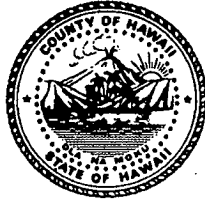


Harry Kim
Mayor



William Takaba
Director

Nancy E. Crawford
Deputy Director

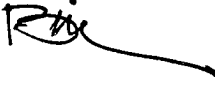
County of Hawaii

Finance Department

25 Aupuni Street, Room 118 • Hilo, Hawaii 96720
(808) 961-8234 • Fax (808) 961-8248

Memorandum

To: All Department Heads

From: William Takaba, Director of Finance 

Date: May 23, 2008

Re: Fund Balance Message to Council

Mayor's Office
Aging
Civil Defense
Corporation Counsel /
County Clerk/Council
Legislative Auditor
Data Systems
Environmental Mgmt
Finance divisions
Fire
Housing
Human Resources
Liquor Control
Mass Transit
Parks and Recreation
Planning
Police
Police - finance
Prosecuting Attorney
Public Works
Research & Development

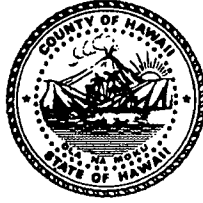
Harry asked me to send copies of my letter and presentation to the County Council cautioning them on their fund balance projections for FY 2008-09.

Thank you very much.

cc: Harry Kim, Mayor

attachment

Harry Kim
Mayor



William Takaba
Director

Nancy E. Crawford
Deputy Director

County of Hawaii

Finance Department

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May 20, 2008

The Honorable Chairman Pete Hoffmann
and Members of the County Council
County of Hawai'i
Hilo, HI 96720

Dear Chairman Hoffmann and Council Members:

Thank you for the opportunity to present comments on Bill No. 252. Communication No. 1039.28 is the last of a series of communications amending Bill No. 252, draft 2. This amendment increases our revised FY 2008-09 estimated fund balance projection to \$26,241,869. This is \$10.1 million more than originally projected when the Mayor's amended budget was submitted to you on May 5.

I believe it is my responsibility to let you know that this projection is unrealistic, and to explain the consequences of not reaching this amount when the County books are closed in October, and the fund balance is determined.

Attached for your information is a sheet prepared by our Budget division containing answers to the most frequently asked questions about our "elusive" fund balance – and it is elusive, because as you can see on the second sheet that I have attached, over the last 27 years, the County's fund balance has fluctuated from a low of \$1.17 million to a high of \$19.8 million - not even close to the \$26 million that is being proposed.

Some of you may remember the County's FY 2001-02 operating budget. Although this budget projected a \$7.8 million fund balance carryover, the actual amount turned out to be \$5.4, creating a budget shortfall of \$2.4 million. And it was mid-year that we had to amend the budget to reflect the shortfall in revenues. Certain programs, positions, and equipment were eliminated, and the following year we had to raise taxes. This was not a happy time for the public who depended on County programs, and for employees who were counting on receiving more help and better equipment. This also took away our ability to address unanticipated financial needs mid-year.

Honorable Pete Hoffmann, Chair

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May 20, 2008

So in short, let us not over-project our fund balance projection only to have to reduce our budget later in the year, especially if positions have already been filled, equipment purchased, and financial commitments made. Mid-year is when we usually count on an excess fund balance to address unanticipated financial requirements.

Thank you for the opportunity to comment.

Aloha,

A handwritten signature in black ink, appearing to read "William Takaba", with a long horizontal line extending to the right.

William Takaba

Director

F A Q's

What is fund balance and how is it used in the budget process?

Fund balance is the excess amount available for appropriation at the end of the fiscal year. In our budget process, we try to project what that amount will be and use it as a revenue source for the following fiscal year's budget.

What is the amount projected as a revenue source in the FY 08-09 budget?

In the Mayor's amended budget we are projecting fund balance at \$16,115,000.

What was our fund balance at the end of June 30, 2007 and what was budgeted in the FY 07-08 budget?

We ended with \$18,959,273.95 and had budgeted \$18,979,555.00 or \$20,681.05 over the actual fund balance.

Can we expect this year's fund balance to end up higher than \$16,115,000? If not, why not?

It is possible but not much more than that. It should be pointed out that in FY06-07 the \$4 million appropriation for post-retirement benefits (GASB 45) lapsed and contributed to the 2007 fund balance carryover. Hence, excluding the \$4 million, the 2008 projected carryover is greater than the 2007 carryover.

Has the fund balance carryover been less than the amount projected? If so, when?

Yes, the last time was with the FY 01-02 budget, fund balance was projected at \$7,830,000 but the actual carryover was \$5,458,145, a shortfall of \$2,371,855.

What happens when there is a shortfall?

Naturally, the budget has to be amended to reflect the shortfall in revenues. How you do it needs to be determined. Do you cut programs, freeze hiring, cut out equipment replacements, postpone repairs and maintenance, etc. In any case, operations will be somehow affected.

Is the fund balance easy to project?

No, it's because of all the variables and unknowns. One must be familiar with current and past trends in revenues, expenditures and encumbrances. Fluctuations in and timing of revenues and expenditures also impact the calculation.

County of Hawaii
Fund Balance Trend - General Fund

Fiscal Year	Ending Fund Balance
1981	5,564,649.40
1982	2,656,177.78
1983	2,820,914.94
1984	4,100,753.10
1985	4,475,780.68
1986	5,670,317.41
1987	3,937,911.06
1988	4,970,016.37
1989	3,452,576.16
1990	7,393,586.92
1991	4,911,896.20
1992	3,520,877.98
1993	2,634,472.77
1994	6,548,128.13
1995	11,512,246.23
1996	19,337,343.73
1997	19,827,742.99
1998	15,452,102.23
1999	13,865,287.29
2000	13,442,471.37
2001	5,458,145.64
2002	1,171,127.11
2003	6,678,888.54
2004	10,385,457.37
2005	12,506,861.95
2006	18,344,524.76
2007	18,959,273.95

Fund Balance

