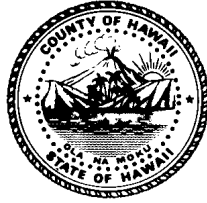


William P. Kenoi
Mayor



William T. Takaba
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County of Hawaii

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February 27, 2009

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

Dear Chairman Yoshimoto 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, 2010.

This balanced budget includes estimated revenues and appropriations of \$386,279,510, which is 4.2% less than the current year's budget and includes the operations of eleven of the County's special funds as well as the general fund. The budget does not include an increase in property taxes.

Today we are confronted with a worldwide economic downturn that has hurt the tourism and construction industries. There is a consensus that this is the most severe economic upheaval in decades. In this environment, the County is forced to consider all options for balancing the budget in a way that maintains essential public services such as police and fire protection.

Preparation of the budget involves estimating costs such as debt service, retirement and medical insurance requirements, and obtaining estimated expenditures from departments.

While the need for services has continued to grow and a backlog of maintenance projects remains, the economic changes during the last year have impacted our County revenues with drops in real property tax values, reduced transient accommodations tax proceeds and reduced interest earnings. The challenge of next fiscal year's budget is to meet our core responsibilities and cover costs that are beyond our control by managing costs that are within our control and by identifying other sources of revenue.

Departments were initially instructed to submit status quo spending plans that included limited inflationary increases. Subsequently, departments were asked to cut 10% of their budget, excluding base salaries and grant-funded expenses. Reductions in overtime expense, travel and training, contract services, equipment purchases and other items were

identified by department directors. Additional reductions were made by eliminating or reducing funding for expansion of the police fleet, transfers to reserve accounts and Council contingency funds, and several other programs. I imposed a temporary hiring suspension at the beginning of my administration and we are currently holding 481 positions vacant. This budget eliminates funding for 42 of those positions. While we are hopeful that this will have minimal impact on services, there certainly will be an impact on departmental operations.

To achieve this balanced budget, which is \$16,925,488 less than the current year's budget, we will be requesting that the Council approve a transfer of \$2 million from the Budget Stabilization Fund to the General Fund. We will also request a two-year moratorium on transfers of 2% of the real property tax revenue to the Public Access Open Space and Natural Resource Preservation fund, which represents approximately \$4.5 million for the next fiscal year. Finally, in order to balance the budget we will request authorization to sell property located in the Hamakua District that was previously received in lieu of property taxes. If none of the requested changes are made, the revenues generated will result in a budget shortfall of \$14.7 million.

The real property assessed valuations used are still preliminary figures and the values certified in April may vary from those assumed here. The final budget presented to you in May will be based on the final numbers.

REVENUE CHANGES

The major changes in projected revenues are as follows:

Real Property Tax. Real property tax revenues are expected to decrease by 5.6%, or \$12.3 million, due to a 3.64% decrease in taxable values.

Fuel Tax. Fuel taxes are expected to decrease by 9.6%, or \$0.8 million due to a decrease in fuel consumption.

Revenue from Use of Money and Property. Interest revenues are expected to decrease by \$4 million due to the low yield on investments, which is reflective of the current economy.

Intergovernmental Revenues. The increases in a number of grants are more than offset by the decreases in housing voucher assistance and transient accommodations taxes, resulting in a net decrease of \$1.6 million.

Charges for Service. Overall revenues from this source are expected to increase by \$870,000 with increases in automotive charges exceeding the decrease in construction permit revenue.

Other Revenues. Other revenues are expected to increase, primarily from the anticipated sale of Hamakua property budgeted at \$8.2 million, as well as the requested \$2 million transfer of funds from the Budget Stabilization Fund.

Fund Balance Carryover. Carryover savings are expected to decrease by approximately \$10 million due to the current year's revenue shortfalls in TAT, real property tax, building permits and others. Fund balance is expected to be much lower than last year, but we will continue to monitor and adjust in the May budget if necessary.

EXPENDITURE CHANGES

In addition to the cuts made by the departments major changes in projected expenditures are as follows:

General Government

- **Clerk/Council.** Election's budget has been reduced in this non-election year. The Council's \$900,000 contingency account has been eliminated.
- **Office of Management.** Funding for coqui frog eradication has been removed from the budget request.
- **Data Systems.** Funding restrictions prevent the department from proceeding with expansion of the document management project.
- **Finance.** Savings resulted from closing out a financing lease, postponing a real property tax software purchase, reducing Hague Convention costs for real property tax sales and distributing the budget for advertising.
- **Public Works.** Additional costs for janitorial services and fuel offset the reduction in budget for Flood Insurance Rate Maps updates.

Public Safety

- **Police.** Offsetting the decrease from the postponement of the police fleet transition and the omission of the grant match for the interoperable communication system are increases in fuel costs and police officers' wages from a previously negotiated collective bargaining contract.
- **Fire.** The budget includes fire fighters' salary increases from a previously negotiated contract and is reduced by the elimination of the prior year budget for helicopter purchase.
- **Civil Defense.** Included in the budget is the projected \$1.1 million State Homeland Security grant.

Health, Education and Welfare

- **Housing.** A drop in grant funding results in the \$1.7 million decrease in the department's budget.

Culture and Recreation

- **Administration.** Excluded from Parks Administration's budget are funds for the Veterans Center match, the Mahukona Boat Ramp study and the Kahalu'u Park Ranger programs. The Lava Viewing program will continue. The West Hawai'i Golf program subsidy has been reduced to \$500,000.

Sanitation and Waste Disposal

- **Solid Waste Division.** The Solid Waste budget has decreased with the reductions in miscellaneous contractual services and cover material expenditures.

Debt Service

- **Debt Service.** Debt service is projected to decrease with the delay in issuing bonds and the use of bond anticipation notes.

Pension and Retirement

- **Employees Retirement System.** The Employees Retirement System cost is expected to increase by \$1.7 million due primarily to an increase in the salaries and wages for Police and Fire.

Health Fund

- **Health Benefits.** Health costs, including post-employment benefits, are expected to increase by \$2.2 million due to rising rates for both active employees and retirees. The health insurance rates for next fiscal year have not yet been set by the Employer Union Trust Fund, so increases to this budget item are possible.

Miscellaneous

- **Transfer to Disaster & Emergency Fund.** This transfer has been reduced to \$100,000, the minimum set by the County Code.
- **Transfer to Self Insurance Fund.** No funds are being transferred, due to County's financial condition.
- **Transfer to Public Access, Open Space and Natural Resources Preservation Fund.** This budget proposes a moratorium on this code requirement.

- **Transfer to Budget Stabilization Fund.** Instead of transferring funds into this fund, this proposal seeks to withdraw from this “rainy day” fund as a means to balance the budget.
- **Sewer Fund Replacement Reserve Repairs.** Scheduled repair projects have been reduced to \$1.5 million.
- **Other.** Provisions being reduced include vacation and unemployment compensation, which were increased in the current budget for this election year. Provisions were reduced for workers compensation, claims and judgements, and disaster/emergency due to our current financial environment.

OPERATING BUDGET BY FUND

The following table describes the budgeted expenditures for FY 2008-09 and the proposed budget for FY 2009-10 for each fund.

OPERATING BUDGET BY FUND

(Amounts in thousands)

FUND	FY 08-09 Budget	FY 09-10 Proposed	Increase (Decrease)	Percent Increase (Decrease)
General Fund	\$307,159	\$295,657	(\$11,502)	(3.7%)
Highway Fund	27,474	27,567	93	0.3%
Sewer Fund	11,638	9,995	(1,643)	(14.1%)
Cemetery Fund	10	10	0	0.0%
Bikeway Fund	171	171	0	0.0%
Beautification Fund	225	225	0	0.0%
Vehicle Disposal Fund	3,543	4,004	461	13.0%
Solid Waste Fund	33,971	31,153	(2,818)	(8.3%)
Golf Course Fund	1,202	1,202	0	0.0%
Geothermal Royalty Fund	350	550	200	57.1%
Housing Fund	17,412	15,696	(1,716)	(9.9%)
Geothermal Asset Fund	50	50	0	0.0%
	\$403,205	\$386,280	(\$16,925)	(4.2%)

REVENUES BY SOURCE

The following table presents a summary of projected FY 2009-10 revenues from various sources and the changes from the current budget:

<u>REVENUES BY SOURCE</u>				
<i>(Amounts in thousands)</i>				
Source	Amount	Percent Of Total	Increase (Decrease) From FY 2008-09 Amount	Percent Increase (Decrease)
Real Property Tax	\$219,930	56.9%	(\$12,314)	(5.6%)
Public Service Company Tax	8,630	2.2%	325	3.8%
Fuel Tax	8,021	2.1%	(772)	(9.6%)
Public Utilities Franchise Tax	9,216	2.4%	95	1.0%
Licenses and Permits	17,064	4.4%	(95)	(0.5%)
Revenues and Use of Money & Property	3,214	.8%	(4,017)	(125.0%)
Intergovernmental Revenues	59,576	15.4%	(1,602)	(2.7%)
Charges for Services	25,208	6.5%	869	3.5%
Other Revenues	18,135	4.8%	10,667	58.8%
Fund Balance Carryover	17,286	4.5%	(10,082)	(58.4%)
	\$386,280	100.0%	(\$16,925)	(4.4%)

EXPENDITURES BY FUNCTION

The following table presents a summary of projected FY 2009-10 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 2008-09 Amount	Percent Increase (Decrease)
General Government	\$ 48,289	12.5%	(\$3,870)	(8.0%)
Public Safety	113,990	29.6%	2,412	2.1%
Highways & Streets	17,878	4.6%	268	1.5%
Health, Education, & Welfare	23,185	6.0%	(1,751)	(7.6%)
Culture and Recreation	19,200	5.0%	(1,318)	(6.9%)
Sanitation & Waste Removal	42,115	10.9%	(2,569)	(6.1%)
Debt Service	40,611	10.5%	(2,768)	(6.8%)
Pension & Retirement	32,301	8.4%	1,658	5.1%
Health Fund	37,851	9.8%	2,152	5.7%
Miscellaneous	10,860	2.7%	(11,139)	(102.6%)
	\$386,280	100.0%	(\$16,925)	(4.4%)

CONCLUSION

The budget being submitted is \$16.9 million less than the current year's budget. The projected reduction in revenues from real property tax, transient accommodations tax, interest earnings and fund balance from prior year has presented us with a challenge and an opportunity to review our business operations and core functions.

The decision to propose selling County land in Hamakua came only after making significant cuts throughout the County departments, unfunding many vacant positions and deferring transfers to reserve and provision accounts. Because the property was given to the County in settlement of real property tax debts, it is appropriate that it provide a source of revenue to the County in these difficult times. Additionally, we are proposing to transfer \$2 million dollars from the budget stabilization fund and to have a two-year moratorium on dedicating 2% of real property tax to the Public Access, Open Space and Natural Resource Preservation fund. All of these options combined have allowed us to present a balanced budget.

In preparing the budget submitted today we have been able to avoid property tax rate adjustments as a balancing measure. However, this budget contains estimates that may

change as additional information regarding projected revenues and expenditures becomes available. The loss of \$12.3 million of real property tax revenue as compared to our current year budget has a large impact, and the need for public safety and general services has not diminished. Over the next two months we will continue to review the current conditions, projections for the next two years and the options available to us to insure we remain a strong and financially sound county government.

The County should be a stabilizing force in the local economy. We need to maintain services to every extent possible, support our local industries and avoid layoffs of employees. The County also must stay fiscally prudent. Conservative management of our budget and maintaining reserves will provide security and insure that we maintain our financial ratings and borrowing power. Looking forward to subsequent years it appears that we will have continued challenges. So, while this budget includes some short term solutions, it also begins the planning and adjustments needed to meet long term changes in the economy.

Aloha,

William P. Kenoi
Mayor

Attachment

