DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813
PHONE: (808) 768-3900 • FAX: (808) 768-3179 • INTERNET: www.honolulu.gov

RECEIVED
2009 MAY -7 A 9:17
CITY COUNCIL
HONOLULU, HAWAII

MUFI HANNEMANN
MAYOR

RIX MAURER III
DIRECTOR

MARK OTO
DEPUTY DIRECTOR

May 6, 2009

RECEIVED
MAY 7 2 36 PM '09
CITY CLERK
HONOLULU, HAWAII

The Honorable Nestor Garcia, Chair
and Members of the Budget Committee
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Garcia and Councilmembers:

Subject: Budget Communication No. 6
Council Budget Hearing Questions

This is in response to Budget Committee questions of April 1, 2009 regarding the proposed budget overview and departmental capital improvement budgets.

Question 1. Office of the Mayor
a) As the economic conditions now stand, how would the Mayor vote on Collective Bargaining Agreements – for or against UPW and HGEA raises?

Answer: The Mayor certainly values our public employees who are the backbone of the City's successes. Negotiations with the unions representing these employees are ongoing. Of course, should economic conditions allow, he would want to afford them fair and reasonable salary and benefit adjustments. However, given current economic conditions, it is difficult for us to immediately commit to any kind of compensatory enhancement.

Question 2. Office of the Managing Director
a) 1998602 Procurement of Major Equipment

General Question for all departments reflected: please tell the Council how you would spend the funds if you had a 10% cutback and a 20% cutback?

Answer: If the funding for the Procurement of Major Equipment project is reduced by 10% or 20%, it will have a detrimental impact on City operations and services to the public. The equipment budgeted under this project provides agencies with the day-to-day operational equipment and vehicles needed to deliver vital services to the public. The proposed cutbacks will result in inefficient operations due to the lack of adequate equipment to perform basic city functions, higher repair and maintenance costs to maintain the City's automotive fleet, and possible impacts on employee safety.

The Mayor's proposed FY 2010 capital equipment budget of $26.5 million represents a compilation of three years worth of equipment requests from city agencies. In order to balance the FY 2010 operating budget, the Administration imposed a restriction on the FY 2008 cash funded capital equipment budget of $19.8 million. With the exception of roughly $665,000, the agencies were directed to defer $19.1 million of equipment purchases. Agencies were allowed to reprioritize their FY 2009 equipment purchases and their FY 2010 equipment budget request to enable them to acquire critical equipment deferred from FY 2008.

Therefore, one-year's worth of equipment needed for city operations was already cut by the Administration and is reflected in the $26.5 million level of funding proposed for FY 2010. We are seriously concerned about further cutbacks which will have a significant impact across the board, especially to equipment intensive programs such as refuse collection and disposal, road maintenance, traffic signals, parks and recreation, etc.

Question 3. Department of Budget and Fiscal Services

a) With regard to the proposed increase in the residential portion of the property tax, is the City projected to be revenue neutral or is the increase only a partial recovery of the revenues lost when the City reduced rates 3 years ago?

Answer: No, the City will not be revenue neutral with regard to the proposed increase in the residential tax rate.

The increase in the projected residential tax revenues is only a partial recovery of revenue lost when the City reduced rates 3 years ago.
The partial recovery of raising the tax rate from $3.29 to $3.59 is approximately 76% of the revenue lost or forgone due to the reduction in the tax rate for Improved Residential and Apartment properties in 2007.

b) Please provide any policy or guideline given to the departments with regards the purchase of hybrid vs gasoline/diesel powered vehicles.

Answer: While the City continues to consider hybrids, it is not ready to recommend a policy of purchasing hybrids over gasoline/diesel powered vehicles until its cost effectiveness can be fully evaluated. To determine the economic feasibility of hybrid vehicles, factors such as the 20 – 25 percent cost premium of hybrids, current cost of fuel, fuel efficiency, maintenance and repair costs, and the costs of specialized tools, diagnostic equipment and mechanic training are being evaluated by several city agencies.

With the exception of city vehicles under the jurisdiction of Fire, Police (HPD) and Oahu Transit Services (OTS), the maintenance of the majority of the city's automotive fleet is managed by the Department of Facility Maintenance's Automotive Equipment Services (AES) Division. AES recently acquired five hybrid sports utility vehicles for the purpose of evaluating its cost effectiveness. Given the current cost of fuel, it does not appear that the cost premium of these hybrid vehicles will be recovered during its life expectancy. AES will continue its evaluation and will share its findings with the Department of Budget and Fiscal Services. HPD has also acquired six hybrid patrol vehicles and is evaluating its costs and suitability for their operations.

c) **Please provide any policy or guideline given to the departments with regard to energy operating costs, i.e., how calculated, how assigned to cost center.**

Answer:
FY 2010 Fuel Budgeted in Agencies
The fuel budget in each agency is roughly the same amount as appropriated in FY 2009. Overall, we assumed that the projected consumption and average price will be nearly the same as in FY 2009. During the first half of the current fiscal year, we experienced unleaded gasoline prices from $1.45 to $3.80 per gallon and diesel prices from $2.04 to $4.61 per gallon. These high prices were followed by a sharp decline and a recent rise in prices. While the agency budgets will remain the same, due to the volatility and uncertainty in the future price of fuel and cost of crude oil, an energy provisional account is proposed to cover any shortages in agency budgets (see below).

FY 2010 Electricity Budgeted in Agencies
The electricity budget is also roughly the same amount as appropriated in FY 2009, except for the wastewater program where significantly more energy is required to run the Sand Island Wastewater Treatment Plant Ultraviolet Disinfection Unit. Overall assumptions are similar to fuel prices as we experienced upward trends during the first

half of this current fiscal year, followed by a slight decline in electricity costs during recent months.

FY 2010 Provision for Energy Costs ($13.4 million)
The provisional account is budgeted at the same amount as appropriated in FY 2009. The purpose of this provisional account is to cover agency shortages related to unexpected fuel and electricity price increases so that critical city programs and services are not adversely impacted.

d) **Please provide written assurance from Bond Counsel or the City's financial advisor showing their change in position from two years ago when they opined that OPEB pre-funding needed to be done, and that not doing so would affect our bond ratings, now in light of the City's present economic situation. Please also provide the committee with an analysis of how much pre-funding payments the City proposes holding off, and the City's plan on how it will catch up on the payments if we proceed with the recommendation to holiday the pre-funding amount for FY 2010.**

Answer: As with all other municipalities and local governments throughout the nation, the City is facing tremendous budgetary pressures, and it would behoove the City to take immediate actions, both long-term and short-term to relieve those pressures. One such short-term action is to temporarily suspend pre-funding contributions to the EUTF for OPEB, but continue to fund the annual EUTF requirements. Furthermore, the already appropriated OPEB monies would be transferred to the EUTF once the EUTF adopts appropriate investment policies and guidelines.

The suspension of OPEB pre-funding contributions definitely is not something the Administration would want to see in place longer than necessary and would be rescinded once the economy improves. Given the current national recession, other jurisdictions have similarly elected to forego prefunding of their OPEB obligation. The overall financial stability of the City and its financial and investment policies have resulted in no negative actions by the ratings agencies and bond market. The recent successful sale of over $300 million in bonds surely is evidence of the confidence of the ratings agencies and bond buyers in the City and its financial position.

S&P reaffirmed Honolulu's rating at AA, with a stabile outlook. It reported that "(t)he city's financial management practices are considered 'good' under Standard & Poor's Financial Management Assessment (FMA)."

Moody's provided the City Aa2 rating, with a stabile outlook. In doing so, it reported:

> The Aa2 rating primarily reflects the city's sizable economic base despite recent recessionary pressures, above average resident wealth, sound financial operations that will face growing budget pressures over the near- to medium-term, and a manageable debt profile. Despite being faced with a series of near- to medium-term economic and fiscal challenges, Moody's expects that the city will continue to make the necessary budgetary adjustments to maintain fiscal stability.

Fitch provided the City an AA rating with a stable outlook. In doing so, it noted:

> The city's financial management is sound, demonstrated by the successful implementation of spending controls and the enactment of tax and fee increases, when necessary, combined with strong reserve levels.
>
> The city's debt burden is low, resulting from its judicious use of long-term financing and the state's central role in infrastructure investment.

e) Please provide the rationale on the benefits of utilizing GO Bond purchasing for major equipment.

Answer: The practice of using debt financing (e.g., TECP) for equipment which generally have a unit cost of $5,000 or more and estimated service life of five years or more is found in the City's Debt and Financial Policies, as authorized by Council under Resolution 06-222. It is based on the premise that the cost of the equipment may be spread over its useful life and reduces the immediate burden on the City's operating budget. This practice is acknowledged in all of our financial reports and reports related to our debt financing efforts, and it has not had any kind of negative impact on our bond ratings.

f) Please provide any policy or guideline given to the departments regarding the examination of leasing versus purchase of major equipment.

Answer: The guideline is for departments to evaluate each transaction on a case by case basis to determine which method is the most economically feasible under the circumstances.

g) Please provide any policy or guideline given to the departments regarding the use of mileage allowance versus auto pool cars for business use.

Answer: Because of the special and unique nature of the individual city programs, each agency is responsible for establishing its own policy on the use of mileage allowance versus a motor pool vehicle for work purposes. From a financial perspective, the Budget and Fiscal Services Department reviews and monitors the use of mileage reimbursement costs to ensure that the agencies are operating efficiently and are utilizing the most economical mode of transportation to perform their duties. The general operating guidelines are as follows:

1. Employees are to use the City's motor pool if available and if practical based on their place of employment and the location of the motor pool site.

2. Employees are to seek city owned transportation alternatives such as a departmental staff car, other vehicles assigned to the agency, or public transportation such as the bus.

3. If the agency authorizes its employees to receive mileage reimbursement for the use of their privately owned vehicle to perform official work duties, it shall be in accordance with Budget and Fiscal Services circular 12.2.

Question 15. Department of Human Resources

b) Please provide a listing by department of the current number of funded, but vacant positions.

Answer: The requested information is included in the vacancy report submitted to the City Council on March 6, 2009 (see report on vacancies in the executive branch as of January 31, 2009 for the Fiscal Year 2010 Executive Operating Budget). As stated in the transmittal letter, the amount cut from the budget via a "vacancy cut-back" is a lump sum reduction in salaries. Similarly, the amount remaining for agencies to fill positions is also a lump sum salary amount and not specific budgeted amounts by position. To fulfill the mandated requirements of ROH Section 2-18.7, the departments provide a "snapshot" of which positions they plan to fill and when the position is expected to be filled. The number of vacant funded positions fluctuates as changes occur in the agencies operational needs and priorities.

Should you have any further questions, please contact me at 768-3900.

Sincerely,

Rix Maurer III, Director
Department of Budget and Fiscal Services

APPROVED:

Kirk W. Caldwell
Managing Director