

COUNTY COUNCIL

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June 1, 2016

KAUAI COUNTY COUNCIL
BUDGET MESSAGE FOR THE FISCAL YEAR 2016-2017

I. Introduction

The Kauai County Council's one hundred eighty-nine million dollar (\$189,000,000) Operating Budget and seventeen million dollar (\$17,000,000) Capital Improvement Projects (CIP) Budget for the Fiscal Year 2016-2017 (FY 2016-2017) 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 Kauai and its residents.

As reported by the State of Hawaii Department of Business, Economic Development, and Tourism (DBEDT), the State is expected to continue its positive growth for the rest of 2016 and into 2017. The County Economic Conditions Report for the first quarter of 2016 reported that visitor arrivals by air to Kauai have decreased by one point six percent (1.6%) compared to the previous year, resulting in a one point five percent (1.5%) decrease in visitor spending. On the other end of the spectrum, Kauai County gained seven hundred (700) wage and salary jobs, for an increase of two point three percent (2.3%) from the same quarter of 2015. The County's unemployment rate has decreased from four point four percent (4.4%) to three point six percent (3.6%). Lastly, the total private building permit growth rate and values were positive in the first quarter of 2016 with an increase of three million one hundred thousand dollars (\$3,100,000) or sixteen point five percent (16.5%) from the same quarter of the previous year.

The County's unsuccessful efforts to lift the State-imposed cap on the Transient Accommodations Tax during the 2016 Legislative Session comes as a disappointment to the Council, as there continues to be more demand on the County to support visitor related expenses. Rising demand and limited revenue means that more of the County's General Fund is needed to support growth in key government areas, such as ocean safety and maintenance of our roads. The Council spent many hours in thoughtful debate of the option afforded by the State to implement a General Excise and Use Tax (GET) Surcharge, which could be utilized for future operating or capital costs for public transportation systems and expenses in complying with the Americans with Disabilities Act of 1990; however the Council was divided on this issue. Driving that division of the Council was the philosophical question of who should be responsible for these needs: the taxpaying residents of

Kaua'i or the visitors who also utilize public infrastructure. As a result, the proposal to implement the GET surcharge was ultimately not supported by the majority of the Council on second and final reading, nor was attempts to increase the motor vehicle weight tax and fuel tax through proposed draft bills.

During the Council's budget session, the Council remained committed to identifying the difference between a "want versus need" for all County Departments and Divisions. This careful effort by the Council resulted in a reduction of overtime pay and grant-in-aid assistance, and the removal of dollar-funded positions. A savings of three hundred fifty-five thousand one hundred and sixty dollars (\$355,160) in the General Fund was appropriated to the Highway Fund for "Islandwide Road Resurfacing for FY 2016-2017" to address the need for more resurfacing of Kaua'i's roads.

For the first time in years, the Council is presenting a balanced budget without the need to draw from the Unassigned Fund Balance. This will enable the County to maintain its Unassigned Fund Balance as it plans for future initiatives, increasing its set aside "reserve" for emergencies, and working towards securing a strong bond rating in the years to come.

II. Operating Budget

Real Property Taxes

The Council and the Administration did not propose any rate increases to real property tax rates in the visitor related classifications to offset the loss of TAT revenue owed to the County for FY 2016-2017; however as the cost of visitor related expenditures rise, this may become necessary in future budgets.

For FY 2016-2017, the Council adopted the tax rates for the County of Kaua'i 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 nineteen million one hundred thousand dollars (\$119,100,000) in revenues to the County for FY 2016-2017.

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-six thousand four hundred ninety eight dollars (\$56,498) and thirty-eight thousand two hundred fifty-three dollars (\$38,253), respectively, in real property tax relief for property owners in FY 2016-2017.

In addition to real property tax relief programs, residents continue to find relief through the various exemptions offered to owners, such as the homeowner exemption, low income exemption, very low income tax exemption, and age exemption.

Dollar Funded (\$1) Positions

The Council commends the County Vacancy Review Committee for its efforts to accurately report the status of all vacant and dollar funded (\$1) positions in the County. The practice of the Administration to reclassify dollar-funded positions into other positions, which has been occurring for a number of years, is a concern of the Council, especially when lower level positions are reclassified into higher level and higher paying positions. Ultimately, this practice contributes to government growth, while not addressing the need for lower level or specialized positions.

Through careful review and discussion of current vacant positions and their hiring statuses, it was determined that there are dollar funded positions that would likely not be recruited or filled. Therefore, the Council proposed to remove funding for salaries for the following Departments:

- Office of the County Clerk, Council Services Division – Council Services Administrator
- Planning Department – GIS Analyst
- Department of Public Works, Engineering Division – Engineering Drafting Technician I
- Police Department – School Crossing Guards (three (3) positions)

While these actions by the Council do not result in an immediate large savings for the County, in the long run the elimination of these positions can help to lower potential growth without approval of the Council.

Overtime Reductions

Overtime costs in the Police Department and Fire Department have been a concern of the Council for many years. The growing overtime earned by high level Excluded Managerial (EM) positions has created a salary inversion between department heads and supervisors that has made it challenging to fill appointed positions. The recent Salary Commission Resolution (Resolution No. 2016-2) attempts to balance this inversion for some department heads, although it does not completely remove the inversion that occurs. These growing expenses have led to costly overtime budgets at the expense of the taxpayers of Kaua'i. In an effort to reduce these expenses and to encourage our public safety departments to work within their means, the Council unanimously reduced Regular Overtime for both Departments by five percent (5%).

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 have a direct impact to the taxpayers through grant-in-aid. Some of these organizations include Kaua'i Hospice, American Red Cross, Kaua'i Independent Food Bank, and the Kapaia Swinging Bridge Foundation.

A grant-in-aid request to support funding for the YMCA to install a pool bulkhead in the amount of two hundred thirty thousand dollars (\$230,000) was not supported by the Council, as the majority of the Council felt that the YMCA's request, while desirable, was not a "need" at this time. The Council encouraged the YMCA to continue their private fundraising efforts and look to the County for future partnership.

Office of the Auditor / Office of the County Clerk

The Council's recruitment of the vacant County Auditor position has not been successful, despite aggressive efforts. Recognizing that the completion of performance audits are an important function to ensure that services and work meet certain standards, the Council dollar-funded (\$1) the vacant County Auditor and Audit Manager positions, with the intent to fully fund the positions once employees have been hired. The Council appropriated this savings to the Office of the County Clerk, Council Services Division for Other Services, Performance Audits, as it is a necessity that performance audits be put forth as requested by the Council via Resolution.

Office of Economic Development

Energy-Sustainability & Climate Action Plan

In ascertaining wants versus needs, the Office of Economic Development's request for ninety thousand dollars (\$90,000) for an Energy-Sustainability & Climate Action Plan was not approved by the Council. The majority of the Council felt that while there is a need for a plan, the plan as presented to the Council was not well-designed or clearly developed where they were confident it would be successful in addressing the need. The Council encouraged the Office of Economic Development to restructure its proposal with a clear goal in mind of the outcome and expected results.

Grant-In-Aid

Community support for core services and programs, as well as economic diversification and stimulus, continue to be the focus of the Council. Discussion on grant-in-aid funding for various economic sectors centered on which programs need County support and which programs could possibly be self-sufficient and look within their own budgets or to industry partners for support. In addition, while the Electronic Benefit Transfer (EBT) program allows users to shop at the local Sunshine Markets for fresh produce, the cost to administer the program far exceeds the amount being spent by EBT users at the markets.

As a result of these discussions, the Council approved over one million dollars (\$1,000,000) in funding for grant-in-aid to support the agriculture, tourism and energy sectors, as well as for economic planning and social services. The Council removed proposed funding for the Tourism – Visitor Industry Plan; twenty-five thousand dollars (\$25,000), Agriculture – Kaua'i EBT Program; fifty thousand dollars (\$50,000), and Tourism – Special Events Security; sixty-five thousand dollars (\$65,000).

Kaua'i Fire Department

Administration

Transparency in the reallocations of positions was a common theme throughout the budget session. The Council recognizes that the Administration has the prerogative to reclassify positions to fulfill a Department's needs; however these needs come at costs that are not reported to the Council and often go unknown until the following budget session. For this reason, the Council downgraded the proposed Assistant Fire Chief position (Position No. 630) to a Fire Fighter I position and reduced the related salary and benefits. This action by the Council will result in an annual salary line item savings of ninety thousand dollars (\$90,000) to the Kaua'i Fire Department.

Water Safety Division

With the large reductions to the Mayor's proposals in the General Fund that were identified by the Council, the Council was able to appropriate four hundred thirty-three thousand nine hundred thirty dollars (\$433,930) to the Kaua'i Fire Department, Water Safety Division, to support the recent collective bargaining agreement passed for Bargaining Unit 14. Appropriating these funds saves the Administration from having to submit a money bill to pay for these raises at a future time.

Department of Public Works

The Council reduced funding for the vacant County Engineer position for eight (8) months to coincide with the Administration's planned efforts to recruit and interview in the first quarter of the Fiscal Year 2016-2017. By reducing funding, the budget will reflect a more accurate funding representation of a position that is anticipated to be challenging to fill during the middle of Mayor Bernard P. Carvalho, Jr.'s term.

III. Conclusion

From the onset of the FY 2016-2017 budget deliberations, the Council sought to be prudent and fiscally responsible in its review of the budget, and to look for opportunities to only fund necessities.

Nearly three (3) weeks of Departmental 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 achieve a balanced budget without the use of the Unassigned Fund Balance.

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 Hawaii's Congressional Delegation and Kaua'i's State Legislators for their support.