

County of Hawai`i

***Presentation to the Senate  
Committee on Ways and Means  
and the House of Representatives  
Committee on Finance***

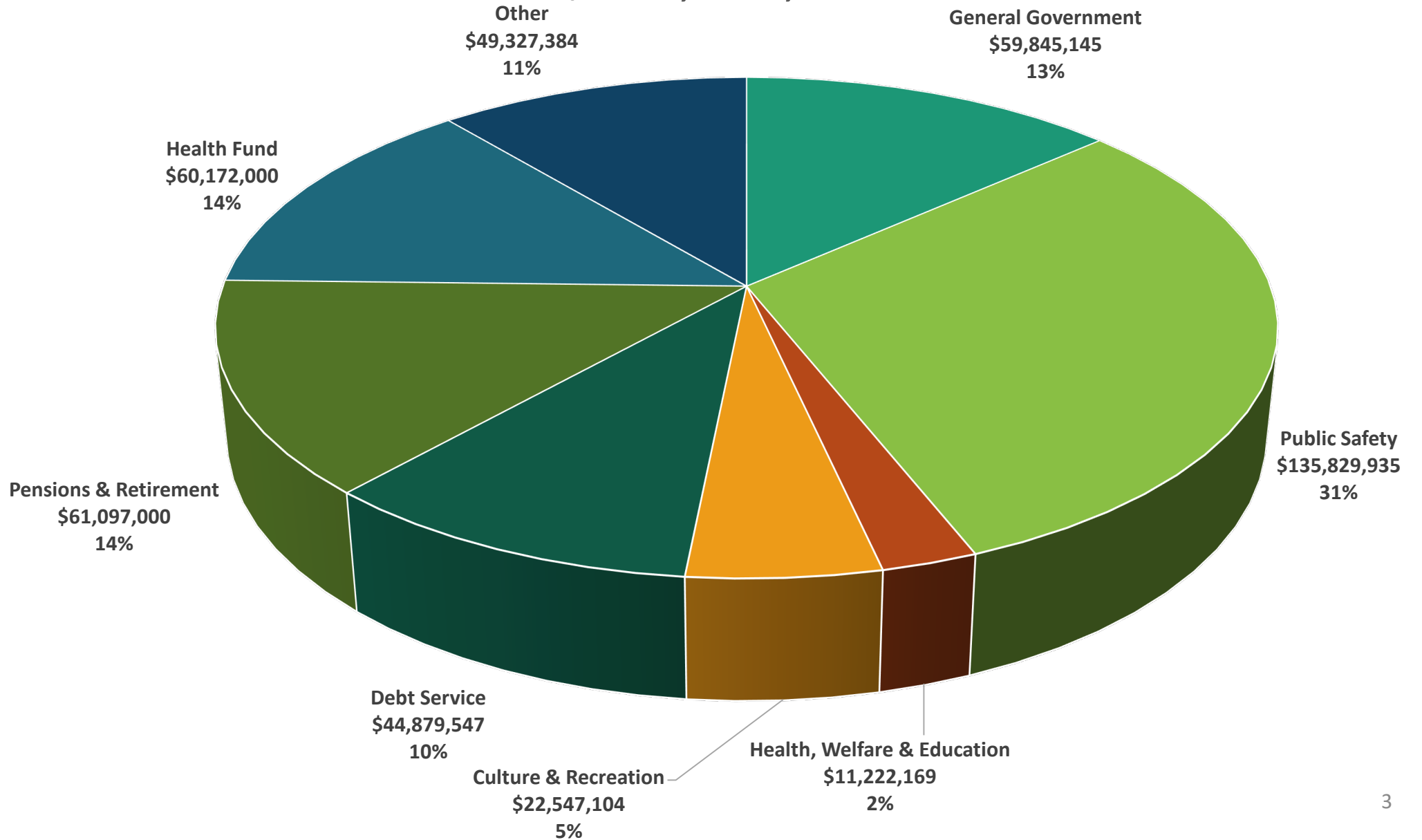
January 15, 2020

# Hawai'i County Financial Position - Expenditures

- Current year (2019-20) General Fund budget is \$444,920,284
  - Salaries and wages, and benefits are 65.8% of budget
  - Debt service is 10.1% of budget
  - This leaves only 24.1% of the budget allocated to all other cost of operations in the General Fund
  - In the last five years these costs have gone from 30% to the current 24.1%
- General Fund includes:
  - Police Department
  - Fire Department
  - Office of the Prosecuting Attorney
  - Civil Defense, Planning, Public Works, Finance, Human Resources, etc.

# Fiscal Year 2020 – General Fund Budget

## \$444,920,284



# Uncontrollable Increases

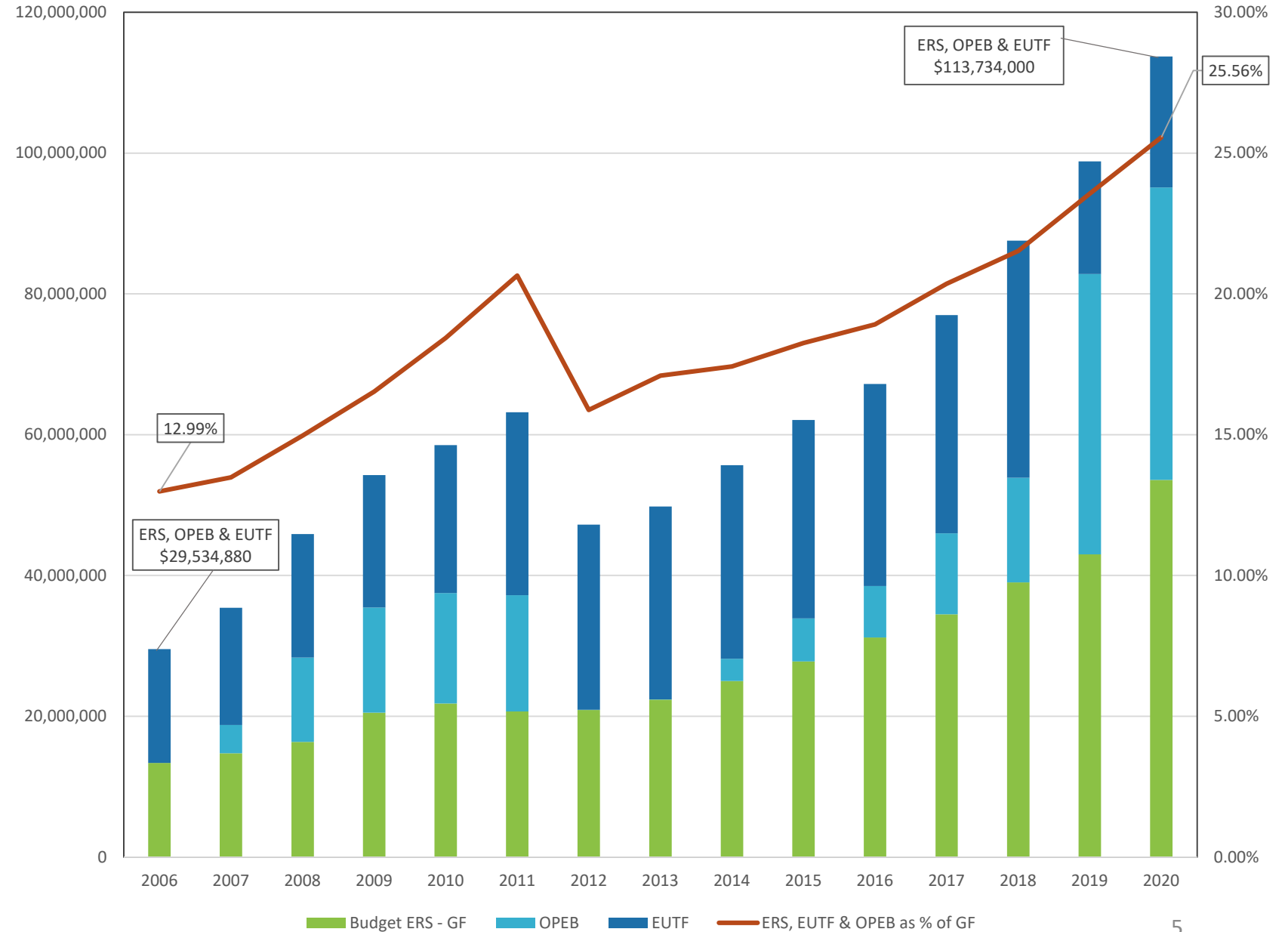
- Total increase of ERS, OPEB, debt service & EUTF over 5 years - **\$55 million**
- Amount does not include collective bargaining unit salary & wage increases
- EUTF includes “pay as you go” portion for retirees for fiscal years 2017 and 2018

<b>GENERAL FUND UNCONTROLLABLE INCREASES</b>					
(ERS, OPEB, Debt Service, EUTF)					
	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>
ERS	39,005,281	43,000,000	53,562,000	60,500,000	62,920,000
OPEB	14,867,200	39,806,000	41,536,000	42,991,000	45,183,000
Debt Service	49,129,513	49,003,708	44,879,547	47,387,284	45,256,017
<b>TOTAL</b>	<b>103,001,994</b>	<b>131,809,708</b>	<b>139,977,547</b>	<b>150,878,284</b>	<b>153,359,017</b>
EUTF	33,700,859	16,000,000	18,636,000	19,629,000	22,464,000
<b>TOTAL with EUTF</b>	<b>136,702,853</b>	<b>147,809,708</b>	<b>158,613,547</b>	<b>170,507,284</b>	<b>175,823,017</b>

# ERS, OPEB & EUTF

- Employer contribution for Other Post Employee Benefits (OPEB) Statutory mandate - Act 268 (2013)
- Hawai'i County contribution increased to 80% in FY18 and to 100% of ARC in FY19
- Total ERS, OPEB & EUTF increasing to 25.56% of general fund in FY20 from 12.99% in FY06
- Retiree health benefits included in OPEB in FY20

General Fund ERS, OPEB & EUTF  
% of General Fund

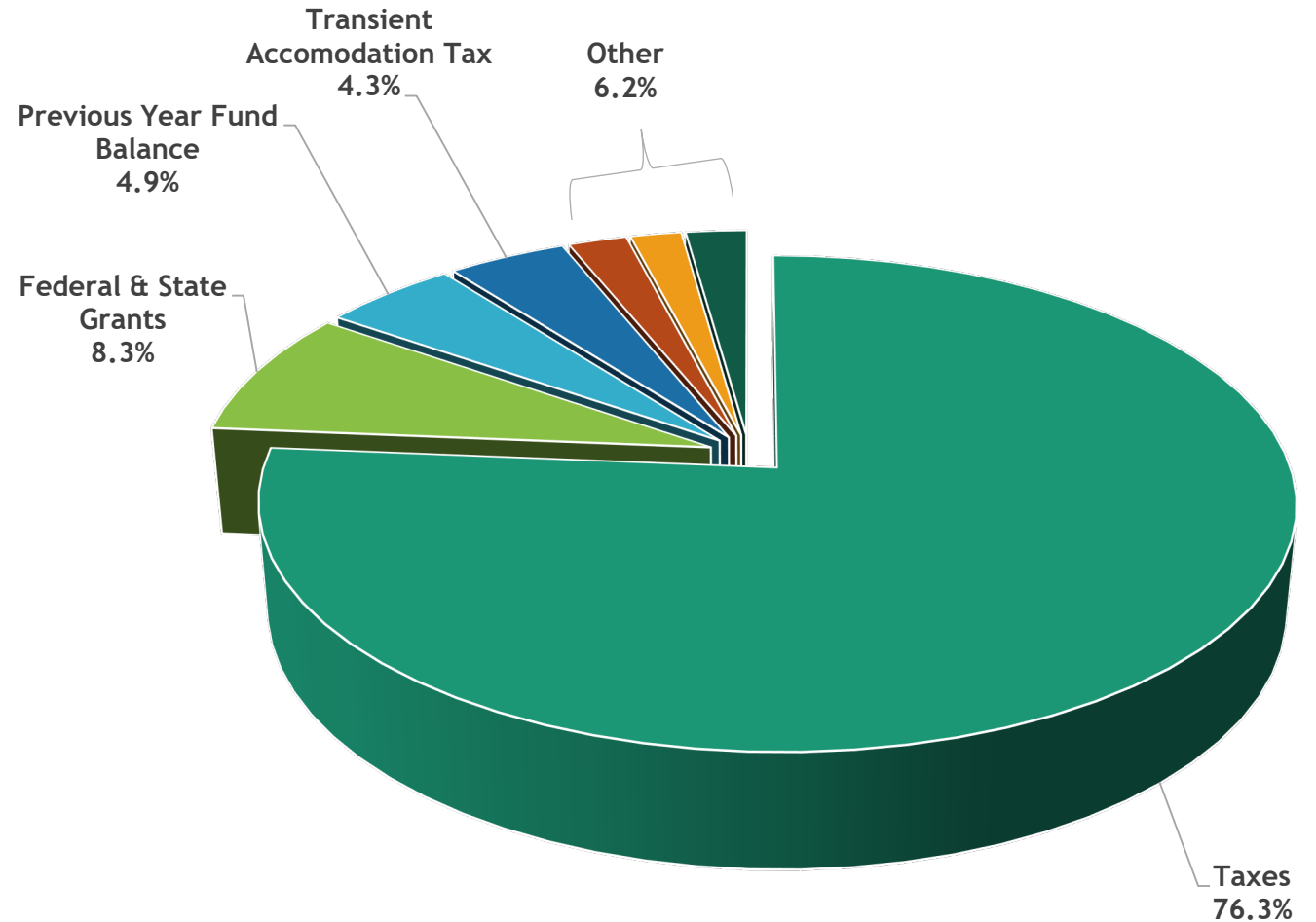


# Hawai'i County Financial Position - Revenues

- Revenue to fund current year (2019-20) General Fund expenditures is derived from:
  - Real Property Tax (74.3%) and Public Service Company Tax (2.0%) – 76.3%
  - County portion of Transient Accommodations Tax – 4.3%
  - Previous year Fund Balance – 4.9%
  - Licenses and permits, charges for services, and miscellaneous – 6.2%
- Grant revenues account for 8.3% of the General Fund revenue, but are generally restricted to specific grant purposes

# FY 19 General Fund Revenues:

76.3%	Taxes (Real Property Tax = 74.3%)
8.3%	Intergovernmental Revenue (grants)
4.9%	Previous year fund balance
4.3%	Transient accommodation tax (capped by Legislature)
Other:	
2.1%	Licenses & Permits
1.9%	Charges for Services
<u>2.2%</u>	Miscellaneous revenues
<b>100%</b>	<b>Total Revenues, \$444,920,284</b>

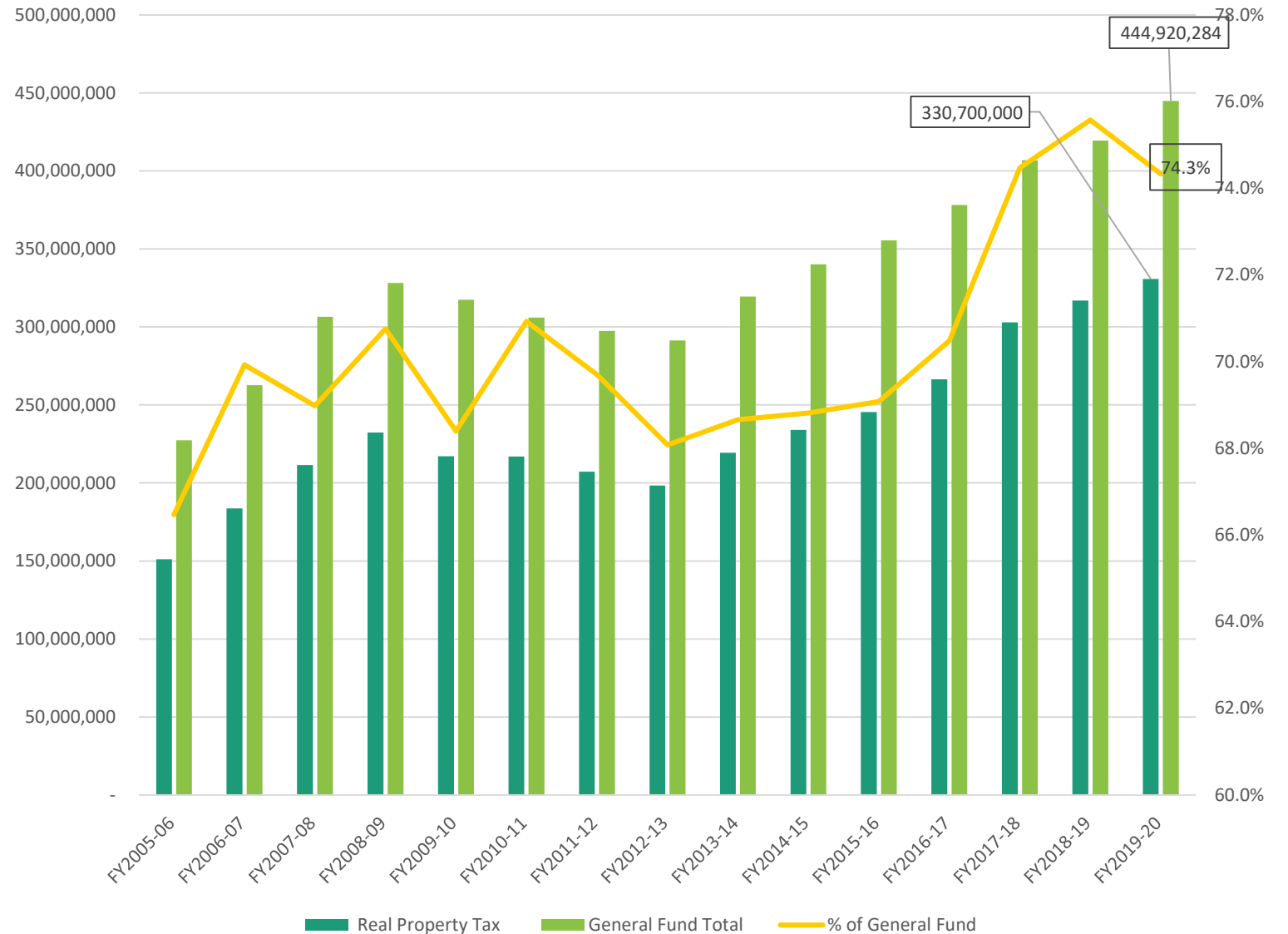


Note: The GET Surcharge is appropriated to the General Excise Tax Fund and is not included in the General Fund

# Real Property Tax

- Largest source of revenue for the County
- Expected increases in real property tax revenues are not keeping pace with increasing labor, benefits, and operating expenses
- FY20 revenues used increased fund balance which cannot be sustained
- Real property tax rates increased in FY 2018 to cover revenue shortfalls
- Growth in values impacted by 2018 lava event

## Real Property Tax and General Fund Revenue





**FY 2018 TAX INCREASE**

# Real Property Tax Increase

- Department budgets have been cut and real property tax rates were increased to make up revenue shortfalls
- Rates for all classes except homeowner and affordable rental were increased
- 5% average tax rate increase
- 100% minimum tax increase (except for properties valued at ≤ \$500)

Tax Rate Per Thousand Net Taxable Building & Land	<u>FY 2017</u>	<u>FY 2018</u>	<u>% Increase</u>
Residential	10.05	<b>11.10</b>	<b>10.4%</b>
Affordable Rental Housing	6.15	6.15	0.0%
Apartment	10.85	<b>11.70</b>	<b>7.8%</b>
Hotel & Resort	10.85	<b>11.55</b>	<b>6.5%</b>
Commercial	10.05	<b>10.70</b>	<b>6.5%</b>
Industrial	10.05	<b>10.70</b>	<b>6.5%</b>
Agricultural or Native Forest	9.25	<b>9.35</b>	<b>1.1%</b>
Conservation	10.85	<b>11.55</b>	<b>6.5%</b>
Homeowner	6.15	6.15	0.0%

<u>Minimum Tax</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>% Increase</u>
Minimum Tax	\$100	<b>\$200</b>	<b>100.0%</b>
Assessed value ≤ \$75,000	\$75	<b>\$150</b>	<b>100.0%</b>
Assessed value ≤ \$50,000	\$50	<b>\$100</b>	<b>100.0%</b>
Assessed value ≤ \$25,000	\$25	<b>\$50</b>	<b>100.0%</b>
Assessed value ≤ \$500	\$25	<b>\$0</b>	<b>-100.0%</b>

# Funding Concerns

- Hawai'i County has very limited taxing authority to provide funds for unrestricted general operations, including public safety
- Hawai'i County has only real property tax and public service company tax as unrestricted tax sources
- The portion of transient accommodations tax allotted to the County is the only other significant source of unrestricted revenue for the General Fund
- The new GET surcharge can only be used for transportation-related expenditures

# Operational Priorities

Hawai'i County requests the following legislative considerations:

## 1. Addressing the Crisis of Healthcare Collapse

- **GET Exemption.** There is a severe 24% physician shortage Statewide. The Neighbor Island shortage is more severe at 44% in Hawai'i County, 36% for Maui and 32% for Kauai. Although a significant cause is the federal Medicare reimbursement formula, the State Legislature can provide a significant piece of the solution by extending the GET exemption to medical services performed within group and private practices.

## 2. Balancing the Budget

- **GET Flexibility (HB 1394).** This bill would allow the GET surcharge to provide an alternative revenue source to property taxes that supplements the County's ability to absorb extraordinary and more frequent large expenses such as retirement liabilities, health insurance, and disasters.
- **TAT for County Parks (HSAC Package).** County parks, particularly the beach parks, attract visitors. Well-maintained parks enhance the visitor experience that translates into higher occupancies and room rates for visitor accommodations.

# Operational Priorities - continued

## 3. Addressing Homelessness and Affordable Housing

- **Ohana Zone Additional Funding (CAP Supported).** This County has taken advantage of previous 'Ohana Zone funding for assessment centers and emergency shelters, and has more shovel-ready projects to implement the County's homeless strategic plan.
- **Mobile Street Outreach Health Teams (CAP Supported).** Addresses persistent issues of poor health, mental illness, and addiction in the homeless population while connecting with this harder to reach and higher risk group to move them towards housing.
- **201H Amendment for <15 acres State Land Use District Amendments (HSAC Package).** Amends HRS section 201H-38 to extend the County's existing jurisdiction for <15-acre State Land Use District Amendments to 201H applications, resulting in significant streamlining of permit approvals for affordable housing projects.

## 4. Incentivizing Cesspool Conversions

- **Cesspool Closure Tax Credit (HSAC Package).** Cesspool conversions benefit the general public in terms of improved public health and environmental quality, hence the justification for public subsidy.

# Operational Priorities - continued

## 5. Promoting Economic Development

- **Banyan Drive Redevelopment (HB 910 HD1 SD1, SB 914 SD2 HD1).** Banyan Drive is a prime resort area that has the potential to become a greater economic driver. Since the primary landowner is the State, the State should lead the redevelopment with County participation and support. Government investment in infrastructure would provide the framework and motivation for private investment.

# Capital Project Priorities

Hawai'i County requests the following legislative considerations:

- Puna is the fastest growing district in the state and the most populated district on this island
- The County wishes to emphasize the extreme need in Puna for all services and infrastructure
- Funding support for continued widening and improvement of Highway 130 in Puna
- Continued funding for the State portion of Kalaniana'ole Avenue Reconstruction

# Support from the State

The State has been providing Hawai'i County with much needed support.

- Lava Recovery Aid
  - Subsidy - \$20MM
  - Loan - \$40MM
- 'Ohana Zone Funding
  - Keolahou Assessment Center and Emergency Shelter – \$2,511,828
  - West Hawai'i Assessment Centers and Housing - \$1,500,000
- State of Hawai'i, HFFDC, Dwelling Unit Revolving Fund (DURF)
  - Kukuiola Assessment Center and Emergency Shelter – 4,184,000

The Honorable Senators Donovan M. Dela Cruz, Chair and Gilbert S.C. Keith-Agaran, Vice Chair, and members of the Senate Committee on Ways and Means

The Honorable Representatives Sylvia Luke, Chair and Ty J.K. Cullen, Vice Chair, and members of the House Committee on Finance

Thank you for your interest and your continuing support

The Honorable Harry Kim, Mayor  
County of Hawai'i