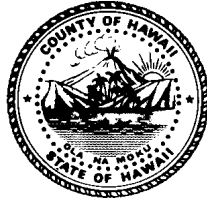


Harry Kim
Mayor



Dixie Kaetsu
Managing Director

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County of Hawaii

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March 1, 2004

The Honorable Chairman James Y. Arakaki
and Members of the County Council
County of Hawaii
Hilo, HI 96720

Dear Chairman Arakaki and Council Members:

As required by the Hawaii County Charter, I am submitting to you with this message the proposed operating budget for the County of Hawaii for the fiscal year ending June 30, 2005. This balanced budget includes estimated revenues and appropriations of \$246,596,820, 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. This year, although the departments were instructed to submit a status quo spending plan, they were allowed to include inflationary increases and present additional needs in the form of supplemental budget requests. Supplemental requests required justification and priority-setting based on the department's program goals, objectives, and performance measures.

This budget reflects an 11.5% increase in estimated net taxable real property, and no changes in our tax rates. 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.

This budget reflects our plans to maintain current services. In addition, we are proposing increased spending to expand programs in certain priority areas that are highlighted below.

BUDGET PRIORITIES

Expansion of Emergency Services One of our priorities is expansion of emergency services. This is reflected in the budget by the funding of the new Kalaoa Fire Station in North Kona and funding to assume responsibility for the KMC Fire Station in Volcano.

Kalaoa Fire Station, North Kona. Rezoning Ordinance 02-31 (March 2002) made land available for a new fire station in Kalaoa. Completion of the fire station is expected in November 2004. Funding for personnel, equipment, and startup costs for this station is included in this budget. The Kalaoa fire station will provide fire and emergency services in the North Kona area.

KMC Fire Station, Volcano. Also included in this budget are funds to maintain fire protection and emergency services in the Volcano area utilizing the Kilauea Military Camp fire station. Early last year an agreement was reached between the County of Hawaii and the Department of the Army whereby the County will assume the duties and responsibilities of providing residents of the Volcano area with fire and emergency response services effective January 1, 2005.

Solid Waste Another continuing priority reflected by increased spending is our effort to comprehensively address the island's solid waste stream. While \$1.5 million of the increase in the Solid Waste Fund budget is attributable to the need to handle an increasing stream of rubbish as our population grows, there are new initiatives included in the budget.

Sort Station. The East Hawai'i Regional Sort Station is expected to begin operations in 2005. Funding for project implementation and part-year operations is included in this budget. The Sort Station is a key component in our plan to maximize the diversion of solid waste from our landfills.

Recycling. We continue to emphasize the importance of recycling in our long range plans through increased recycling opportunities at the various transfer stations, and continued funding for diversion grants.

Organics Diversion. We are moving from mulching our greenwaste towards a composting operation that will divert greenwaste and other organic materials from our landfills.

Bulky Goods Collection at Transfer Stations. A pilot project to collect bulky goods such as appliances at select transfer stations will be implemented. This project will keep bulky items out of the trailers, and if metal, out of the landfills.

Airspace Conservation. Extending the life of the Hilo Landfill as long as possible is our goal, and funds for airspace conservation are included in the budget for this effort.

Regulatory Compliance. Funding for compliance with State Department of Health and Federal Environmental Protection Agency requirements at both landfills is included in the budget. This includes such items as providing funds for adequate daily cover materials in Hilo, and litter control at both Pu'uana'hulu and Hilo.

Highway Fund We propose to increase the resources and spending of the Highway Fund to catch up with the backlog of road maintenance work and keep current in the future, and to increase the ability of the Traffic Division to address problem areas and complaints. The amount of the Highway Fund budget increase is based on a proposal to increase the fuel tax by 4¢ per gallon, effective July 1, 2004. This proposal will be presented to the County Council for consideration, with justification, by the end of April.

Transportation Access to transportation is critical to the quality of life in many ways. Public mass transportation is vital to help people get to jobs, to allow children and youth to participate in community and after school activities, and to alleviate traffic problems by decreasing the number of private vehicles on the road. The proposed budget includes an increase of \$1.6 million for the Transit Agency for various initiatives. New or expanded routes are proposed in Waikoloa, Pahoa, and intra-Kona. Also funded will be handivan services in Hamakua and Ocean View/Pahala. The increase also includes expansion of boat day service, increased funding for shared ride taxi subsidy, funding of Council's transportation grants, maintenance, and local match for equipment purchases. These expenditures will be funded from an increase of 2¢ per gallon in the fuel tax rate. This fuel tax proposal will be submitted to the Council along with the proposed increase for the Highway Fund.

OTHER PRIORITIES

There are a number of other high priority projects that do not have a major impact on the proposed budget for next fiscal year, but will impact future budgets. These include:

West Hawai'i Roads and Traffic Finding solutions to relieve the Kona traffic congestion, as well as managing growth in the long-term, is of the highest priority. Operating budget expenditures and capital improvements will be directed to traffic system improvements, new mauka-makai connectors, mass transit service, and growth management and financing research.

Public Safety Development of new police stations in South Kona and Puna are of the highest priority, and we are working on them. A new police substation in Pahoa, adjacent to the proposed new fire station, is also planned.

Emergency Services Development of a new fire station in Pahoa is of the highest priority, as is the eventual replacement of the Honoka'a and Na'alehu stations.

Affordable Housing The island is in crisis over the lack of affordable housing, and we have made this a priority that must be addressed in any way we can. This includes looking at ways to encourage the development of affordable housing (especially in parts of the island where housing costs are the highest), revision of the affordable housing policy, and making the County's land at Waikoloa available for affordable housing development.

OPERATING BUDGET

The following tables describe (1) the budgeted expenditures for FY 2003-04 and the proposed budget for FY 2004-05 for each fund, (2) the estimated revenues by source for FY 2004-05, the change from prior year, and the percentage of total revenues that each source represents, and (3) the estimated expenditures by function for FY 2004-05, and changes from the current budget.

Table (1) OPERATING BUDGET BY FUND

(Amounts in thousands)

FUND	FY 03-04 Budget	FY 04-05 Proposed	Increase (Decrease)	Percent Change
General Fund	\$170,325	\$183,466	\$13,141	7.7%
Highway Fund	15,920	21,897	5,977	37.5%
Sewer Fund	7,282	6,886	(396)	(5.4%)
Cemetery Fund	16	16	0	0%
Bikeway Fund	181	181	0	0%
Beautification Fund	200	215	15	7.5%
Vehicle Disposal Fund	1,668	1,703	35	2.1%
Solid Waste Fund	11,977	16,677	4,700	39.2%
Golf Course Fund	816	771	(45)	(5.5%)
Geothermal Royalty Fund	150	150	0	0%
Housing Fund	12,501	14,585	2,084	16.7%
Geothermal Asset Fund	50	50	0	0%
	\$221,086	\$246,597	\$25,511	11.5%

Table (2) ESTIMATED REVENUES BY SOURCE

(Amounts in thousands)

Source	Amount	Percent Of Total	Increase (Decrease)	Percent Increase (Decrease)
Real Property Tax	\$129,395	52.5%	\$12,122	10.3%
Public Service Company Tax	5,120	2.1%	(95)	(1.8%)
Fuel Tax	12,037	4.9%	5,202	76.1%
Public Utilities Franchise Tax	5,088	2.1%	98	2.0%
Licenses and Permits	11,374	4.6%	1,069	10.4%
Revenues and Use of Money & Property	1,690	.7%	(239)	(12.4%)
Intergovernmental Revenue	48,961	19.9%	2,129	4.5%
Charges for Services	17,513	7.1%	2,886	19.7%
Other Revenues	7,586	3.1%	207	2.8%
Fund Balance Carryover	7,833	3.2%	2,132	37.4%
	\$246,597	100.0%	\$25,511	11.5%

Significant changes to operating revenues are as follows:

Real Property Tax - Net taxable values increasing by 11.5%, with current tax rates remaining the same.

Fuel Tax – Fuel tax increasing by \$5,202,000 due to a proposed rate increase of 6¢ per gallon.

License and Permits – Increases in building permit and drivers licensing fees account for \$730,000 of the increase in the revenue source.

Interest Income - Interest earnings decreasing due to the low rate of return on investments.

Charges for Services – Solid Waste tipping fee revenues increasing by \$2.4 million due to increased tonnage and scheduled fee increase.

Fund Balance Carryover – General Fund projecting a \$3,000,000 fund balance carryover, an increase of \$2,000,000.

Table (3) EXPENDITURES BY FUNCTION
(Amounts in thousands)

Expenditures	Amount	Percent Of Total	Increase (Decrease)	Percent Increase (Decrease)
General Government	\$ 27,638	11.2%	\$ 896	3.4%
Public Safety	79,274	32.1%	8,640	12.2%
Highways & Streets	12,966	5.3%	2,940	29.3%
Health, Education, & Welfare	20,675	8.4%	2,464	13.5%
Culture and Recreation	14,264	5.8%	155	1.1%
Sanitation & Waste Removal	23,970	9.7%	5,481	29.6%
Debt Service	23,921	9.7%	331	1.4%
Pension & Retirement	15,065	6.1%	3,193	26.9%
Health Fund	16,650	6.8%	1,710	11.4%
Miscellaneous	12,174	4.9%	(299)	(2.4%)
	\$246,597	100.0%	\$25,511	11.5%

Significant changes to operating expenditures are as follows:

Police – The arbitrated wage settlement and increased overtime increases salaries and wages by \$1,665,000.

Fire – Fire has included funding for the new Kalaoa station and the assumption of the Kilauea Military Camp station.

Traffic Division – The \$2,791,000 increase reflects additional positions, a new West Hawaii facility, East Hawaii facilities improvements, additional equipment, additional striping jobs and catching up of the backlog of work orders.

Highways Division – The \$1,340,000 budget increase funds additional positions and equipment to efficiently maintain our 903 miles of roadway.

Mass Transit – Funds from the proposed fuel tax increase (\$1,640,000) allows the agency to expand services (bus routes, handi-van, boat day, and shared ride taxi), match federal funds and increase maintenance of our aging bus fleet.

Solid Waste – The cost of handling increased tonnages, improving compliance, making necessary repairs and maintenance, operating the new Sort station, and enhancing services increase the Solid Waste operations by \$4,610,000.

Housing – The federally-funded Housing program increases by \$2,082,000 with a rise in grants.

Employees Retirement System (ERS) Contribution – Our contribution increases by \$3,092,800 (\$7,395,000 to \$10,487,800).

Health Costs – The cost of health plans increases by \$1,710,000.

POSITIONS

The personnel impact included in this budget are as follows:

County Clerk - Legislative Auditor Office	1 new position - Legal Specialist (Council request)
Environmental Management	1 new position - Solid Waste Supervisor I (Sort Station) 6 new positions - Solid Waste Transfer Station Attendant (4 for Sort Station, 1 for Hilo Landfill, 1 for Puuanahulu Landfill) 3 new positions - Equipment Operator III (Sort Station) 2 new positions - Equipment Welder (Maintenance) 1 new position - Technical Services Section Chief (Project management for Sort Station)
Fire	6 new positions - Fire Captain (3 for Kalaoa, 3 for KMC) 6 new positions - Fire Equipment Operator (3 for Kalaoa, 3 for KMC) 18 new positions - Fire Fighter (9 for Kalaoa, 9 for KMC)

Parks & Recreation	3 new positions - Park Caretaker I (1 for Veterans Cemetery, 1 for South Hilo, 1 for N/S Kona)
Public Works - Highway Maintenance Division	12 new positions - Laborer II (Fuel Tax)
Public Works - Traffic Division	1 new position - Civil Engineer V (Fuel Tax) 1 new position - Electrical Engineer IV (Fuel Tax) 1 new position - Electrical Maintenance Supervisor (Fuel Tax) 1 new position - Clerk II (Fuel Tax) 1 new position - Account Clerk (Fuel Tax) 1 new position - Violations Clerk (Fuel Tax)

New Positions for Recruitment Purposes:

Fire	20 new positions - Fire Fighter Recruit (Temporary) (Funded by vacant positions' salaries)
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Change in Funding Source:

Aging	Position # 3771 - Aging Program Planner and #3772 - Clerk III (From Federal Grant Funding to County Funding)
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Change in Time Element:

Environmental Management	Position # 3569 - Solid Waste Transfer Station Attendant (From 3/4 T to Fulltime)
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CONCLUSION

The increase in projected real property tax revenues will enable us to commit more resources to improving services to residents of Hawaii County and meeting our legal responsibilities.

We welcome the opportunity to discuss this budget in further detail with you and thank you very much for past support.

Aloha,

Harry Kim
Mayor

Attachments