

# FINANCE COMMITTEE MEETING

Monday, April 15, 2019

Committee Members Present: Finance Committee Chair Lawrence Dill, and Lester Calipjo. Also present was Chair Thomas Canute and Vice Chair Laurie Ho (*entered meeting @ 3:03 p.m.*)

Excused: Ka`aina Hull

Staff Present: Bryan Wienand, Dustin Moises, Valentino Reyna, Mary-jane Akuna, DCA Mahealani Krafft

Guest(s): Hall Parrott, Private Citizen

Chair Dill reconvened the meeting at 2:35 p.m. and quorum was established.

## **E. NEW BUSINESS**

1. Draft Budget for Fiscal Year 2019-2020
  - a. Fiscal Year 2019 - 2020 – Draft Operating Budget
  - b. Fiscal Year 2019 - 2020 – Draft Capital Outlay Budget

Board Policy #26 was distributed and “Received for the Record.”

Revenues (Page 16) – Waterworks Controller Mrs. Yano stated the projected revenues were changed to \$27,253,451 from \$26,929,850; net impact increased the projected revenues by \$323,601. Chair Dill mentioned the increase in the projected water sales but decreased because of the deferring of the anticipated rate increase. Manager Wienand clarified that the rate increase is not reflected in the revenues and was removed.

Professional License Fees (Page 31) – removed from the budget for \$2,000.

Purchase of a Replacement Asset Management System (Page 50) – reduced \$7,500 to \$230,000

SCADA – reduced from \$500,000 to \$270,000

SharePoint – reduced from 0 to \$295,000

Total reduction was from \$1,225,000 to \$815,000

Hanapēpē River Bridge Kaumuali‘i Hwy. (Page 81) – reduced from \$315,000 to \$225,000

SWTP – Water Treatment Delivery Agreement with Grove Farm (Page 149) – reduced from \$1.6M to \$1 funded

Vacant Positions (Page 152) – Plant Electrician is \$1 funded for one month.

Additional positions – IT Specialist III (is not approved by the Board yet)

Recap – Revenues were reduced by \$323,601; operating expenses reduced by \$52,757 (net results of changes). The new capital outlay/miscellaneous - reduced to \$410,000; new capital CIP projects \$1,599,000 (WUF).

Total – Fund Projection Summary (Page 2) – Estimated ending Fund Balance increased from \$2,288,000 to \$294,000. Chair Dill said if the Grove Farm Agreement is consummate this year, the ending fund balance would go down do \$3.1M based on preliminary estimates.

The Board Policy #26 Proposed Revisions on the Emergency Reserve Fund (ERF) were “Received for the Record.” Mrs. Yano commented that 25% of the ERF on the current Board Policy is based on the budgeted operating expenses. The projected operating expenses has some allowances compared to the actual operating expenses and is always lower than the budgeted expenses. Instead of looking at the future operating expenses, Mrs. Yano looks at the prior audited expenses and uses the actual operating expense cost. Initial calculations were used on the Board proposal based on last year’s audit. Twenty-five percent of the audited financial statements operating cost less that the interest expense. Interest expense was already covered in the debt service requirement reserve fund minus non-cash expenses (depreciation, amortization) and the County’s contract of \$2.3M a non-cash expenditure. Based on last year’s audit, the ERF would amount to \$4.2M and a reduction of \$1.5M. The \$1M insurance budget that is placed in the proposed budget every year, Mrs. Yano adds \$1M in the ERF ( $\$4.2M + \$1M = \$5.2M$ ). The WU Emergency Reserve would change from \$6,700,000 to \$5,200,000 which increases the estimated ending balance from \$4.7M to  $\$4.7M + \$1M = \$5.7M$  (Page 2).

Manager Wienand wanted this information shared because it could impact this year’s budget if the Board were to approve it and with recommended feedback at this month’s Board meeting. The \$1M insurance policy would be handled as a stand-alone Board Policy for the insurance side. From discussions with Mrs. Yano and her staff, Manager Wienand said it makes sense to include it in Board Policy #26 and to update the changes to be presented to the Board at the April 26<sup>th</sup> Board meeting.

Chair Dill pointed out that traditionally the Department budgets more than what is spent every year. By using the audit as a basis for actual expenses to justify lowering the ERF is an easy out in lowering the reserves. He asked why does the Department keep budgeting expenses significantly higher than what they are every year? Chair Dill asked why isn’t it addressed from this standpoint? Manager Wienand said this is a goal the Department is trying to reach for a tighter actual budget compared to the historically inflated budget and making sure it’s realistic. This is in parallel with the financial policy contract that the Department is trying to execute with the consultant on ideas in handling encumbrances that are going to be spent more than one year than what is budgeted. Manager Wienand is trying not to have the policy spiral further by using a potentially inflated budget to increase the ERF, but trying to reel it back in by using the actual audited statements.

Chair Dill wanted to know how the policy was developed? Who put this together for the Department? What was it based on? Did the American Water Works Association provide a template? Mrs. Yano said this policy was developed in 2012 by former Manager David Craddick.

While Mrs. Yano attended a Government Officers Finance Association conference that had discussions on the ERF, the Department had already drafted a board policy which was approved by the Board. In 2014, there was a revision but Mrs. Yano did not have the changes available. Currently the insurance budget continues to come back with a low risk factor. The \$1M may not be used and is restricted. After discussing the \$1M deductible with her staff, they suggested to include it into the Reserve Fund. Mrs. Yano said how often for an insurance claim would happen at the same time. Fiscal is reducing the restrictions of taxes. The Department is in the middle of a rate study and is not trying to inflate the operating expenses. Operating expenses are reduced on normal expenditures. The \$1M ERF is an abnormal expense. Chair Dill said the concept is a good idea and agrees that this should be presented to the Board for review but Mrs. Yano said the proposed budget shows the \$1M. She requested input from Chair Dill if input for a better proposal.

Chair Dill mentioned there has been a decline in water consumption and a decline in revenues. He inquired if the Department had a hard time paying expenses and he asked that the way the current policy is, can the ERF be used to cover expenses currently? Based on the draft proposal, could the ERF be used in that scenario? Mrs. Yano said currently it can’t be used to cover expenses because the ERF is restricted for emergency expenditures that may be encumbered for emergencies. The new proposal incorporated operating expenses and emergency repairs or capital expenditures for replacement and rehabilitation costs which can be used with normal operating expenses. The usage would be for insurance claims and in case of emergencies. Mrs. Yano added that whenever the ERF is tapped, the Department needs to go to the full

Board for approval. If this ERF is not presented at a Regular Board meeting, it would be presented at a Special Board meeting for approval.

Mr. Calipjo asked if the Department ever had a claim in the past? Mrs. Yano said no. Since the ERF was established, it has never been used also according to Chair Dill. The ERF should be “nimble” in the event of an emergency, the funds could be tapped quickly. He likes the Board oversight on this but suggested to put a certain amount that the Department could proceed with subject to future authorization with the Board. The purpose of the ERF is for the Department to respond quickly.

Chief of Construction Manager, Mr. Moises recalled that in 2012 & 2014 the ERF was set up in case of a hurricane because customers were not paying their bills for about a month and no revenue was coming in [inaudible]. One of the revisions was to calculate within the three months, not just the debt service, operation expense and that the pension liability is paid every month. Chair Dill remembered vaguely that conversation and the lack of revenue would be a slow hit. The tanks running out & throwing off source would incur cost rapidly. Chief of Operations Mr. Reyna was not sure where the funding came from in the 2014 Kalāheo incident but a Special Board meeting was one for funding. Mrs. Yano explained the reason the Department didn't tap into the ERF, was because there was WUF available. Because there is a separate fund and if the ERF is still available, then the ERF would not be used. Chair Dill recommended the Department to bring this item to the full Board. He also said that the budget needs to get closer to the actuals and that he is glad a consultant can work on how to compare this.

***Mr. Hall Parrott provided his testimony.***

Mr. Parrott had minutes from 2007 when the interim Manager, Mr. Steve Kyono was in attendance. He quoted from R. W. Beck “*there is a significant gap*” and paraphrased they needed to include a plan and that was not expected as envisioned on the Department's capital. Mr. Parrott has been chasing this history further back. The organization of this Department and the County Finance Director was supposed to be an active part of the finance preparation of the budget. He read that there was a lot of contention during that discussion. The person who was leading to get this done was thrown out of the process. There was a war between the Finance Department, the County and the newly formed Water Division which has suffered ever since because they are not supposed to be actively doing the proposed revolving funds. He will be putting together information for the Board because the way that things are done with encumbrance are a distortion on accounting which has been going south in the past. Encumbrance is not a one year deal which zeros out, then is reset. The Build America Bond takes the sum to pay and then changes the projects that should be shovel ready, but have not been scoped [inaudible]. It is then changed from a promise to pay into a promise to build, which drives the process.

April 15, 2019 IT Memo Information Update. (Page 154) – Manager Wienand provided Mr. Calipjo, from the April 10<sup>th</sup> Finance meeting discussion, staffing levels for the County of Maui, Department of Water. The previous information content on the IT Strategic Plan was for the whole County of Maui that is hard to compare. The updated staffing information for the County of Maui is 220 employees which was researched by Ms. Nadatani-Mendez. They are using the consultant Gartner's evaluation to review Maui's IT staffing needs that is structured different from Kaua'i's DOW IT. This information will not change the Department's staffing recommendations that has already been presented. Refer to Pages 156-157 for the County of Maui's IT Services Division Organizational Chart which is complex with specialized areas. The DOW's IT staff is limited to cover those specialized areas.

Chair Dill thanked Manager Wienand, Mrs. Yano and staff, Mrs. Nadatani-Mendez, and the public for all of the budget work and updates.

Chair Dill moved to approved and recommend to the full Board acceptance of the Operating and Capital Budget as presented for the next fiscal year; seconded by Mr. Calipjo; with no objections, motion carried with 2 ayes.

Board Policy #26 Proposed Revisions – The main focus is the \$1M insurance deductible that could be addressed for next year’s budget. Manager Wienand commented that the process and negotiations with the Department’s consultant to get the policies executed will still take a several months. This will depend on how the full Board wants to handle this.

Action Items:

Board Policy #26 Proposed Revisions - The Department will recommend an alternative for discussion on the \$1M insurance deductible for next year’s budget.

- The Emergency Fund will be presented to the full Board at the April Board meeting. Include a certain amount, or all, of the Emergency Fund that the Department can spend without additional Board approval (Chair Dill)
- Suggestion to establish realistic actuals vs. inflated budget. Address in financial study with consultant (Chair Dill)

**F. ADJOURNMENT**

Chair Dill adjourned the Finance Committee meeting at 3:11 p.m., with no objections.

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