Finance Committee Meeting

April 24, 2012
1:00 p.m.

Committee Members Present: Larry Dill, *Chair*, Clyde Nakaya, Roy Oyama

Absent/Excused:

Board Members Present: Darryl Kaneshiro, *Vice Chair*, Randall Nishimura

Staff Present: David Craddick, Carol Beardmore, Dustin Moises, Gregg Fujikawa, Val Reyna, Jeff Mendez, Keith Aoki, Fay Tateishi

Mr. Nakaya, *Temporary Chair* called the Finance Committee Meeting to order at 1:11 p.m. on behalf of Chair Dill; quorum was achieved.

AGENDA

Mr. Oyama moved to accept the agenda as circulated; seconded by Mr. Nakaya; with no objections, motion was carried.

OLD BUSINESS

a. Draft Budget of 2013 (Item No. 4)

DISCUSSION:

Mr. Nakaya questioned the proposed 2013 budget which Manager Craddick discussed regarding revenues estimates. There is a 0.8 % increase required for the potential consumption with a cost of $110,000. Mr. Nishimura referred to Tab 2, Page 1, (Expenditures) and requested all encumbrances on the capital be listed by line items. Some encumbrances are shown by accounting line item which made it hard to follow the true encumbrance from the previous year. Ms. Tateishi referred to Section 11, Page 2 which included the total encumbrances of $2.3 million.

Ms. Tateishi referred to the Four Winds contract which had an encumbrance (See Section 1, Item 24 Budget Summary). Mr. Nakaya pointed out on Tab 8, Page 3 Item 27 (Contractor Services) the total income is not shown in Tab 11. Manager Craddick stated there was a Change Order during the job which was not encumbered and additional funds are available if needed. The grade came up about the water conservation whether the Department was doing a conservation study. He questioned if there was enough contingency in the contract at $514,000. Mr. Fujikawa stated the DOW budgeted without any contingency. The committee discussed if the budgeted amount was encumbered or if it was a new budget item in Item 27 (Contractual Services). Mr. Fujikawa stated this was a contingency that was approved in last year's budget (See Tab 8, Page 3). Manager Craddick could not answer the question of where the $100,000 shows in the detail because he did not see it in the $514,000 amount. The Summary is shown as a New Request and there was discussion to add a conservation plan to the water use and development plan which Mr. Fujikawa was not aware of. Manager Craddick mentioned a previous guest acknowledged the state was doing this because it was not considered in the budget.

Manager Craddick's request was added to the budget in case it was needed. Encumbrances not contracted are moved to the back of the budget which are new budgeted items. The column should be renamed to "Encumbrances/New Expenditures" (instead of Contractual Services). The numbers are correct under Tab 8, Page 3 (Water Resource and Planning/Encumbrances Tab).

Mr. Nishimura referred to Tab 6, Page 9 (Office Furniture and Equipment) and inquired on the encumbrance of $205,000 for the ESRI Kofax large format printer, scanners and iPads for Board members. Mr. Mendez stated no contract was listed for the equipment.

(Larry Dill, Chair entered meeting at 1:31 p.m.)

Manager Craddick commented that the equipment is on the 2012 budget but is not encumbered. He suggested using the word, "Appropriations" from last year. By the end of the year, it could show up as an encumbered contract. Mr. Nakaya referred to Tab 11 (Encumbrances/Actual Contracts) and suggested a different title be used in the future. Mr. Kaneshiro added the computer leases should be encumbered but is under New Requests. The items listed in Tab 6, Page 9 (Office Furniture and Equipment) which are not encumbered by June should be a New Request for this year. Manager Craddick indicated the budget summary should be completed before the Board passes a Resolution.

(Gavel passed from Mr. Nakaya to Chair Dill) Mr. Nakaya relinquished his temporary chairmanship to Chair Dill.

Chair Dill commented if an item was bought in the fiscal year 2012 budget, the fiscal year 2013 New Request would go away and it would be a budget request. Mr. Mendez was instructed to wait for an IT plan. The iPads were received and can be taken off the list. Mr. Mendez clarified that a new computer lease will be implemented the next fiscal year. There will be some roll over and some leases will end, then a new lease will be started. Mr. Mendez and Mr. Kaneshiro agreed this would cover what has not rolled over under the New Request. Previously, the budget listed second year and third year in the lease which are not bundled all together from last year under New Requests.

Mr. Nakaya inquired if the division heads met with Ms. Yano with their budget line items. Mr. Mendez sent Ms. Yano emails with his line item request and justification which were not in the budget. Mr. Reyna met with Ms. Yano and Deputy Manager Eddy. Mr. Moises stated some items were submitted as justification but never made it into the budget. Mr. Kaneshiro said there should be a justification listed in the front Tab of the budget to make it less confusing. Mr. Nishimura stated this should be resolved internally.

Mr. Nishimura indicated the encumbrance is a global issue within the budget. He also inquired about the Water Sales budget. Mr. Nakaya asked what are the chances of $24 million falling short? The write-up stated the consumption might not meet the 0.8%. Manager Craddick stated each year the DOW lowered consumption the year before which is not going up and there was a rate increase in January. There is no noticeable effect on the income with the rate increase and a lot of rain could be a factor.

Manager Craddick explained fire flow consumption dropped to almost nothing. It used to be a million gallons plus a year on the small meter on private fire systems. Mr. Nishimura asked if the fire system meter did other things. The billing shows it as proportional to the size of the pipe and engineering details. The DOW is charging the area ratio. The direct check is a large line with no meter on it. By the large meter there is a small meter with a ratio of 160 times. The meter is read at 1,000 gallons and billed for 164,000 gallons which caused the consumption to drop to zero unless there were leaks. The line should only be used for fire. The first billings were billed through the 5/8-inch meter. If 1,000 gallons went through and the other 164,000 gallons went through, it should be billed like it is going through a line with an 8-inch meter. The rules were changed to account for that and they are not operating with those new rules. This was a substantial error because it showed all the consumption which went on the top block rate. If there is an 8-inch meter, the 400,000 or 500,000 gallons is in the first block rate. This should have been billed at 320,000 gallons. The auditor stated the DOW's income last year was misstated which was corrected with the billing system. The prior bills will need to be corrected. Manager Craddick stated the cause of the consumption drop could be due to old conservation with people putting in new low-flow fixtures. This will affect an entire year's budget, with heavy rainfall causing income to drop.

Mr. Nishimura referred to Tab 2, Page 1 (Other Revenues) and stated previously the budget was around $5 or $6 million but this year it is up to $10.5 million. He asked if the $5.7 million is from SRF and what kind of contingencies would be made on expenditures. SRF has been applied for and is a reimbursement. Manager Craddick stated the SRF has been approved which is the high-level water.

Mr. Nakaya noted the state allotment for the budget was approved for $4 million (See on Tab 1, Page 2, Item 5 SRF). The other receipts are SRF grant funds and the $1.7 million was approved. Manager Craddick added one more allotment will be received on Thursday for $200,000. Mr. Nakaya and Mr. Nishimura asked if the $5.7 million was approved. They also asked if there was a contingency if the DOW does not receive the $1.7 million or the $4 million and if the DOW has to apply for it or can revenues be counted on now. Manager Craddick commented there is a contingency for the contract. If the specific items are not done, the DOW does not get the money but there can be no expenses at the end of the year. Mr. Nishimura's follow up question was on the capital replacement, capital rehab, the CIP or FRC accounts. Manager Craddick stated the DOW has the money but if the work is not done to where they can get billed, the DOW will not receive the reimbursement.

Mr. Nishimura asked if the $5.7 million is part of the $19,046 and the $942,000 on Page 1 (Operating Expenses/See Capital Replacement) which accounts for 20% of Manager Craddick's budget. Normal expenditures in this year's budget are $13.1 million and $2 million more than last year or a 600% increase. Manager Craddick will research the Miscellaneous Capital in the budget summary.

Mr. Nishimura referred to Line Item 3, Page 2 (Interest Income) which the DOW collected and shows $200,000 in interest income. Manager Craddick stated the BAB bonds the DOW is making a very paltry amount of interest. Mr. Nishimura stated the DOW budgeted $355,000 this year and is expecting to get $60,000 for the year end projection. Manager Craddick stated not all the interest has been allocated. Mr. Nishimura feels $235,000 on $34 million is not a lot but is more than $60,000.

Chair Dill referred to Tab 2, Page 1 (Water Sales and Service Charge) and stated the DOW is estimating $20 million this year in revenue and $24.3 million next year. This is a 21% increase with consumption flat with a 0.8% increase. The lion's share of the increase must be due to the rate increase. Manager Craddick confirmed the first rate increase does not show much revenue increase. The second increase will kick in for the full year. The $20 million estimates are accurate this year.

Manager Craddick added the Board packets include a chart showing the budgeted number the DOW is collecting with a comparison with the previous year month-by-month.

Chair Dill asked if the $20 million estimate in FY 2012 includes the first increase. Manager Craddick was not positive if it included the increase. At the beginning of the year, the DOW did not know when the budget was going to get passed by December 25th and nothing may have been done. The DOW is not collecting what the projection was by R. W. Beck.

Chair Dill's concern was the estimate Manager Craddick provided for FY 2012. Chair Dill assumed the estimate included the rate that went into effect. Manager Craddick stated this was a projection based on what came in the January financials. The projection can be divided by the number of months and multiplying it to get to the end of the year. Only one month had a rate increase. Chair Dill's concern was that there has not been a bump which Manager Craddick has not seen.

Mr. Nishimura questioned what the budget for 2011-2012 was based on. As of February, with 66 % of the budget elapsed, the DOW was 2% (approx. $13.4 million) behind on water sales with no curve for eight months. Chair Dill stated to divide $13.4 million by 8 times 12 equals 20.1%. Chair Dill looked at the basis for the $24.28 million (See on Tab 3, Page 2). His concern is the DOW is budgeting predicted revenue of 21% greater than the past year. Tab 3, page 2 gives a projected consumption based on the 0.8%. The block rates will be effective July 1, 2012 as the rate increase portion with consumption was flat.

Chair Dill inquired if the DOW is too progressive in their earlier projections because he thought it was 11% per year. Manager Craddick stated this may have been affected by an extremely wet year. The DOW has only been off no more than 1% on the projected revenue. On Tab 3, Page 2 shows how the rate is calculated and taking the rebate from the first half of 2012 with a full year of collection on this rate. The rate consultant projected a 1% flow increase. If the drop is in the higher blocks, the drop will be more than $100,000 which could double. The concern for the DOW is having a wet year and consumption falling 1% to 4% (2008-2009). There was an 8% drop in consumption in a single year.

Chair Dill questioned the power adjustment comparison from FY 2012 to FY 2013. Manager Craddick referred to the budget and stated the projected consumption of $4.3 million but above the projected consumption is $4.1 million. This was added to get the $4.7 million for a cultural center which is not exempt from the power cost adjustment. Manager Craddick will research the entire cost adjustment rate in fiscal year 2012 which was less than 31 cents. Mr. Nishimura questioned if the DOW is increasing the rates by 22%. Consumption would not drop by 0.2. Mr. Nakaya clarified it would be 0.04% or a magnitude of a $4 million increase. Chair Dill referred to Tab 2, Page 2 (County Service Charge) which went up half a million dollars or 50%.

Manager Craddick referred to the Fire Hydrant in Tab 3, Page 3 that the service charge jumped from $900,000 and needs to be reviewed. All new hydrants are being added from the construction and are not deducting all the deadlines which may be overstated. Ms. Tateishi stated the rates increased compared to last year. The 6-inch hydrant was $408,000 last year and the 2013 hydrant is $648,000, a two-thirds increase. Mr. Moises stated that number is probably not correct. He has not received a closeout from Fiscal to add the CIP projects. The fire hydrant number needs to be revised. Manager Craddick added he did not know R. W. Beck brought this item up because of their analysis and what was costing the DOW to do the hydrant replacement. The $648,000, $222,000 and $105,000 rate charges and actual increases are from the Rate Study that passed for a rule. R. W. Beck uses cost accounting to back up the numbers. Manager Craddick stated this is relevant after reviewing the HR issue and is no longer what they are getting for $900,000. The Department is $1.4 million in service from Personnel and the Finance Department. Chair Dill asked if the service charge is on the equipment for the meter or for a different service charge for the hydrant. Manager Craddick stated the cost includes the depreciation of the hydrant and yearly maintenance. Chair Dill reviewed the Rules in Section 4, Part 4 for the whole year by multiplying this number times 12 (60 x 12, plus 54 x 12) which equals a monthly charge.

(10-minute Recess)

Chair Dill called the meeting back to order.

Mr. Nakaya referred to Tab 4, Page 4 (Expenditures) which dropped to $13.1 from a budget of $13.6 and an actual of $11 million. He questioned how would water resource drop to $484.000. Manager Craddick stated the contractual items are in this year's budget because it will not be needed next year.

Chair Dill referred to Tab 8, Page 1 (Contractual Services) and stated the budget is $904.000 and is projected for the next year at $420,000. Manager Craddick stated these items were encumbered and moved over to the Contractual Section (See Tab 12). Section 11, Page 2 is the Rainfall Study, USGS and the Water Use and Development Plan. The Nature Conservancy should be listed as Watershed Alliance. In FY 2013, $420,000 is proposed under Contractual Services (See Tab 8, Page 3).

Manager Craddick commented that the big drop out is the water use and development plan. Rainfall which is not normal will go away next year. The USGS joint funding program and support of the hydraulic model are typically there and the Watershed Alliance will stay. If the Bag Bill goes through the legislature this year and money is received from the state, the DOW may back off. The DOW paid out of 75 locations for the Watershed Alliance this year and another $75,000 will be paid for the current year.

Mr. Nishimura referred to Tab 8, Page 3 (Encumbered Money/New Request). The U.S. Rainfall Study was moved to capital expenditure, two-year agreement, $80,000 and $70,000 with a $70,000 request. Ms. Tateishi stated the two-year agreement is with the university. The first year the DOW was to pay up to $75,000, and the second year to pay $80,000. By the end of this fiscal year, a bill will be submitted up to $75,000. The university has to pay $80,000 for 2013. Manager Craddick stated the budget is short $5,000. Mr. Fujikawa stated $80,000 was encumbered.

Mr. Nishimura referred to Tab 11, Page 2 on another request for $80,000 on the 2012-2013 budget. Manager Craddick believes this was not paid. He stated there is a confusing part of the budget when they expect the money to go out this year but does not. If the money does not go out this year, the request will jump up to the full $150,000 next year and can both be combined to get $150,000. He will meet with Ms. Yano for clarification.

Manager Craddick commented that the Encumbrance and New Requests are shown in two different places. The $290,000 is a budget allocation for this year but with no contract and is not encumbered. The language will need to be changed. The Encumbrance Column on Tab 11, Page 2 was not paid out. These items need to be taken off the budget but it is part of the cash basis as opposed to an accrual basis. Manager Craddick stated it could be netted out and put in a column titled "Minus Encumbrances." He suggested an appropriation, then a contract would be done and the money is encumbered. It can be shown on the budget as: Beginning Cash Balance minus Encumbrances. There could be a summary of the existing encumbrances. Chair Dill and Mr. Oyama agreed to this suggestion. Mr. Nishimura and Mr. Nakaya agreed this is the only way this can be done as a cash budget.

Mr. Kaneshiro stated the first contract is over 10 years old and still shows $12,246,000 (See Tab 11, Page 1). Ms. Tateishi stated this contract is being closed out. Manager Craddick explained the contract was suppose to make the payroll system work with the account which was not paid from 2000. He does not know how the Department can close out the contract because the work has not been completed and encumbered.

Mr. Nishimura acknowledged that the budgeted items could be contracted before the end of the year and adjusted on the final Resolution. The items will move from appropriated "Not Encumbered" to "Encumbered." Mr. Nishimura suggested the program budget explains how the change will happen. The Board can read the reasons that match up with the budget number to elevate questions. The division heads agreed to have their overview summary ready by May 14, 2012 at the Rules Committee meeting.

Mr. Nishimura pointed out the surface water treatment plant purchase that the Department is recommending, has capital and operating implications which should be voted on prior to meeting on the full budget. Chair Dill stated this should be dealt with in committee and come back to the Board with a recommendation. Manager Craddick stated they are separate from the budget which is not a true picture. Compared to what the costs are to the budgeted items, the Department's costs are not the budgeted items. The Department budgets a cost and is based on the audit numbers on the capital item and they do not end up allowing the Department to show this as a cost item. He referred to the Grove Farm Water Purchase (GFWP) that showed budgeted numbers that were not actually spent. On Section 10, Page 7, the GFWP $730,000 is budgeted and listed. In the past, the Department budgets using 2 million gallons which is the minimum the Department has to take. The Department started budgeting for 3 million gallons and now the budget becomes much higher.

Manager Craddick referred to Tab 10, Page 1, line 55 (Total Water Purchase) for 2011 which was on the budget actual with a repeat number of $1,513,046. This number was compared to what the auditor picked up as $623,721.

Manager Craddick commented if $600,000 is minused, it equals and includes purchases from Princeville and Kalihiwai (See Tab 10, Page 1, line 55). All other numbers never exceeded $85,000. Column 4 is the budget total for Water Purchases and the budget actual (paid-out number) accounting indicated for actual Water Purchases. The month-to-month budget total for 2010 is $1,558,688. Manager Craddick is trying to find the disconnect between the budget actual and the audit. The auditor called an unspecified item a capital item from the Grove Farm tally. There was no disconnect in 2001 - 2004 when the Grove Farm plant was not there. Grove Farm was paid an operating expense.

Manager Craddick mentioned the pie charts show a $300,000 difference if the depreciation is added which is not a part of the Department's budget ($300,000 + $500,000 + $800,000). The DOW is paying Grove Farm each year and is not mentioned in the agreement. The agreement does not give

Grove Farm the depreciation but is received which is part of their bill. Interest is also being collected on their loan. They need to be collecting back the capital. Depreciation is not considered when working on the budget. The Department is paying Grove Farm back the principal on their plant. The DOW is paying back on principal which is the difference between what the auditor is showing and what the DOW's actual are, minus whether Grove Farm got their 10% interest. The $46 million balance would be going to the capital to buy out the plant when it is only $4 million. The land would have to be negotiated. Manager Craddick believes the Department is at half a million dollars over the next seven years. Mr. Nishimura and Chair Dill suggested asking the auditor for clarification on the adjustment.

Mr. Reyna is monitoring the 2.01 million gallons a day for six months when the buyout is completed. Manager Craddick stated there is a half million dollars drop in the next year's budget if the plant is bought out from $60,000 to $80,000. The DOW budgeted $65,000 for chemicals which could double because Grove Farm uses disinfectant and coagulants. Manager Craddick suggested if they are not going to use it at $2 million, do not budget at $3 million. The number would drop down by a third whether the Department buys the plant or not.

Mr. Kaneshiro requested to recuse himself from the discussions. Chair Dill and Manager Craddick called for a separate discussion for clarification.

Chair Dill announced the next meeting will focus on the Grove Farm water treatment plant, division head write-ups and changes on the Engineering sections. Ms. Tateishi agreed to research the budget from 2001 and will present it on Tuesday, May 1, 2012 at 9:00 a.m.

Mr. Nakaya moved to recess the Finance Committee Meeting; seconded by Mr. Oyama; motion carried unanimously.

The Finance Committee Meeting recessed at 3:18 p.m.

ein