MAYOR’S MESSAGE

March 24, 2017

Honorable Mike White, Chair
And Members of the County Council
200 South High Street
Wailuku, Maui, Hawaii 96793

Aloha Chair White and Members:

I am pleased to submit the Proposed Budget for the County of Maui for Fiscal Year 2018 beginning July 1, 2017. This budget was developed in accordance with the Maui County Charter and the County of Maui’s budget and financial policies.

This is my eleventh budget as Mayor of Maui County. Each year, the County’s budget represents a multitude of challenges and tough decisions required to sufficiently fund the level of services and programs to which our Maui Nui residents have grown accustomed; this year was no exception.

This budget proposal reinforces the overarching themes of performance-driven decision making, fiscal restraint while confronting our affordability challenges head on, and organizational efficiencies and the modernization of processes. It also reflects a great deal of effort on the part of our staff as well as input from our county departments and the community whom we have the pleasure to serve.

Over the past year, as in previous years, members of my administration and I met with residents on Maui, Moloka‘i and Lana‘i at community meetings to discuss budget priorities. We also worked closely and collaboratively with service providers and nonprofit organizations who are passionate and committed to Maui County’s well-being and success. My staff thoroughly reviewed programs, reports, and each department’s performance measurements to assess their effectiveness and what can be done to improve service delivery. My budget office also developed a budget simulator entitled “Balance Maui County” to encourage our Maui Nui residents to take a more active role in sharing their budget priorities and in understanding government spending. This simulator has allowed the public to be much more interactive than in previous years by allowing residents to set funding levels in the budget and determine how to pay for them.

OVERALL FINANCIAL CONDITION

The County’s overall financial condition is good. Through strong financial management, Maui County has maintained high-quality core services and is positioned to achieve the desired five-part strategic “SHARP” vision:

- Strong & Diversified Economy
- Healthy & Sustainable Community
- Augment Public Infrastructure
- Responsive, Effective, & Efficient Government
- Prepared, Safe & Livable County
Our discussions with the community reinforce that the Maui Nui community supports these priorities and appreciates the quality of core services being provided. Additionally, Maui was named Conde Nast Traveler’s best island in the U.S. for the 23rd consecutive year in the publication’s 2016 Reader’s Choice Awards; Hawaii Society of Professional Engineers, Maui Chapter, recently presented the Project of the Year Award to the Department of Public Works for the emergency work performed following the Wailuku River flooding; and the County continues to retain the strongest bond ratings among all counties in Hawai’i from Standard and Poor’s, Moody’s and Fitch (AA+, Aa1 and AA+, respectively), thanks to our conservative financial management and strong local economy.

Although the County’s overall financial condition is good, it has also changed. The County continues to work hard to maintain high-quality core services and is more efficient and energy conscious by lowering recurring costs. However, complying with more extensive, costly federal and state regulations, as well as the increases in costs relating to operations, anticipated new bargaining unit contracts, mounting pension payments, and healthcare premiums require the County to: (1) tighten its purse strings in bringing expenditures into line with resources and setting priorities responsibly for what resources are available, (2) require either additional real property tax revenue, and/or (3) adjust service levels on a continuing basis to reduce costs in different areas. Also, deferred replacement of vehicles and equipment remain significant challenges.

The bottom line of this cost reality is that the County will be more financially constrained and will have less flexibility for major new initiatives/projects in FY 2018. Thus, the focus needs to remain on core priorities and service levels.

Our tourism-based economy continues to be strong in Maui County. The continued growth in popularity and in our population increases demand factors on County services, requiring additional staffing and increases in other annual operating costs in order to maintain established levels of service.

Figure 1-1 below provides a look at increases in some key level-of-service drivers as well as a comparison of the real property tax rate for the homeowner classification between FY 2006 and FY 2016:

<table>
<thead>
<tr>
<th>Key level-of-service driver</th>
<th>FY 2006</th>
<th>FY 2016</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident Population</td>
<td>139,995</td>
<td>164,637</td>
<td>17.6%</td>
</tr>
<tr>
<td>De Facto Population</td>
<td>184,987</td>
<td>215,439</td>
<td>16.5%</td>
</tr>
<tr>
<td>Estimated Visitors</td>
<td>2,346,480</td>
<td>2,663,319</td>
<td>13.5%</td>
</tr>
<tr>
<td>Police calls</td>
<td>52,153</td>
<td>122,165</td>
<td>134.2%</td>
</tr>
<tr>
<td>Fire/EMS calls</td>
<td>6,450</td>
<td>10,716</td>
<td>66.1%</td>
</tr>
<tr>
<td>Homeowner Real Property Tax Rate</td>
<td>$3.50 (Bldg)</td>
<td>$2.75 (Bldg)</td>
<td>-21.4%</td>
</tr>
<tr>
<td></td>
<td>$3.50 (Land) per net taxable value</td>
<td>$2.75 (Land) per net taxable value</td>
<td></td>
</tr>
<tr>
<td>Full-time county employees</td>
<td>2251.9</td>
<td>2496.1</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

Source: Maui County Data Book
EXECUTIVE SUMMARY

The County's total proposed budget for FY 2018 is $795.3 million, an increase of 6.4% over last year, which includes transfers between funds within the county and revenue from sources outside the county. Total County Funds, including bond funds proposed for the FY 2018 budget are $720.3 million, a $60.8 million or 9.2% increase from the FY 2017 Council Adopted Budget of $659.5 million. The increase for FY 2018 reflects the necessity of investing in County operations to meet the needs of a growing community while maintaining the levels of service Maui County residents and businesses expect.

The proposed revenues from County Funds of $720.3 million will provide funding for an operating budget of $563.5 million and a capital program budget of $156.7 million. In comparison, the FY 2017 adopted budget revenue of $659.5 million funded an operating budget of $545.6 million and capital program budget of $113.9 million.

Although the proposed budget reflects another year of increased real property values which is expected to increase the County’s real property tax revenue by over $7.0 million, we are at the crossroads and faced with hard choices: either reduce services or raise the additional revenues that the County needs to more accurately reflect the costs of certain activities and services as well as to close the gap between expenses and revenue, and to address and support a livable community with increased investment in affordable housing. After much deliberation and discussions, we are proposing a modest 7.5% across-the-board increase in real property tax rates for all ten classifications.

The proposed budget carries forward the County of Maui’s conservative fiscal approach that earned its AA+ rating for general obligation bonds issued by the county, and provides needed resources to sustain operations during emergencies. This careful and prudent financial planning ensured the County had adequate reserves in its Emergency Fund when heavy flooding occurred in September 2016. For FY 2018, we continue to acknowledge the importance of taking a conservative fiscal approach in light of increased global economic volatility. The budget also recommends a number of proposed investments throughout the county to enhance good governance and a modest increase of 8.9 new County E/P (Equivalent Personnel) positions to meet the community’s increased demand for services, maintenance, and protection.

OPERATIONS BUDGET

The total appropriation for the proposed County funds operating budget for FY 2018 is $563.5 million, as compared to $545.6 million for FY 2017, which represents a 3.3% increase from FY 2017. The proposed budget continues the efforts of my administration over the last six years to evaluate programs and services to meet the needs and expectations of our growing community. We continue to take into account things that are achievable, effective, economical, practical, and beneficial to meet the requirements of the County of Maui Charter.

As indicated above, the budget proposes an addition of 8.9 new E/P positions to the County’s workforce of 2648.6. These new positions proposed in the budget were carefully vetted to ensure that these positions were economically justifiable and of critical importance to improving the County’s overall efficiency.

CAPITAL IMPROVEMENT PROGRAM

The CIP budget proposes $169.4 million in projects. This total includes capital projects funded through the County and Grant Revenue Funds. The FY 2018 CIP Budget funded by County Funds is $156.7 million, an increase of
$42.9 million from the FY 2017 Adopted Budget. Major CIP projects proposed in this budget include:

**New County Facility:** $28.6 million for the New Service Center at the Maui Business Park with DMV (Division of Motor Vehicles), Real Property Tax, and Department of Housing & Human Concerns as occupants

**Infrastructure Improvements:** $53.3 million for solid waste and wastewater system improvements, including $24.0 million for modifications at the Lahaina Wastewater Reclamation Facility; $34.4 million for various road and drainage projects; $16.2 million for improvements to various parks & recreational facilities including the War Memorial Gym; $33.0 million for water system upgrades and replacements

**REVENUES**

The proposed budget for FY 2018 requires revenues totaling $720.3 million, as compared to $659.5 million required for FY 2017, a 9.2% increase. This $60.8 million revenue increase is mainly due to an increase in real property tax rates, as well as an increase in revenue derived from increases in real property values and increases in the sewer and water service rates, landfill tipping fees and residential trash collection fees.

The estimated revenue from real property taxes is $302.4 million which represents 69.4% of all General Fund revenues and 42.0% of all county revenues. Maui County’s real property tax, the homeowner rate of which is presently the lowest in the nation, is based on valuations of real property with tax rates assigned to each of the ten classifications. While departments made considerable efforts to reduce their operational costs and the efforts of the County’s Cost Reduction Unit (CRU) have been underway to find areas to cut costs, my budget proposes a 7.5% increase in rates for all of the classifications of property to address the shortfall incurred by addressing our community’s affordable housing needs and other priorities critical to our community wellbeing.

The proposed revenue from the Maui County’s share of the Transient Accommodations Tax (TAT) for FY 2018 is estimated at $23.5 million. While I was deeply concerned with the state legislature’s proposal to phase out the allocation of TAT funds to the four counties over a period of three years, I am pleased and relieved that the bill did not move forward especially because the legislative intent behind the TAT was to generate revenue to offset the impacts that visitors have on our infrastructure, parks, and public safety, all of which the County provides.

After much deliberation and discussions, we are proposing a combination of spending cuts by the departments and other revenue enhancements to cover the shortfall. For example, rate increases of approximately 5.0% are proposed in the Water Supply Fund, and 22.2% in the Solid Waste Management Fund ($81 to $99 per ton for Municipal Solid Waste Management Fund). Furthermore, to influence decisions to recycle and how much to recycle, we are proposing a $3 per truck/vehicle charge for residential refuse hauling at our landfills, the revenues for which could be used to offset costs to cleanup our roadways. Studies show that, where garbage disposal fees are higher, people have much more economic incentive to reduce their waste and recycle as much as possible. In an effort to make the Solid Waste Management Fund self-sufficient, the proposed budget also recommends a 25.0% increase in the refuse collection fee. Other significant increases in revenue are generated from bond proceeds and special assessments recognized for proposed capital improvement projects. Our investments have also seen an increase in returns and are expected to add an additional $600,000.

For the County’s FY 2018 Grant Revenue budget, the total grants from Federal, State, and private sources is estimated

at $66.0 million, approximately $3.3 million more than FY 2017. The $53.5 million in estimated operating grants is $12.5 million more than FY 2017; however, the $12.6 million in capital grants is $9.3 million less.

The following table identifies projected revenue by type:

**FIGURE 1-2**

<table>
<thead>
<tr>
<th>REVENUE SOURCE</th>
<th>FY 2017 ADOPTED AS AMENDED*</th>
<th>FY 2018 PROPOSED</th>
<th>CHANGE AMOUNT</th>
<th>CHANGE PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Property Taxes</td>
<td>$273,887,388</td>
<td>$302,801,434</td>
<td>$28,914,046</td>
<td>10.6%</td>
</tr>
<tr>
<td>Circuit Breaker Tax Credit</td>
<td>-$398,235</td>
<td>-$373,138</td>
<td>$25,097</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Charges for Current Services</td>
<td>$136,035,737</td>
<td>$142,256,781</td>
<td>$6,221,044</td>
<td>4.6%</td>
</tr>
<tr>
<td>Transient Accommodation Tax</td>
<td>$23,484,000</td>
<td>$23,484,000</td>
<td>$0</td>
<td>n/a</td>
</tr>
<tr>
<td>Public Service Company Tax</td>
<td>$9,100,000</td>
<td>$8,500,000</td>
<td>-$600,000</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>$29,275,022</td>
<td>$30,526,286</td>
<td>$1,251,264</td>
<td>4.3%</td>
</tr>
<tr>
<td>Fuel</td>
<td>$14,906,500</td>
<td>$14,000,000</td>
<td>-$906,500</td>
<td>-6.1%</td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>$8,700,000</td>
<td>$7,000,000</td>
<td>-$1,700,000</td>
<td>-19.5%</td>
</tr>
<tr>
<td>Special Assessments</td>
<td>$5,975,000</td>
<td>$5,239,000</td>
<td>-$736,000</td>
<td>-12.3%</td>
</tr>
<tr>
<td>Other Intergovernmental</td>
<td>$35,275,000</td>
<td>$40,200,000</td>
<td>$4,925,000</td>
<td>14.0%</td>
</tr>
<tr>
<td>Fines, Forfeitures, Penalties</td>
<td>$1,900,000</td>
<td>$1,900,000</td>
<td>$0</td>
<td>n/a</td>
</tr>
<tr>
<td>Use of Money &amp; Property</td>
<td>$2,552,412</td>
<td>$3,150,000</td>
<td>$597,588</td>
<td>23.4%</td>
</tr>
<tr>
<td>Miscellaneous**</td>
<td>$1,442,720</td>
<td>$1,063,000</td>
<td>-$379,720</td>
<td>-26.3%</td>
</tr>
<tr>
<td>Bonds</td>
<td>$30,076,000</td>
<td>$63,657,000</td>
<td>$33,581,000</td>
<td>111.7%</td>
</tr>
<tr>
<td>Lapsed Bond Proceeds</td>
<td>$6,103,000</td>
<td>$0</td>
<td>-$6,103,000</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Carryover Savings</td>
<td>$36,058,131</td>
<td>$31,655,611</td>
<td>-$4,402,520</td>
<td>-12.2%</td>
</tr>
<tr>
<td>Grant Revenue</td>
<td>$63,894,734</td>
<td>$66,073,323</td>
<td>$2,178,589</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>$678,267,409</td>
<td>$741,133,297</td>
<td>$62,865,888</td>
<td>9.3%</td>
</tr>
<tr>
<td><strong>Interfund Transfers</strong></td>
<td>$45,967,103</td>
<td>$45,222,889</td>
<td>-$744,214</td>
<td>-1.6%</td>
</tr>
<tr>
<td><strong>Total Estimated Gross Revenues</strong></td>
<td>$724,234,512</td>
<td>$786,356,186</td>
<td>$62,121,674</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

**Includes revenue from sources not included in any of the categories detailed above.
INTRODUCTION

In addition to proposing an increase in tax rates and fees as described above, the proposed FY 2018 budget proposes the closure of the Waiehu Municipal Golf Course by the end of December 2017. The course operates at nearly a $3.0 million loss in taxpayer dollars annually, specifically $16.1 million in the last 10 years. Although our golf personnel should be commended for substantial improvements made to the course, there is still more work to be done, including the need to renovate the clubhouse at an expected cost of up to $5.0 million. Other additional costs would include the hiring of more golf personnel and the replacement of aging equipment.

The proposed closure of the golf course would not result in any layoffs. Due to the increased number of park acreage in Central Maui & South Maui and the Department of Parks & Recreation’s need to hire additional personnel to operate and maintain these additional park spaces, we are proposing to transition the 20.9 golf personnel to operate and maintain other parks and recreational facilities by the end of December 2017. Consequently, while our proposed budget includes funding for golf operations only for the first six months of FY 2018, we are proposing funding for salaries for all golf personnel for the entire fiscal year.

As a lifelong resident of Maui, I realize that the Waiehu golf course has been a favorite gathering spot for locals and visitors for many decades now so, while I am proposing the closure of the golf course, I am proposing $200,000 be appropriated to subsidize golf fees and programs for seniors and junior golfers to play at other golf courses throughout the island. This may not alleviate the concerns expressed by the golfing community, but we need to be responsible to the institution, to the government, and to the taxpayers, who expect us to be financially responsible.

BUDGET HIGHLIGHTS

Through our discussions with and input from the community, this year’s proposed budget aligns resources with community priorities. As an example, affordable housing remains the top issue affecting communities throughout our county. That is why addressing our community’s affordability challenges is one of my top priorities, and the proposed budget consequently includes $9.1 million (3.0% of real property tax revenues) to be set aside for the
Affordable Housing Fund to allow the County to acquire lands for affordable rental housing projects. As elaborated in a subsequent section, the County has identified strategies that help define a successful and well-balanced community. They were also touchstones as we evaluated requests for funding and new county projects. While a complete list of funding initiatives for Fiscal Year 2018 is included in the Department Operating Program and Capital Program sections, I would like to share some highlights:

**Basic Services:**

- Replaces 24 police patrol vehicles;
- Replaces a 2002 ladder truck for Wailea Fire Station which is in constant need of repairs and incurs considerable amounts of down time.
- Replaces the county’s outdated, deficient HR/payroll system. The new system will be fully integrated to manage levels and costs of staff resources throughout the organization;
- Replaces 4 of the oldest vehicles in the Department of Liquor Control’s fleet. The new vehicles will have lower operating and maintenance cost and improve operations;
- Sponsors the 4th Annual Made in Maui County Festival and dozens of other economic development programs;
- Provides business development services through the Maui County Business Resource Center and Moloka’i’s Kuhao Business Center to help local businesses begin and/or expand;
- Supports Maui Visitors Bureau’s Maui County Visitor Growth Initiative in an effort to increase visitor arrivals, increase visitor length of stay and spending in international markets, support and promote our sports, signature, and major events;
- Funds the Clean & Safe program which provides homeless and mental health clients in Wailuku with jobs cleaning the streets;
- Provides $3.0 million (1.0% of real property tax revenues) for the Open Space, Natural Resources, Cultural Resources, and Scenic Views Preservation Fund;
- Provides $24.8 million in grant subsidies to support important social welfare programs, economic development initiatives, and veterans programs; and
- Provides $34.1 million for drainage and road projects.

**Proposed New or Expanded Initiatives:**

- Provides $100,000 to provide departments with a cash match for federal funding opportunities;
- Proposes $9.1 million or 3.0% of real property tax revenue to address the lack of affordable rental units for persons of very low to gap income;
- Funds the construction of a new Service Center at the Maui Business Park with DMV (Division of Motor Vehicles), Real Property Tax, and Department of Housing & Human Concerns as anchor tenants;
- Supports retrofit street lighting throughout Maui County to bring streetlights into the 21st century with environmental friendly, high tech lighting that will save county taxpayers approximately $700,000 per year. Additionally, the project will qualify for rebates from Hawaii Energy of approximately $400,000;
- Reallocates positions to implement the Enterprise GIS System, the result of cross departmental collaboration and a foundation for Maui’s Automated Planning and Permitting System (MAPPS). The Enterprise GIS System is the one source for GIS data for all County departments. By the start of FY 2018, a new ArcGIS Online site for Maui County will be launched to facilitate additional self service capabilities and easy access for employees, citizens and visitors;
- Funds the acquisition of the “Ueoka Building” at 2103 Wells Street, Wailuku, which is conveniently located to the courthouse and will be an efficient and effective response by the Department of the Prosecuting Attorney
to our victims of violent crimes and child sexual assault; and
• Provides $2 million for the expansion of Kula Agricultural Park to further promote the development of diversified agriculture by providing appropriately sized agricultural lots at reasonable rent with long-term tenure.

In summary, the Fiscal Year 2018 Proposed Budget is focused on delivering high-quality services and programs to our residents, retaining the employees who provide them, preserving amenities that make our community *no ka ʻoi*, and assuring responsive service delivery into the future. These will continue to keep our community safe and clean, implement and complement strategic economic development, encourage tourism, and assure smooth traffic flow. In order to do so, trade-offs were necessary including increases to cost recovery.

We live in the best community in the world, bar none. In order for Maui Nui families to prosper, they need Maui County to be a place that is safe and livable, that provides essential core services and suitable public infrastructure, and that invests back in our people, our ʻaina, and our future. This budget does all of this, in fiscally prudent and innovative ways.

I look forward to working together to meet the challenges of the coming year.

Respectfully submitted,

Alan M. Arakawa
Mayor, County of Maui