**OFFICE OF THE MAYOR**

**News Release**

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**Statement from Mayor Bernard Carvalho Jr. on the FY18 Budget**

“While I am disappointed in the FY18 budget as amended by the Kaua‘i County Council, it is clear that my veto would not have changed the outcome. Therefore, I returned the submittal without my signature of approval.

“I’d like to take this opportunity to explain why the Council’s decision on this particular budget was both surprising and frustrating, given our shared progress over the past two years to commit to a long-term financial plan that would seek to better the financial sustainability of this County beyond the current fiscal year.

“Since 2015, our administration has been working together with the County Council and the Government Finance Officers Association (GFOA) to analyze the County’s finances to mitigate our risks, and ensure the County’s financial sustainability when faced with unforeseen yet inevitable challenges, such as economic downturns and natural disasters.

“In January, following nearly two years of analysis, the GFOA, together with our budget team and Finance Chair Kaneshiro, recommended a framework to the County Council to adopt financial best practices through legislative initiatives. The GFOA recommended that the County reserve between 27 and 41 percent of the prior year’s revenues in order to adequately mitigate its risk. It also urged the County to engage in structurally balanced budget practices, meaning that the County must have sufficient recurring revenues to fund recurring expenditures, and avoid the undisciplined practice of drawing down on our reserves. Simply stated, the County cannot spend more than it brings in.

“The Council wholeheartedly agreed to this joint initiative, as witnessed in March when it approved two Resolutions, to affirm its support of the County’s reserve policy and commitment to structurally balanced budgets.

“Based on this initiative, we presented to the Council a structurally balanced FY18 budget in line with the Council’s Resolutions.

“The budget we presented did not come without challenge and sacrifice from each and every County department and division, as well as our citizens. However, it did seek to improve our roadways, public facilities and services, accounted for the rise in personnel costs and benefits, and maintained our shared promise of a 30 percent reserve, or $42 million.

“During my State of the County Address in March, I made a promise to the community that we would fix our roads. As such, our budget dedicated $6 million to this effort.

“We then learned in May that the State Legislature reduced the County’s share of its Transient Accommodations Tax revenues by $1.45 million. This required us to make additional adjustments, and thus we reduced the amount initially dedicated to our critical road maintenance and repairs need from $6 million to $4.8 million. After the Council’s further reduction of $800,000, the amount now dedicated to this critical need is a mere $4 million.

“The State’s reduction to our TAT revenue confirms why the County cannot rely on this tax to sustain our budget, as we do not have control over how much of it we receive. This reality has become more pronounced after five consecutive years of the State Legislature capping the County’s share of the TAT, resulting in a loss of approximately $57 million in general fund revenues.

“Our proposed Real Property Tax increase at 19 cents would have provided sufficient revenues to fund our expenditures. While the budget approved by Council was balanced without tax increases or other meaningful revenue enhancements, this approach merely addresses one year of necessary expenses.

“Unlike the other three Hawai‘i counties, which all had the foresight to adopt property tax rate increases and other revenue enhancements for FY18, the County of Kaua‘i will likely be forced to propose more radical tax rate increases to fund unavoidable costs due to collective bargaining and related benefits, heavy equipment and public safety vehicle replacement, deferred maintenance, and debt service for FY19 and beyond.

“While the promise of not raising taxes sounds like an ideal political solution, it ignores the present and future financial realities of our County government. We need to look beyond the next fiscal year to understand how this short-term tactic will affect our long-term financial outlook.

“The Council was provided a very conservative five-year financial outlook that defined the anticipated deficits that we will endure without a correction to our revenue stream. The below projections involve deficits beginning in FY19 of roughly $7.6 million and continues to compound to a staggering $21.8 million in FY23. These projections are based on property valuations remaining constant. Downturns in revenue could worsen these deficit projections.

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| --- | --- | --- | --- | --- | --- | --- |
|  |  | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Collective Bargaining & Benefits | $      5.2 | $      8.4  |  $      11.5  |  $     13.3  |  $     15.7  |
| Heavy Equipment, Vehicles | $      0.5  |  $      1.1  |  $        1.6  |  $       2.2  |  $       1.8  |
| New Debt Service | $      1.8  |  $      1.8  |  $        1.8  |  $       1.8  |  $       4.3  |
|  |  | **$      7.6**  | **$     11.3**  | **$      15.0**  | **$     17.3**  | **$     21.8**  |

“The County will need to establish revenue enhancements in our near future. A General Excise Tax measure, first authorized by the Hawai‘i State Legislature and proposed by the County administration in FY16, would have allowed the County to receive up to $20 million a year in highway and transportation related revenues. Moreover, a large portion of these monies would have come from our visitors as they contribute significantly through their on-island spending.

“Had the Council adopted this measure when given that opportunity, we would be further ahead in addressing our $126 million backlog in road repairs. Further, it would have eliminated the need to propose a Real Property Tax increase this year, by covering transportation costs currently in our General Fund while significantly increasing the amounts available for our critical roads maintenance.

“We hope that if once again afforded this opportunity by the State Legislature, the Council will support a GET surcharge that responsibly addresses our County’s critical infrastructure and operational needs.

“To be clear, funding from a GET surcharge implemented this year would not be realized until January of 2019, after my term has expired. But strong leadership requires us to have the foresight and fortitude to look beyond our current situation and plan and prepare for the future of our County long after we have left office.

“Our long-term financial plan mandates legislative commitment. Without this political assurance, continued efforts to develop and adopt a long-term financial plan for the County would be meaningless.

“Since the Council has abandoned both the structurally balanced budget and reserve resolutions less than two months after their passage, it is clear that we do not have a joint commitment to the long-term financial stability of this County. It is my hope that the Council and I can work together toward this plan, and we will hold off on any future engagement with the Government Finance Officers Association until this happens

My goal as Mayor is to leave the County of Kaua‘i in a better financial state than it was in the day I took office. We must create a financially sustainable future for the next generation of government leaders and the community they serve. Our administration remains committed to working with the County Council toward advancing initiatives that intend to serve the best interest of the people of Kaua‘i and Ni‘ihau for years to come.”