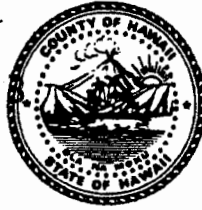


Harry Kim
Mayor

WAIHEA COUNTY COUNCIL
2006 MAR -7 AM 11:1



Dixie Kaetsu
Managing Director

Barbara Kossow
Deputy Managing Director

County of Hawaii

25 Aupuni Street, Room 215 • Hilo, Hawaii 96720
(808) 961-8211 • Fax (808) 961-6553

March 1, 2006

Stacy Higa, Chairman and
Members of the Hawai'i County Council
Hawai'i County Council
25 Aupuni Street
Hilo, HI 96720

Dear Chairman Higa and Council Members:

As required by the Hawaii County Charter, submitted with this message is the proposed operating budget for the County of Hawaii for the fiscal year ending June 30, 2007. This balanced budget includes estimated revenues and appropriations of \$316,076,272 and includes the operations of eleven of the County's special funds as well as the general fund.

Preparation of the budget involves estimating costs such as debt service, retirement and medical insurance requirements, and obtaining estimated expenditures from departments. Departments were once again instructed to submit status quo spending plans that included inflationary increases. Additional needs were submitted in the form of supplemental budget requests. Funding decisions for these requests were based on how well they addressed legal mandates, community needs, maintenance of public facilities and equipment, and project priorities of this administration.

OVERVIEW

The County of Hawaii continues to enjoy its best economic times in recent years. Due to an improved economy, a significant growth in revenues is projected. While revenue increases are always welcomed, the financial difficulties residents and this County endured in the years 2000 to 2002 must not be overlooked. During this period, many unpopular, but necessary, decisions were made. Spending for maintenance, repairs, and needed services were reduced. To balance the budget, property taxes were raised.

Fortunately, the economy improved and the County was able to gradually resume its maintenance and repair responsibilities, expand services, and provide needed property tax relief to homeowners. A 3% annual growth limit was placed on the market values of properties in the homeowners class; an additional homeowners exemption was given; and the period of the non-speculative residential dedication program was shortened to five years.

Comm. No. 717

Ref. To: PC

MAR 11 2006

AFFORDABLE HOUSING

In addition to property tax rate reductions, a **bill to enable properties rented at "affordable" rates to receive an appropriate tax break will be submitted before the end of this year.** It will also enable owners of properties that would otherwise qualify to be in the Homeowners class rent a room out without being disqualified from the class.

RESERVES

Included in this budget is funding for a new reserve account that is very important for the future:

- **"Rainy Day" Fund, \$4,000,000.** A bill to create a "Rainy Day" Fund will be submitted shortly. Its purpose is to enable the County to continue providing services to the public without having to increase taxes during economic downturns.

In addition, \$4,000,000 is being budgeted for accrued retiree health care benefits. Recent regulations regarding financial reporting for government entities (GASB 45) require that the full liability for post employment health care benefits be reflected in financial statements. The County of Hawaii currently funds retiree health benefits on a "pay-as-you-go" basis. This has resulted in a large unfunded liability for future benefits. After the liability has been actuarially determined, it will be necessary to initiate catch-up payments over a period of years to fully fund the future liability and maintain a positive bond rating.

Funding for other reserve accounts has also been included in this budget:

- **Public Access, Open Space, and Natural Resources Preservation Fund, \$3,000,000.**
- **Self-Insurance Fund, \$1,000,000.**
- **Disaster Relief Fund, \$500,000.**

OTHER BUDGET HIGHLIGHTS

In addition to setting aside reserves for the future, this budget adds supplemental funding for these major areas of need:

Improving Parks and Recreation Services

- Provide \$700,000 to offer municipal golf rates in West Hawaii. Negotiations are taking place with two golf courses in West Hawaii.
- Establish 5 positions and purchase necessary equipment to maintain the Old Kona Airport as a County park. We anticipate that the State will be transferring the responsibility for this park to the County.

Enabling Departments to Carry Out FLSA Requirements

- Provide 7 needed positions and overtime. Additional time is required at the department level to complete payroll activity entry in the FRESH system.

OPERATING BUDGET

The following table describes the budgeted expenditures for FY 2005-06 and the proposed budget for FY 2006-07 for each fund:

OPERATING BUDGET BY FUND

(Amounts in thousands)

FUND	FY 05-06 Budget	FY 06-07 Proposed	Increase (Decrease)	Percent Change
General Fund	\$213,887	\$238,971	\$25,084	11.7%
Highway Fund	21,269	22,932	1,663	7.8%
Sewer Fund	8,434	8,854	420	5.0%
Cemetery Fund	16	10	(6)	(37.5)%
Bikeway Fund	171	171	0	0%
Beautification Fund	225	225	0	0%
Vehicle Disposal Fund	2,232	2,787	555	24.9%
Solid Waste Fund	23,184	26,929	3,745	16.2%
Golf Course Fund	1,006	1,094	88	8.7%
Geothermal Royalty Fund	150	150	0	0%
Housing Fund	13,424	13,903	479	3.6%
Geothermal Asset Fund	50	50	0	0%
	\$284,048	\$316,076	\$32,028	11.3%

OPERATING EXPENDITURES

The following table presents a summary of projected FY 2006-07 expenditures from various sources and the changes from the current budget:

EXPENDITURES BY FUNCTION

(Amounts in thousands)

Expenditures	Amount	Percent Of Total	Increase (Decrease) From FY 2005-06 Amount	Percent Increase (Decrease)
General Government	\$ 38,923	12.3%	\$ 4,214	12.1%
Public Safety	94,208	29.8%	10,179	12.1%
Highways & Streets	16,264	5.1%	2,093	14.8%
Health, Education, & Welfare	20,414	6.5%	1,251	6.5%
Culture and Recreation	18,544	5.9%	3,429	22.7%
Sanitation & Waste Removal	35,294	11.2%	4,653	15.2%
Debt Service	28,623	9.1%	1,122	4.1%
Pension & Retirement	21,859	6.9%	1,147	5.5%
Health Fund	22,298	7.1%	4,503	25.3%
Miscellaneous	16,649	6.2%	(564)	(2.8%)
	\$316,076	100.0%	\$32,207	11.3%

Significant changes to operating expenditures are as follows

General Government – \$4.2 million.

- Finance Department
 - Waste reduction facility RFP consultants, \$200,000
 - Addition of Property Management division, \$349,225
- Planning Department
 - Community Development Plans and positions, \$672,445
- Building Division
 - Added positions and equipment, \$661,352
- Automotive Division
 - Increase in fuel costs, \$764,219
- Engineering Division
 - FIRM updates, \$1,000,000

Public Safety – \$10.2 million.

- Police Department
 - Increased operating expenses, \$300,000
 - Assumed funding for 13 positions (Ice Task Force (7), COPS in school (6), \$516,788
- Civil Defense
 - DWS emergency power, \$2,000,000
- Prosecuting Attorney
 - Additional grants, \$524,467
- Public Works
 - Increased flood control, \$181,092

COUNTY OF HAWAI'I - STATE OF HAWAI'I
ORDINANCE NO. _____

AN ORDINANCE TO ESTABLISH AN OPERATING BUDGET FOR THE COUNTY OF HAWAI'I FOR THE FISCAL YEAR JULY 1, 2006 TO JUNE 30, 2007.

BE IT ORDAINED BY THE COUNCIL OF THE COUNTY OF HAWAI'I:

SECTION 1. Purpose. It is the purpose of this ordinance to establish an operating budget for the County of Hawai'i in compliance with subsection 10-3(a), Hawai'i County Charter.

SECTION 2. General Summary and Comparative Statements of Revenues and Expenditures. A simple, clear, general summary of the detailed contents of the operating budget and comparative statements of revenues and expenditures are hereby presented.

Public Works
- Building Division

- 1 new position - Building Projects Coordinator II
- 2 new positions - Projects Coordinator
- 4 new positions - Building Inspector
- 1 new position - Architectural Drafting Tech I
- 1 new position - Electrical Inspector
- 2 new positions - Building Permit Clerk
- 1 new position - Supervising Building Permit Clerk
- 1 new position - Electrician
- 1 new position - Plumber

Public Works
- Engineering Division

- 1 new position - Construction Inspector
- 1 new position - Civil Engineer IV

Public Works
- Traffic Division

- 1 new position - Civil Engineer V
(Fuel Tax)
- 1 new position - Electrical Maintenance Supervisor
(Fuel Tax)

Change in Funding Source:

Research and Development

- Position # OO-02537 - Economic Development Specialist III. From County Funding to State Grant Funding.
- Position # OO-04229 - Accountant I. From State Grant Funding to County Funding.

Change in Funding Source and Status:

Police

- Position # OO-04261 - Detective (Temp), # OO-04262 - Police Officer II (Temp), # OO-04263 - Police Officer II (Temp), # OO-04264 - Police Officer II (Temp), # OO-04265 - Police Officer II (Temp), # OO-04266 - Police Officer II (Temp), and # OO-04267 - Police Officer II (Temp). (From Ice Task Force Grant Funding to County Funding and from Temporary to Permanent Status).
- Position # OO-04235 - Police Officer II (Temp), # OO-04236 - Police Officer II (Temp), # OO-04237 - Police Officer II (Temp), # OO-04238 - Police Officer II (Temp), # OO-04239 Police Officer II (Temp), and # OO-04240 - Police Officer II (Temp). (From COPS in Schools Grant Funding to County Funding and from Temporary to Permanent Status, for 6 months).

SECTION 5. Authorization to Establish Accounts. The Director of Finance is hereby authorized and directed to open appropriate accounts for each appropriation made and set forth within this ordinance or in such greater detail as may be necessary to properly carry out the purpose of the appropriation. The Director of Finance is authorized and directed to open appropriate accounts for receipts within the various funds. Expenditures and/or encumbrances from the various accounts shall be in accordance with duly made appropriations.

SECTION 6. Whenever the County of Hawai'i shall receive from the United States of America, the State of Hawai'i or from any public or semi-public agency, or from any private person, firm or corporation, any monies other than the normal revenues and realizations provided by law or ordinance, the Director of Finance shall submit these funds to the County Council for appropriation and after Council action by ordinance, the Director of Finance shall maintain special funds or accounts showing monies so received and specifying the purpose for which such monies have been received or for which such fund or account is being maintained shall be approved by the Director of Finance and all such receipts are herein appropriated for expenditure in accordance with the terms and conditions under which said monies shall be received by the County of Hawai'i.

SECTION 7. The federal and state grant revenues set forth in SECTION 4 - Account Nos. 3301, 3302, 3303, 3304, and 3305 are hereby appropriated in the amounts and to the programs identified therein; provided that disbursement is conditioned on (1) receipt of a notification of grant award from the grantor, or receipt of notification from the grantor that the grant award will be forthcoming and that the County is authorized to incur costs pursuant to such grant award; and (2) written notice to the Council including a copy of the notification from the grantor.

A final report, or the final report required by the grantor, shall be submitted to the Council upon completion of each grant program.

Pursuant to Section 46-7, *Hawai'i Revised Statutes*, and Section 13-13(b), *Hawai'i County Charter*, the Mayor is hereby authorized to apply for, receive and expend the funds for the programs identified in SECTION 4.

Grant revenues received during Fiscal Year 2006-2007 for programs that are not included in SECTION 4 shall be subject to the adoption of an ordinance appropriating such funds and shall include provisions to comply with Section 46-7, *Hawai'i Revised Statutes*, and Section 13-13(b), *Hawai'i County Charter*.

SECTION 8. Severability. If any provision of this ordinance or the application thereof to any person or circumstances is held invalid, such invalidity shall not affect other provisions or applications of the ordinance which can be given effect without the invalid provision or application, and to this end, the provisions of this ordinance are declared to be severable.

SECTION 9. This ordinance shall take effect on July 1, 2006.

INTRODUCED BY:

Uyama Akel ^{cc} B/R

COUNCIL MEMBER, COUNTY OF HAWAII

Hilo, Hawai'i

Date of Introduction:

Date of 1st Reading:

Date of 2nd Reading:

Effective Date:

Reference: Comm. 717

Change in Time Element:

Parks and Recreation
- Aquatics

Position # OO-02857 - Lifeguard I (Pool) (2/5T)
(From 2/5T to 3/5T)

Position # OO-02861 - Swimming Pool Custodian (1/2T)
(From 1/2T to Fulltime)

Position # OO-03755 - Water Safety Officer II (1/2T)
(From 1/2T to Fulltime)

Position # OO-03891 - Water Safety Officer I (1/2T)
(From 1/2T to Fulltime)

Position # OO-03919 - Swimming Pool Custodian (1/2T)
(From 1/2T to Fulltime)

SECTION 4. Revenues and Expenditures. Revenues, appropriated receipts, fund balances and interfund transfers estimated for the fiscal year July 1, 2005 to June 30, 2007, are hereby provided and appropriated to the funds and purposes as set forth herein:

SECTION 3. Position Changes. Position changes included in the operating budget are:

New Positions:

Data Systems	1 new position	- Information Systems Analyst IV
Environmental Mgmt - Administration	1 new position	- Account Clerk
Environmental Mgmt - Solid Waste Division	7 new positions	- Solid Waste Transfer Station Attendant
Environmental Mgmt - Vehicle Disposal Division	1 new position	- Derelict/Abandoned Vehicle Coordinator (Vehicle Disposal Fees)
	1 new position	- Clerk III (Vehicle Disposal Fees)
Finance - Accounts Division	2 new positions	- Account Clerk
Fire	1 new position	- Account Clerk
Management	1 new position	- Clerical Services Assistant
Parks and Recreation - Administration	1 new position	- Personnel Assistant I
Parks and Recreation - Aquatics	1 new position	- Lifeguard I (Pool) 1/2T
	2 new positions	- Lifeguard I (Pool) 3/5T
Parks and Recreation - Maintenance	1 new position	- Clerk II
	3 new positions	- Park Caretaker I
	1 new position	- Park Facility Refuse Collector
	1 new position	- Tree Trimmer
	1 new position	- Park Maintenance Supervisor
Planning	1 new position	- Planner V
	1 new position	- Clerk III
Police	2 new positions	- Clerk III
	1 new position	- Account Clerk
	1 new position	- Police Records Clerk
	1 new position	- Police Reporter
Prosecutors	1 new position	- Administrative Services Assistant
	1 new position	- Account Clerk

Culture and Recreation – \$3.4 million.

- P & R Department
 - West Hawaii golf, \$700,000
 - Old Airport Park/Kona maintenance, \$459,817
 - Park Ranger program, Kahalu`u Beach Park, \$130,000

Health Fund – \$4.5 million.

GASB 45 reserves, \$4,000,000 (see previous explanation in the Reserves section).

Miscellaneous – Major expenditure changes include:

Transfer to Self-insurance Fund	\$1,000,000
Transfer to Public Access/Open Space Pres. Fund	\$3,000,000
Transfer to Rainy Day Fund	4,000,000


CONCLUSION

The increase in projected real property tax revenues will once again enable the County to commit more resources to improving services to residents of Hawaii County. As this is done, however, the need to establish proper reserves for the future, and to make sure that sensible limits are placed on growth, must be addressed.

Taxpayers should not be taxed out of their properties. And residents are entitled to live in safe, decent, and affordable homes, receive accessible transit services, and be able to receive a wide range of recreational, public safety and other County services that improve quality of life.

The budget being submitted with this message is aimed at addressing these major goals. We welcome the opportunity to discuss it in further detail with you and thank you very much for past support.

Aloha,



Harry Kim
Mayor

Attachments

OPERATING REVENUES

The following table presents a summary of projected FY 2006-07 revenues from various sources and the changes from the current budget:

REVENUES BY SOURCE

(Amounts in thousands)

Source	Amount	Percent Of Total	Increase (Decrease) From FY 2005-06 Amount	Percent Increase (Decrease)
Real Property Tax	\$179,615	56.8%	\$28,428	18.8%
Public Service Company Tax	6,300	2.02%	(200)	(3.1%)
Fuel Tax	7,895	2.5%	315	4.2%
Public Utilities Franchise Tax	7,500	2.4%	1,500	25.0%
Licenses and Permits	15,670	5.0%	1,426	10.0%
Revenues and Use of Money & Property	4,526	1.4%	1,692	59.7%
Intergovernmental Revenues	55,754	17.6%	618	1.1%
Charges for Services	22,477	7.1%	2,184	10.8%
Other Revenues	6,556	2.1%	(239)	(3.5%)
Fund Balance Carryover	9,783	3.1%	(3,697)	(27.4%)
	\$316,076	100.0%	\$32,027	11.3%

Significant changes to operating revenues are as follows:

Real Property Tax – Taxable real property revenues increasing by 18.8% after planned tax rate reduction.

Interest Income – Interest earnings increasing due to a higher rate of return on investments.

Charges for Services – Solid Waste tipping fee revenues increasing by \$2.2 million due to increased tipping fees and tonnage.

Other Revenues – Revenue source decreasing due to reduction in land sales, debt reimbursement, and departmental charges.

- Develop and implement a Park Ranger program for Kahalu'u Beach Park. Rangers will provide education and enforcement for park users.
- Repair the following facilities: Hoolulu complex, various pools, and the Kohala pump room. This will correct some of the deficiencies in facilities that have been neglected due to funding shortages in prior years.

Improving Public Safety

- Update the Flood Insurance Rate Maps (FIRM) in Waimea and Kona. This will provide critical information to the public and the County when making decisions in land use matters.
- Increase funding for island-wide flood control. Provides additional funds for flood channel and drywell maintenance.
- Provide backup generators for the Department of Water Supply. Currently there are no auxiliary power supplies at wells and pump stations. Generators will be provided to at least 4 high priority sites.

Speeding Up Building Permits

- Add 8 new positions to the Department of Public Works (Building Inspectors, Electrical Inspector, Building Permit Clerks, and Supervisor).

Expediting Capital Improvement Projects

- Add 6 new positions to the Department of Public Works (Projects Coordinators, Drafting Technician, Civil Engineer, and Construction Inspector).

Improving Our Environment

- Provide funds to help reduce Coqui Frogs. Funds will enable continuation of this community-based eradication program.
- Provide funds for 7 positions to provide education, maintenance, and security at transfer stations.
- Add funds for waste reduction facility RFP consultants, if necessary. Additional funds will be needed if the scope of the RFP process is expanded and/or if the timeframe is extended.

Expanding Mass Transit Services

- Provide matching funds for federal grants to purchase equipment.
- Provide funds for paratransit program for Kona and Puna. Will offer door-to-door services to disabled residents.

The budget presented today reflects some of the lessons learned in both hardship and prosperity:

- As we strive to “catch up and keep up” with maintenance, repairs, and services throughout the island, we must also set funds aside for future needs and prepare for economic uncertainties.
- We must constantly seek ways to preserve the quality of life of our residents through affordable and accessible housing, transportation, recreation, public safety, and other County services.
- We must balance our desire to fully meet the service expectations of our residents, with the need to keep the growth of government and property taxation within reasonable limits.

REAL PROPERTY TAX

The real property assessed valuations used in these revenue projections are preliminary figures and the values certified in April may vary from those assumed here. The final budget that is presented in May will be based on the final numbers.

Assessed Values. In spite of the 3% growth limit in the Homeowners class, real property tax assessments for FY 2006-07 are expected to increase by 35.4%. The classes of properties with the highest increases are Agriculture (70.4%), Improved Residential (35.6%), and Apartment (35.2%). The districts with the highest increases are Puna (96.4%), Kau (73.5%), and North Hilo (38.5%). The large increases are due to significant increases in the values of land (44.1%), as opposed to buildings (24.7%). New construction accounts for 2.9% of the overall increase in assessments.

Proposed Rate Reductions. Although the estimated net taxable real property grew by 35.4%, this budget reflects a 19.5% increase in estimated current real property revenues, and an 18.8% overall increase in property tax revenues (includes penalties and interest). **Specific property tax rate reductions will be proposed when the amended budget is submitted in May.** These reductions will provide needed relief for classes and types of properties that experienced the largest increases in valuations.

To illustrate the extent of possible reductions, if tax rates for each of the 8 classes of properties, not including the Homeowners class, were reduced by as much as 13%, revenue projections would be met.

Future Plans. For the following year, **the possibility of placing growth limits on other classes of property, similar to what was recently done for the Homeowners class, will be explored.** Any suggestions the County Council may have in addressing the need for property tax relief, particularly for properties obtained for non-speculative purposes is welcomed.