the upcoming year, the Council requests that the Administration identify how the County will grow its Reserve Fund and become a sustainable and thriving jurisdiction in the future.

As reported by the State of Hawai'i Department of Business, Economic Development and Tourism (DBEDT), the State is expected to continue its positive growth for the rest of 2014 and into 2015. However, Kaua'i's economy continues to remain a concern, due to Kaua'i's large dependence on the visitor industry as its primary economic sector. In the first quarter of 2014, visitor arrivals to Kaua'i decreased by 4.1%, which resulted in lowered overall visitor spending. Visitor expenditures on Kaua'i dropped 4.3% to \$119.6 million in March 2014.

Despite the decrease in visitor arrivals, the State's collection of the Transient Accommodations Tax (TAT) continues to increase. This growth prompted County officials throughout the State to lobby for additional TAT funds for the neighbor islands during this year's legislative session. Efforts to remove the cap that was implemented by the State in 2011 on the County's share of the TAT were unsuccessful; however Kaua'i received an additional \$1.485 million in TAT or a total of \$14.9 million in 2014. Visitor related expenses conservatively account for a

portion of the County's budget, this would involve visitor impacts on roads, upkeep of County facilities and parks, and public safety. These costs warrant an increase in the County's share of the TAT and the Council is committed to lobbying for a lift of the cap in coming years.

In addition to the TAT, the County's bond rating was of great concern to the Council. The health of the County's budget depends on its ability to borrow and float municipal bonds to secure funding for Capital Improvement Projects. In early May 2014, the County received a downgrade in its bond rating to AA- from Fitch Ratings, compared to its previous rating of AA. Reasons cited for the downgrade by Fitch Ratings include the County's reduced financial flexibility following a substantial reduction in reserves over the past several years, failure to respond to operating deficits with property tax rate increases, increase in General Fund expenditures and a narrow economic base that is highly dependent upon tourism.

Mindful of the County's budgetary constraints, the Council worked diligently to find ways to serve the health and safety needs of the community without reducing funding vital to building economic diversity. Projects for agriculture and arts and culture economic clusters were funded to ensure that these areas receive the attention they deserve.

While the Mayor's proposed budget included many cost efficient measures, accompanied with various revenue enhancements, the Council felt that more savings could be accomplished through additional efforts. This resulted in various reductions in electricity, overtime, Health Fund contributions, and travel expenses, to deliver a more fiscally responsible budget.

II. Operating Budget

Real Property Taxes

The Council adopted the tax rates for County of Kaua'i for FY 2014-2015 as follows:

CLASSIFICATION	TAX RATE
Homestead	\$3.05
Residential	\$6.05
Vacation Rental	\$8.85
Hotel & Resort	\$10.85
Commercial	\$8.10
Industrial	\$8.10
Agricultural	\$6.75
Conservation	\$6.75

Real Property Tax collection will provide an estimated to \$107 million in revenues to the County for FY 2014-2015.

In setting the tax rates, the Council tried to ensure fair contribution from the various tax classes to sustain the County budget without causing financial hardship. Except for the Homestead, Agricultural, and Conservation tax classes, all other tax classes will receive modest tax rate increases in FY 2014-2015.

The Hotel & Resort and Vacation Rental class received the largest increases, with the Hotel & Resort class increasing from \$9.00 to \$10.85 per \$1,000 net assessed valuation and Vacation Rentals increasing from \$8.00 to \$8.85 per \$1,000 net assessed valuation, which is a reduction compared to the rate increase proposed by Mayor Carvalho in his March 2014 submittal for Hotels and Resorts. The Residential tax rate increased \$0.30, from \$5.75 to \$6.05 per \$1,000 net assessed valuation, while the Commercial, and industrial tax classes received an increase of \$0.10, from \$8.00 to \$8.10 per net assessed valuation. Increasing these tax classes were necessary to ensure financial stability of the County going forward.

Revenue Enhancement Measures

Fiscal Year 2013-2014 was an especially difficult financial year for the County of Kaua'i. Significant increases in collective bargaining agreements resulted in a smaller Unassigned Fund Balance to be utilized for FY 2014-2015. Measures to provide additional revenues were necessary to balance the growing needs of the County; there was also an effort to focus on user fees so that those who received benefits would pay for them, rather than be to sole responsibility of real property taxpayers.

Parallel to the budget process, the following measures were considered by the Council to provide additional revenue to the County:

Proposed Draft Bill (No. 2540) (Transient Vacation Rental Renewal Fees)

The Council supports the proposal by the Administration to increase the Transient Vacation Rental (TVR) renewal fee from \$500 to \$750, which is estimated to generate an additional \$100,000 annually, and offset approximately ninety percent (90%) of the TVR program cost. This Bill is currently with the Planning Commission and the Council awaits its submittal back to the Council.

Bill No. 2541 (Public Access, Open Space, Natural Resources Preservation Fund)

Bill No. 2541 proposed to amend the percentage of real property tax revenue that is appropriated to the Public Access, Open Space, Natural Resources Preservation Fund (Public Access Fund) by establishing a floor of one-half percent (0.5%) and a ceiling of one and one-half percent (1.5%) of the annual certified real property tax revenues.

In the Mayor's March 14, 2014 Budget submittal, the Administration proposed lowering in FY 2014-2015, the contribution of real property tax revenue to the Public Access Fund. Councilmembers expressed strong concerns about this proposal as acquisition and protection of open space and public access are vital to maintaining Kaua'i's rural nature and providing access to natural resources. On May 14, 2014, Bill No. 2541 was received for the record on second and final reading by the majority of the Council, reaffirming the Council's commitment to the acquisition of open space and public access, and restoring \$1,610,427 to the Public Access Fund for FY 2014-2015.

Bill No. 2542 (Solid Waste Tipping Fees)

Bill No. 2542 was also adopted by the Council on May 14, 2014, which increased commercial solid waste tipping fees from \$90 per ton to \$119. This increase will generate approximately \$1 million in additional revenue to offset the deficit in the Solid Waste Disposal Fund in FY 2014-2015. The Council urged the Administration to continue its effort to increase the County's diversion rates in accordance with the Integrated Solid Waste Management Plan.

Bill No. 2543 (Motor Vehicle Weight Tax)

The Council adopted Bill No. 2543 on May 14, 2014, which proposed to increase the Motor Vehicle Weight Tax from one and one-fourth cents ($1\frac{1}{4}\text{¢}$) to two cents (2¢) for passenger vehicles and from two and one-half cents ($2\frac{1}{2}\text{¢}$) to three cents (3¢). Pursuant to Section 249-13 of the Hawai'i Revised Statutes, the increase in the Motor Vehicle Weight Tax will take effect on January 1, 2015. This tax increase will generate approximately \$1.1 million to the Highway Fund in FY 2014-2015, and will reduce the General Fund subsidy to the Highway Fund.

Several concerns were addressed in consideration of Bill No. 2542. Councilmembers supported this measure to address the need for maintenance and resurfacing of County roads, as well as future improvements for public transportation. Some Councilmembers were concerned about a direct financial impact to road users and the hardship it would cause in an economy that continues to struggle. However, it was acknowledged that users of the road would pay in one way or the other – either through repairs to their vehicles or through road repairs.

Reducing Overtime

Improving efficiency in all County Departments was a continuous topic of discussion in this year's budget session. The Council encouraged all departments to strive for improved service without incurring unnecessary costs. Moving forward, the Council would like to see departments continue to restructure and tighten its respective overtime budgets for use only when absolutely necessary. A five percent (5%) reduction in overtime for all departments resulted in a net savings of \$54,157 across all funds. Because overtime is a mandatory requirement in collective bargaining agreements, the Kaua'i Police Department and Kaua'i Fire Department received a 5% reduction only in discretionary overtime, which is commonly used for special event management and youth education programs.

Health Fund Contribution Reduction

The Council reduced funding to the County's "Health Fund Contribution" across all funds (with the exception of the Liquor Fund and miscellaneous Housing Funds) by five percent (5%) or \$312,409. As this funding is utilized to support health care premiums for current employees, the majority of the Council felt that a 5% reduction is a conservative effort to find savings based on actual expenditures in the previous year, and the Administration could transfer funds within its accounts should additional funding be needed in the upcoming FY 2014-2015.

Other Post Employment Benefits Reduction

This year, the Council was required to take a hard look at areas where potential savings could be realized to replenish the Reserve Fund. The County has traditionally been very conservative in fully funding "Other Post Employment Benefits" (OPEB), which are benefits an employee receives at the start of retirement. As the County continues to move progressively in tighter budgeting efforts based on "actual expenditures," OPEB has been an area of much analysis by the Council.

Although not preferred, short-funding OPEB by ten percent (10%) or \$1.485 million was necessary to increase fund balances and replenish the Reserve Fund. It was a difficult decision to reduce OPEB funding, which will need to be paid back in future years, yet the majority of the Council felt it was necessary in order to achieve a balanced budget.

The Council acknowledges the Administration's efforts to fully fund OPEB requirements and hopes that with tighter budgeting efforts this coming year, the County will be in a more fiscally sustainable situation, and fully fund its OPEB liabilities next year.

Reduction in Travel

The Council identified all areas where nonessential expenditures could be reduced in FY 2014-2015, including travel budgets. Travel budgets have grown in many Departments in recent years. In an effort to be prudent and hold all departments accountable for their travel expenditures, the Council reduced funding for travel-related costs in the amount of \$113,004. The Council hopes that this reduction will motivate departments to utilize technological advances – webinars, teleconferences, etc. – to achieve similar results and involve more staff participation than traveling to a meeting or conference. As a bonus, more staff participation would result through the use of such technology. Departments affected by the reduction include the Office of the County Attorney, Office of the Prosecuting Attorney, Department of Finance, Kaua'i Police Department, Kaua'i Fire Department, Civil Defense Agency, Office of the County Auditor, Department of Public Works, and Department of Parks & Recreation.

Energy Savings

The Council wholeheartedly supported reducing funding for electricity in the amount \$88,898 across all funds, which represents a two percent (2%) reduction of kilowatt hour usage by the County. High energy costs continue to be an area of concern for the Council, and the Council encouraged the Administration to continually seek reductions in kilowatt use.

Office of the County Attorney

The Council expressed deep concerns about the significant cost of Special Counsel representation. The Council supported dollar funding (\$1) one Deputy County Attorney position for the proposed litigation team in the Office of the County Attorney. Should the County Attorney realize savings in Special Counsel costs due to in-house litigation efforts; the County Attorney may use his discretion to utilize those savings to fully fund the Deputy County Attorney position. Members of the Council stated that they would like to see greater accountability

from the Office of the County Attorney in managing its Special Counsel contracts and would be willing to reconsider funding for this position next year.

Office of Economic Development

The Council sought to identify up-and-coming sectors that would create economic diversification and new opportunities for Kaua'i residents. The Council expressed their desire to see grant funding under the Office of Economic Development (OED) be used as seed money for new initiatives, rather than to subsidize recurring projects year after year. In light of this, the Council removed funding in the amount of \$50,000 that was earmarked to promote The Kaua'i Marathon in the Kaua'i Visitors Bureau Consumer Promotion Grant.

Some of the projects supported by the Council for FY 2014-2015 are as follows:

Comprehensive Economic Development Strategies - Creative Technology Center

A state-of-the-art Creative Technology Center on Kaua'i that could be utilized by film production crews on-island, as well as provide educational and workforce development training for students from elementary school age to college, is a high priority of the Council. The Comprehensive Economic Development Strategies (CEDS) Creative Technology Center project continues to move forward and as such, the Council supported funding in the amount of \$150,000. The Council hopes a creative technology center will revitalize interest in Kaua'i by the film industry and incentivize new film production on Kaua'i. Furthermore, the Council hopes that the State Legislature will recognize the economic benefit of a Creative Technology Center and consider providing Grant-In-Aid Funding in future years.

CEDS – Arts & Culture (Kaua'i Economic Development Board)

The Hanapēpē Town Art Night and Kapa'a Town Art Night events have revitalized the arts and culture economic sector of Kaua'i. This growing niche of the economy highlights local artists and features fresh Kaua'i grown/raised/produced cuisine, and has become a large attraction for Kaua'i visitors and residents. The Council provided funding in the amount of \$44,000 for a consultant to work with the arts & culture community to conduct a feasibility analysis of an arts center that would include studios, retail, and education, as well as other possibilities for developing arts as one of multiple legs of a diversified economy.

Agricultural Production/Food Sustainability Support

Over the last year, it's become evident that there are many issues surrounding agriculture on Kaua'i. A recent newspaper article showed that the number of farms on Kaua'i has decreased from 748 to 591, and agricultural acreage has declined by 100,000 acres. Farmers and ranchers have shared their struggles with the Council, from finding long term land leases, lack of processing facilities, transportation costs and market demand.

In order to support Kaua'i's farmers and encourage new farming initiatives, the Council appropriated \$20,000 for a project titled "Agricultural Production/Food Sustainability Support." This funding would allow OED to hire a consultant to convene the farming community, government officials, as well as neighbor island experts to open dialogue and understand the farmer's needs as the County continues to develop an Islandwide Agricultural Park System.

Agriculture Grants

The Council unanimously approved \$23,925 for an agricultural grant in OED, which would provide funding for a workshop to train 40 farmers in the techniques of Korean natural farming and farm training. Although the project title is broad, the Council hopes that the Administration will support the Council's request to hold this workshop and maintain the intent of Council's appropriation.

Bee Pollen Testing Grant

On May 14, 2014, the Council unanimously approved Resolution No. 2014-32, which requested the establishment of annual grants for non-profit organization to enable registered beekeepers to test their bee pollen and hives for pesticides and other potential threats. The Spring 2014 issue of Ka 'Elele, the published Journal of Bernice Pauahi Bishop Museum, discussed the history of bees and potential threats to Hawai'i's bee population, especially caused by Colony Collapse Disorder (CCD) and the Varroa mite.

To support this Resolution, the Council appropriated \$12,000 for OED to select an eligible non-profit organization to distribute funding to beekeepers registered with the Apiary Program's Hawai'i Beekeeper Registry to test bee pollen. Through this effort to provide funding to test bees for pesticides and other threats, the Council is optimistic that it will help Kaua'i's bees remain healthy pollinators and prevent the spread of bee pests between our islands.

Department of Parks & Recreation

Spouting Horn Concession & Wailua Golf Course

Restructuring and “getting back to business” was a constant theme of this year’s annual budget process. Finding areas where funding can be reduced was just as important as finding areas where revenues can be increased. Due to the County’s financial situation, the Council made the difficult decision to increase Real Property Taxes in nearly all tax classes and fees for services to make up for shortfalls in revenue.

Going forward, the Council would like the Administration to restructure its management practices and find new innovative ways to do business. The Departments are encouraged to become more entrepreneurial and set goals to increase revenue.

Given this, the Council proposed that the Administration increase revenues in the County’s Enterprise Funds. In order to do so, the Council set a goal for the Administration to raise an additional \$30,000 by filling the vacant Spouting Horn Concession Booth and \$80,000 at Wailua Golf Course in the Golf Fund to motivate management to create tangible revenue forecasting goals and objectives.

Funding for Repair & Maintenance

The Council removed funding in the amount of \$100,000 in the Department of Parks & Recreation Maintenance Division and Recreation Division for miscellaneous repair and maintenance projects and equipment. The majority of the Council wanted to see the Director of Parks & Recreation utilize the Parks Maintenance Improvement Fund, known as the “209 Fund”, for completing repair and maintenance items and equipment purchases, as opposed to utilizing General Fund revenue.

III. Capital Improvements Projects (CIP) Budget

CIP – Bond Fund

Islandwide Skate Park

During the FY 2014-2015 Budget presentations, the Council was informed that Kapa‘a Skate Park is in need of upgrades. There has also been a longstanding desire from the community to build small regional skate parks throughout the island. The Council appropriated \$40,000 in the CIP-Bond Fund for “Islandwide Skate Parks,” to be used appropriately by the Administration. A suggestion was made that if any of the money is applied to developing smaller regional parks, that a best practice standard design be developed for tailored application in all the regions. The Council wishes to

receive a briefing on the Administration's plan for the utilization of funding. In order to provide funding for Islandwide Skate Parks, the Council removed a portion of the funding for "Comfort Station Improvements" in the CIP-Bond Fund which was inadvertently included as duplicate funding in the budget.

Construction Signage for Large Government Projects

Currently, the County does not post signage for large construction projects, which is intended to inform the public of the purpose of the project. The Council felt that taxpayers deserve to be informed about the project as noise, dust or other issues may affect their quality of life. Thus, the Council unanimously approved a new provision in the CIP Budget which requires County projects of \$250,000 or more to post construction signage indicating the name of the project, estimated cost, project description, estimated start and completion date, contractor name, and contractor contact information, at the project site for public information purposes.

IV. Conclusion

From the onset of the FY 14-15 budget deliberations, the Council sought to be prudent and fiscally responsible in its review of budgetary requests by finding and reducing nonessential funding wherever possible.

Nearly four weeks of budget hearings, call-back meetings, public hearings, and two days of preliminary decision-making sessions allowed for the Council to ask the tough questions of the Administration to determine where funding is essentially needed. This budget session was challenging, yet crucial for strengthening the Council's fiduciary duty and the Council is grateful for the Administration's cooperation, especially the partnership of its budget team.

The Council extends its appreciation to the Mayor, Department Heads, and County employees for their participation and assistance in this budget session, and for their continued commitment to provide the highest level of public service.

In addition, the Council would like to acknowledge Hawai'i's Congressional Delegation and Kaua'i's State Legislators for their support, and especially their support of \$600,000 for bus shelters and the TAT granted by the State Legislature.