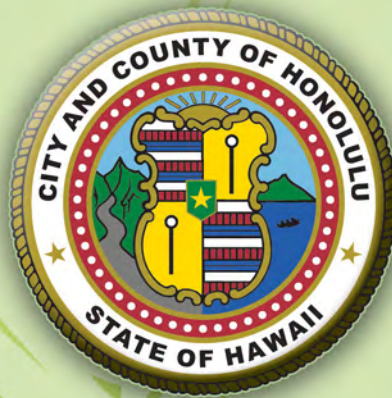


Executive Summary



Executive Summary

Targeted Economic Recovery and Growth with a Focus on Excellence in Government and a Commitment to our Communities

Section I - Executive Program and Budget at a Glance

The key focus areas of the proposed Fiscal Year 2022 (FY22) Executive Program and Budget include funding core City & County of Honolulu (“City”) services and providing relief to those struggling to make ends meet during the current pandemic, while also executing Mayor’s priorities and focus on community resources, infrastructure, affordable housing, homelessness, public safety, parks and park facilities, government efficiencies, service to our distant and underserved communities, public transit, seamless transportation services, improved fiber-optic connectivity, climate change adaptation, sustainability and resiliency and responsible yet aggressive economic growth for Oahu’s future.

As a result of the COVID-19 pandemic, the necessary public health guidelines and restrictions, and the pandemic-induced economic recession, the City and County of Honolulu will experience lower budgeted revenues. Key revenue sources projected to decrease or remain depressed compared to FY20 actuals include real property taxes, Transient Accommodation Tax pass through from the State of Hawaii (“State”), fuel taxes and motor vehicle fees, etc. Fortunately, a strong emphasis on individual and community compliance with public health guidelines in concert with State, City and community sponsored COVID-19 vaccination programs has resulted in the reduction of daily COVID-19 infection cases and a significant lowering of the County’s positivity rate, ushering in opportunities to safely and strategically reopen and grow the County’s economy in FY22.

FY22

Employee fringe benefit and collective bargaining costs continue to grow. Budgeted employer contributions to the Employee Retirement System (“ERS”) are \$4.4 million higher in FY22 as compared with FY21 due to increases pay and “spiking” caused by excessive overtime pay for selected departments.

While the City is normally required to pay 100 percent (100%) of the annual required contribution for retirees’ health care benefits (OPEB), the City (in alignment with the State) has made the very difficult decision to defer payment of the pre-payment portion of the cost of future health benefits for retirees for FY21 and to defer a portion of the payment for FY22; a deferral of \$139.7 million in total to conserve funds for current operational needs. Further, the City has implemented a hiring freeze to level and control labor costs in these challenging times but will balance the freeze, on an exception basis, by filling vacant positions where labor is strategically needed for the Mayor’s key priorities. This fill by exception process will allow the administration to be fiscally prudent and yet have the ability to move quickly in areas where staffing is urgently needed.

The Honolulu Rail system did not commence operation in FY21 as reported in the budget submittal last year. The impact of the pandemic and the City’s withdrawal from the public-private partnership (“P3”) for the operation of Rail was unanticipated. Consequently, the initial phase of rail operations is under review by the Mayor, his current administration and HART. The FY22 budget includes the impact of the delays through FY21.

The proposed operating budget of \$2.9 billion is basically at the same level as the FY21 adopted budget and the proposed FY22 Capital Program and Budget (CIP) is approximately \$1.0 billion which is 25.8% lower than the adopted FY21 CIP budget of \$1.4 billion.

It is important to reiterate that the FY22 budget includes significant reductions in salaries across all agencies and the deferral of the pre-payment portion of the OPEB contribution for FY21 and in part for FY22 (partially offset by increased operating, maintenance and service expenditures for Rail) to appropriately fund the budget. These salary reductions and the OPEB contribution deferral will have to be addressed in the future as funding is available.

Section II – Mayor’s Priorities

Upon election, Mayor Blangiardi shared the enormous sense of responsibility he felt to confront the unprecedented health challenges facing our residents and the pandemic-induced economic recession negatively impacting the financial security of our residents, businesses and communities. Confronting these challenges by standing up a core team of experienced leaders across City departments became Job One. At the same time, the Mayor shared his strategic vision and priorities for the City, including his commitment to listen to our people and our communities, to find government efficiencies in the midst of a recession, to develop stronger relationships and alignment with our State, Federal and non-governmental organizations (NGOs) partners and to prioritize leadership, trustworthiness and decisiveness across all City operations.

The FY22 budget prioritizes the efficiency of sustained core City services in the midst of a recession, a commitment to equitable federal resource distribution to those most financially impacted by the recession, upgrades to City infrastructure (sewer, roadways, parks), expanded fiber-optic connectivity to underserved communities, adaptive traffic signal technologies supporting a seamless City-State transportation grid, climate change adaptation strategies/projects, a renewed partnership between the City and HART to deliver a functional rail transit system bridging our communities, more affordable housing opportunities including new financial models, a recommitment to the homeless, a new focus on Chinatown, its residents and businesses, and an overall commitment to do more with less by thinking smartly and creatively in full collaboration with the Honolulu City Council.

Efficiency in Sustained Core City Services

Honolulu’s sewer system is a critical component of the City’s infrastructure. The FY22 capital budget includes \$538 million to fund wastewater and global consent decree projects in addition to the \$765 million budgeted and adopted in FY21. The FY22 capital funding primarily relates to \$434 million of major Honouliuli and Sand Island wastewater treatment plan projects under the consent decree requirements of the Environmental Protection Agency, Department of Health and other special interest groups.

The focus on roads includes \$118 million of capital funds dedicated to the rehabilitation of various highways and streets, including \$30 million for the widening of Salt Lake Boulevard and \$15 million for roadway improvements on Farrington Highway, in concert with the State of Hawaii.

The Mayor also strongly supports improved maintenance of our parks and more park facility upgrades for the benefit of our residents, keiki to kupuna, and our communities. This is especially important as Oahu transitions through the tiered public health guideline system towards more open and safely-activated communities, utilizing both public outdoor and indoor recreational spaces. Accordingly, the proposed CIP budget includes \$36 million for various park improvements throughout the City. Approximately \$14.3 million is included in various bulk funds which provide the Parks Department with the needed flexibility to perform specific renovation, as well as address unforeseen situations as they arise. Approximately \$8 million is included for Hans L’Orange Neighborhood Park to construct a comfort station, parking lot and related improvements. Additionally \$6.0 million to plan, design, construct and inspect improvements for the Honolulu Zoo, \$4.6 million to plan, design, construct and inspect improvements for municipal golf courses, and \$1.2 million to design, construct and inspect wastewater improvements for Hanauma Bay Nature Preserve. Also included in the budget is \$6.5 million of Community Development Block Grant (CDBG) funds to pay for various park improvements throughout the island for eligible neighborhoods. In the operating budget, funding of \$1.2 million is included to continue the successful initiative to restore comfort stations, refurbish play courts and play apparatus systems at the parks throughout the island. \$2.9 million is included for security guard services at various parks. Included in this amount is \$250,000 for the continued security of Haiku Stairs.

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A Commitment to Efficient and Equitable Federal Resource Distribution

With many lessons learned from the first year of federal relief fund allocations, the Mayor is committed to allocating the resources necessary to improve both the efficiency and equitability of federal relief fund distributions, while continuing to focus on existing City operations and CIP programs that upgrade our City's infrastructure, improve our physical environment and stimulate jobs during a recession.

Optimizing Transportation Programs and Transit Operations

To ensure state-of-the-art safe and efficient vehicular travel, the City is investing in \$10.4 million to design, construct, and inspect Intelligent Transportation Systems (ITS) improvements which include installation of broadband fiber-optic networks to remote, and presently underserved, communities such as Waianae, Nanakuli and Maili. The City will invest approximately \$6.8 million in design, construction, and inspection improvements to upgrade traffic controllers, and more than \$7.1 million dollars in traffic improvements and traffic engineering and signal devices across Oahu.

With respect to HART and the continued development of the rail line from East Kapolei to Ala Moana Center, Mayor has committed to work closely and strategically with the new HART leadership team, the HART Board of Directors, our federal congressional delegation, the Honolulu City Council and the State of Hawaii to secure necessary funds, establish a productive working relationship with new administration in the Federal Transit Administration (FTA) and produce plan of action to deliver an implementable, functional and financially sound rail operation on Oahu.

With Bus and Handi-Van experiencing a significant reduction in public transit ridership during the COVID-19 pandemic, the FY22 operating budget includes \$285.2 million for bus and Handi-Van operations and services which is an decrease of \$14.5 million versus FY21's adopted budget of approximately \$300 million.

The capital budget continues to prioritize \$45.8 million for the acquisition of buses and Handi-Van vehicles. Approximately \$34.9 million of these expenditures will be covered by federal grant funds.

Addressing Climate Change, Sustainability and Resiliency

As an island community, climate change, sustainability and resiliency are critical issues, not just to the quality of our lives today, but to our long-term physical and economic survival and existence. The FY22 proposed operating budget includes \$350,000 for the FEMA funded Long Term Disaster Recovery Plan and \$500,000 for the Oahu Metropolitan Planning Organization ("OMPO") Transportation Climate Action Plan.

The FY22 capital budget includes an additional \$9.7 million for sustainable infrastructure of City facilities to support electric charging stations, and approximately \$27.7 million for various H-POWER (Solid Waste to Energy Facility Conversion Technologies) improvements.

The Mayor has also prioritized a shift in focus for our Climate Change, Sustainability and Resiliency resources towards facilitating, planning and programming adaptation CIP projects in concert with other City departments, drawing upon anticipated federal infrastructure funding opportunities in FY22. Developing a strategic pipeline of adaptation projects over a longer term fiscal window is a key priority of the Blangiardi administration.

Increasing Affordable Housing in a Constrained Budget and Combating Homelessness

The City must take a strategic approach to both affordable housing and homelessness. Currently, the City has funding of \$37.5 million for renovation and/or development of low income affordable housing, funds which can

be administered or managed by the City and County of Honolulu or, alternatively, in conjunction with the State of Hawaii, private non-profit organizations or private partners. In addition to funding resources in the Affordable Housing Trust Fund, the Mayor is also proposing new models to incentivize development of affordable housing units by private sector land owners on a low-cost per unit basis to the City.

With respect to homelessness, a challenging situation for all, especially in light of the COVID-19 pandemic, the unsheltered homeless population on Oahu has grown in excess of the sheltered homeless population. Mayor is committed to taking bold steps, beginning with an acknowledgement of the challenge by changing the Office of Housing to the Office of Housing and Homelessness, followed by a call for additional City resources to fashion new ideas, methods and models to significantly reduce the numbers of homeless on our City streets. The FY22 CIP budget includes \$1.6 million in HOME Investment Partnership Program and \$651,732 for the successful Emergency Solutions Grants (“ESG”) program.

The FY22 operating budget includes \$8.1 million (including State funds) for continuation of the successful Housing First initiative, \$1.3 million for services related to the Hale Mauiola Housing Navigation Center at Sand Island and \$900,000 for services at the Pūnāwāii Rest Stop in Iwilei. In addition, \$408,000 has been included for programs such as Landlord Engagement, and transportation to help with the housing, transporting, and treatment of Honolulu’s chronically homeless population.

Addressing Economic Revitalization

The Office of Economic Revitalization in the Managing Director’s Office adds 3.50 FTE additional positions and \$259,416 for salaries to increase staffing levels to the current: Director, Deputy Director, and two (2) Community Relations Specialists. The Office also added \$195,000 in current expenses to allow the office to fully operate in the fiscal year.

The Mayor’s Office of Culture and the Arts added one (1) Planner position, \$62,136 in salaries and \$9,000 in current expenses to add the function of Sister City Relations to the office.

The Office of Housing added two (2) Planner positions and \$87,032 in order to create an Affordable Housing Coordinator and a Homelessness Coordinator which are top priorities in the Mayor’s 90 Day Plan.

Focus on Chinatown - Its Residents and Businesses

Mayor Blangiardi has committed to the residents and businesses of Chinatown that the City will dedicate the necessary manpower, intellectual capital and funding resources necessary to clean up Chinatown and work with the many eager community partners to collectively restore Chinatown to its rightful place as one of Oahu’s historic and cultural gems. City departments will work together using available operating and CIP bulk funds to improve sidewalks and curbs, repave streets, finalize redesigned Complete Streets’ projects, replant trees and/or remove uneven and unpaved surfaces within sidewalk areas, remove graffiti and rehabilitate City properties in Chinatown. The Mayor will also work with the Honolulu Police Department (HPD) on collective efforts to reduce crime in Chinatown.

Collaborative Work with the Honolulu City Council

Mayor Blangiardi has committed to work with each and every member of the Honolulu City Council to deliver core City services and improvements to constituents in every Council District. The Mayor looks forward to a FY22 budget process that is both collaborative and productive, prioritizing the many needs of families and communities across Oahu.

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Section III – Performance Metrics

The operating budget details the financing and spending program to meet the goals and objectives of the City. The City's Debt and Financial Policies (Resolution 06-222) identifies the need to show "To the extent feasible... outcome measures which reflect each programs' success in meeting established goals and objectives." To accomplish this goal, performance metrics addressing customer service were identified and established in the FY16 operating budget.

Fifteen departments continued to manage and monitor their performance metrics developed to improve customer services. Results have been collected since 2016. However, the global (COVID-19) pandemic of March 2020, initially forced closure of city offices serving the public directly, shut down parks, recreational activities- including the Neal S. Blaisdell Center, the Honolulu Zoo, Hanauma Bay; and overloaded public safety agencies such as Emergency Services and the Honolulu Police Department. Although most services have been restored while others are slow to recover, the way the City does business has been forever changed. As part of Mayor Blangiardi's commitment to improve government services, the performance metrics will undergo a comprehensive review to better align with changing conditions.

Exhibit 1 summarizes the performance metrics for the selected departments with the FY20 results.

Section IV – Summary of the Operating Budget (All Funds)

Projected Revenues and Resources

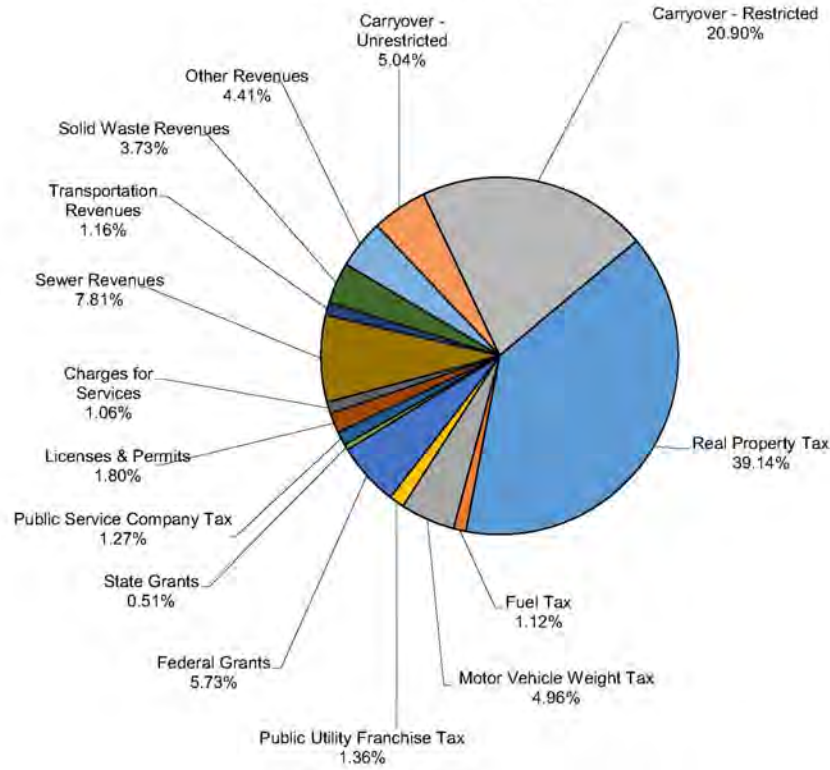
The projected operating resources for FY22 total \$3.49 billion, reflecting lower overall revenues and carryover due to the COVID-19 pandemic and resulting economic downturn. The City's largest revenue source, real property taxes, is estimated at \$1.38 billion, or 39.1% of operating resources. This reflects a slight decrease in assessed valuations which are used to calculate tax revenues, compared to FY21. The COVID-19 pandemic has significantly affected the City's revenues, due to the effects of the pandemic on the economy of the City and State. The estimated City's share of Transient Accommodations Taxes (TAT) has been reduced to \$0 for FY21 and FY22, compared to former revenues of about \$45.4 million per year. Other revenues, such as the fuel tax and bus fare revenues, are relatively higher compared to estimated FY21 revenues, but are significantly lower than FY20 actual collections.

Chart 1 summarizes all of the projected resources available to meet the proposed operating budget expenditures.

The dramatic downturn in tourism has heavily affected certain facilities, including Hanauma Bay, which usually has a majority of its visitors from outside of Hawaii. Hanauma Bay was closed for about eight months during the pandemic, and when reopened, the number of visitors decreased by about 75 percent. This has resulted in a large decrease in revenues, while the costs of maintaining the Bay and providing services has not decreased accordingly. As a result, the carryover in the fund has been used to address the revenue shortfall. In order to address the imbalance between costs and revenues of the fund, an increase in the admission fee for non-resident visitors 13 years of age and older, from \$12 to \$25 is proposed in this budget.

In order to mitigate the growing General Fund subsidy to the Solid Waste Special Fund, we are proposing a change to allow revenues from the Refuse account, H-Power account and Recycling accounts to be used for the expenses of any of these three accounts. This change recognizes that refuse collection, recycling and disposal costs and revenues are part of an integrated solid waste management program.

Where the City Gets Its Dollars FY2022 Operating Resources (\$3.49 Billion)



Note: This pie chart shows the different sources of funding for the City's operations. Carryover includes unappropriated and restricted fund balances.

Chart 1

Highlights of the Expenditures in the Operating Budget

The FY22 operating budget is \$2.91 billion. The notable areas of increase includes debt service and mass transit due to operating costs for rail service.

Exhibit 2 "Budget at a Glance" summarizes the expenses in the operating budget.

Chart 2 "Where the City Spends Its Dollars" displays the operating budget expenditures by function.

The largest category of expenditures at \$1.23 billion (20.63%) is the miscellaneous category which includes nondiscretionary costs such as retirement contributions for employees, healthcare benefits and other post-employment benefits (OPEB). Debt service comprises 20.59% of the operating budget at \$598.6 million. This includes principal and interest payments of \$409.6 million for general obligation bonds and \$189 million for sewer revenue bonds. Police, fire, ocean safety and other public safety programs make up 17.75% of the budget at \$516 million. Mass Transit, which is primarily for bus, rail, and Handi-Van costs is at \$392.9 million or 13.52%. Sewer and refuse collection costs are \$304.9 million or 10.49% of operating expenditures. The balance of the operating expenditures are for general government at \$223 million (7.67%), human services at \$120.1 million (4.13%), culture and recreation at \$111.8 million (3.84%), and highways and streets at \$40.1 million (1.38%).

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Similar to what was done in prior fiscal years, the executive agencies used the zero based budgeting method within an imposed ceiling to prepare their budget requests as a means of exercising fiscal prudence. Zero based budgeting is a method of budgeting in which all expenses must be justified for each new budget review period in contrast to incremental budgeting whereby incremental changes are considered based on need and justification. In addition to an imposed ceiling and zero based budgeting, all department current expense budgets were further reduced.

Where the City Spends Its Dollars FY2022 Operating Expenditures (\$2.91 Billion)

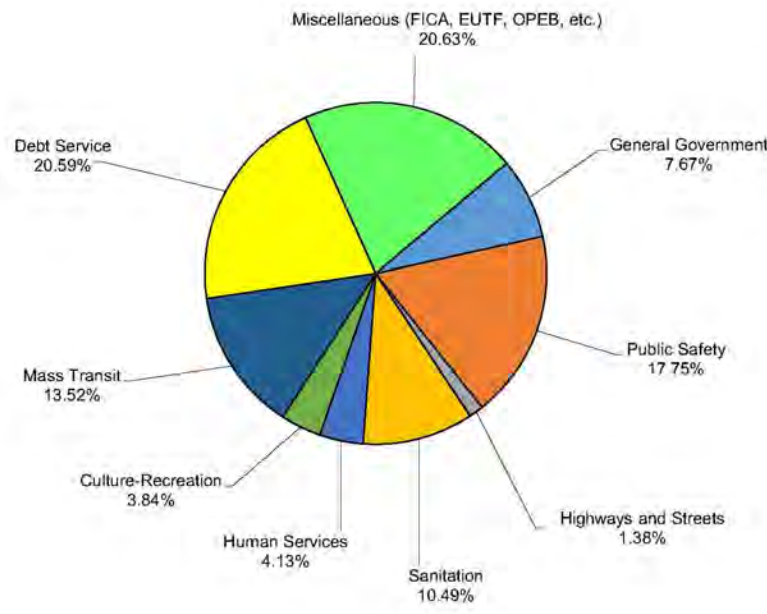


Chart 2

Note: This pie chart shows the amount spent on different types of City operations.

Exhibit 3 provides a multiyear comparison of actual and budgeted amounts for each of the executive agencies.

Section V – Highlights of the Capital Program and Budget

The FY22 Capital Program and Budget (CIP) is proposed at \$1.025 billion. The budget includes \$250 million for general improvement bond and highway improvement bond funded projects, \$109 million for solid waste bond funded projects, \$336 million for sewer revenue bond funded projects, \$202 million for sewer funded projects, \$71 million in federal funded projects and \$57 million for other funded projects. The administration focused its capital spending on core services, consistent with the operating budget.

In order to procure equipment needed to provide core City services, the administration is proposing to fund \$23 million of equipment with short-term bonds to more closely match the useful lives of the assets in accordance with the requirements of the City’s Debt and Financial Policies (Resolution 06-222). Equipment for sewer projects will continue to be paid for with sewer fund cash revenues.

Chart 3 breaks down the types of capital projects by function. The largest category of expenditure is for the Sanitation Function – mostly for refuse and sewer projects, much of which are mandated by the Global Consent Decree (61.4%), followed by Highways and Streets for improvements to bridges, roads, street lighting and other transportation related projects (11.5%), Culture and Recreation (6.3%), General Government energy conservation and sustainable facilities improvements (5.9%), Mass Transit (5.6%), Public Safety (5.3%), and Human Services (4%).

Capital Projects by Function FY2022 \$1.025 Billion

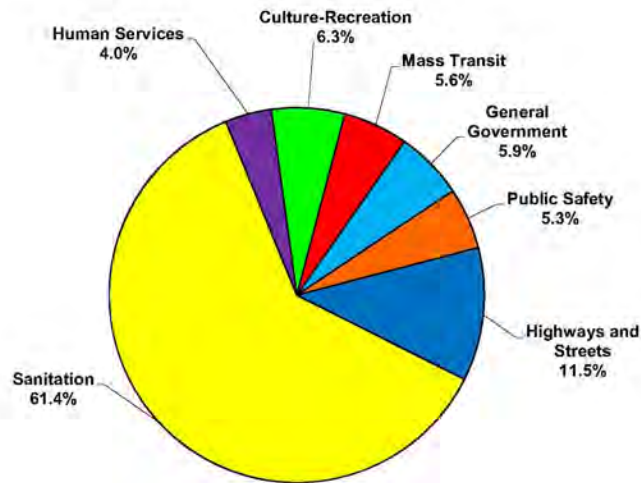


Chart 3

Much of the capital spending is included in bulk fund programs that provides flexibility to City agencies to make needed improvements to support core services or meet state and federal requirements.

Some examples are:

- \$2.5 million for Civic Center and other Municipal Facilities Improvements.
- \$3.4 million for Flood Control Improvements
- \$4.5 million for HPD Headquarter and other Police Station Building Improvements
- \$3.8 million for Fire Station Building Improvements
- \$2.1 million for Telecommunications Facilities Upgrade
- \$10.4 million for Computerized Traffic Control System
- \$6.8 million for Oahu Traffic Signal Controller Modernization

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- \$2.5 million for Traffic Signals at Various Locations
- \$15.3 million for Sewer Mainline and Lateral Projects
- \$14.3 million for Renovate Recreational Facilities

As in past capital budgets, the city continues to meet the requirements of the National Pollutant Elimination Discharge System (NPDES) Permit issued by the State of Hawaii Department of Health, as required by the U.S. Department of Environmental Protection Agency (EPA). NPDES improvements address reduction of the sources of pollutants and improve storm water outfalls which include green infrastructure improvements. The FY 22 capital budget includes \$21.8 million for NPDES improvements. The CIP budget also includes \$21 million for the scheduled City subsidy to the Honolulu Authority for Rapid Transportation.