

COUNTY COUNCIL

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KAUA'I COUNTY COUNCIL
BUDGET MESSAGE FOR THE FISCAL YEAR 2015-2016

I. Introduction

The Kaua'i County Council's one hundred eighty-two million dollar (\$182,000,000) Operating Budget and twenty-eight million dollar (\$28,000,000) Capital Improvement Projects (CIP) Budget for the Fiscal Year 2015-2016 (FY 2015-2016) represents hours of discussion, deliberation, compromise, and extensive debate, which resulted in a budget that is balanced, fair, and in the best interest of the County of Kaua'i and its residents.

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 2015 and into 2016. The County Economic Conditions report for the first quarter of 2015 reported that visitor arrivals to Kaua'i have increased by seven percent (7%) compared to the previous year, resulting in an eight point one percent (8.1%) increase in visitor spending. The County's unemployment rate has decreased from five point three percent (5.3%) to four point eight percent (4.8%) (a half percent (0.5%) reduction), although Kaua'i has also experienced a decrease in private and public sector wage and salary jobs as compared to the previous year. Lastly, the total private building permit growth rate and values were positive in the first quarter of 2015 with an increase of three million two hundred thousand dollars (\$3,200,000) or twenty point nine percent (20.9%) from the same quarter of the previous year. To continue promoting economic growth and maintaining the expected level of service in our County, the Council and Administration have worked collaboratively with each other to deliver a balanced and sustainable budget. However, as the demand for government services increase and as we plan for impending collective bargaining increases, the County may be tasked with exploring alternative revenue sources.

During this past Legislative Session, the State Legislature passed House Bill 134, HD 1, SD 2, CD 1, which extended the sunset date for the City and County of Honolulu's county surcharge on State tax for its rail project and reinstated the neighbor island counties' option to implement a county surcharge through the adoption of an ordinance by July 1, 2016. Through this legislation, the County will have the ability to establish a surcharge on state general excise tax that may be levied no sooner than January 1, 2018 or after December 31, 2027. This

potential for additional revenue to the County could assist in future operating or capital costs for public transportation systems, including public roadways or highways, public buses, trains, ferries, pedestrian paths or sidewalks, or bicycle paths, and expenses in complying with the Americans with Disabilities Act of 1990.

Furthermore, preservation of the Unassigned Fund Balance in the various funds was a key priority of the Council as they entered into the budget session. In its mission to preserve the Unassigned Fund Balance, the Council was able to contribute three hundred fourteen thousand eighty-five dollars (\$314,085) to the General Fund, Unassigned Fund Balance and twenty-two thousand dollars (\$22,000) to the Highway Fund, Unassigned Fund Balance through various operational cuts and position funding reductions, decreasing the amount of Unassigned Fund Balance used to balance each Fund. The Council is presenting a balanced budget which continues to draw far less from the Unassigned Fund Balance than in previous years. This effort will enable the County to build its Unassigned Fund Balance as it plans for future initiatives, leaving money available for future collective bargaining agreements, and works towards securing a strong bond rating in the years to come.

II. Operating Budget

Real Property Taxes

The Council adopted the tax rates for the County of Kaua'i for FY 2015-2016 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
Residential Investor	\$7.05
Commercialized Home Use	\$5.05

Real Property Tax collections will provide an estimated one hundred twelve million seven hundred thousand dollars (\$112,700,000) in revenues to the County for FY 2015-2016.

The Council continued current real property tax relief programs, such as the Home Preservation Limit Differential and Very Low Income Tax Credit. These real property tax measures will provide approximately fifty-one thousand three hundred ten dollars (\$51,310) and eighty-three thousand three hundred fifty-three dollars (\$83,353) in real property tax relief for property owners in FY 2015-2016.

Revenue Enhancement Measures

Ordinance No. 986, relating to the Public Access, Open Space, Natural Resources Preservation Fund was approved on May 6, 2015. The majority of the Council supported Mayor Carvalho's proposal to return to the percentage of certified real property tax revenue that was established pursuant to the Kaua'i County Charter (0.5%). Funding will continue to be dedicated and appropriated to the Public Access, Open Space, Natural Resources Preservation Fund. By approving this measure, the County will be able to build its Unassigned Fund Balance to an amount closer to the standard established by the Government Finance Officers Association (GFOA) of approximately two (2) months of General Fund expenditures, encumbrances, and transfers out, which is essential to maintaining a favorable bond rating for the County and to support a new bond float. Supporting the acquisition of open space continues to be a priority for the Council and the Fund will continue to grow with a contribution of more than five hundred thousand dollars (\$500,000) this year, bringing the total fund amount to over five million dollars (\$5,000,000) for future acquisitions.

Another revenue enhancement measure that was introduced by request of the Administration proposed to increase the motor vehicle weight tax for passenger and freight vehicles. However, the majority of the Council did not support Proposed Draft Bill No. 2586, and instead received the Proposed Draft Bill on first reading. The Council had already increased the Motor Vehicle Weight Tax from one and one quarter cents (1¼¢) to two cents (2¢) in 2014, and urged the Administration to look into other long-term measures for revenue, such as real property tax reform, before increasing the motor vehicle weight tax and other services or fees to generate revenue.

Vacant Positions

The number of positions in the County that have been vacant for six (6) months or longer has continued to be a concern for the Council. Through careful review and discussion of current vacant positions and their hiring status, it was determined that most positions that have been vacant for a certain period of time would likely not be recruited or filled by the start of FY 2015-2016.

Therefore, the Council proposed to reduce funding for salaries and associated benefits for the following Departments:

- Office of the County Auditor – Audit Manager, \$36,076
- Department of Finance, Real Property Assessment – GIS Analyst, \$16,600
- Department of Human Resources – HR Specialist I, \$17,526
- Department of Planning – Planner VII, \$11,301
- Department of Public Works, Building Inspection Division – Code Enforcement Officer, \$23,579
- Department of Parks & Recreation, Maintenance Division – Tree Trimmer Helper, \$5,290
- Department of Parks & Recreation – Aerial Truck Operator, \$5,882
- Department of Public Works, Auto Maintenance Division – Construction Equipment Mechanic II, \$22,000

In addition to reducing funding for these positions, the Council eliminated Position No. 2501, Emergency Management Administrative Officer in the Civil Defense Agency and dollar-funded Position No. 0142, Plumber in the Department of Public Works, Building Repair & Maintenance Division.

These actions by the Council resulted in a savings in salaries and associated benefits of one hundred ninety-six thousand eight hundred fifty-seven dollars (\$196,857) in the General Fund and twenty-two thousand dollars (\$22,000) in the Highway Fund.

Office of the Mayor

Funding for Nonprofit Organizations

The Council continues to support organizations in the community that provide services to the residents of Kaua'i and has a direct impact to the taxpayers. The Council increased support for the American Red Cross, which assists the County during times of natural disasters and other crises, by providing services to the community beyond the scope of what County resources can provide.

Deep concern was expressed by the Council regarding organizations who receive County funding year-after-year. The Administration was urged to more intensely evaluate the selection process utilized to fund these organizations. The biannual community indicators report prepared by the Kaua'i Planning and Action Alliance (KPAA) has received funding for a number of years. The Council removed funding for this report in the amount of thirty thousand dollars (\$30,000) as the State Legislature appropriated one hundred twenty-three thousand dollars (\$123,000) in State Grant-In-Aid funds to KPAA this year. It is the hope of the Council that these Grant-In-Aid funds are released by Governor Ige to help support KPAA in its mission. The Council also encouraged the Administration to evaluate whether reports such as the community indicators report can be completed in-house or through the work of a consultant that is selected in the future through a competitive procurement process, as opposed to the County granting funds to a nonprofit organization.

Life's Choices Kaua'i Programs

The Life's Choices Kaua'i Office liaisons with a number of organizations in the community that provides positive benefits and services for residents, such as a life skills clinic or sports clinic to benefit Kaua'i's youth. Recognizing the value of the work done by the Life's Choices Kaua'i Office, the Council supported providing funding in the amount of thirty thousand dollars (\$30,000) to continue providing vital services and resources for our residents in need of support, and to promote a safer, drug-free Kaua'i.

Office of Economic Development

The Council removed funding in the amount of fifty thousand dollars (\$50,000) for the Comprehensive Economic Development Strategies, Keiki to Career program, which has been administered through a grant to the Kaua'i

Planning and Action Alliance (KPAA). As previously mentioned, the purpose for removing funding is due to KPAA's recent successful effort to secure State Grant-In-Aid funding. The Council supports the intent of the Keiki to Career program and feels it is a valuable program for the community; however, this program is more closely aligned with the jurisdictional responsibilities of the State. The Council also encouraged the Administration to diversify its distribution of grant funding each year so that more organizations have an opportunity to benefit from County funds.

Another economic development project that was carefully considered by the Council was the Princeville to Kē'ē Shuttle. In FY 2014-2015, the Council supported funding for a pilot project to implement a shuttle service from Princeville to Kē'ē Beach Park. As the shuttle is operated by a for-profit business, several members of the Council did not feel that it was an appropriate use of County funds to provide grant moneys for the shuttle operation. It was discussed at length that a shuttle service by the County should be done through a competitive procurement process or with available resources in-house. Councilmembers also expressed their desire to see a shuttle study and operational plan developed for other areas of the island before launching such services. For these reasons, the Council removed funding for the Princeville to Kē'ē Shuttle in the amount of one hundred eighty thousand dollars (\$180,000).

In addition, the Council felt that services offered by the YWCA on Kaua'i play an important role in fulfilling the County's core mission of keeping Kaua'i's residents safe. Their services and partnership with the Office of the Prosecuting Attorney and the Kaua'i Police Department has been vital in helping victims, witnesses, and offenders. The Council increased funding for the YWCA-Family Violence Shelter in the amount of twenty thousand dollars (\$20,000) (total sixty-five thousand dollars (\$65,000)) and YWCA Sex Assault Treatment Program twenty thousand dollars (\$20,000) (total fifty thousand dollars (\$50,000)) to continue support for these essential programs.

III. Capital Improvements Projects (CIP) Budget

CIP – General Fund

The Department of Parks & Recreation's Ho'olokahi Program has allowed community groups to volunteer their labor for new County facilities, such as the new pavilion in Hanamā'ulu that was built by the Hanamā'ulu Hillsiders. The funding for these park districts are generally tied to development requirement contributions. The Council recognized the value of this Program and the limitations for Waimea residents to earn funding for their district due to limited development compared to other districts, and therefore appropriated thirty thousand dollars (\$30,000) from the General Fund to the General Fund – CIP for the Waimea District.

IV. Provisos

Section 13 of the Operating Budget provides the Mayor with the authority to transfer an unencumbered appropriation balance or portion between existing accounts within a Division or between Divisions in the same Department. Members

of the Council were concerned about the justification for these appropriations which are not required to be reported to the Council during the year unless the amount of appropriation exceeds fifteen thousand dollars (\$15,000). The Council amended Section 13 to require the Administration to submit budget appropriation transfer forms by electronic copy as they are approved and processed throughout the year, which would notify the Council of any appropriation taking place within the County.

Furthermore, the Council amended Section 19 of the Operating Budget, which is a proviso that requires the Administration to provide quarterly reports on vacancies, new hires, transfers, reallocations, or promotions. The Council expanded this Section to require more detailed information on a regular basis, which will help the Council understand the status of vacant positions before starting the budget process in the future.

V. Conclusion

From the onset of the FY 2015-2016 budget deliberations, the Council sought to be prudent and fiscally responsible in its review of the budget, and to look for opportunities to preserve or contribute to the Unassigned Fund Balance.

Nearly three (3) weeks of budget reviews, public hearings, and two (2) days of preliminary decision-making sessions afforded the Council the opportunity to ask the tough questions of the Administration. As a result of these sessions, the Council was better able to determine where funding was essentially needed and to also discuss whether current Administrative processes should be re-evaluated. With the cooperation of the Administration, the Council was able to reduce the use of the Unassigned Fund Balance and achieve a smooth and productive budget session this year.

The Council extends its appreciation to the Mayor, Department/Agency Heads, and County employees for their participation and assistance in this budget session, and for their continued commitment to providing the highest level of public service for the people of the County of Kaua'i.

In addition, the Council would like to acknowledge Hawai'i's Congressional Delegation and Kaua'i's State Legislators for their support.