

Budget Analysis: The City and County of Honolulu

Chad E. Sweeton

Center for Public Administration and Policy, Virginia Tech

PAPA 6314: Public Budgeting Processes and Their Policy Implications

Professor Stephanie Davis

May 06, 2024

History of Honolulu

Honolulu, the capital of Hawaii, is located on the island of Oahu, the third largest of the Hawaiian Islands. It serves as a consolidated city-county, covering the entire island, which spans approximately 600 square miles. Honolulu has a rich history that begins with the Hawaiian Kingdom, a self-governing constitutional monarchy. The U.S. annexed Hawaii as a territory in 1900 following the Spanish-American War, and it became the 50th U.S. state in 1959. The city-county structure of Honolulu was established in 1907, when a city charter created a unified government. Since then, the city has experienced substantial population growth, from 52,183 in 1910 to 995,638 in 2022 (U.S Bureau of Labor Statistics, 2022). This growth was accompanied by economic changes, with tourism and federal defense spending emerging as key revenue sources, reflecting Honolulu's strategic and economic importance.

Mission, Vision, Values, Goals

The mission of the City and County of Honolulu is "to serve and advance the general welfare, health, happiness, safety, and aspirations of its residents, present and future, and to encourage their full participation in the process of governance" (Office of the Mayor, 2023). Although the city does not explicitly state its vision and values, these can be inferred from the Mayor's vision "to truly make Oahu a great place to live, work, and play." The Mayor's mission emphasizes providing core city services to residents and visitors, with a focus on safety, accessible public facilities, customer service, fiscal stewardship, and comprehensive programs for all. The values emphasized include integrity, respect, and excellence (Office of the Mayor, 2023).

Short-term goals for Honolulu involve economic recovery from the impacts of COVID-19, reinvigorating tourism, and improving public transportation to serve socio-economically disadvantaged groups while reducing carbon emissions (Office of Climate Change, Sustainability and Resiliency, 2020). The long-term goals align with the city's seven priorities: health and safety, economic recovery, serving the unsheltered population with dignity, creating affordable housing, modernizing city facilities and services, advancing Honolulu's rail project, and countering climate change through the Climate Action Plan (CAP), which aims to reduce fossil fuel emissions by 45% over five years and achieve carbon neutrality by 2045 (Office of the City Auditor, 2022).

Organizational Structure and Elected Officials

Honolulu operates under a mayor-council form of government, where all positions are elective and carry four-year terms. The Mayor, as the chief executive officer, oversees the administration, setting the strategic direction and priorities for the city (see Appendix 1). The City Council consists of nine council members, each representing a distinct district within the city-county (see Appendix 2). They hold legislative and investigative power, working to ensure that the city's policies align with the needs and interests of their constituents. Although these branches operate separately, synergy between them is critical to achieve effective governance and service delivery.

Employment Structure: Full-Time and Part-Time Positions

The City and County of Honolulu employs 10,857 full-time equivalent (FTE) employees, with a total salary expenditure of \$1.97 billion. The workforce comprises a mix of permanent, temporary, and contract positions, led by the Honolulu Police Department (HPD) with 2,841

FTEs and the Honolulu Fire Department with 1,189 FTEs. An FTE position represents a part-time position converted to the decimal equivalent of a full-time position, with most full-time employees working 2,080 hours annually (City and County of Honolulu, 2024). This structure allows flexibility in budgeting and personnel management to facilitate various employment arrangements.

Despite the clarity provided by FTE metrics, determining the exact number of city employees can be challenging. The Department of Human Resources mentions "over 8,500" civil servants, which does not necessarily capture all part-time or contract workers (DHR Home, n.d.). This variability underscores the complexity of Honolulu's employment structure, reflecting the diverse nature of the city's workforce.

Budget Process

Table 1 - Honolulu Budget Calendar

| TIMELINE | ACTION |
|----------------------------|---|
| July – November 1 | Agencies prepare operating budget requests |
| October 1 | Real property valuations calculated |
| December 1 | HART budget submission deadline |
| February 1 | Property valuations submitted to the City Council. |
| March 2 | Mayor's budget submission to the City Council. |
| March | Agency briefings and first reading of budget proposals |
| April | Public hearings on the budget, revenue measures, and property tax rates |
| June 15 | Deadline for City Council adoption of budgets and revenue measures |
| Within 10 Days of Adoption | Mayor's response (sign, return unsigned, or veto) |
| 5 – 30 Days After Veto | City Council's timeframe to override the veto |

The public-facing budget process for the City and County of Honolulu provides a detailed roadmap from the initial budget proposal through the final adoption and approval stages. However, this public process represents just a portion of the overall budgetary planning. Behind

the scenes, a complex and detailed preparation phase precedes the public stages to ensure that all budget requests and revenue estimates are carefully reviewed and validated before presentation to the public and the City Council.

From July to November 1st, city agencies work on preparing their operating budget requests for the following fiscal year (see appendix 3). This involves a thorough examination of operational needs, personnel requirements, and resource allocation. Each agency analyzes its projected costs and revenue needs, crafting a comprehensive budget request that aligns with the broader goals and priorities of the City and County of Honolulu.

During this period, real property valuations are calculated based on fair market value as of October 1st. These valuations are critical, as property tax revenue is a significant component of the city's financial structure. The finalized property valuations are submitted to the City Council by February 1st, forming the basis for revenue projections in the upcoming budget.

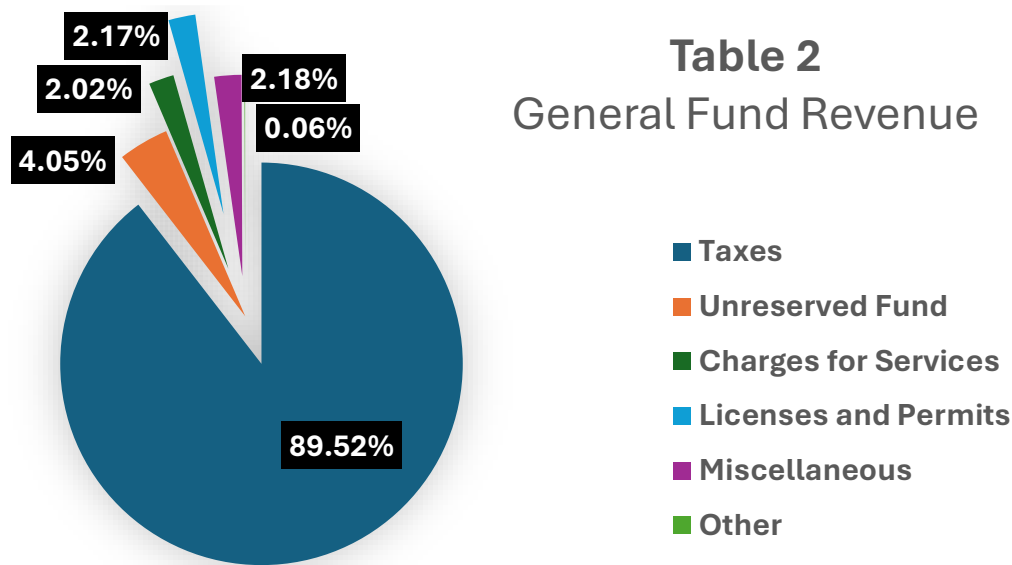
The process gains momentum by March 2nd, when the Mayor submits the budget to the City Council (see appendix 4). At this stage, the Council Chair makes the Legislative Budget available to the public, promoting transparency and allowing for public scrutiny and engagement. The Council initiates agency briefings to delve into the budget's components, leading to the first reading of the proposed budgets. This step invites initial discussions and debates, providing a platform for adjustments and amendments to the budget proposal.

In April, the public has a significant opportunity to contribute to the process. The City Council holds public hearings on the budget, revenue measures, and real property tax rates. This phase encourages public input, allowing citizens to voice their opinions and suggest alternatives

to the Mayor's proposals. This feedback is crucial for Council members as they deliberate and adjust, ensuring that the final budget reflects the broader community's needs and priorities.

The fifth step occurs by June 15th, when the City Council adopts the budgets and revenue measures. This step finalizes the Council's deliberations, leading to the official approval of the budget for the upcoming fiscal year. Following this, the Mayor has 10 days to either sign the budget into law, return it unsigned, or veto it in totality or in part. If the Mayor vetoes the budget, the City Council has between 5 and 30 days to override the veto with a two-thirds majority vote.

Revenue



The City and County of Honolulu anticipates significant revenue growth for Fiscal Year (FY) 2024, with the top five revenue sources projected to increase by \$245.3 million. The General Fund, the primary source of revenue, benefits from two major streams: real property tax and O’ahu Transient Accommodations Tax (OTAT) (Honolulu City Council, 2023). The General

Fund's expected revenue for FY24 is \$2,024,601,413, with taxes constituting 89% of the total (City and County of Honolulu Department of Budget and Fiscal Services, 2024).

The largest contributor to this revenue stream is Real Property Taxes (RPT), stemming from levies on various real estate properties. Rising property valuations, especially in the residential sector, play a significant role in this growth. Real property tax is expected to surge by \$166.1 million, driven by a 14.1% increase in property valuations. The expansion of OTAT to encompass all rental properties is projected to contribute an additional \$94 million annually, aiding the city's efforts to address affordable housing and homelessness issues (Mukaisu, 2023).

Other notable revenue sources include Unreserved Funds (\$82 million), which can supplement the General Fund and are not tied to specific purposes. Licenses and Permits, as well as Miscellaneous revenues, each contribute \$44 million. Charges for Services, which encompass fees for government-provided services like ambulance services and parking, generate \$40 million. These stable revenue streams support the financial sustainability of Honolulu.

Expenditures

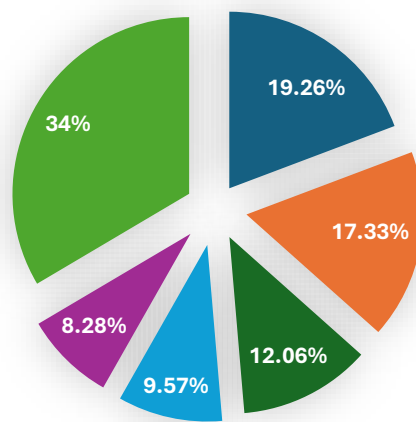
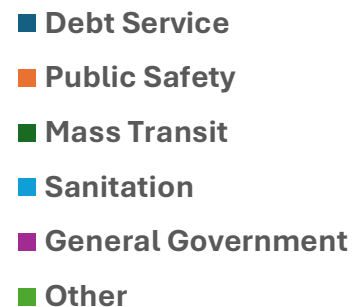


Table 3
FY24 Expenditures



Expenditures have risen in line with increasing revenues, with Transportation Services leading the way at \$432 million (Honolulu City Council, 2023). This allocation underscores Honolulu's commitment to providing accessible transportation, supporting the Mayor's goals to aid lower-income families and reduce emissions (Office of Climate Change, Sustainability and Resiliency, 2019).

Salaries and benefits account for over half of the city's annual expenditures, emphasizing the investment in human resources. The Police Department, holding the second largest budget position at \$345 million, accounts for \$305 million of the total \$1.05 billion in annual salaries, reflecting the reliance on personnel to deliver essential services (City and County of Honolulu, 2023). A significant increase from the previous year, \$35 million is dedicated to patrol services, indicating a strong focus on public safety as Honolulu recovers from COVID-19 and tourism surges (Tsai, 2023).

Debt service is the largest individual expense, projected at \$656 million, which is just over 15% of the total budget, covering principal and interest payments on city loans (City and County of Honolulu, 2023).

Capital Budget and Long-Term Goals

The capital budget reflects a focus on infrastructure development and long-term planning. Affordable housing is a key goal, with \$100 million allocated for land and property acquisition, along with funds for infrastructure planning and the development of low-income housing units. This significant investment addresses Honolulu's housing crisis.

Homelessness initiatives receive \$15.4 million in the FY24 operating budget, supporting programs like Housing First and the Hale Mauiola Housing Navigation Center. Public safety

also receives substantial funding, with the capital budget allocating \$7.5 million for police headquarters and station improvements, and \$5 million for fire station upgrades (Scheuring, 2023).

Public transportation receives \$411.3 million, with \$85.1 million set aside for Honolulu's rail system. Funds are also dedicated to acquiring new vehicles for TheBus and TheHandi-Van, as well as road rehabilitation and resurfacing (Scheuring, 2023).

Policy Decisions and Overall Budget Analysis

The budget's policy decisions reflect a strategic focus on essential services, public safety, and sustainability, while ensuring long-term financial health through prudent fiscal planning. The emphasis on transportation, public safety, and affordable housing aligns with the city's goals of supporting residents and enhancing public safety.

Trends and Areas for Consideration

Trends in Honolulu's budget suggest a focus on sustainability, public safety, and infrastructure development. Revenue projections are on an upward trajectory, driven by property taxes and OTAT expansion. However, the reliance on non-revenue receipts in the General Fund poses potential risks, indicating a need for careful fiscal management.

Efforts to rebuild unreserved funds reflect a cautious approach to financial planning, with a goal to create a more robust financial cushion. Miscellaneous revenue is expected to decline, suggesting a shift towards more traditional revenue sources, which could require adjustments in expenditure planning.

Overall, Honolulu's budget process aligns with sound principles, balancing short-term needs and long-term goals, with a clear focus on sustainability, public safety, and social welfare. The budget's structure supports the city's strategic priorities while maintaining fiscal responsibility.

Outlooks

The City and County of Honolulu has demonstrated consistent growth in its revenue base while managing its expenditures in key areas like transportation, public safety, and community services. Analyzing the trends and future forecasts for these revenue and expenditure streams provides insights into the city's fiscal health and strategic direction.

Honolulu's revenue base has seen steady growth over the past few years, driven largely by taxes, unreserved funds, licenses and permits, miscellaneous revenue, and charges for services. The following table outlines the revenue trends from Fiscal Year FY22 to FY26, including projected changes:

Table 4 - Top Five Revenues Forecast

| Top Five Revenue Sources | FY22 Adopted Budget | FY23 Adopted Budget | FY24 Adopted Budget | FY25 Projected | % Change from FY24 to FY25 | FY26 Projected | % Change from FY25 to FY26 |
|--------------------------|---------------------|---------------------|---------------------|----------------|----------------------------|----------------|----------------------------|
| Taxes | \$1,489,905,170 | \$1,638,200,000 | \$1,812,436,300 | \$1.9 billion | 4% | \$2 billion | 5% |
| Unreserved | \$250,059,532 | \$191,387,414 | 82,032,828 | \$100 million | 21% | \$150 million | 33% |
| Licenses and Permits | \$42,287,536 | \$45,635,494 | \$44,118,804 | \$46 million | 4% | \$50 million | 8% |
| Miscellaneous | \$51,073,629 | \$30,662,541 | \$44,208,256 | \$40 million | (9%) | \$30 million | (25%) |
| Charges for Services | \$7,543,094 | \$38,106,213 | \$40,901,225 | \$43 million | 7% | \$46 million | 7% |

In FY25, the City and County of Honolulu expects a notable shift in revenue streams, with overall revenue projected to increase by 5%, translating to an additional \$105 million. This growth is driven by multiple factors, including a 4% rise in tax revenue due to a moderate housing market decline and the expansion of the OTAT to include all rental properties. This expansion is set to significantly boost the city's tax base, providing a more robust source of income.

Revenue from unreserved funds is anticipated to surge by 21% as the administration focuses on replenishing fund balances to build a stronger financial cushion. This strategic move underscores the city's commitment to financial stability, enabling Honolulu to weather unexpected expenses or emergencies with greater ease. The resurgence of travel post-COVID is poised to contribute to a 4% increase in revenue from licenses and permits, reflecting a revival of economic activity, particularly in the hospitality sector.

However, not all revenue streams are projected to grow. Miscellaneous revenue is expected to decline by 9% in FY25, likely due to the end of various recovery and reimbursement activities. This decline signals a shift towards more conventional revenue sources, emphasizing the need for diversification and careful fiscal planning.

Looking ahead to FY26, the city is likely to sustain the trends observed in FY25, with an overall revenue growth rate of 6.9%. The continued effort to rebuild unreserved funds is projected to contribute to a 33% increase, reinforcing the city's financial resilience and ability to manage future uncertainties. In contrast, miscellaneous revenue is expected to drop by 25%, indicating a continued reduction in recovery and reimbursement activities.

Despite these shifts, other revenue sources are expected to normalize and maintain steady growth rates. This stability in core revenue streams is crucial for supporting the city's fiscal health and enabling budgetary goals to be met. The projected increases in tax revenue, licenses, permits, and service charges provide a strong foundation for Honolulu's financial future, ensuring that it can fund essential services while adapting to changing economic conditions.

The City and County of Honolulu's expenditures are expected to undergo notable shifts in FY25, with projections indicating an overall increase in spending driven by transportation services, public safety, and community services. These changes reflect the city's evolving priorities and its efforts to balance short-term needs with long-term strategic goals.

Table 5 - Top Five Revenues Forecast

| Top Five Expenditures by Department/Agency | FY22 Adopted Budget | FY23 Adopted Budget | FY24 Adopted Budget | FY25 Projected | % Change from FY24 to FY25 | FY26 Projected | % Change from FY25 to FY26 |
|--|---------------------|---------------------|---------------------|----------------|----------------------------|----------------|----------------------------|
| Transportation Services | \$400,688,004 | \$403,589,604 | \$421,331,362 | \$440 million | 4.4% | \$455 billion | 3.4% |
| Police | \$300,166,774 | \$312,266,304 | \$352,877,315 | \$370 million | 4.8% | \$375 million | 1.3% |
| Environmental Services | \$304,926,767 | \$300,300,904 | \$326,393,833 | \$360 million | 10.2% | \$369 million | 2.5% |
| Community Services | \$120,135,247 | \$132,176,426 | \$154,118,282 | \$160 million | 3.8% | \$168 million | 5% |
| Fire | \$138,238,105 | \$138,958,627 | \$146,927,074 | \$156 million | 6.1% | \$160 million | 2.5% |

Transportation services continue to be the largest area of expenditure in Honolulu's budget. The 4.4% increase is driven by ongoing efforts to improve and interconnect ground and rail transportation, aligning with the Mayor's focus on reducing traffic congestion and promoting sustainability by better connecting the western side of the county with the more central portion of Honolulu and Waikiki. As the main facet of this expenditure, Skyline, a rail operation providing rapid transportation for Oahu's overcrowded urban corridor, is only partially completed, a 3.4%

increase from FY25 to FY26 indicates a warranted approach to completing this massive project and enhancing the city's transportation infrastructure.

As previously discussed, the Police Department is the second-largest expenditure, with the FY25 budget projected at \$370 million, a 4.8% increase from FY24. This increase supports the city's efforts to maintain public safety and recruit more officers to meet the demands of a growing population. However, the FY26 projection shows a slight leveling off, with a 1.3% increase suggesting a more stable outlook for police-related expenditures. The second facet of public safety highlighted in these trends, the fire department, sees the second highest percentage increase between FY25 and FY26. Following the unfortunate fire disaster on neighboring county and island, Maui, in the town of Lahaina, this increase surely reflects the need to maintain a high level of emergency response capability and invest in fire prevention and safety.

In the most significant area of expenditure regarding percentage increases is Environmental Services with a 10.2% increase from FY24 to FY25. This increase demonstrates Honolulu's commitment to addressing environmental issues, including waste management and recycling, a hot topic in local media as residents continue to highlight issues and dissatisfaction with waste management island wide. Being surrounded by water and lacking available land, disposing of waste is a far more costly expenditure than typical US States experience and this budget reflects that. The FY26 projection is \$369 million is a smaller yet still significant 2.5% increase from FY25, suggesting continued investment in environmental sustainability.

Finally, Community Services are also experiencing growth, with the FY25 budget projected at \$160 million, a 3.8% increase from FY24. This trend indicates Honolulu's focus on supporting social programs and addressing homelessness, one of the city's critical issues. With the largest increase from FY25 to FY26, at 5%, Oahu's Community Services continue to point

toward a commitment to providing essential community services and hopefully gaining some control over the homeless problem that not only Oahu experiences, but all counties within the state of Hawaii struggle with.

Future Forecasts

The expenditure trends for the City and County of Honolulu reflect a balanced approach to budgeting, with strategic investments in transportation services, public safety, environmental sustainability, and community services. The projected increases in FY25 and FY26 align with the city's broader goals to support essential services and improve infrastructure.

While transportation services remain a top priority, the consistent focus on public safety and environmental services indicates Honolulu's commitment to maintaining a safe and sustainable city. The growth in community services underscores the need to address social issues, such as homelessness and affordable housing, as the city adapts to rising costs of living and inflation.

Overall, Honolulu's expenditure trends suggest a stable and strategic approach to budgeting, providing the necessary resources to meet the needs of residents and visitors while maintaining a focus on long-term sustainability. The projected leveling off in some expenditure areas, such as police and fire, indicates a move towards a more balanced and efficient allocation of resources, ensuring the city's financial stability in the years to come.

Financial Conditions Analysis

The City and County of Honolulu received an unmodified opinion from Accuity LLP, an independent audit agency. Although this audit addressed the financials of the City following generally accepted auditing standards and Government Auditing Standards, it is essential to note

that financial statements from the Honolulu Authority for Rapid Transportation (HART) and the Oahu Transit Services were not assessed during this audit. This omission is significant because both entities are major enterprise funds representing 36 percent of revenues for business-type activities and 43 percent of the aggregate discretely revenue, respectively. This exclusion raises concerns given the ongoing public calls for increased transparency following previous audits, which found HART to be over \$1 billion over budget (Department of Budget and Financial Services, 2024).

Budget vs Actuals

There was no variation in revenues between the original and final budgets for FY 23. However, actual revenues increased to \$1.77 billion from the budgeted \$1.69 billion, marking a \$77.6 million positive variance at year-end. Taxes and Interest performed exceptionally well, with variances of \$42.8 million and \$33.5 million, respectively. These positive shifts provided substantial funds to offset the two revenues underperforming by \$10.4 million (Department of Budget and Financial Services, 2024). For FY 24, revisions must be made to ensure the budget remains balanced and revenues match the surplus.

Positive budgeting trends continued into expenditures, as the original and final budgets for FY 23 mirrored at \$1.57 billion. Despite budget adjustments for individual agencies, there were no negative variances at year-end. General government and public safety underspent by over \$20 million each, while total miscellaneous expenditures were overbudgeted by \$125 million. In total, agencies spent just \$1.34 billion, \$209.6 million less than budgeted (Department of Budget and Financial Services, 2024).

These actions enabled Honolulu to end FY 23 with a surplus of \$435.6 million, \$287.8 million more than initially budgeted. Although not mentioned, the conservative approach to spending by agencies was likely a calculated move to revive a nearly depleted general fund. Estimated at \$540 thousand by June 30, the fund balance has ballooned to \$402 million, giving the city and county a healthier nest egg moving into FY 24 (Department of Budget and Financial Services, 2024).

Fund Balance

Table 6 - General Fund Balance

| Total General Fund Balance: \$572,596 million | | |
|--|-----------------|--|
| Category | Amount | Description |
| Nonspendable | N/A | Funds that cannot be spent due to their form or legal/contractual requirements. |
| Restricted | N/A | Funds constrained for specific purposes externally imposed by creditors, grantors, etc. |
| Committed | \$169.6 million | Funds constrained for specific purposes internally imposed by the City through formal action of the highest authority. |
| Assigned | \$93 million | Funds encumbered for purchasing commitments, neither restricted nor committed. |
| Unassigned | \$309.5 million | Residual positive fund balance not classified in other categories. |

As of June 30, 2023, the General Fund Balance for the City and County of Honolulu stands at \$572.596 million. This balance is categorized into several distinct categories. Firstly, there are no Nonspendable funds, which typically consist of amounts that cannot be spent due to their form or legal/contractual requirements. Similarly, no funds are classified as Restricted, indicating no external constraints on specific purposes. The most considerable portion of the fund balance is Committed funds, totaling \$169.6 million. The City internally designated these funds through formal action, with \$154.587 million allocated to Emergency Services, \$2.204

million to Improvement Districts, and \$12.846 million to Other purposes (Department of Budget and Financial Services, 2024).

Additionally, \$93 million is allocated as Assigned funds, encumbered for purchasing commitments but not restricted or committed. Finally, the Unassigned category encompasses \$309 million, representing the residual positive fund balance within the General Fund. These funds have not been classified into other categories and may include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for specific purposes (Department of Budget and Financial Services, 2024).

Financial Policies

Financial policies serve as the guiding principles underpinning any government's fiscal health and stability. They provide a roadmap for decision-making, offering clarity on budgeting, spending, investment, and risk management practices. By outlining these standards and procedures, financial policies ensure consistency and coherence in financial operations, aligning them with the organization's strategic objectives and goals. Robust financial policies are essential pillars of governmental financial resilience, promoting sound financial practices, accountability, and sustainability in an ever-evolving economic landscape.

Honolulu's financial policies also address fund balances (see appendix 6). The city aims to attain a minimal fund balance of five percent and an optimal fund balance of eight percent of annual General Fund and Highway Fund operating expenditures. However, the annual fund balances have consistently been near twenty percent, indicating a discrepancy between the stated policy goals and actual outcomes. Additionally, there is no formal minimum fund balance policy

to establish a benchmark for the city's financial stability (City and County of Honolulu Department of Budget and Fiscal Services, 2023).

Financial Ratio Calculations

The City and County of Honolulu demonstrates strong fiscal health according to its financial ratios for 2023 when applying the measures to assess fiscal distress (see attachment 7).

Table 7 – Fiscal Distress Assessment

| | 2023 Analysis | | 2022 Analysis | |
|----------|----------------------|----------|----------------------|-------------|
| Ratio 6 | 44.98% | 0 points | 35.83% | 0 points |
| Ratio 7 | 32.22% | 0 points | 28.52% | 0 points |
| Ratio 8 | 139.58% | 0 points | 125.61% | 0 points |
| Ratio 10 | 61.94% | 0 points | (23.46%) | 6.67 points |

The city's Ratio 6, which measures the sufficiency of unrestricted funds relative to total expenditures, is 44.98%, indicating a robust capacity to cover operating costs from reserves in case of revenue shortfalls or unforeseen situations. Similarly, Ratio 7, Total Fund Balance to Total Revenues, stands at 32.22%, signifying ample reserves to mitigate revenue shortfalls. These high ratios reflect the city's financial stability, scoring 0 points for fiscal distress in both categories.

In terms of operational sustainability, Ratio 8, Total Revenues to Total Expenditures, indicates that Honolulu's revenues exceeded its expenditures, with a ratio of 139.58% for 2023. This healthy surplus suggests that the city is not overspending and has the flexibility to invest in other areas. Additionally, Ratio 10, which measures the change in the unassigned fund balance, shows a positive growth of 61.94% in 2023, a significant rebound from the -23.46% in 2022. This improvement in unassigned fund balance points to successful financial recovery, reinforcing

Honolulu's overall fiscal resilience and providing a stable foundation for future growth (Mavredes, 2020).

Conclusion

The budget analysis for the City and County of Honolulu encompasses a comprehensive examination of the city's financial condition, focusing on critical aspects such as history, mission, values, organizational structure, financial policies, revenue trends, expenditures, fund balances, and key financial ratios. The findings reveal a city with a rich historical context, robust financial health, and a clear strategic focus.

Honolulu's rich history as the capital of Hawaii provides the backdrop for understanding the evolution of its budgetary and governance practices. The city-county structure, established in 1907, has guided its growth from a small population to nearly one million residents by 2022. The budget reflects this growth, with a focus on sustainability, public safety, and community development, driven by a mission to advance the general welfare and safety of its residents.

The analysis demonstrates that Honolulu's revenue streams are strong, with steady growth driven by taxes, unreserved funds, and other sources. Expenditure patterns indicate a balanced approach, with strategic investments in transportation, public safety, environmental sustainability, and community services. The fund balance, standing at over \$572 million, signifies financial resilience and flexibility. The city's financial ratios underscore its ability to manage operational costs and maintain a healthy surplus.

Despite these strengths, there are areas for improvement. The absence of a formal minimum fund balance policy raises questions about long-term fiscal stability. The reliance on non-revenue receipts in the General Fund, along with the exclusion of key enterprise funds like

HART and Oahu Transit Services from audits, points to a need for greater transparency and diversification in revenue sources.

Overall, Honolulu's budget analysis presents a city on a path to sustained growth and financial stability. With a focus on addressing social issues, supporting public safety, and modernizing infrastructure, the city demonstrates a commitment to serving its residents while maintaining fiscal responsibility. As Honolulu moves forward, strategic planning and sound financial policies will be key to ensuring the city's success.

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- U.S. Census Bureau *Quickfacts: Honolulu County, Hawaii*. U.S. Census Bureau. (2023). <https://www.census.gov/quickfacts/fact/table/honolulucountyhawaii/PST045222>



Appendix 2

CITY AND COUNTY OF HONOLULU
ELECTED OFFICIALS
 June 30, 2023

EXECUTIVE BRANCH

Mayor. Rick Blangiardi

Prosecuting Attorney. Steven S. Alm

LEGISLATIVE BRANCH

| <u>Council District</u> | <u>Councilmember</u> |
|-------------------------|----------------------|
| First. | Andria Tupola |
| Second. | Matt Weyer |
| Third. | Esther Kia`āina |
| Fourth. | Tommy Waters, Chair |
| Fifth. | Calvin Say |
| Sixth. | Tyler Dos Santos-Tam |
| Seventh. | Radiant Cordero |
| Eighth. | Val Aquino Okimoto |
| Ninth. | Augie Tulba |

Appendix 3

CITY AND COUNTY OF HONOLULU
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 FISCAL YEARS 2014 - 2023
 (Unaudited)

(Page 1 of 2)

| <u>Function</u> | <u>Full-time Equivalent Employees as of June 30</u> | | | | |
|----------------------------|--|---------------------|---------------------|---------------------|---------------------|
| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
| General government | | | | | |
| Administration | 498 | 499 | 496 | 523 | 504 |
| Finance | 425 | 405 | 406 | 419 | 435 |
| Legal | 303 | 312 | 318 | 323 | 312 |
| Planning & Permitting | 283 | 257 | 271 | 284 | 267 |
| Design & Construction | 140 | 146 | 155 | 154 | 148 |
| Land Management | 8 | 10 | 11 | 14 | 8 |
| Public Safety | | | | | |
| Police | 2,270 | 2,325 | 2,428 | 2,449 | 2,480 |
| Fire | 1,069 | 1,078 | 1,080 | 1,105 | 1,115 |
| Emergency Medical Services | 227 | 226 | 225 | 209 | 194 |
| Highways and Streets | 662 | 642 | 683 | 666 | 657 |
| Sanitation | | | | | |
| Solid Waste | 592 | 575 | 599 | 637 | 651 |
| Sewer | 218 | 225 | 241 | 256 | 257 |
| Health and Human Resources | 405 | 407 | 394 | 387 | 390 |
| Culture and Recreation | 1,017 | 989 | 1,034 | 1,044 | 1,076 |
| Total | <u>8,117</u> | <u>8,096</u> | <u>8,341</u> | <u>8,470</u> | <u>8,494</u> |

NOTES:

Source: City and County of Honolulu, Department of Human Resources.

A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,080.

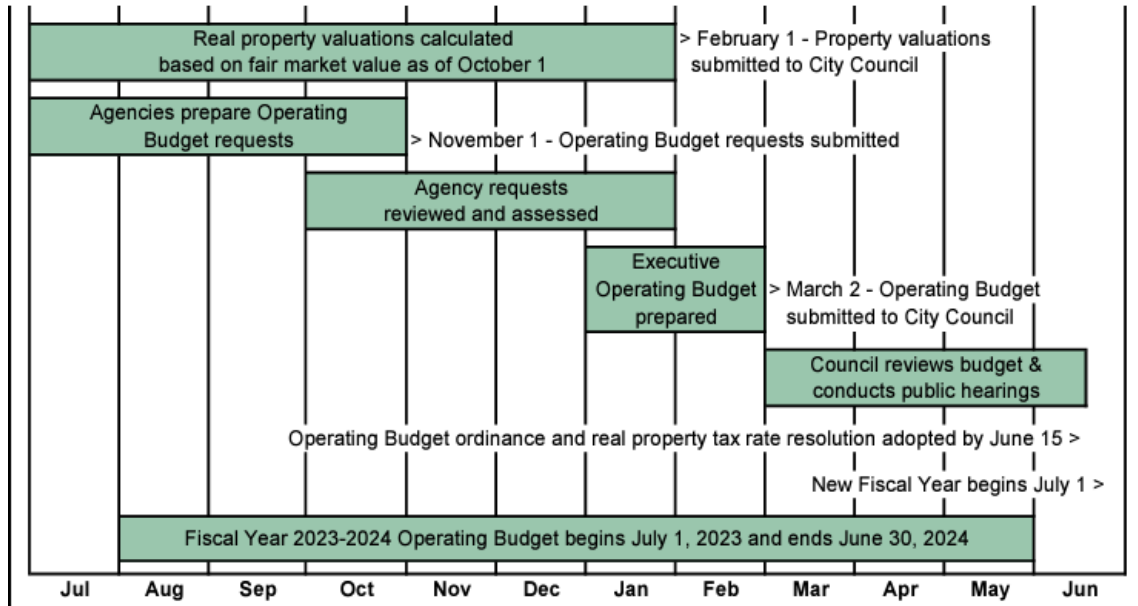
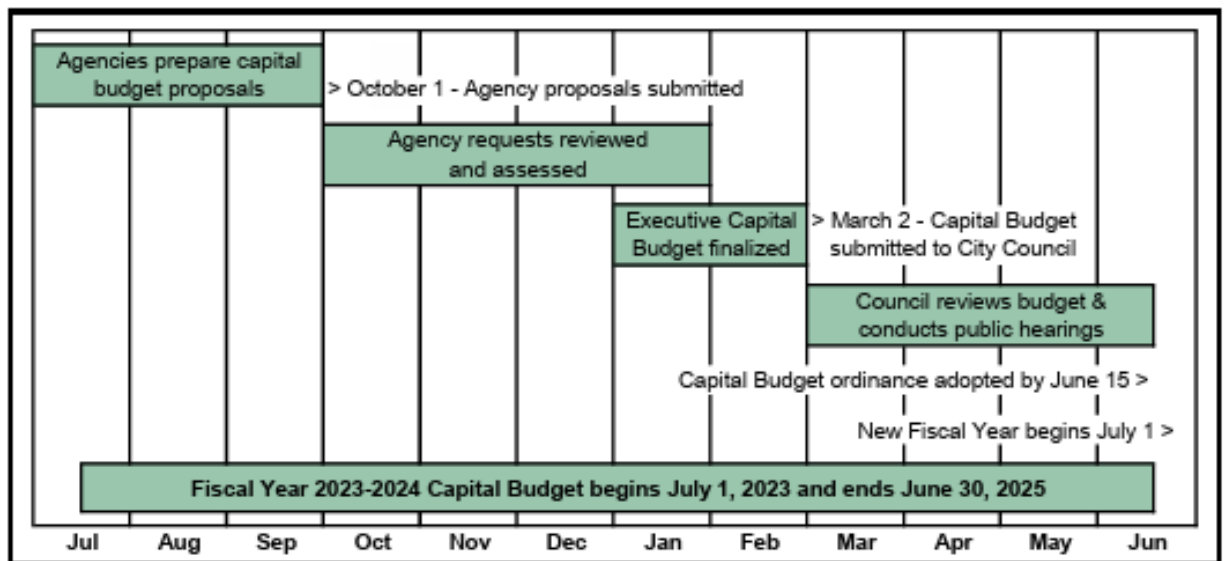
This table excludes the Board of Water Supply Employees.

Appendix 4

The Operating Budget

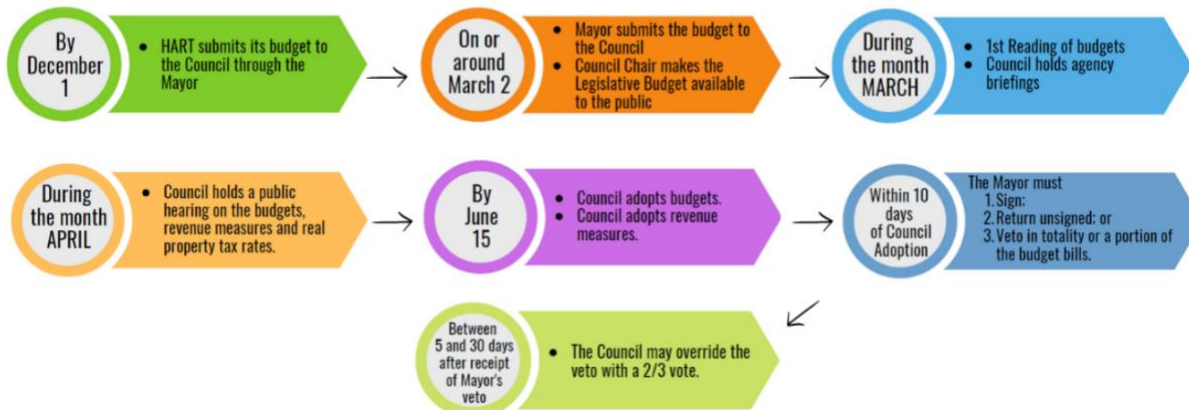
Appropriations contained in the executive operating budget ordinances are valid only for the fiscal year for which they were made.

Any part of the appropriations which is not spent or reserved to pay for expenses lapses after June 30, the end of the fiscal year.

**CAPITAL BUDGET CALENDAR**

Appendix 5

Honolulu City Council Budget Review



Appendix 6

Debt and Financial Policies of the City

Debt and Financial Policies of the City

The Debt and Financial Policies of the City and County of Honolulu is guided by Resolution No. 06-222, adopted on July 19, 2006. The policies state:

I. OPERATING BUDGET

A. OVERALL

1. The operating budget details a financing and spending program to meet the goals and objectives of the City which have been established by the City administration, the City Council and the public. It contains information and data regarding expected revenues, expected expenditures and expected service and performance outcomes. To the extent feasible, the budget also should include outcome measures which reflect each programs' success in meeting established goals and objectives.
2. Operating expenses are the costs for personnel, materials, equipment required for a government entity to function. Operating expenses are expenditures for day to day operations and exclude expenditures for capital purposes, as defined herein. Operating expenses include the cost of paying salaries and benefits to civil service employees except that salaries for employees funded with cash from the sewer fund may be included in the capital budget.
3. The City administration shall have written policies with respect to the preparation and implementation of the City's operating budget that incorporate the guidelines and definitions contained herein.
4. As a comprehensive business plan, the budget includes the following elements as recommended by the Government Finance Officers Association: public policies, financial plan, operations plan, and communications device.
5. The City's annual budget presentation should display the City's service delivery/performance plan in a public friendly format.

6. Under the Mayor's direction, the Department Directors have primary responsibility to formulate budget proposals and implement the budgets appropriated by the City Council and allotted by the Mayor.

B. FISCAL INTEGRITY

1. The City will maintain the fiscal integrity of its operating and capital budgets by maximizing its level of public services while minimizing its level of debt.
2. Cash balances in excess of the amount required to maintain a long-term contingency reserve shall be used to fund one-time or non-recurring costs.

C. RESERVE FOR FISCAL STABILITY FUND

1. The City shall maintain the reserve for fiscal stability fund to accommodate economic and revenue downturns and emergency situations.
2. The City shall make every effort to attain a minimal fund balance of five percent and an optimal fund balance of eight percent of annual General Fund and Highway Fund operating expenditures.
3. The City shall make every effort to replenish monies expended from the fund when conditions that necessitated the expenditure cease to exist.

D. REVENUES

1. The City shall make every effort to maintain a very high tax collection rate (over 98.5 percent) to the extent consistent with the marginal costs of collection.
2. The City shall place increased emphasis on user fees to finance municipal services.
3. The City shall seek to diversify its revenue mix to be less dependent on property tax revenues and temporary revenues.

Debt and Financial Policies of the City

II. CAPITAL BUDGET

A. OVERALL

1. Capital costs funded in the capital budget shall be limited to costs that do not recur annually. These include equipment having a unit cost of \$5,000 or more and estimated service life of 5 years or more, except for equipment funded with cash from the sewer fund. Items such as light poles and playground equipment whose individual cost is less than \$5,000 may be funded in the capital budget if aggregated and made an integral part of a project costing \$25,000 or more and the estimated service life of every major component of the project is 5 years or more, such as a project to replace all of the light poles in neighborhood or a project to replace a park's facilities including playground equipment. To be included, improvement and replacement costs of public infrastructure must substantially expand the capacity or extend the life of the public infrastructure. Eligible capital costs would include the repaving of parking lots but not painting and slurry sealing of parking lots. It would include the installation of a new roofing surface but not spot patching of a roof. Contracts to hire engineering and design professionals under a personal services contract with a definite termination date may also be included. Costs associated with paying the salaries of civil service employees shall not be included except for salaries funded with cash from the sewer fund. Major renovations costing more than \$5,000 to existing facilities may qualify as a capital project. Routine maintenance of existing facilities, however, shall not qualify; instead, such costs shall be included in the operating budget. All other necessary costs that do not qualify for funding in the capital budget shall be included in the operating budget and deemed operational costs.
2. The City administration shall have written policies with respect to the preparation and implementation of the City's capital budget that incorporate the guidelines and definitions contained herein.
3. The preparation and adoption of the capital budget shall be coordinated with the operating budget so that the City may ensure that sufficient resources are available to operate and maintain its facilities.

B. FISCAL POLICIES

1. Capital project proposals should include as complete, reliable, and attainable cost estimates as possible. Project cost estimates for the capital budget should be based on a thorough analysis of each project and be as reliable as the level of detail known about the project. Project cost estimates for the six-year Capital Program may vary in reliability depending on when they are to be undertaken during the first through sixth year of the Program.
2. Capital project proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project.
3. All proposals for the expenditure of capital funds shall be formulated and presented to the City Council within the framework of the capital budget.
4. Project proposals will include the project's impact on the operating budget including, but not limited to, additional personnel requirements and long-term maintenance costs necessary to support the project.
5. At the time of a contract award, each project shall include a reasonable provision for contingencies. The amount set aside for contingencies shall correspond with industry standards and should not exceed ten percent of the estimated project costs.
6. The City administration shall minimize administrative costs of the Capital Program.
7. The annual capital budget shall include those projects which can reasonably be accomplished in the time frame indicated. The capital budget shall include a projected time schedule for each project.

Appendix 7

| Ratio | Ratio Calculations | Ratio Description | Ratio Results Interpretation | Assignment of Points Based on Ratio Results |
|-------|--|--|---|--|
| 6 | Unassigned + Assigned Fund Balances (+ other Committed reserves where applicable) / Total Expenditures (General Fund Activity) | This ratio measures the sufficiency of unrestricted reserves, plus any applicable reserves specifically set aside, relative to the locality's operating expenditures. By comparing the locality's fund balance reserves to its operating expenditures, we can see to what extent the locality can fund operating expenditures from reserves in the event of a revenue shortfall or unforeseen situation. | <ul style="list-style-type: none"> • A higher ratio percentage suggests that a locality is in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A lower ratio percentage suggests that a locality may not be in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A negative ratio percentage indicates that a locality has a deficit unassigned fund balance in its general fund. | Ratio is weighted at 15% <ul style="list-style-type: none"> • Ratio result is negative or less than 5%: 15 points • Ratio result is between 5% and 10%: 10 points • Ratio result is between 10% and 15%: 5 points • Ratio result is equal to or greater than 15%: 0 points |
| 7 | Total Fund Balance/ Total Revenues (General Fund Activity) | This ratio measures the sufficiency of reserves relative to the locality's general fund revenue. By comparing the locality's reserves to its revenue, we can see to what extent the locality can make up revenue shortfalls with reserves. | <ul style="list-style-type: none"> • A higher ratio percentage suggests that a locality is in a desirable position to have sufficient reserves in the event of a revenue shortfall. • A lower ratio percentage suggests that a locality may not be in a desirable position to have sufficient reserves in the event of a revenue shortfall. | Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is negative or less than 5%: 10 points • Ratio result is between 5% and 10%: 5 points • Ratio result is equal to or greater than 10%: 0 points |
| 8 | Total Revenues/ Total Expenditures (General Fund Activity) | This ratio, known as the Service Obligation or Operations Ratio, measures whether a locality's annual revenues were sufficient to pay for annual operations. This ratio does not account for Other Financing Sources, such as Transfers In. | This ratio has a natural benchmark of 100 percent or higher. A ratio result under 100 percent means that total expenditures exceeded total revenues in the general fund. | Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is less than 60%: 10 points • Ratio result is between 60% and 100%: 5 points • Ratio result is equal to or greater than 100%: 0 points |
| 9 | Debt Service Principal and Interest Expenditures/Total Revenues (available to pay the debt service) (General Fund Activity and Debt Service Fund Activity, if applicable) | This ratio measures total debt service expenditures divided by total revenues, primarily from the general fund. It also includes any other applicable governmental funds, since some localities account for debt service in separate debt service fund or capital project fund outside of the general fund. This ratio identifies the percent of the locality's budget that is used or needed for repayment of debt. An increasing trend of debt service expenditures to total revenues may mean the percentage of budget dedicated to debt payments is increasing; and therefore, less revenue will be available for asset repair/ replacement or meeting current service demands. As debt service increases, it adds to a locality's obligations and reduces the locality's expenditure flexibility. | <ul style="list-style-type: none"> • A higher ratio percentage suggests that a locality is in an unfavorable position since the locality spends more of its current budget on debt repayment. • A lower ratio percentage suggests that a locality is in a more desirable, favorable position since the locality is spending less of its current budget on debt repayment. | Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is equal to or greater than 20%: 10 points • Ratio result is between 10% and 20%: 5 points • Ratio result is equal to or less than 10%: 0 points |
| 10 | Change in General Fund Unassigned Fund Balance (Current Year Ending - Prior Year Ending/ Prior Year Ending) (General Fund Activity) | This ratio identifies changes (increases or decreases) in unassigned fund balances from the prior year to the current year and is useful in identifying a locality whose unassigned fund balance is deteriorating over time, and how rapidly it may be decreasing. | <ul style="list-style-type: none"> • A positive change indicates a more favorable position since this indicates that unrestricted fund balance is growing. • A negative change could indicate an unfavorable position, particularly over a period of years, as this could indicate the locality is using fund balance reserves due to a fiscal distress situation. | Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is negative with a high decrease equal to or greater than (30)%: 10 points • Ratio result is negative with an intermediate decrease between (15)% and (30)%: 6.67 points • Ratio result is negative with a low decrease between (.01)% and (15)%: 3.33 points • Ratio result is positive or no change: 0 points |

Source: Mavredes, M. (2020). (rep.). *Monitoring for Local Government Fiscal Distress - 2019 Report*. Commonwealth of Virginia Auditor of Public Accounts.