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March 6, 2008

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CITY CLERK
HONOLULU, HAWAII

SUBJECT: ISSUE PROFILE - STATUS OF THE CITY'S FINANCES (MARCH 2008)

Transmitted herewith are copies of a new report prepared by the Office of Council Services, "Issue Profile - Status of the City's Finances (March 2008)." The report contains an overview of certain financial and budget trends and a review of the prior year's revenues and expenditures, which we report to the Council annually.

I hope you find the report useful in considering the new city budget.

[Signature]
IVAN KAISAN
Legislative Auditor

FORWARDED BY:

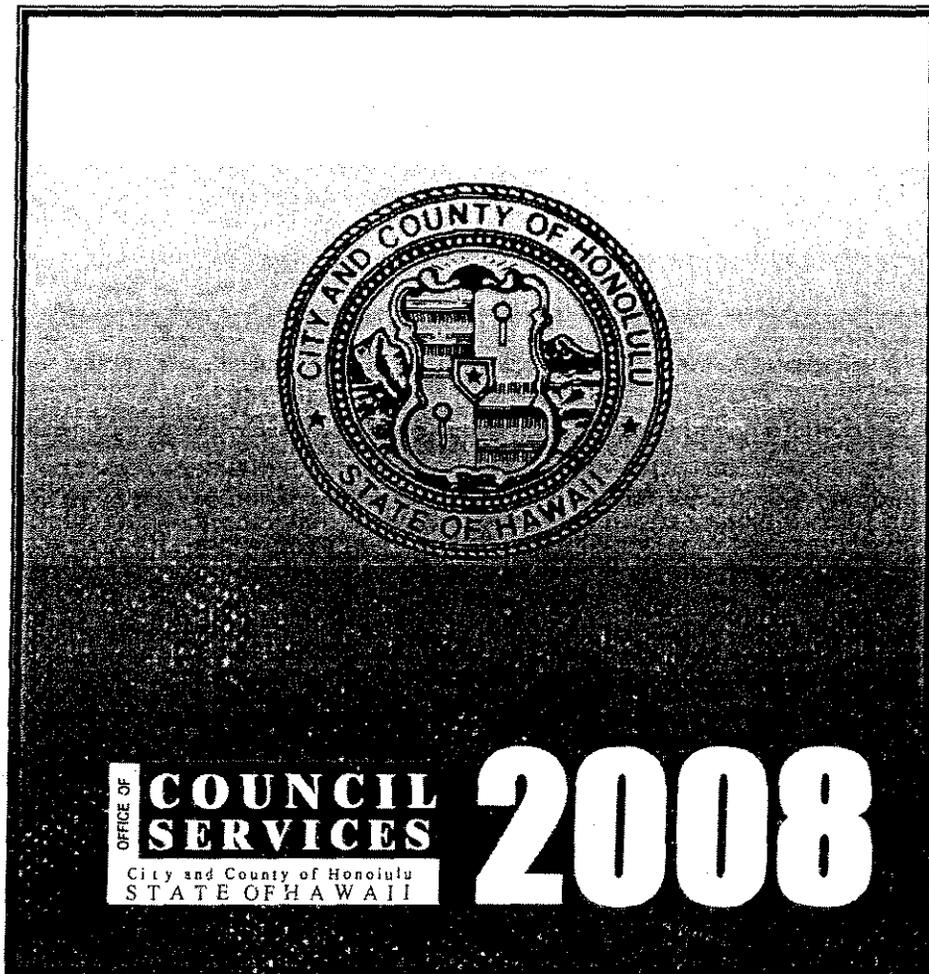
[Signature]
DIANE E. HOSAKA, Esq.
Director

Attachment(s)

cc: City Auditor (3)
City Clerk (Info. Office) - 2 (1 day later)
Budget Comm. Clerk - 1 (1 day later)

# ISSUE PROFILE

## Status of the City's Finances



# **ISSUE PROFILE**

Status of the City's Finances

March 2008

Reports of the Office of Council Services (OCS) are available at the Office of the City Clerk, Municipal Library, Hawaii State Library, Hawaii State Archives, and the University of Hawaii Hamilton Library. An electronic copy of the report is also published on the OCS report web page:

<http://www.honolulu.gov/council/ocs/reports/>

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## I. Introduction

We are pleased to issue another annual report on the status of the city's finances and budget. Note that this year's report is somewhat abbreviated compared to previous reports because key information is not available.

When the city implemented its new Integrated Financial & Human Resource System (C2HERPS) in July 2007, production ceased of the hardcopy monthly accounting reports used for our review of current fiscal year expenditures in the executive operating budget. We hope to gain access to the necessary information using C2HERPS and resume this review in our report next year. In addition, in 2006, voters approved a charter amendment that extended the effective period of capital budget appropriations to 24 months. As a result, appropriations made in the FY 2007 capital budget will be effective until June 30, 2008. Our report on any lapses from the FY 2007 capital budget that would have been in this report therefore cannot be made until our next report to be issued early next year.

Nevertheless, this report uses other information to continue our overview of certain fiscal trends which is intended to provide a historical and comparative context to review the upcoming city budget (see Chapter II), and our review of the prior year's revenues and expenditures for the operating budget (see Chapter III).

These reports are based on the audited financial report of the city, the executive operating and capital budget ordinances and any amendments thereto, the executive program and budget documents, the legislative budget ordinances, as well as the monthly accounting reports from the department of budget and fiscal services. Other sources are referenced in Chapter V.

We hope you find this report useful in considering the city's proposed budget for the coming fiscal year.

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## II. Budget Trends

In this section, we provide a brief overview of the city's budget and financial status, as reflected in certain key statistics, and compare the city with other jurisdictions. This is intended to provide a historical and comparative perspective that may be useful for evaluating the specifics about the next fiscal year's city budget. For more detail on specific subjects, please consult the data sources listed in Chapter V.

### A. Financial Position – Net Assets

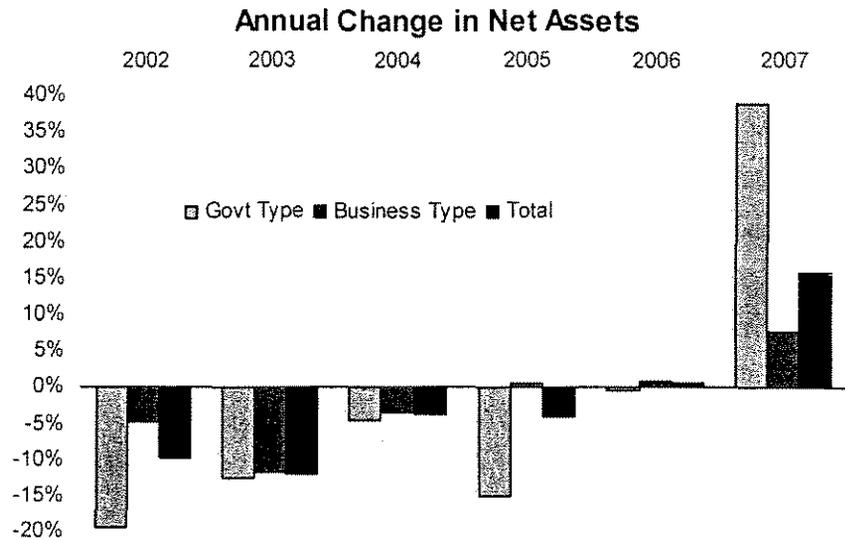
- **The City's Finances Have Improved**

In its annual accounting reports, the city's financial position is reported as a computation of "net assets". The amount of net assets is what results after subtracting what the city owes (termed "liabilities", such as outstanding bills, bonds, and claims and judgments against the city) from what owns (termed "assets", such as cash, investments, and the value of land, buildings, and infrastructure). The size of the net asset figure can be interpreted as representing the city's ability to cover its costs and continue to pay for services in the future. Increases or decreases in net assets over time indicate whether the city's financial position is improving or deteriorating.

The city's net assets are divided into those supported primarily by taxes, termed governmental activities, versus those that are supported at least to some extent by user fees, termed business activities. The city's enterprise funds for housing and the bus, solid waste, and sewer systems are classified as the business activities of the city.

The Board of Water Supply is a semi-autonomous agency of the city and is not included in the financial results reported here. The board reports on its finances separately from the city.

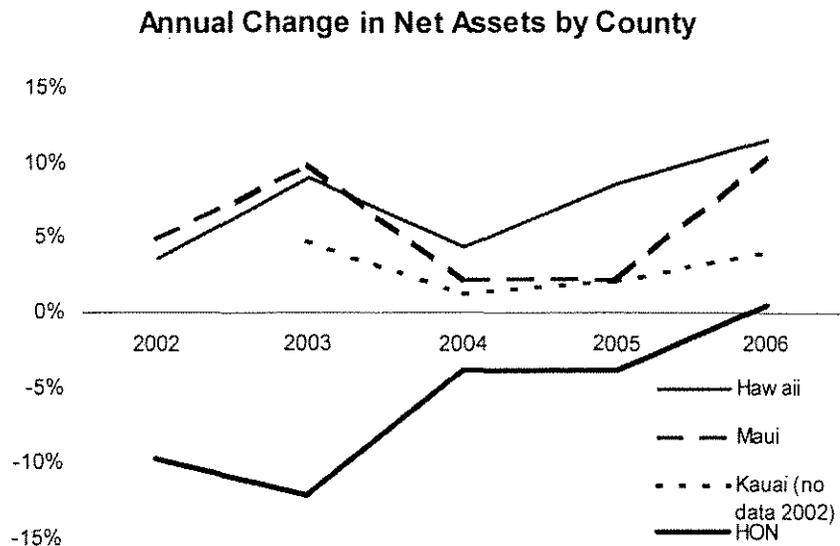
**The city's  
finances  
are much  
improved...**



**Figure A-1.** In 2007, the city recorded striking gains in net assets, a marked departure from prior years. The positive results were primarily due to big gains in real property tax collections and a 22 percent jump in motor vehicle taxes, leading to a \$98 million increase in net government assets. Business assets also rose following large bus and handivan purchases.

**Figure A-2.** In FY 2006, the neighbor islands continued their positive trends compared to the city's modest performance that year. The net assets of Hawaii County and Maui led the pack, recording gains of 12 and 10 percent, respectively, while Kauai showed a four-percent rise, which still compared favorably to Honolulu's 0.6-percent result.

**...but  
neighbor  
islands still  
record better  
results**



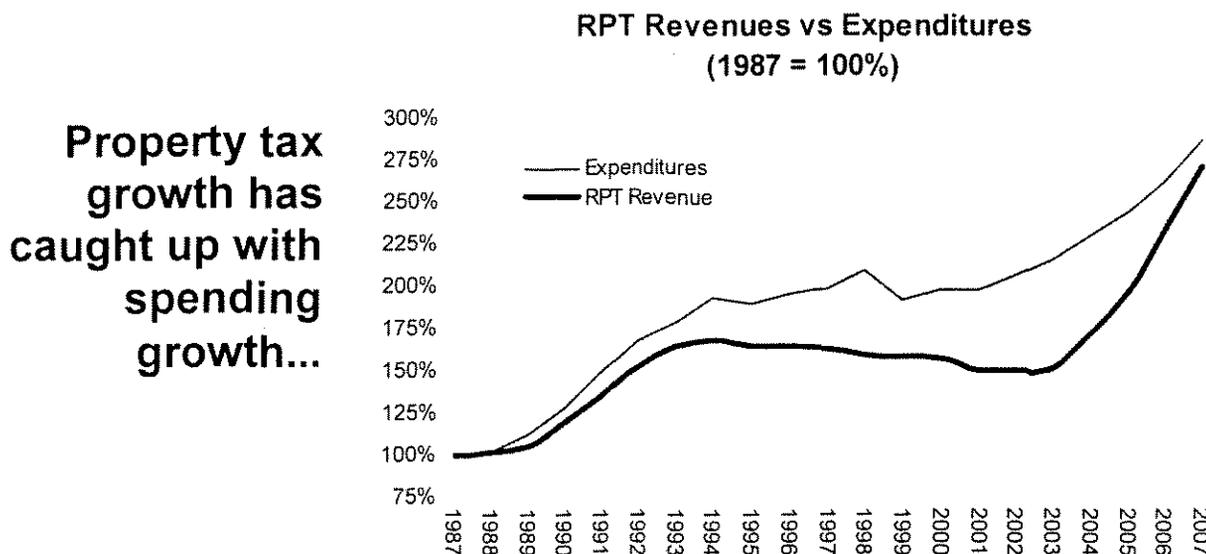
## B. Size of the City Budget

- **Is City Spending High or Low? Depends on What It's Compared To**

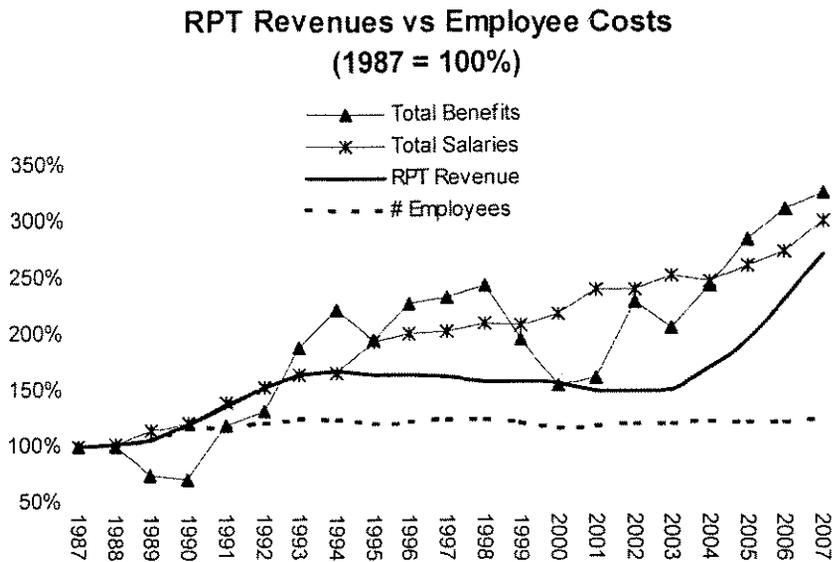
One way to measure the size and level of activity of a government entity is by examining the amount of government spending. Spending can be viewed as the most basic measure of government, since the level of spending drives tax policy, debt policy, and employment policy.

Government spending on operations is controlled through the operating budget. In this section, spending on operations is examined to see how the City and County of Honolulu's spending has grown over time, and how it compares to other jurisdictions. We also compare the spending levels over time to the levels of taxes and other revenues, as well as to the incomes of residents.

**Figure B-1.** The sharp rise in property tax revenues in recent years has closed the gap in the rising city operating expenditures over the last 20 years. In 2007, revenues were 287 percent of their levels in 1987, while expenditures were at 271 percent.



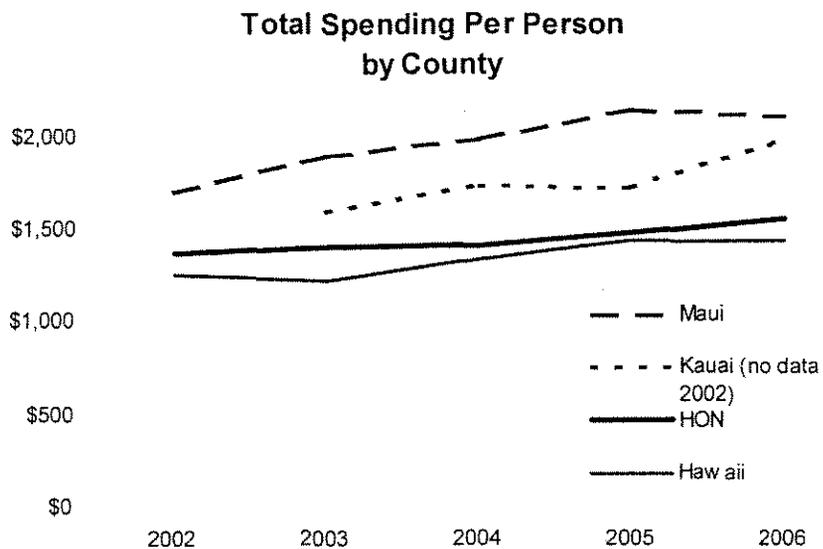
**...and the structural deficit from employee costs surpassing tax growth may be ending**



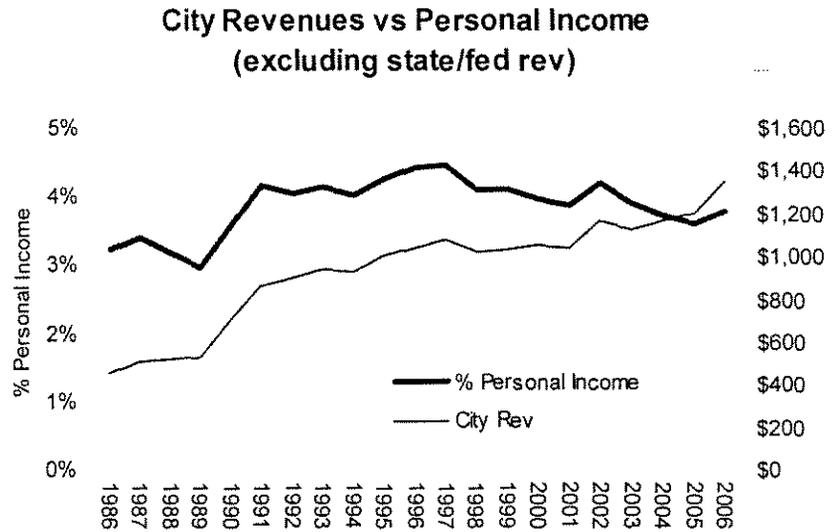
**Figure B-2.** The city's operating expenses largely reflect the cost of salaries and benefits (including benefits for retired employees). The largest single revenue source is the property tax, accounting for over a third of operating budget resources. While the number of city employees has remained relatively steady, salary and benefit costs increased faster than property tax revenues over most of the last 20 years, contributing to "structural deficits." However, the recent jump in property tax revenues may soon catch up and put an end to such deficits.

**Figure B-3.** In 2006, the counties began to fall into lower cost versus higher cost groups, measured in the amount of spending on operations per resident. Honolulu continued in the lower cost group at \$1,553 per resident in FY 2006, edging over Hawaii County's \$1,436 per resident, while Maui and Kauai led in spending at \$2,112 and \$1,979 per resident, respectively.

**The city is still one of the lower cost counties in Hawaii**



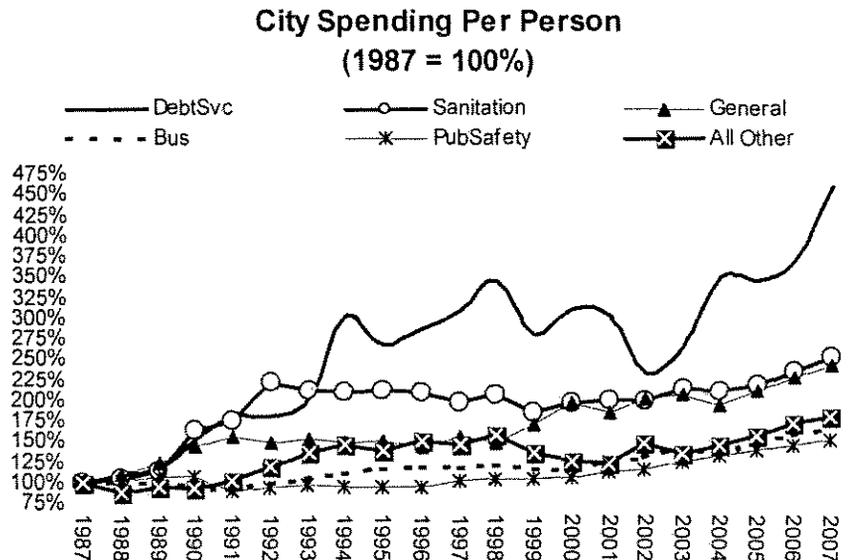
**Resident incomes have grown faster than city taxes and fees**



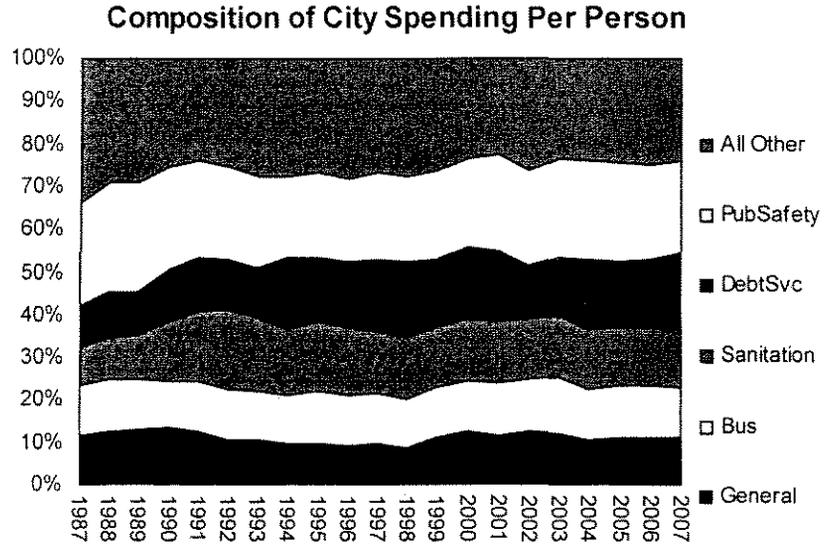
**Figure B-4.** One measure of the cost of government is how large government revenues are compared to the incomes of those served. Over the past 20 years, city revenues, excluding transfers from the state and federal governments, have increased. However, the personal incomes of Honolulu residents have increased even faster. By 2005, city revenues had declined to 3.6 percent of personal income, a level not seen since FY 1990. Even with recent hikes in taxes and fees, the ratio of revenues to personal incomes has remained well below the highs reached in the 1990's.

**Figure B-5.** City spending on operations, measured on a per-resident basis, has grown slowly, up only 67 percent in 20 years, less than the 91 percent rise in inflation over the period. Since 2000, three distinct groups have emerged among the components of spending. The fastest growing component has been debt service, which has jumped more than four and a half times the amount of 20 years ago. Public safety, the bus system and "all other" components have been the slowest growing over the period, with sanitation and general government costs forming the middle group.

**Debt service top source of spending growth...**



**...but public safety is still the largest spending area**



**Figure B-6.** You get a slightly different view when you look at the share of per-person spending that each component represents. Debt service accounts for the second largest share of spending, surpassed by public safety. In the chart, “all other” represents cost areas not included in the other categories, such as employee benefits. If viewed as a single group, “all other” would be the largest category, accounting for 22 percent of spending in FY 2007. Over the past 20 years, no component clearly dominates in rate of growth.

## C. Debt Service and Total Debt

- **City Debt Continues to Grow**

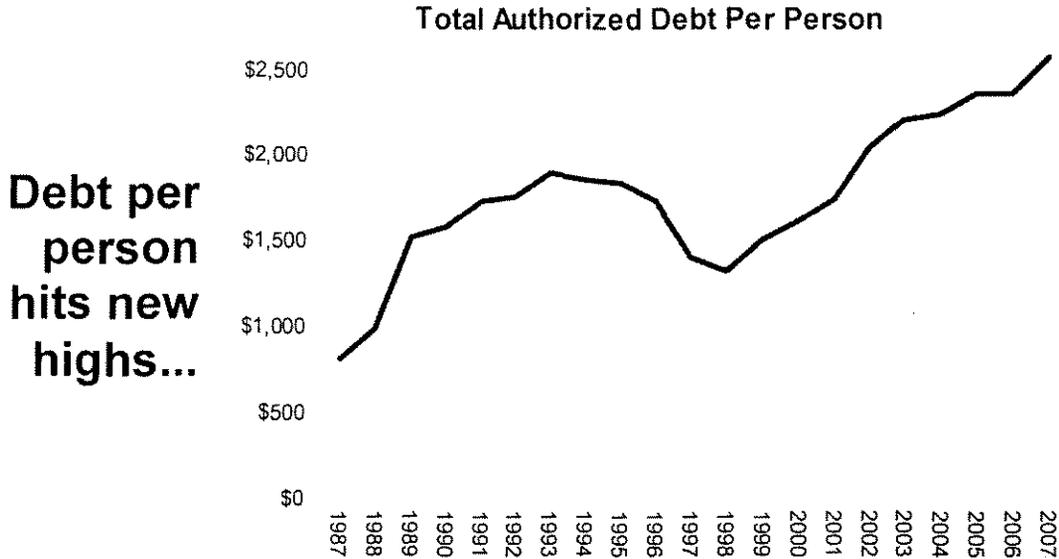
Most spending on construction and other long-lived assets in the capital budget is financed by bonds and other debt instruments. The repayment of the principal and interest on those debt instruments is called debt service.

Typically, most of the capital budget results in expenditures. The rest, usually between 10 and 20 percent, lapses, meaning certain projects or parts thereof were not implemented because priorities changed, projects were found to be unaffordable, or appropriations were not used because actual spending requirements were less than expected. Of the amount that is expended, the money usually comes from the issuance of bonds and other debt instruments. A portion of the rest of the budget is funded by cash from federal or state grant funds, or from the sewer fees deposited in the sewer fund.

The amount of debt that is authorized to be incurred by the city is made up of bonds already issued and bonds not yet issued. The amount of unissued bonds represents past capital budget appropriations that have not lapsed and are to be financed by bonds that have not yet been issued. It thus represents a backlog of debt to be incurred if the appropriations for capital projects contained in those past budgets are to be expended.

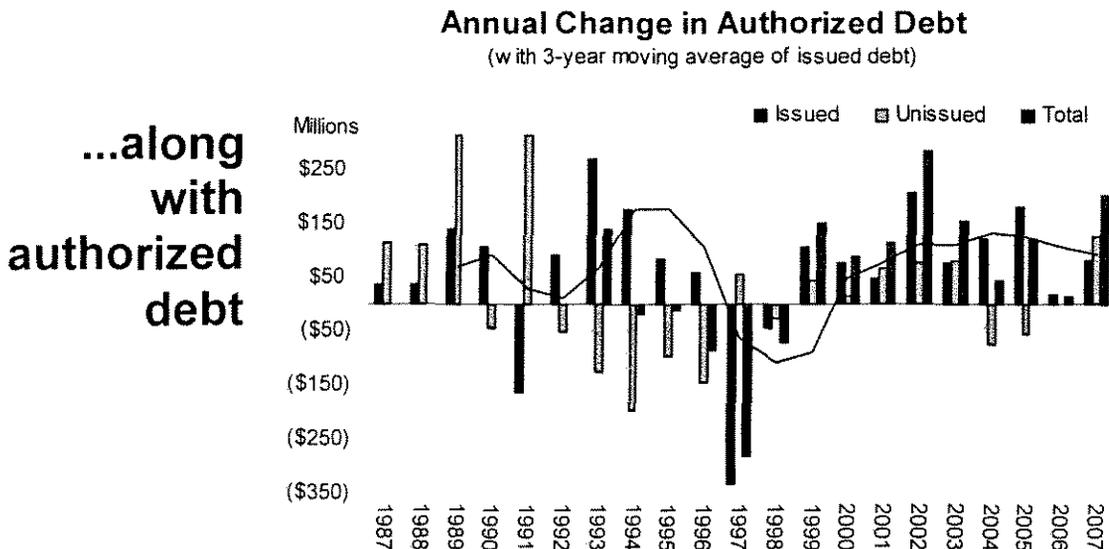
**Relationship to construction spending.** Spending on debt service as part of operations is distinct but related to spending on construction projects. Construction spending occurs first, and is authorized in the capital budget. That expenditure is mostly financed by incurring debt in the form of bonds, notes and commercial paper. A few years after the capital budget takes effect, repayment of the principal amount of the debt to finance the budget begins. Debt service payments are made from the operating budget. The debt service for any particular municipal bond issued by the city is paid over a long period, typically 30 years or more.

Construction spending information is recorded and reported in the city's financial reports in several ways: as an initial capital budget appropriation, as expenditures pursuant to the appropriation, as a yearly stream of repayments included in the operating budget to retire the debt that financed the initial outlay, and as an addition to the city's capital assets when a facility is completed followed by annual reductions thereto to record depreciation of the facility. Care must be taken to avoid confusing these numbers.

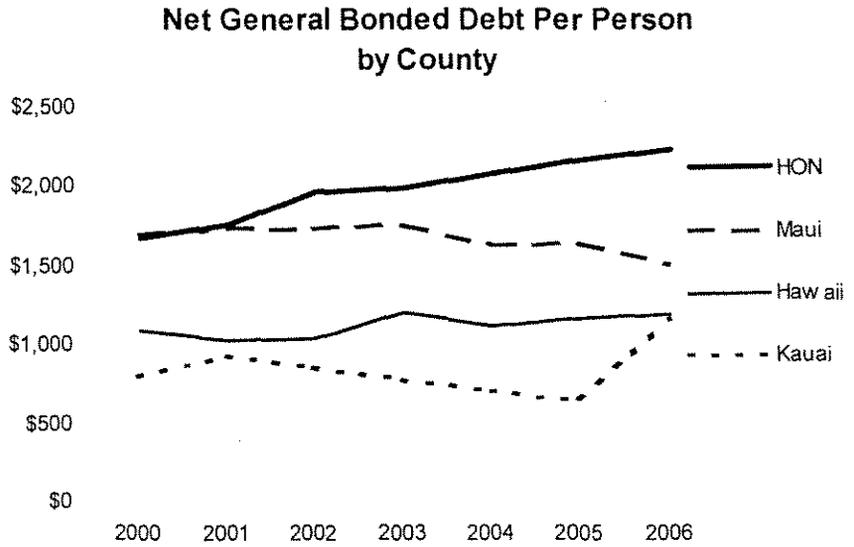


**Figure C-1.** The chart reflects the total amount of debt authorized per Honolulu resident. The city's authorized debt per person has climbed steeply since the previous low in FY 1998. In FY 2007, authorized debt hit a record \$2,578 per resident.

**Figure C-2.** This chart shows how the amount of debt authorized has changed from the previous year over the last twenty years. In FY 2007, the amount of debt issued was \$81 million more than the previous year, while the amount not yet issued also rose, \$123 million more than the year before. Over the past three years, the amount of debt that was issued by the city has increased by an average of roughly \$92 million per year.



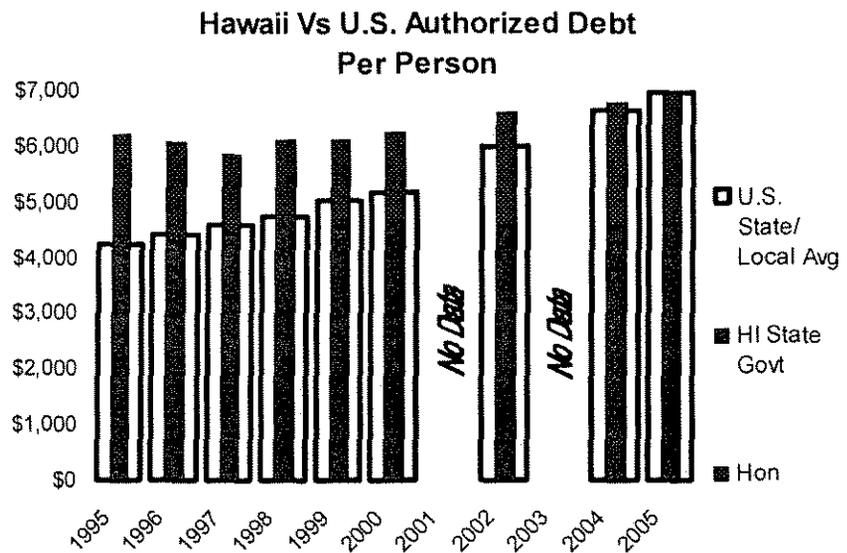
The city still tops the neighbor islands in debt per person...



**Figure C-3.** Issued debt whose debt service payments are to be paid with property tax revenues is called net general bonded debt. In FY 2006, Honolulu moved higher among Hawaii’s four counties in the amount of such debt when calculated on a per-resident basis. Honolulu’s \$2,237 per resident left the other counties way behind, with Maui at \$1,509, Hawaii at \$1,195, and Kauai at \$1,170.

**Figure C-4.** On a per-person basis, the combined debt of the city and state government has grown slowly while the national state-local average has swung sharply higher. In FY 2005, the two amounts converged after years of recording wide differences. This was possible not because the city’s debt issuance slowed but because state government debt has stabilized, and because the trend in the national average of state-local debt has seen a strong acceleration.

... but combined city and state per-person debt is now only average, nationally



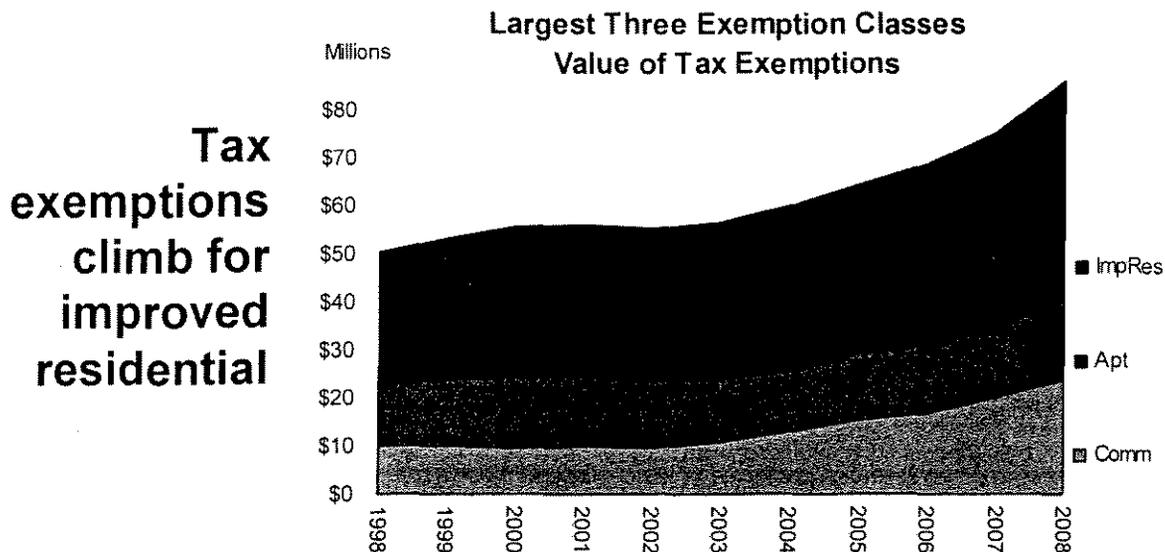
**D. Real Property Taxes**

- **Most Taxes Continue to Soar and the Gap Between Business and Residential Properties Continues to Widen**

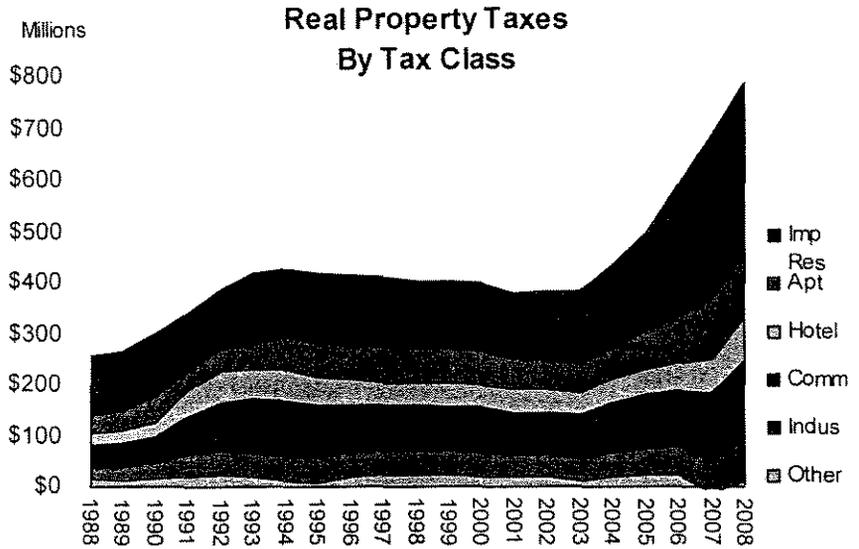
At 40 percent of operating revenues in FY 2007, property taxes are the city's largest single source of revenues.

Property tax revenues are generated by applying tax rates, which are set annually by the City Council for each of the ten classes of real property, to the assessed value of each parcel of taxable real property, net of any applicable exemptions. That value is established by the city's real property assessment division according to prevailing market values for land and replacement cost for improvements.

**Figure D-1.** The value of property tax exemptions (i.e. value of exempt properties multiplied by the otherwise applicable tax rate) has risen over the last ten years. Nearly all tax exemptions (90 percent of total exemption value in FY 2008) benefit the improved residential, apartment, and commercial classes of properties, with improved residential accounting for the greatest share. In FY 2008, improved residential property exemptions represented foregone revenues of \$45 million, apartment properties \$17 million, and commercial properties \$24 million, for a total of \$86 million in foregone revenues from those property classes. In comparison, the exemptions for all other property classes represented just \$9 million in foregone revenues.



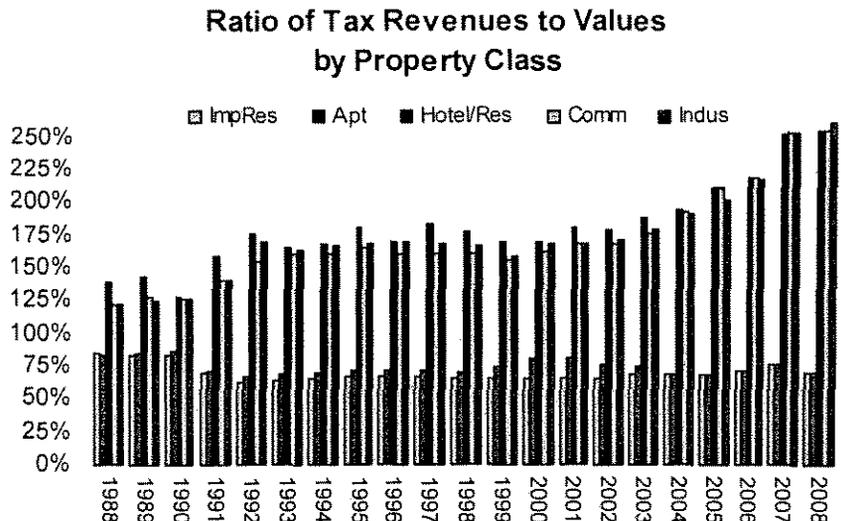
**Although revenues from owners of single family residences have jumped...**



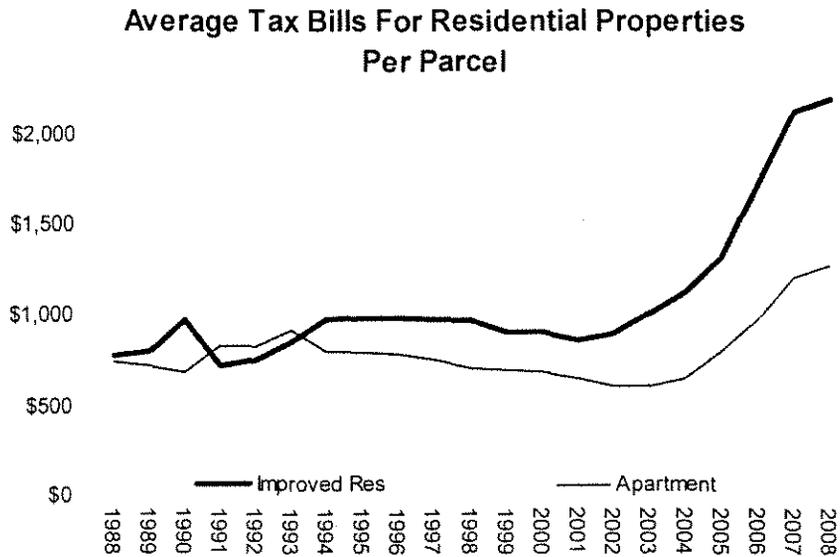
**Figure D-2.** Real property tax collections have begun to sharply rise over the last several years due mostly to robust collections from the improved residential class. That growth has increased the share of total tax revenues obtained from residential properties (improved residential and apartment classes) compared to the share from business properties (hotel/resort, commercial, industrial, and other classes), although residential properties still account for less than their share of valuations (see figure D-3).

**Figure D-3.** Because the city has long adopted lower rates for residential properties as compared to business properties, residential properties have had a much lower ratio of revenue share to value share. That ratio is a measure of relative tax burden between such properties. (A class of property that generated 10 percent of total tax revenues and represented 10 percent of total property value would have a 100 percent ratio of revenue share to value share.) The gap in tax burden between the two types of properties continued to widen in FY 2008. In that year, improved residential properties provided 42 percent of tax revenues while representing 60 percent of property values, producing a share ratio of 70 percent. In contrast, industrial properties provided 11 percent of revenues while representing just 4 percent of valuations, a share ratio of 261 percent, topping even hotel properties.

**...tax burdens between residential and business continue to diverge**

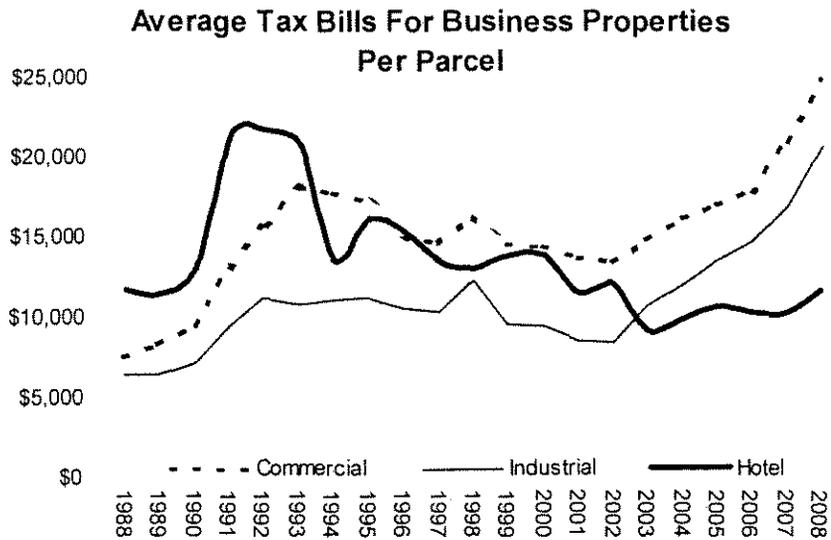


**Tax hikes starting to moderate for residential properties...**



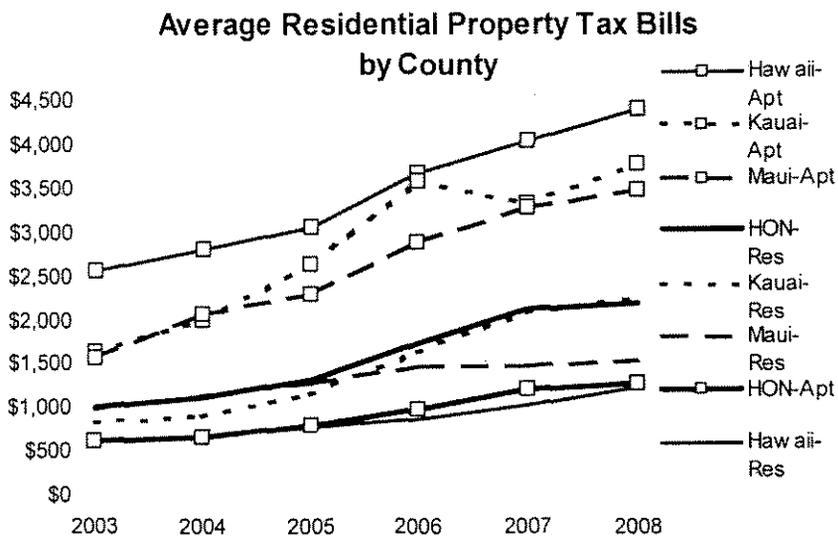
**Figure D-4.** The average tax bill for residential properties has begun to ease in the rate of increase. In FY 2008, single family properties paid an average tax bill of \$2,196, only 3 percent more than the prior year. In contrast, FY 2007 increase was 23 percent. Apartment properties paid an average bill of \$1,275 in FY 2008, up less than 6 percent from the year before. In FY 2007, the increase in apartment bills was 24 percent.

**...but tax bills for some businesses see new highs**



**Figure D-5.** Commercial and industrial properties have also been hit with soaring tax bills, eclipsing the rise in hotel tax bills. Commercial properties saw average tax bills rise 18 percent in FY 2008 over the previous year, while industrial properties rose 22 percent. Both commercial and industrial properties reached new highs in average tax bills. In comparison, the average property tax bill in FY 2008 for hotel and resort properties increased 14 percent over the previous year, but still remained far below historical highs.

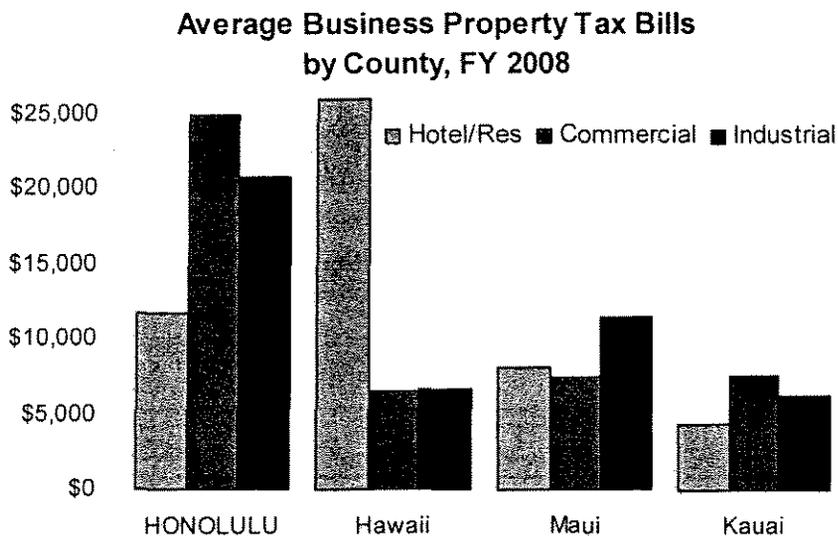
**The city's residential tax bills occupy the extremes among the counties...**



**Figure D-6.** In FY 2008, Honolulu's residential property tax bills were at the high end compared to the neighbor islands for single family properties (combining their homeowner or homestead classes together with their improved residential class) and at the lower end for apartment properties. For example, Honolulu's average improved residential property tax of \$2,196 was just under Kauai's effective average tax of \$2,256. (Note: there are minor comparability issues because of the neighbor islands' unique homeowner and homestead tax classes.) Among apartment properties, Honolulu's average apartment tax of \$1,239 showed the effect of its average apartment property value of \$390,000. Compare this to the county with the next lowest average apartment property tax, Maui County, at \$3,502, whose average property value is nearly double at \$779,000.

**Figure D-7.** In FY 2008, Honolulu's average property tax bills for hotel/resort, commercial, and industrial parcels exceeded those of the neighbor island counties, primarily because of Honolulu's higher tax rates. The exception was Hawaii County's hotel tax bills, which exceeded Honolulu's primarily because of the Hawaii County's high average hotel value of \$2.9 million, three times Honolulu's average hotel value of \$984,000.

**...while the city's tax bills for businesses are mostly higher**



## **E. Fund Balance and Budgeted Property Taxes**

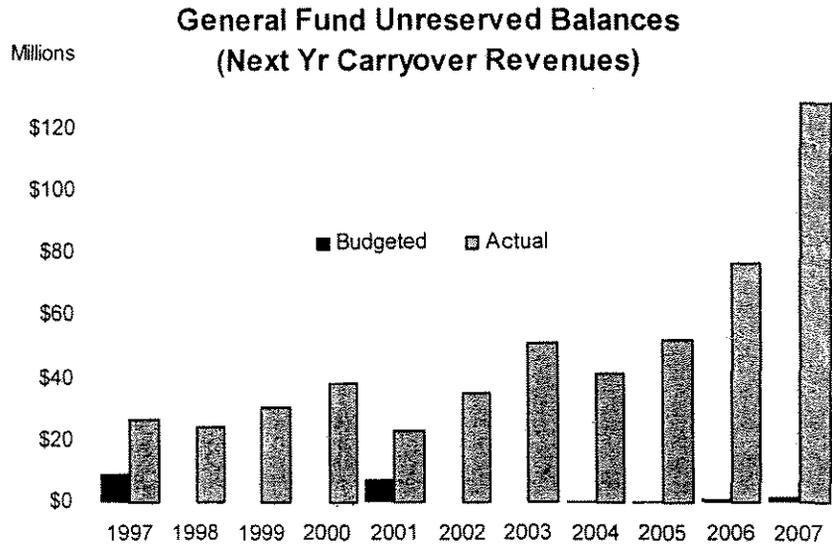
- **Despite A More Accurate Property Tax Estimate, Unbudgeted Year-end Balance Reaches New Highs**

The general fund is the primary fund in the operating budget. It is a recommended budget practice and advantageous for bond ratings that there be a reserve amount in the general fund to pay for unexpected costs.

The city's practice has been to budget practically all of the revenues of the fund for expenditure each fiscal year, thereby providing for no reserve or fund balance. Yet by year's end, the city's general fund ends up with a large unbudgeted balance that is carried over to the next fiscal year. In fact, this carryover amount from the previous year is usually the second largest anticipated revenue source for the operating budget, next to property taxes. In FY 2009, the carryover from the previous year was forecast to account for 16 percent of operating revenues.

While positive and reasonable balances in the general fund are desirable, wide disparities between budgeted and actual balances in the general fund are not. They indicate that substantial amounts of appropriations in the operating budget are not being implemented, perhaps systematically, or that revenues are being substantially, and perhaps systematically, under-estimated, or both. Similarly, while under-estimation of revenues from property taxes can be prudent, substantial and systemic under-estimates can be problematic. Thus, although conservative estimation helps to avoid mid-year deficits, excessive under-estimation means needed city services were not provided despite the availability of resources.

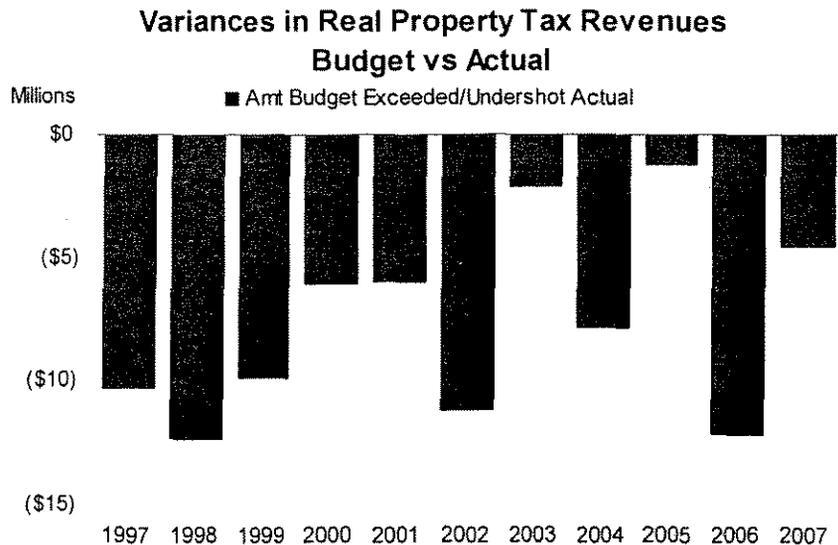
**Unbudgeted  
year-end  
general fund  
reserves hit  
record highs**



**Figure E-1.** The long-term trend in unbudgeted fund balances continues to spiral upward. The city’s actual year-end general fund unreserved balances hit a new high of \$128 million in FY 2007 despite a budget of only \$1.7 million for that purpose. (In the chart, the lack of a visible bar for a fiscal year means the budgeted amount for general fund balance was near zero.)

**Figure E-2.** Over the last ten years, the amount of revenues anticipated in the budget to be obtained from real property taxes have been below actual receipts, as much as \$12 million under actual in FY 1998 and FY 2006. That variance was reduced in FY 2007 to a commendable \$4.5 million under-estimate, indicating that the extremely large unbudgeted fund balance for that year was not due to under-estimating property tax revenues.

**Property tax  
revenues  
come in  
much higher  
than estimate**

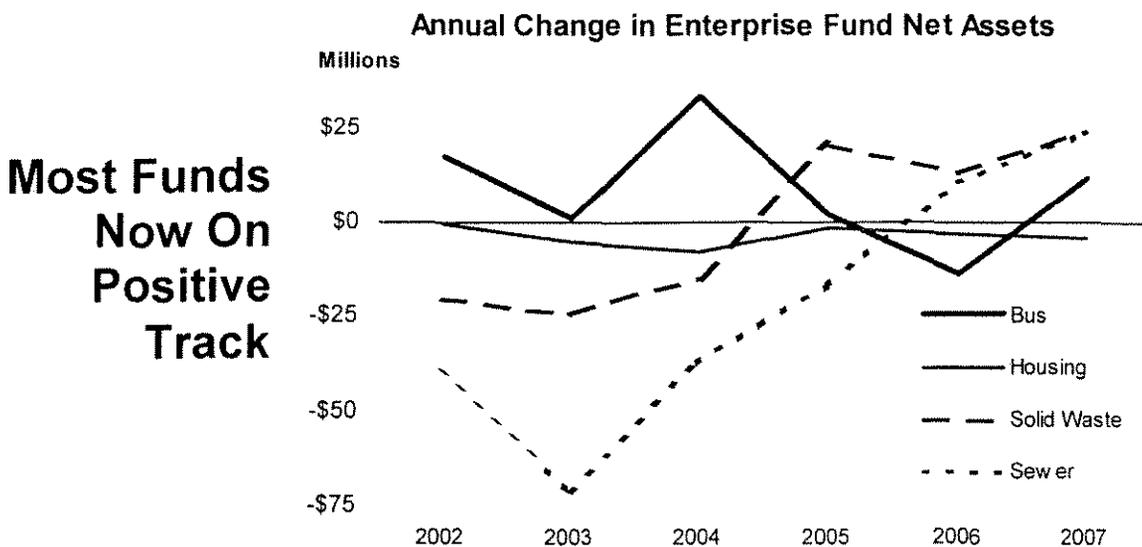


## F. Enterprise Funds

- **Enterprise Funds Show Positive Results**

Enterprise funds are used to account for certain government activities that are run like businesses and that charge fees to offset operating costs. The city has four enterprise funds: one each for the bus system, the solid waste collection and disposal system (including the H-Power garbage to energy plant), housing projects, and the sewer system. The significance of an enterprise fund's net asset amount is that it shows the financial position of the activity if operations ceased at the end of the period. For example, a positive net asset amount for the year ending June 30 would indicate that as of that date, the city could repay all outstanding debts of the activity and still fully own the buildings and equipment used by the activity. In contrast, a negative net asset amount would indicate that if operations ceased as of that date, the city would owe money to others. The annual change in net assets shows whether the fund financially improved or deteriorated during the subject year.

**Figure F-1.** The net assets of most of the city's enterprise funds gained in FY 2007 over the year before. The solid waste and sewer funds both repeated positive results after years of losses, up \$25 million and \$24 million, respectively. The bus fund also recorded positive returns of \$12 million, reversing the prior year setback. However, net assets for the housing fund in FY 2007 were down \$4 million from the previous year, continuing the long term pattern.



## **III. Executive Operating Budget**

### **Actual Versus Budgeted Revenues And Expenditures, FY 2007**

This is a comparison of actual versus budgeted revenues and expenditures for the executive operating budget. The review covered all of FY 2007. Our review is based on the information in the FY 2007 Executive Program and Budget documents, the executive operating budget ordinances (Ordinances 06-32 and 06-44), and unaudited financial reports for FY 2007. Our review of expenditures includes all fund sources, while the review of revenues only covers the general fund.

#### **A. Review of FY 2007**

##### **1. General Fund Overview**

Overall, for FY 2007, actual general fund revenues totaled \$1.141 billion, which was \$77 million more than the \$1.064 billion estimated in the budget (these figures include revenues, other financing sources (i.e. sale of assets), transfers in, and unreserved fund balance from prior year). Actual general fund expenditures for executive and legislative departments, miscellaneous expenses and debt service totaled \$1.004 billion, which was \$51.5 million lower than the \$1.056 billion budgeted (these figures include expenditures from departments, miscellaneous and debt service; other financing uses; and transfers out). The actual unreserved and undesignated fund balance for FY 2006, an amount which is carried over into FY 2007, totaled \$77 million, which was \$40 million more than the originally budgeted carryover of \$37 million. FY 2007 ended with a \$128 million unreserved, undesignated fund balance, an amount which becomes the following fiscal year's carryover.

##### **2. Significant Revenue Variances for General Fund, FY 2007**

The following table shows general fund revenue sources with a variance of \$1 million and five percent or more between actual and budgeted revenue amounts for FY 2007. Positive amounts mean actual revenues were more than the amounts budgeted; negative amounts mean actual revenues were less than the amounts budgeted.

**Table III-1. FY 2007 Major  
General Fund Revenue Variances**

General Fund Revenue Source	Variance (Receipts Compared to Budget)	Percent of Budgeted Amt
Public Service Company Tax	\$7,581,653	25%
Building Permits	\$3,972,289	30%
Excise Surcharge – Transit	\$3,424,383	9%
Investments	\$12,798,231	208%
Recovery State – Emergency Ambulance Service	\$1,879,129	7%
Other Sundry Realization	\$1,367,144	no revenue budgeted

### 3. Significant Expenditure Variances for FY 2007

The following table summarizes major general fund expenditure variances by function and department. Since expenditures cannot exceed the amount appropriated, variances reflect the amount by which actual expenditures were less than budgeted amounts. For the purposes of this summary, we only included variances at least \$1 million and five percent below budgeted amounts, and only included budgeted activities.

**Table III-2. FY 2007 Major  
General Fund Expenditure Variances**

Function/Department/Activity	Variance (Expenditure Compared to Budget)	Percent of Budgeted Amt
General Government/ Department of Design and Construction/ Project and Construction Management	-\$3,837,847	33%
General Government/ Corporation Counsel/ Legal Services	-\$2,374,675	36%
General Government/ Department of Customer Services/ Motor Vehicle, Licensing & Permits	-\$2,514,732	22%
General Government/ Department of Information and Technology/ Administration	-\$2,346,515	27%
General Government/ Department of Budget and Fiscal Services/ Treasury	-\$5,471,826	78%
Debt Service/ Tax Exempt Commercial Paper Payments	-\$4,116,175	43%
Miscellaneous/ Provision for Risk Management	-\$1,338,583	19%
Public Safety/ Department of Emergency Services/ Emergency Medical Services	-\$2,158,695	11%
General Government/ Department of Planning and Permitting/ Administration	-\$1,354,347	46%
Culture-Recreation/ Department of Parks and Recreation/ Urban Forestry	-\$1,822,972	23%
Culture-Recreation/ Department of Parks and Recreation/ Recreation Services	-\$2,916,104	15%
Culture-Recreation/ Department of Parks and Recreation/ Grounds Maintenance	-\$2,805,363	13%
Sanitation/ Department of Environmental Services/ Environmental Quality	-\$1,537,759	41%
Miscellaneous/ Provision for Salary Adjustments and Accrued Vacation Pay	-\$2,394,392	100%
Miscellaneous/ Provision for Judgments and Losses	-\$3,683,470	34%
Miscellaneous/ Provision for Electricity	-\$1,311,323	100%

#### 4. Major Appropriation Lapses by Activity, FY 2007

In Table III-3 below, we have highlighted the major appropriation lapses for FY 2007, by budgeted activity, based on the detailed information in Table IV-2 that follows. We included lapses that were at least \$1 million and five percent of adjusted appropriations, only included budgeted activities, and excluded federal and state grants from funds such as the Federal Grants Fund and the Special Projects Fund.

**Table III-3. FY 2007 Major  
Appropriation Lapses by Activity**

Dept/Activity	Adjusted Appropriation	Lapsed Amt	Percent of Appropriation
Department of Customer Services/ Motor Vehicle, Licensing and Permits	\$14,709,830	\$2,085,918	14%
Department of Budget and Fiscal Services/ Treasury	\$7,077,213	\$5,251,569	74%
Department of the Corporation Counsel/ Legal Services	\$7,062,632	\$1,833,753	26%
Department of Planning and Permitting/ Site Development	\$3,923,907	\$1,149,084	29%
Department of Design and Construction/ Project and Construction Management	\$17,667,248	\$4,763,365	27%
Department of Parks and Recreation/ Recreation Services	\$21,309,730	\$1,295,256	6%
Department of Environmental Services/ Refuse Collection and Disposal	\$134,467,605	\$11,352,531	8%
Department of Environmental Services/ Administration	\$8,405,161	\$1,356,688	16%
Department of Environmental Services/ Environmental Quality	\$11,043,400	\$2,123,111	19%
Department of Environmental Services/ Collection System Maintenance	\$11,368,307	\$2,187,793	19%
Department of Environmental Services/ Treatment and Disposal	\$49,559,141	\$7,334,283	15%
Miscellaneous/ Tax Exempt Commercial Paper	\$9,680,000	\$4,116,175	43%
Miscellaneous/ Health Fund	\$75,970,764	\$4,064,010	5%
Miscellaneous/ Workers' Compensation	\$12,000,000	\$1,901,836	16%
Miscellaneous/ Provision for Salary Adjustment and Accumulated Vacation Pay	\$3,155,142	\$3,155,142	100%
Miscellaneous/ Judgment and Losses	\$10,867,000	\$3,562,885	33%
Miscellaneous/ Provision for Electricity	\$2,407,793	\$2,407,793	100%
Miscellaneous/ Provision for Other Energy Costs	\$8,557,136	\$8,557,136	100%

## 5. Detailed Expenditure Results by Activity, FY 2007

Table III-4 displays expenditure results of activities in the FY 2007 executive operating budget ordinance, listed by agency in the order it appears in the ordinance. In addition, the activity "Other Grants", which is an item found occasionally only in the accounting reports, is added under the appropriate agency. For each activity, the amounts appropriated, expended/encumbered, and lapsed in the fiscal year are shown. Included is the percentage of the activity's appropriation that the lapsed amount represents. Activities where the lapsed amount equaled or exceeded \$1 million and five percent of the adjusted appropriation are highlighted, but only if the lapsed amount and percentage continue to meet the criteria after excluding grant funds from any source. For each activity, the following information is provided regarding its status at the end of the fiscal year:

- (1) Total appropriated amount as shown in the budget ordinance.
- (2) The total appropriated amount as may be adjusted by any transfers and grants, whether from state or federal sources. The adjusted amount may be higher than the initial appropriation if a transfer or grant added to the amount appropriated. Alternatively, the adjusted amount may be lower than the initial appropriation if a transfer reduced the amount appropriated to that activity or if a grant was less than budgeted.
- (3) The amount of the adjusted appropriation that was expended or encumbered during the fiscal year.
- (4) The amount that lapsed at the end of the fiscal year and its percentage of the adjusted appropriation.

Table III-4  
**EXECUTIVE OPERATING BUDGET**  
**Appropriations for FY 2007, All Funds**

Budgeted Activity	Approp.	Adjusted Approp.	Expend./ Encumb.	Lapsed	% Lapsed
<u>Mayor</u>					
Administration	\$496,328	\$503,328	\$501,128	\$2,200	0.4%
Contingency	\$25,500	\$25,500	\$25,475	\$25	0.1%
Other Grants (Special Projects Fund)		\$200,000	\$185,000	\$15,000	7.5%
<u>Managing Director</u>					
City Management	\$1,592,233	\$1,592,233	\$1,536,131	\$56,102	3.5%
Culture and the Arts	\$690,931	\$690,931	\$687,782	\$3,149	0.5%
Neighborhood Commission	\$1,039,853	\$1,039,853	\$1,006,409	\$33,444	3.2%
Royal Hawaiian Band	\$1,983,812	\$1,983,812	\$1,923,624	\$60,188	3.0%
Other Grants (Special Projects Fund)		\$751,950	\$709,950	\$42,000	5.6%
<u>Department of Customer Services</u>					
Administration	\$415,086	\$415,086	\$397,303	\$17,783	4.3%
Public Communication	\$2,145,701	\$2,145,701	\$1,863,232	\$282,469	13.2%
Satellite City Hall	\$4,238,097	\$4,238,097	\$4,080,518	\$157,579	3.7%
Motor Vehicle Licensing and Permits	\$14,709,890	\$14,709,890	\$12,623,912	\$2,085,978	14.2%
<u>Department of Budget and Fiscal Services</u>					
Administration	\$995,716	\$1,695,405	\$1,397,335	\$298,070	17.6%
Internal Control	\$806,236	\$806,236	\$806,169	\$67	0.0%
Fiscal/CIP Administration	\$1,233,283	\$520,442	\$485,410	\$35,032	6.7%
Budgetary Administration	\$783,770	\$814,922	\$784,213	\$30,709	3.8%
Accounting and Fiscal Services	\$4,298,273	\$4,305,773	\$4,027,983	\$277,790	6.5%
Purchasing and General Services	\$1,380,596	\$1,380,596	\$1,273,431	\$107,165	7.8%
Real Property	\$5,397,573	\$5,379,573	\$4,755,235	\$624,338	11.6%
Treasury	\$7,077,213	\$7,077,213	\$1,825,644	\$5,251,569	74.2%
Liquor Commission	\$3,183,388	\$3,188,388	\$2,463,080	\$725,308	22.7%
<u>Department of Information Technology</u>					
Administration	\$8,774,087	\$8,783,411	\$8,728,226	\$55,185	0.6%
Applications	\$3,942,839	\$3,893,429	\$3,647,493	\$245,936	6.3%
Technical Support	\$1,838,681	\$1,913,091	\$1,910,933	\$2,158	0.1%
Operations	\$1,773,178	\$1,777,854	\$1,598,148	\$179,706	10.1%
Other Grants (Special Projects Fund)		\$1,200,000	\$1,065,589	\$134,411	11.2%
<u>Department of the Corporation Counsel</u>					
Legal Services	\$7,065,985	\$7,062,632	\$5,228,879	\$1,833,753	26.0%
Family Support	\$782,136	\$782,136	\$688,069	\$94,067	12.0%
Ethics Commission	\$158,424	\$161,777	\$159,347	\$2,430	1.5%

Table III-4 (continued)  
**EXECUTIVE OPERATING BUDGET**  
 Appropriations for FY 2007, All Funds

Budgeted Activity	Approp.	Adjusted Approp.	Expend./ Encumb.	Lapsed	% Lapsed
<u>Department of the Prosecuting Attorney</u>					
Administration	\$3,524,536	\$3,524,536	\$3,449,338	\$75,198	2.1%
Prosecution	\$12,624,253	\$12,624,253	\$11,217,113	\$1,407,140	11.1%
Victim/Witness Assistance	\$2,340,049	\$3,142,250	\$2,174,730	\$967,520	30.8%
<u>Department of Human Resources</u>					
Administration	\$592,070	\$592,070	\$552,925	\$39,145	6.6%
Employment and Personnel Services	\$1,339,429	\$1,339,429	\$1,247,662	\$91,767	6.9%
Classification and Pay	\$768,947	\$768,947	\$750,624	\$18,323	2.4%
Health Services	\$705,618	\$705,618	\$685,080	\$20,538	2.9%
Industrial Safety and Workers' Compensation	\$1,010,881	\$1,010,881	\$964,459	\$46,422	4.6%
Labor Relations and Training	\$1,106,401	\$1,106,401	\$904,541	\$201,860	18.2%
<u>Department of Planning and Permitting</u>					
Administration	\$3,138,466	\$3,138,466	\$2,765,060	\$373,406	11.9%
Site Development	\$3,923,907	\$3,923,907	\$2,774,823	\$1,149,084	29.3%
Land Use Permits	\$1,520,249	\$1,520,249	\$1,279,636	\$240,613	15.8%
Planning	\$1,966,107	\$1,966,107	\$1,903,286	\$62,821	3.2%
Customer Service Office	\$3,028,059	\$3,028,059	\$2,873,392	\$154,667	5.1%
Building	\$5,456,840	\$5,456,840	\$4,826,293	\$630,547	11.6%
Federal grants		\$220,560	\$220,560	\$0	0.0%
<u>Department of Facility Maintenance</u>					
Administration	\$1,247,458	\$1,247,458	\$1,159,692	\$87,766	7.0%
Road Maintenance	\$19,335,960	\$19,335,960	\$19,291,353	\$44,607	0.2%
Pub Building and Electrical Maint	\$18,269,997	\$18,269,997	\$17,507,737	\$762,260	4.2%
Automotive Equipment Services	\$16,440,196	\$16,440,196	\$15,660,332	\$779,864	4.7%
<u>Department of Design and Construction</u>					
Administration	\$892,591	\$892,591	\$783,720	\$108,871	12.2%
Project and Construction Mgmt	\$17,667,248	\$17,667,248	\$12,903,883	\$4,763,365	27.0%
Land Services	\$2,275,536	\$2,275,536	\$1,881,981	\$393,555	17.3%
Federal grants		\$14,800	\$14,800	\$0	0.0%

Table III-4 (continued)  
**EXECUTIVE OPERATING BUDGET**  
**Appropriations for FY 2007, All Funds**

Budgeted Activity	Approp.	Adjusted Approp.	Expend./ Encumb.	Lapsed	% Lapsed
<u>Police Department</u>					
Police Commission	\$477,946	\$477,946	\$455,473	\$22,473	4.7%
Office of the Chief of Police	\$6,360,766	\$6,360,766	\$6,060,601	\$300,165	4.7%
Patrol	\$93,015,673	\$93,315,673	\$91,006,253	\$2,309,420	2.5%
Traffic	\$8,771,589	\$8,771,589	\$8,388,784	\$382,805	4.4%
Specialized Services	\$5,653,339	\$5,653,339	\$5,348,916	\$304,423	5.4%
Central Receiving	\$5,586,233	\$5,586,233	\$5,380,728	\$205,505	3.7%
Criminal Investigation	\$10,912,692	\$10,912,692	\$10,409,792	\$502,900	4.6%
Juvenile Services	\$4,246,147	\$4,246,147	\$3,876,991	\$369,156	8.7%
Narcotics/Vice	\$7,021,852	\$7,021,852	\$6,542,973	\$478,879	6.8%
Scientific Investigation	\$2,864,397	\$2,864,397	\$2,568,288	\$296,109	10.3%
Communications	\$9,198,812	\$9,198,812	\$8,554,395	\$644,417	7.0%
Records and Identification	\$5,691,229	\$5,691,229	\$5,527,835	\$163,394	2.9%
Telecommunications Systems	\$1,950,847	\$1,950,847	\$1,771,718	\$179,129	9.2%
Vehicle Maintenance	\$2,312,823	\$2,312,823	\$2,192,866	\$119,957	5.2%
Human Resources	\$2,413,422	\$2,413,422	\$2,279,763	\$133,659	5.5%
Training	\$11,327,560	\$11,327,560	\$10,907,121	\$420,439	3.7%
Finance	\$6,206,930	\$6,706,930	\$6,596,211	\$110,719	1.7%
Information Technology	\$3,916,864	\$3,916,864	\$3,661,687	\$255,177	6.5%
Other Grants		\$4,727,425	\$3,488,893	\$1,238,532	26.2%
<u>Fire Department</u>					
Fire Commission	\$7,868	\$7,868	\$3,023	\$4,845	61.6%
Administration	\$2,448,701	\$2,424,701	\$2,338,757	\$85,944	3.5%
Fire Communication Center	\$1,500,712	\$1,650,712	\$1,593,379	\$57,333	3.5%
Fire Prevention	\$2,991,848	\$2,991,848	\$2,892,252	\$99,596	3.3%
Mechanic Shop	\$1,513,880	\$1,613,880	\$1,602,822	\$11,058	0.7%
Training and Research	\$1,818,149	\$1,668,149	\$1,466,389	\$201,760	12.1%
Radio Shop	\$254,744	\$278,744	\$176,436	\$102,308	36.7%
Fire Operations	\$63,638,309	\$63,538,309	\$63,011,616	\$526,693	0.8%
Fireboat	\$1,555,223	\$1,555,223	\$1,320,851	\$234,372	15.1%
City Radio System	\$268,836	\$268,836	\$188,400	\$80,436	29.9%
Other Grants		\$146,797	\$35,000	\$111,797	76.2%
<u>Department of Emergency Services</u>					
Administration	\$489,287	\$489,287	\$461,313	\$27,974	5.7%
Emergency Medical Services	\$20,283,901	\$20,283,901	\$18,353,537	\$1,930,364	9.5%
Ocean Safety	\$8,005,643	\$8,005,643	\$7,672,539	\$333,104	4.2%
Other Grants		\$3,575	\$3,575	\$0	0.0%
<u>Civil Defense Agency</u>					
Emergency Management Coordination	\$860,515	\$862,515	\$672,713	\$189,802	22.0%
Other Grants		\$24,614,997	\$8,771,499	\$15,843,498	64.4%

Table III-4 (continued)  
EXECUTIVE OPERATING BUDGET  
Appropriations for FY 2007, All Funds

Budgeted Activity	Approp.	Adjusted Approp.	Expend./ Encumb.	Lapsed	% Lapsed
<u>Department of the Medical Examiner</u>					
Investigation of Deaths	\$1,321,468	\$1,382,176	\$1,351,572	\$30,604	2.2%
Other Grants (Special Projects Fund)	\$0	\$5,000	\$5,000	\$0	0.0%
<u>Department of Community Services</u>					
Administration	\$6,941,352	\$8,649,218	\$5,733,698	\$2,915,520	33.7%
Community Assistance	\$39,515,758	\$44,183,398	\$41,040,842	\$3,142,556	7.1%
Elderly Services	\$8,634,100	\$8,704,655	\$6,858,538	\$1,846,117	21.2%
Community Based Development	\$4,386,235	\$4,386,235	\$2,979,666	\$1,406,569	32.1%
WorkHawaii	\$5,694,870	\$7,708,061	\$4,994,557	\$2,713,504	35.2%
<u>Department of Parks and Recreation</u>					
Administration	\$1,604,100	\$1,604,100	\$1,572,360	\$31,740	2.0%
Urban Forestry	\$7,869,910	\$7,869,910	\$7,275,762	\$594,148	7.5%
Maintenance Support Services	\$4,971,171	\$4,971,171	\$4,818,086	\$153,085	3.1%
Grounds Maintenance	\$22,666,349	\$22,648,349	\$21,973,547	\$674,802	3.0%
Recreation Services	\$20,951,080	\$21,309,730	\$19,861,072	\$1,448,658	6.8%
<u>Department of Enterprise Services</u>					
Administration	\$624,667	\$624,667	\$538,257	\$86,410	13.8%
Auditoriums	\$5,463,290	\$5,463,290	\$5,120,940	\$342,350	6.3%
Honolulu Zoo	\$4,664,186	\$4,664,186	\$4,396,043	\$268,143	5.7%
Golf Courses	\$8,740,162	\$8,740,162	\$7,960,241	\$779,921	8.9%
<u>Department of Transportation Services</u>					
Administration	\$547,951	\$525,740	\$460,843	\$64,897	12.3%
Transportation Planning	\$4,459,699	\$4,481,910	\$4,442,984	\$38,926	0.9%
Traffic Engineering	\$1,819,961	\$1,819,961	\$1,646,401	\$173,560	9.5%
Traffic Signals and Technology	\$3,114,573	\$3,114,573	\$2,925,978	\$188,595	6.1%
Public Transit	\$164,695,056	\$164,695,056	\$163,950,904	\$744,152	0.5%
Other Grants	\$0	\$312,106	\$39,451	\$272,655	87.4%

Table III-4 (continued)  
**EXECUTIVE OPERATING BUDGET**  
**Appropriations for FY 2007, All Funds**

Budgeted Activity	Approp.	Adjusted Approp.	Expend./ Encumb.	Lapsed	% Lapsed
<u>Department of Environmental Services</u>					
Refuse Collection and Disposal	\$134,467,605	\$134,467,605	\$123,115,074	\$11,352,531	8.4%
Administration	\$8,405,161	\$8,405,161	\$7,048,473	\$1,356,688	16.1%
Environmental Quality	\$11,043,400	\$11,043,400	\$8,810,137	\$2,233,263	20.2%
Collection System Maintenance	\$11,368,307	\$11,368,307	\$9,180,514	\$2,187,793	19.2%
Treatment and Disposal	\$49,559,141	\$49,559,141	\$42,224,858	\$7,334,283	14.8%
<u>Debt Service and Miscellaneous</u>					
Bond Principal and Interest	\$247,765,344	\$247,765,344	\$247,759,108	\$6,236	0.0%
Other Debt Principal and Interest	\$359,221	\$359,221	\$359,220	\$1	0.0%
Tax Exempt Commercial Paper	\$9,680,000	\$9,680,000	\$5,663,826	\$4,116,175	42.5%
County Pension	\$50,000	\$50,000	\$20,743	\$29,257	58.5%
Retirement System	\$66,905,406	\$66,905,406	\$65,148,569	\$1,756,837	2.6%
FICA	\$21,062,462	\$21,062,462	\$20,637,647	\$424,815	2.0%
Health Fund	\$75,970,764	\$75,970,764	\$71,906,754	\$4,064,010	5.3%
Workers' Compensation	\$12,000,000	\$12,000,000	\$10,098,164	\$1,901,836	15.8%
Unemployment Compensation	\$494,245	\$494,245	\$139,095	\$355,150	71.9%
Salary Adj and Accumulated Vac	\$3,328,000	\$3,155,142	\$0	\$3,155,142	94.8%
Provision for Matching Funds	\$1,000,000	\$716,000	\$0	\$716,000	71.6%
Judgment and Losses	\$10,867,000	\$10,867,000	\$7,304,115	\$3,562,885	32.8%
Risk Management	\$7,098,500	\$7,098,500	\$7,098,500	\$0	0.0%
Provision for Electricity	\$2,407,793	\$2,407,793	\$0	\$2,407,793	100.0%
Provision for Other Energy Costs	\$9,357,136	\$8,557,136	\$0	\$8,557,136	100.0%
<b>TOTAL EXECUTIVE APPROPRIATIONS</b>	<b>\$1,491,445,707</b>	<b>\$1,532,909,370</b>	<b>\$1,406,123,595</b>	<b>\$126,785,775</b>	<b>8.3%</b>

Table III-5  
**LEGISLATIVE BUDGET**  
 Appropriations for FY 2007, All Funds

Budgeted Activity	Approp.	Adjusted Approp.	Expend./ Encumb.	Lapsed	% Lapsed
<u>City Council</u>					
Administration	\$4,180,822	\$4,317,032	\$3,919,473	\$397,559	9.2%
Council Allotment	\$124,480	\$124,480	\$91,255	\$33,225	26.7%
Charter Commission	\$514,400	\$439,400	\$290,864	\$148,536	33.8%
Salary Commission	\$13,300	\$13,300	\$13,198	\$102	0.8%
<u>Office of Council Services</u>					
Administration	\$458,400	\$464,956	\$457,517	\$7,439	1.6%
Legal Assistance	\$391,025	\$401,025	\$400,710	\$315	0.1%
Organized Research and Analysis	\$479,873	\$492,473	\$450,439	\$42,034	8.5%
Revisor of Ordinances	\$51,644	\$53,244	\$53,129	\$115	0.2%
<u>City Clerk</u>					
Administration	\$311,610	\$365,666	\$356,258	\$9,408	2.6%
Support Services	\$286,415	\$286,415	\$232,611	\$53,804	18.8%
Council Assistance	\$794,672	\$794,672	\$723,290	\$71,382	9.0%
Elections	\$2,214,828	\$2,164,828	\$1,777,660	\$387,168	17.9%
<u>City Auditor</u>					
Administration	\$681,731	\$681,731	\$572,108	\$109,623	16.1%
Financial Audit	\$350,000	\$350,000	\$350,000	\$0	0.0%
<u>Miscellaneous</u>					
Retirement System	\$950,000	\$950,000	\$919,836	\$30,164	3.2%
FICA	\$530,000	\$530,000	\$470,625	\$59,375	11.2%
EUTF	\$1,061,000	\$1,061,000	\$850,358	\$210,642	19.9%
Accumulated Vacation Leave	\$215,000	\$118,978	\$26,867	\$92,111	77.4%
Workers' Compensation	\$60,000	\$60,000	\$0	\$60,000	0.0%
Unemployment Compensation	\$80,000	\$80,000	\$8,674	\$71,326	89.2%
Collective Bargaining	\$100	\$100	\$0	\$100	100.0%
Salary Adjustment (Included)	\$100	\$100	\$0	\$100	100.0%
Salary Adjustment (Excluded)	\$100	\$100	\$0	\$100	100.0%
<b>TOTAL LEGISLATIVE APPROPRIATIONS</b>	<b>\$13,749,500</b>	<b>\$13,749,500</b>	<b>\$11,964,872</b>	<b>\$1,784,628</b>	<b>13.0%</b>
<b>TOTAL CITY APPROPRIATIONS</b>	<b>\$1,505,195,207</b>	<b>\$1,546,658,870</b>	<b>\$1,418,088,467</b>	<b>\$128,570,403</b>	<b>8.3%</b>

## 6. Major Appropriation Lapses by Fund, FY 2007

In Table III-6 below, we display the amounts appropriated, expended/encumbered, and lapsed by fund source. We would have highlighted the major fund lapses for FY 2007 that were at least \$5 million and ten percent of adjusted appropriations, excluding grant funds, but there were none in FY 2007.

Table III-6  
EXECUTIVE AND LEGISLATIVE BUDGET, FY 2007  
Summary of Results by Fund

Fund	Approp.	Adjusted Approp.	Expend./ Encumb.	Lapsed	% Lapsed
General Fund	\$848,206,307	\$848,206,307	\$796,739,893	\$51,466,414	6.1%
Highway Fund	\$79,145,766	\$79,145,766	\$73,862,868	\$5,282,898	6.7%
Sewer Fund	\$141,600,922	\$141,600,922	\$127,634,583	\$13,966,339	9.9%
Bus Transportation Fund	\$151,835,847	\$151,835,847	\$143,062,813	\$8,773,034	5.8%
Liquor Commission Fund	\$4,023,202	\$4,023,202	\$3,134,077	\$889,125	22.1%
Bikeway Fund	\$429,460	\$429,460	\$319,311	\$110,149	25.6%
Highway Beautification and Disposal	\$3,287,432	\$3,287,432	\$2,598,310	\$689,122	21.0%
Special Events Fund	\$13,591,780	\$13,591,780	\$12,289,454	\$1,302,326	9.6%
Golf Fund	\$11,429,707	\$11,429,707	\$9,964,958	\$1,464,749	12.8%
Solid Waste Fund	\$154,946,611	\$154,946,611	\$143,073,669	\$11,872,942	7.7%
Zoo Animal Purchase Fund	\$25,000	\$25,000	\$4,927	\$20,073	80.3%
Hanauma Bay Nature Preserve Fund	\$3,064,936	\$3,064,936	\$3,000,601	\$64,335	2.1%
Rental Assistance Fund	\$233,000	\$233,000	\$140,367	\$92,633	39.8%
Housing Development Special Fund	\$192,000	\$192,000	\$190,848	\$1,152	0.6%
Community Development Fund	\$2,172,196	\$2,172,196	\$1,478,393	\$693,803	31.9%
Federal Revenue Sharing Fund	\$47,190	\$47,190	\$47,189	\$1	0.0%
Rehabilitation Loan Fund	\$1,816,197	\$3,516,197	\$3,471,931	\$44,266	1.3%
Section 8 Contract Fund	\$36,305,432	\$38,544,432	\$36,312,103	\$2,232,329	5.8%
Federal Grants Fund	\$44,509,813	\$78,291,613	\$51,191,239	\$27,100,374	34.6%
Leasehold Conversion Fund	\$25,000	\$25,000	\$21,476	\$3,524	14.1%
Transit Fund	\$600,000	\$600,000	\$335,606	\$264,394	44.1%
Special Projects Fund	\$7,707,409	\$11,450,273	\$9,213,851	\$2,236,422	19.5%
<b>TOTAL</b>	<b>\$1,505,195,207</b>	<b>\$1,546,658,871</b>	<b>\$1,418,088,467</b>	<b>\$128,570,404</b>	<b>8.3%</b>

**B. Review of FY 2008 Through 12/31/07**

In this section of the report, we normally review the status of the operating budget for the current fiscal year as of December 31. That review would cover major general fund revenue assumptions and major program changes in budgeted expenditures for all funds.

However, when the city implemented its new Integrated Financial & Human Resource System (C2HERPS) in July 2007, production of the hardcopy monthly accounting reports used for this review ceased. We hope to gain access to the necessary information using C2HERPS and resume this review in our report next year.

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## **IV. Executive Capital Budget**

This chapter normally compares actual versus budgeted revenues and expenditures for the executive capital budget for the 18-month effective period of capital budget appropriations that ended last December 31st, beyond which date appropriations that were not yet encumbered or expended lapsed pursuant to charter. In 2006, voters approved a charter amendment that extended the effective period of capital budget appropriations to 24 months. As a result, appropriations made in the FY 2007 capital budget will be effective until June 30, 2008. Our report on any lapses from the FY 2007 capital budget therefore cannot be made until our next report to be issued early next year.

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