CITY COUNCIL
CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII

No. 06-222

RESOLUTION

AMENDING THE DEBT AND FINANCIAL POLICIES OF THE CITY.

WHEREAS, debt and financial policies for the City and County of Honolulu were initially established by the adoption of Resolution 96-26 as a result of the 1995 Budget Summit, which was convened by the Council of the City and County of Honolulu with the participation of business, government, and financial experts from both the public and private sectors, to investigate ways to reengineer city government to make it more efficient, responsive, and accountable; and

WHEREAS, the debt and financial policies for the City were last amended by Resolution 03-59, CD1, adopted June 4, 2003, which superceded all prior resolutions establishing and amending the debt and financial policies; and

WHEREAS, the Council wishes to further amend the debt and financial policies for the City in the form attached to this Resolution as Exhibit "A"; and

WHEREAS, this Resolution is intended to supercede in its entirety said Resolution 03-59, CD1; and

WHEREAS, this Resolution does not affect the separate debt and financial policies for the wastewater system, established by Resolution 98-197; now, therefore,

BE IT RESOLVED by the Council of the City and County of Honolulu that the "Debt and Financial Policies," attached hereto as Exhibit "A" and made a part hereof, are hereby established as the guidelines under which the City shall manage its operating and capital programs and budgets and its debt program, provided that the wastewater system shall continue to be governed by the policies established by Resolution 98-197; and

BE IT FURTHER RESOLVED that this Resolution shall supercede in its entirety Resolution 03-59, CD1; and

B

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RESOLUTION

BE IT FINALLY RESOLVED that copies of this Resolution shall be transmitted to the Mayor, the Managing Director and the Director of Budget and Fiscal Services.

INTRODUCED BY:

Anne Kobayashi

DATE OF INTRODUCTION:

JUN 16 2006

Honolulu, Hawaii

Councilmembers

(OCS/060606/ct)

DEBT AND FINANCIAL POLICIES

(Note: For informational purposes only policy material added is underlined and material no longer included is bracketed.)

[1.] I. OPERATING BUDGET

A. OVERALL

1. The operating budget details a financing and spending program to meet the goals and objectives of the City which have been established by the City administration, the City Council, and the public. It contains information and data regarding expected revenues, expected expenditures and expected service and performance outcomes. To the extent feasible, the budget also should include outcome measures which reflect each programs' success in meeting established goals and objective.

2. Operating expenses are the costs for personnel, materials and equipment required for a government entity to function. Operating expenses are expenditures for day to day operations and exclude expenditures for capital purposes, as defined herein. Operating expenses include the cost of paying salaries and benefits to civil service employees except that salaries for employees funded with cash from the sewer fund may be included in the capital budget.

3. The City administration shall have written policies with respect to the preparation and implementation of the City's operating budget that incorporate the guidelines and definitions contained herein.

4. As a comprehensive business plan, the budget includes the following elements as recommended by the Government Finance Officers Association: public policies, financial plan, operations plan, and communications device.

5. The City's annual budget presentation should display the City's service delivery/performance plan in a public-friendly format.

6. Under the Mayor's direction, Department Directors have primary responsibility to formulate budget proposals and implement the budgets appropriated by the City Council and allotted by the Mayor.

B. FISCAL INTEGRITY

1. The City will maintain the fiscal integrity of its operating and capital budgets by maximizing its level of public services while minimizing its level of debt.

2. Cash balances in excess of the amount required to maintain a long-term contingency reserve shall be used to fund one-time or non-recurring costs.

C. [LONG-TERM CONTINGENCY RESERVE - "RAINY DAY FUND"

The City shall pursue the creation of an appropriated Long-Term Contingency Reserve in order to accommodate dire financial emergencies. The funding of this reserve shall be based upon a formula established in ordinance and contingent upon increasing real property assessments. This reserve shall be used only for dire financial emergencies with the approval of the Mayor and the City Council.]

<u>RESERVE FOR FISCAL STABILITY FUND</u>

<u>1. The City shall maintain the reserve for fiscal stability fund to accommodate economic and revenue downturns and emergency situations.</u>

<u>2. The City shall make every effort to attain a minimal fund balance of five percent and an optimal fund balance of eight percent of annual General Fund and Highway Fund operating expenditures.</u>

<u>3. The City shall make every effort to replenish monies expended from the fund when conditions that necessitated the expenditure cease to exist.</u>

D. REVENUES

1. The City shall make every effort to maintain a very high tax collection rate (over 98.5 percent) to the extent consistent with the marginal costs of collection.

2. The City shall place increased emphasis on user fees to finance municipal services.

3. The City shall seek to diversify its revenue mix to be less dependent on property tax revenues and temporary revenues.

4. The City annually shall review all revenue schedules, including taxes, rates, licenses, user fees, and other charges to determine

the appropriate level of each revenue source required for the operating and capital costs of the programs they finance. Multi-year rate schedules shall be established whenever feasible.

5. The City shall maintain a sewer fee rate structure which is adequate to insure that the programs the sewer funds finance remain firmly and separately self-supporting, including the costs of operations, maintenance, and debt service; provided that this shall not preclude the use of community facilities districts, benefit districts, unilateral agreements, development agreements, user fees and impact fees to pay for sewer capital improvements.

6. The City shall make every effort to maximize investment income by achieving and maintaining a high level of prudent and legally appropriate cash investments.

7. The City diligently shall seek Federal, State and other revenues to fund its current and new programs. However, the City shall ensure that its long-term financial planning considers the eventual loss of these temporary financing sources.

8. No monies from the sale of any City property shall be budgeted as revenue in the executive operating budget unless the City has an executed contract with a realtor concerning the listing of the property and public notice of the listing of the property has been given.

E. SELF-INSURANCE PROGRAM

The City shall continue to set aside funding in the City's risk management account. As the City's mix and level of liabilities increase, the City should implement a cost-effective program to mitigate the expense of commercial insurance.

F. MINIMIZATION OF ADMINISTRATIVE COSTS

Administrative costs should reflect an appropriate balance between resources allocated for direct services to the public and resources allocated to ensure sound management, internal controls, and legal compliance.

G. MULTI-YEAR ESTIMATES

1. With every annual budget, the Mayor shall propose a six-year operating and capital expenditure and revenue plan for the City which shall include estimated operating costs for future capital project proposals that are included in the Capital Program. The

plan for the operating and capital components shall detail the six-year projections according to the categories of expenditures and revenues shown in Attachments A and B, made a part hereof, and shall show how future expenditures are to be met by existing or new revenue sources.

2. This budget data shall be presented to elected officials in a form that will facilitate annual budget decisions, based on a multi-year strategic planning perspective.

H. CITIZEN INVOLVEMENT

1. Citizen involvement shall be encouraged in the annual budget decision-making process through public hearings and community meetings. Such involvement shall include assistance in establishing program and budget priorities for the City.

2. Involvement shall also be facilitated through City boards, task forces and commissions, which shall serve in advisory capacities to the City Council and the Mayor.

I. USER FEES

Whenever the City charges user fees, those fees shall be phased toward covering 100 percent of the cost of service delivery, including debt service costs, unless such amount prevents an individual from obtaining an essential service. Fees may be less than 100 percent if certain factors (e.g., market forces, competitive position, etc.) need to be considered.

J. NON-PROFIT ORGANIZATIONS

All grants of public funds to private organizations shall be based on standards established in ordinance.

II. CAPITAL BUDGET

A. OVERALL

1. Capital costs funded in the capital budget shall be limited to costs that do not recur annually. These include equipment having a unit cost of $5,000 or more and estimated service life of *5* years or more, except for equipment funded with cash from the sewer fund. Items such as light poles and playground equipment whose individual cost is less than $5,000 may be funded in the capital budget if aggregated and made an integral part of a project costing $25,000 or more and the estimated service life of every major component of the project is *5* years or more, such as a project to

replace all of the light poles in a neighborhood or a project to replace a park's facilities including playground equipment. To be included, improvement and replacement costs of public infrastructure must substantially expand the capacity or extend the life of the public infrastructure. Eligible capital costs would include the repaving of parking lots but not painting and slurry sealing of parking lots. It would include the installation of a new roofing surface but not spot patching of a roof. Contracts to hire engineering and design professionals under a personal services contract with a definite termination date may also be included. Costs associated with paying the salaries of civil service employees shall not be included except for salaries funded with cash from the sewer fund. Major renovations costing more than $5,000 to existing facilities may qualify as a capital project. Routine maintenance of existing facilities, however, shall not qualify; instead, such costs shall be included in the operating budget. All other necessary costs that do not qualify for funding in the capital budget shall be included in the operating budget and deemed operational costs.

2. The City administration shall have written policies with respect to the preparation and implementation of the City's capital budget that incorporate the guidelines and definitions contained herein.

3. The preparation and adoption of the capital budget shall be coordinated with the operating budget so that the City may ensure that sufficient resources are available to operate and maintain its facilities.

B. FISCAL POLICIES

1. Capital project proposals should include as complete, reliable, and attainable cost estimates as possible. Project cost estimates for the capital budget should be based on a thorough analysis of each project and be as reliable as the level of detail known about the project. Project cost estimates for the six-year Capital Program may vary in reliability depending on when they are to be undertaken during the first through the sixth year of the Program.

2. Capital project proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project.

3. All proposals for the expenditure of capital funds shall be formulated and presented to the City Council within the framework of the capital budget.

4. Project proposals will include the project's impact on the operating budget, including, but not limited to, additional personnel requirements and long-term maintenance costs necessary to support the project.

5. At the time of a contract award, each project shall include a reasonable provision for contingencies. The amount set aside for contingencies shall correspond with industry standards and should not exceed ten percent of the estimated project costs.

6. The City administration shall minimize administrative costs of the Capital Program.

7. The annual capital budget shall include those projects which can reasonably be accomplished in the time frame indicated. The capital budget shall include a projected time schedule for each project.

C. CAPITAL PROGRAM POLICIES

1. Citizen participation in the Capital Program formulation is a priority for the City. Among the activities which shall be conducted to address this need are the following:

   a. Community meetings shall be held in a timely manner to receive community input to the Capital Program before it is submitted to the City Council.

   b. Council deliberations on the Capital Program shall be open to the public arid advertised sufficiently in advance of the meetings to allow for the attendance of interested citizens.

   c. Prior to the adoption of the Capital Program, the Council shall hold noticed public hearings to provide opportunities for citizens to express their opinions on the proposed Capital Program.

2. All projects included in the Capital Program shall be consistent with the City's General Plan and Development Plans. The goals and policies for services, facilities, and transportation should serve as guidelines for the development of the Capital Program.

3. Capital projects shall be financed when possible through user fees, impact fees, community facilities districts, benefit districts, unilateral agreements and development agreements.

4. Projects that involve intergovernmental cooperation in planning and funding shall be established by an agreement that sets forth the basic responsibilities of the parties involved.

5. The City annually shall review and establish criteria to evaluate capital project proposals. Factors to be considered for priority-ranking include the following:

   a. Projects required to meet public health and safety needs;

   b. Projects mandated by federal or state law;

   c. Projects which have a positive impact on the operating budget (i.e., reduces expenditures, increases revenues);

   d. Projects which are programmed in the operating budget multi-year estimates;

   e. Projects which can be completed or significantly advanced during the six-year Capital Program; and

   f. Projects which realistically can be initiated during the year they are scheduled.

III. DEBT POLICIES

A. Debt shall not be used to finance ongoing operational costs as defined herein.

B. Whenever possible, the City shall pursue alternative sources of funding in order to minimize the level of debt.

C. When feasible, the City shall use special assessment, revenue, or reimbursable bonds in lieu of general obligation debt.

D. Long-term general obligation debt may be incurred when necessary, based on the City's ability to pay. This debt shall be limited to those capital projects that cannot be financed from existing revenues and when there is an existing or near-term need for the project. The project also should be integrated with the City's long-term financial plan and Capital Program.

E. The maturity date for any debt shall not exceed the reasonable expected useful life of the project so financed.

F. The City shall encourage and maintain good relations with financial and bond rating agencies and will follow a policy of full and open disclosure on every financial report and bond prospectus. A rating agency presentation/update shall be conducted at least once annually.

G. The City shall establish affordability guidelines in order to preserve credit quality. Guidelines, which may be suspended for emergency purposes or because of unusual circumstances, are as follows:

1. Debt service for general obligation bonds including self-supported bonds as a percentage of the City's total operating budget, including enterprise and special revenue funds, should not exceed 20 percent.

2. Debt service on direct debt, excluding self-supported bonds, as a percentage of General Fund revenues should not exceed 20 percent.

H. The total outstanding principal of the City's variable rate debt should not exceed 120% of the City's total short-term investments.

I. Variable rate debt should be used only as a source of interim or construction financing, financing of equipment with a useful life of five years, and short-term financing of debt service. In the event variable rate debt is used to finance debt service, the variable rate debt shall be refunded as a part of the next long-term bond issuance.

J. Whenever possible, the City shall seek State funding for financing of qualified wastewater projects.

K. The City continually shall review outstanding City debt and initiate refinancing when feasible.

L. Unless the refunding of bonds is for the purpose of restructuring existing debt service on outstanding bonds or to refund outstanding bonds which bear interest at a rate or rates which shall vary from time to time, the City shall refund callable fixed rate bonds only if the present value savings which shall inure to the City as a result of the refunding shall not be less than 2%.

Attachment A: Categories of Expenditures

OPERATING EXPENDITURES

Executive:

General Government
Public Safety
Highways and Streets
Sanitation
Health and Human Resources
Culture-Recreation
Utilities or Other Enterprises
Debt Service
Miscellaneous

Legislative:

General Government – Legislative

CAPITAL EXPENDITURES

General Government
Public Safety
Highways and Streets
Sanitation
Human Services
Culture-Recreation
Utilities or Other Enterprises

Attachment B: Categories of Resources

OPERATING RESOURCES

Real Property Tax
Fuel Tax
Motor Vehicle Weight Tax
Public Utility Franchise Tax
Federal Grants
State Grants
Transient Accommodations Tax
Public Service Company Tax
Licenses and Permits
Charges for Services
Sewer Charges
Bus Transportation Revenues
Solid Waste Revenues
Other Revenues
Carry-Over

CAPITAL RESOURCES

General Obligation Bonds
Bikeway Fund
Parks and Playgrounds Fund
Sewer Revenue Bond Improvement Fund
Federal Grants Fund
Community Development Funds
State Funds
Sewer Assessment
Developer
Board of Water Supply
Utilities

CITY COUNCIL
CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII
CERTIFICATE

RESOLUTION 06-222

Introduced: 06/16/06 By: ANN KOBAYASHI Committee: BUDGET

Title: RESOLUTION AMENDING THE DEBT AND FINANCIAL POLICIES OF THE CITY.

Links: RES06-222

BUDGET	07/06/06	CR-335 – RESOLUTION REPORTED OUT OF COMMITTEE FOR ADOPTION.
COUNCIL	07/19/06	RESOLUTION AND CR-335 ADOPTED.

APO	Y	CACHOLA	Y	DELA CRUZ	Y	DJOU	Y	GARCIA	Y
KOBAYASHI	Y	MARSHALL	N	OKINO	Y	TAM	Y		

I hereby certify that the above is a true record of action by the Council of the City and County of Honolulu on this RESOLUTION.

DENISE C. DE COSTA, CITY CLERK

DONOVAN M. DELA CRUZ, CHAIR AND PRESIDING OFFICER