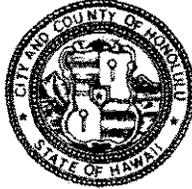


LIQUOR COMMISSION  
**CITY AND COUNTY OF HONOLULU**

711 KAPIOLANI BOULEVARD, SUITE 600 • HONOLULU, HAWAII 96813-5249  
PHONE: (808) 768-7300 or (808) 768-7355 • FAX: (808) 591-2700  
E-mail address: liquor@honolulu.gov • INTERNET: www.honolulu.gov

2009 MAY 15 P 3:49

MUFI HANNEMANN  
MAYOR



May 15, 2009

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HONOLULU, HAWAII

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The Honorable Nestor R. 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: Response to Budget Communication No. 9  
Follow Up to Departmental Operating Budget  
Hearing – March 24<sup>th</sup>

This is in response to questions pertaining to the Liquor Commission's proposed FY 2010 operating budget in the above-referenced communication:

**5. Liquor Commission**

- a) **Please provide greater details on the department's proposed use of a personnel consultant.**

**RESPONSE:** In the past three years, the Liquor Commission has made major adjustments to the administrative placement of key personnel within the agency. These changes were made to accurately reflect the work that was being done and to adjust personnel salaries. As a result, there is a considerable amount of personnel work that needs to be completed for the majority of the positions within the Liquor Commission.

The personnel consultant will assist the Administrative Services Officer in researching, rewriting and filling those positions within the agency that need to be adjusted. Without the reworking of the positions and the position descriptions, the agency will not be able to place employees in the proper position and will not be able to increase the salaries and grades of these individuals. After the personnel consultant finishes this work, we will be instituting a reorganization of the Liquor Commission. The need for this work can be seen in the existing investigative positions in the agency. Many of the liquor investigative positions have position descriptions that pre-date the additional duties of monitoring sound for the treble and bass ranges, immigration problems with licensee employees and the T.R.A.C.E. programs. Accurate, detailed position descriptions and personnel guidelines will allow the agency to operate more effectively, and these employees can be compensated fairly for the work they are tasked to complete.

- b) **Please provide greater details on how the proposed digital transmitter system will work in comparison to the current method, and how much it will help to improve the safety of the inspectors.**

**RESPONSE:** As discussed before the Budget Committee on Wednesday, March 18, 2009, and again on Tuesday, March 24, 2009, the Liquor Commission has put in place a clerk-dispatcher to cover complaints, emergencies, and field re-assignments for noise monitoring which are received daily between 1900hrs and 0300hrs. Currently, the clerk-dispatcher uses a land line telephone and logs all incoming calls in long hand. In cases of emergencies and field re-assignments, this method can become very cumbersome, and there have been instances where an incorrect assignment was issued.

The digital transmitter system will allow all incoming data to be recorded for future use and verification. It will be particularly useful in 911 emergencies as the transmitter has the capability to pinpoint the location of the investigators through the GPS system. This feature is particularly important for safety reasons as the investigators do not carry defensive weapons but nonetheless are required to check all premises assigned during their work shift regardless of the location.

The system will record all data that is called in by investigators and the public. This information is immediately locked in and cannot be accessed by anyone except for the system administrator. This data storage will then allow us to confirm everything that has happened at any given time and provides information that can be used in report writing, hearings, and in improving overall delivery of our programs and investigations.

- c) **For FY 2008, FY 2009 and projected for FY 2010, please provide the amount of fees that have been returned by the department due to the statutory cap established by the State Legislature.**

**RESPONSE:** HRS Section 281-17.5(e) imposes a strict limitation on the amount of license fees that can be collected from the Commission's licensees:

**§281-17.5 Fees; justified, method of change, limitation. ...**

(e) Any liquor commission which currently receives a license fee from a licensee in excess of the amount prescribed by this section shall immediately revise its liquor license fee structure to conform with the requirements of this section. **Any funds in excess of twenty per cent of the commission's current budget shall be returned or credited annually to existing licensees.**

In accordance with this limitation, amendments to our license fee rule (Rule §3-81-17.51) were approved by City Council in December 2005 but were made effective as of July 1, 2005. The amended rule introduced a new fee structure which used a multi-part formula to calculate the Commission's projected ending fund balance. It also raised the basic license fee and incrementally increased over a three-year period the maximum fee for each license class.

A central feature of the formula is the annually-calculated “deductible”, which is the amount of money that licensees are permitted to “deduct” from their reported annual gross liquor sales.<sup>1</sup> The deductible for the four fiscal years that the new license fee rule has been in effect, and the projected deductible for the upcoming fiscal year are:

FY 2006 deductible = \$65,000  
FY 2007 deductible = \$178,000  
FY 2008 deductible = \$200,000  
FY 2009 deductible = \$200,000  
FY 2010 deductible = \$200,000 (projected)

The deductible was increased in FY 2007 and FY 2008 to insure that the Commission’s ending fund balance (“funds”) remained within 20 percent of current budget as required by HRS Section 281-17.5(e) (“... Any funds in excess of twenty percent of the commission’s current budget shall be *returned or credited annually* to existing licensees.”). This 20 percent measurement is calculated at the end of each fiscal year – it is the only time all data for the fiscal year is present.

The agency’s ending fund balance has exceeded that 20 percent mark in the four fiscal years that the amended rule has been in effect, but the adjustment was made through the deductible. This adjustment is how we “return or credit” licensees for funds over the 20 percent mark as required by state law and is how the deductible ensures compliance with HRS Section 281-17.5(e). Specifically, in FY 2008, the agency increased the deductible from \$178,000 to \$200,000 in order to ensure that any surplus revenue did not cause the agency’s funds to exceed 20 percent of the current budget. For FY 2009 (budgeted) and FY 2010 (proposed), the \$200,000 deductible will ensure that the agency’s funds will be 15.6 percent and 5 percent of current budget, respectively.

Following the implementation of the new fee structure in FY 2006, Administration discovered the need to revise the formula used to calculate the projected ending fund balance.<sup>2</sup> This required adjustment was a result of what happened when the license fee rule amendment went before City Council for approval in 2005. The license rule was further amended in 2008 in the following manner:

*Eliminated Formula #1 in the calculation of the projected ending fund balance (PEFB):*

Originally, we planned to calculate the PEFB and the deductible early in the fiscal year (September to October period, when we begin work on the budget for the upcoming fiscal year). During the Council approval process, we were required to use the “*budget submitted to Council*” in our formula calculation. The budget cycle provides for March review by Council. Therefore, we calculate the deductible much later in the fiscal year – April to May.

This Council-required change resulted in an improvement in the functionality of our license fee rule in the following ways:

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<sup>1</sup>The amount of total gross liquor sales determines if a licensee owes additional fees over and above the annual basic fee.

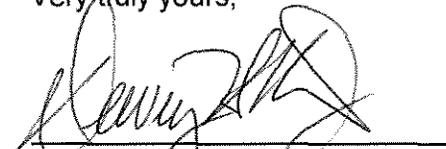
<sup>2</sup> The ending fund balance becomes the next fiscal year’s beginning fund balance and determines how much revenue the Commission needs to collect in the upcoming fiscal year.

The Honorable Nestor R. Garcia, Chair  
and Members of the Budget Committee  
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1. The ending fund balance is calculated on more accurate fiscal data (only forecasting what the ending fund balance will be three months later versus six months later), which gives a more accurate projection of what the ending fund balance will be; and
2. The later timing of the calculation allows for better adjustment for aberrations in revenue collection or expenditure.

Thank you for the opportunity to address the Budget Committee's questions about the Liquor Commission's proposed FY 2010 operating budget.

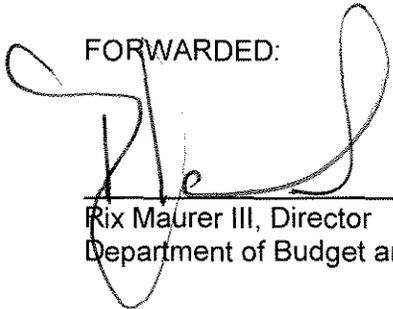
Very truly yours,



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Dewey H. Kim, Jr., Administrator  
Liquor Commission

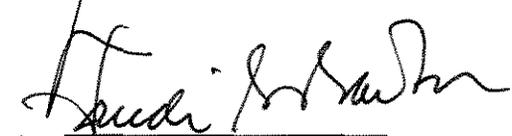
FORWARDED:



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Rix Maurer III, Director  
Department of Budget and Fiscal Services

APPROVED:



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Kirk W. Caldwell  
Managing Director