

Finance Committee Meeting

June 19, 2007

Board present: Lynn McCrory, Ian Costa, Donald Fujimoto, Leland Kahawai, Steven Kyono, Roy Oyama and Bernie Sakoda.

Staff present: Wynne Ushigome, Paul Ganaden, Gregg Fujikawa, William Eddy, Keith Fujimoto, Bruce Inouye, and Faith Shiramizu. Deputy County Attorney Rosa Flores was also present. Absent & excused: Les Yoshioka and Amy Esaki

Finance Committee Chair Steven Kyono called the Finance Committee Meeting to order at 10:00 a.m.

Re: Claims Payable:

WATER UTILITY FUND:	\$583,858.17
BOND FUND:	\$ -0-
FRC FUND:	\$227,659.63
STATE FUND:	\$ -0-
TOTAL	<u>\$811,517.80</u>

Ms. Sakoda moved that the claims be approved for payment, seconded by Mr. Kahawai; motion was carried.

Re: Budget for Fiscal Year 2007-2008

The Finance Committee, after careful review and deliberations on the budget, found and recommended appropriate action on the following items.

They found that the proposed Annual Operating and Capital Improvement Budget for FY 2007-08 was based upon projected operating resources of approximately \$30.229 million and a carry-over fund balance of \$13.799 million. The total operating fund resources of \$44.008 million are generally allocated as follows: \$21.742 million for operating expenditures; \$13.532 million for the Capital Improvement Program (CIP); and \$8.733 million for the Capital Rehabilitation Program (CRP).

Revenues from water sales and service charges are projected at \$15.726 million, which is \$0.977 million or 6.6% more as budgeted for the current fiscal year. The projection is based upon the scheduled increase in water rates adopted and effective January 1, 2008, along with a 1.25% increase in consumption and a 1% in customer growth, and an increase in cost of power adjustment revenues. Other revenue is estimated to increase by \$0.016 million or 1.1% and is primarily due to an increase in fire hydrant service charge of \$0.098 million and a decrease in interest income of \$0.060 million. The increase in the fire hydrant service charge is a result of the increase in its rates effective January 1, 2008, while the decrease in interest income is due to anticipated higher interest rates, however based on a lower investment base. Other revenue – SRF Loan are projected to decrease by \$2.068 million or 13.7% and is basically the net result of the addition of \$9.200 million in State Revolving Fund (SRF) loan proceeds less the \$7.492 million in SRF loans expected to be received in the current budget year. The overall decrease in total revenues and other resources is, therefore, estimated at \$1.076 million or 3.4%.

The fund balance at the end of the current fiscal year is estimated to be \$13.779 million. The fund balance is primarily the result of the following:

- (1) \$17.207 million from the CIP and CRP Budget, which is attributable to: \$13.774 million in encumbrances of appropriations for CIP and CRP projects in progress or planned in the near

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future; \$3.306 million in CIP and CRP contract encumbrances; and \$0.1273 as a net result of un-required appropriation and contract balances.

- (2) \$3.866 million in operating expenditures under the current budget, which is mainly attributable to: \$0.984 million in encumbrances in the equipment account, \$0.719 million in unexpended salaries primarily due to vacancies; and accordingly, \$0.217 in related employee benefits; \$0.182 million in contracted encumbrances, \$0.855 million in contractual services encumbrances; \$0.108 million in provisions for insurance liabilities; \$0.369 million in property and supply unexpended, however provided for emergency repairs and pump replacements, \$0.450 million in debt service requirements; \$0.372 million for other capital expenditure contract encumbrances; \$0.245 million in other operational savings; and less \$0.635 million over the current budget for the purchase of water. \$7.294 million in operating resources under the current budget which is mainly attributable to: SRF loan proceeds being \$7.595 less than anticipated to be received in the current budget year and accordingly are projected to be received in the proposed budget year; water sales being estimated at \$0.455 million less than projected; other revenues being projected at \$0.106 million more than anticipated; and the receipt of \$0.650 million more in other resources, of which \$0.403 million are developer contributions towards the Koloa Well "F" project, \$0.136 million from the sale of the exploratory drilling rig, and \$0.111 million in FEMA reimbursements for flood damages.

In general, the total expenditures for the proposed budget for FY 2007-08 are budgeted at \$44.008 million. The operating expenditures, which accounts for 49.4% of the total budget, are budgeted at \$21.742 million. This represents an increase of \$0.460 million or 2.2% over the total operating expenditures budgeted for the current fiscal year. Earmarked for CIP and CRP are \$13.532 million or 30.8% and \$8.733 million or 19.8% of the total budget, respectively. Combined, the CIP and CRP budget account for \$22.265 million or 50.6% of the total budget, which is \$5.736 million or 53.6% less than the current budget. Taken together, the proposed budget is \$5.276 million or 10.7% less than the current budget.

Highlights of the proposed budget by major expenditure categories are described as follows:

The salaries budget of \$5.773 million has increased overall by \$0.591 million or 11.4% over the budgeted salaries for the current fiscal year. The majority of the increase is due to the \$0.202 million in provisions for salary increases based on a 4% increase for collective bargaining agreements, \$0.152 for the two (2) additional positions created in the current budget year, and \$0.140 million for three (3) additional positions. The number of departmental permanent positions is proposed to increase from 95 to 98 full-time positions. Proposed in the salary budget is the addition of a Distribution System Supervisor, a Plants Facilities Supervisor, and an Operations Administration Supervisor position. Also proposed and included in the salaries budget is the contract renewal for the Waterworks Legal Advisor position.

The Normal Expenditures budget of \$11.219 million shows an overall decrease of \$0.158 million or 1.2%. Administrative, Office and Engineering expenditures overall has decreased by \$0.568 million or 22.1%. Most notable is the overall decrease of \$0.527 million in contractual service requirements and is mainly attributable to \$0.440 million contracted in the current budget for a Strategic Plan implementation and \$0.100 million for general engineering support services. It should also be noted, included in the contractual services account are the encumbrances of \$0.150 million for GIS implementation support, \$0.100 million for a County Water Use Development plan update, \$0.087 million and \$0.095 million in contract encumbrances for a depreciation and capital reserve study and the Automated Meter Reading (AMR) project, respectively. Insurance and Employee Benefits has

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increased overall by \$0.039 million or 1.8%. This is a net result of a projected increase of \$0.115 million in employer retirement contributions and a projected decrease in employer's share of health benefits of \$0.076 million. The increase in retirement contributions is a result of the projected increase in salaries and a projected increase in the employer retirement rate from 14.27% to 16%. The decrease in health benefits is a net result of \$0.094 million encumbered in the current budget for prior year health fund premiums for retirees and a decrease in health benefits of \$0.018 million due to an overall decrease in projected costs. Operations and Maintenance expenditures has increased overall by \$0.272 million or 4.5%. This reflects an increase of \$0.813 million for the purchase of water, an increase of \$0.193 million for pump-electrical costs due to anticipated rising fuel prices, a decrease of \$.0367 million in the material and supplies account and is a result of the \$0.617 million encumbered in the current budget year for roadway restoration services, and a decrease of 0.384 million for the safe drinking water act program which is due to the \$0.219 million in contracted services encumbered in the current budget year and a decrease of \$0.165 million for testing requirement for the proposed budget year. The County Service Charge which reflects the same amount as for the Public Fire Protection revenues, has increased by \$0.098 million 15.6% and is due the increase in its rates as adopted and effective January 1, 2008.

The purchase of furniture, vehicles and equipment is estimated to cost \$1.203 million. This includes the cost of \$0.984 million for those items that are currently budgeted for and have been re-budgeted. This consists of \$0.614 million for office furniture and equipment, which mainly includes \$0.174 million for computer related equipment purchases, \$0.141 million for future system upgrades, enhancements, customization, and additions to the computerized accounting system, and \$0.100 million for phone system improvements. The remaining \$0.369 million is for vehicles and equipment, of which \$0.260 million is for vehicle purchases. The amount added for new purchases amounted to \$0.219 million and consists of \$0.050 million for office furniture and equipment and \$0.169 million for vehicle purchases. A major portion for office furniture and equipment is \$0.030 million for computerization related purchases. The major item for vehicle and equipment purchases is \$0.080 million are for the normal replacement of one (1) vehicle.

The debt service requirement is budgeted at \$2.452 million, which is \$0.184 million or 8.1% more than the current budget and is approximately 14.2% of projected operating revenues as compared to the 11.2% for the current budget year. Added to the budget is \$0.248 million as the projected semi-annual debt service requirement for the additional SRF loan for the Poipu Road project. It should be noted that the interim and final SRF loan agreements for the Waimea Canyon Drive 12-inch waterline replacement project of \$3.0 million, the 1.0 MG Stable Tank project of \$5.2 million, and the Kapilimao 0.5 MG Tank project of \$4.000 million are expected to be executed in the proposed budget year and the debt service requirement for these loans be budgeted in the subsequent budget year.

Property and Supply is budgeted at \$0.722 million and has decreased by \$0.045 million current year. This is attributable to a \$0.050 million decrease for the pump replacement program.

The Capital Improvement Program (CIP), which totals \$13.532 million and accounts for 30.8% of the total budget, is appropriated as follows: \$7.570 million in appropriation encumbrances; \$0.777 million in contract encumbrances; \$4.300 million in funding for new and existing CIP projects; and a CIP reserve of \$0.886 million. The highlight of the proposed new additions is the \$4.000 million in construction funds budgeted for the Kapilimao 0.5 MG tank project, KW-25. Also added is \$0.300 million to the existing \$3.000 million budgeted for the Wailua/Kapaa 1.0MG storage tank project, WK-42. Combined with the \$1.900 million budgeted in the FRC Fund, the total amount budgeted for this project is \$5.200 million. It should be noted that these projects are proposed to be SRF loan funded.

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The Capital Rehabilitation Program (CRP), which totals \$8.733 million and accounts for 19.8% of the total budget. This consists of \$3.204 million in appropriation encumbrances; \$2.529 million in contract encumbrances; and \$3.000 million in funding for new and existing CRP projects. Highlights of the new additions include the re-appropriation of the construction funds for the Waimea Canyon Drive 12-inch replacement, KW-14 for \$3.000 million and the deferral of the Wailua Houselots 8-inch mainline replacement, WK-28 for \$3.0 million, of which was re-directed towards the Kapilimao 0.5 MG tank project, W-28.

A Capital Improvement Program Budget of \$5.945 million is proposed to be financed from the FRC Fund. The FRC-CIP Budget consists of \$0.687 million in appropriation encumbrances; \$1.885 million in contract encumbrances; \$3.158 million in funding for new and existing CIP projects; and CIP reserve of \$0.056 million. Highlights of the proposed new additions include construction funds of \$1.900 million re-directed from the Kapaa Homesteads 0.5 MG and Kapahi 1.0 MG tanks project, WK-08 and WK-09 to the Wailua/Kapaa 1.0 MG Stable tank project, WK-42, \$1.008 million for the Anahola Well No. 3 development project, A-11, which was re-directed from the Water Utility Fund, \$0.400 million for the Kapaa Homesteads 0.5 MG and Kapahi 1.0 MG tanks project, WK-08 and WK-09, and \$0.250 million to design the Kapaa Homesteads Well No. 4, WK-39.

A Capital Improvement Program of \$3.404 million is proposed to be financed through bond proceeds. The bond proceeds derived are to be utilized for the purpose of funding construction and acquisition of improvements to the waterworks system. The projects proposed to be included and financed from the bond issue is \$2.2 million for the Kapaa Homesteads 0.5 MG and Kapahi 1.0 MG tanks project, WK-08 and WK-09 and 1.204 million in contract encumbrances.

The Committee finds that as part of the annual budget review process, the Department will review the actual unit costs of power for each twelve-month period ending March 31st and the budgeted unit power costs. At this time, the power costs adjustment for the upcoming fiscal year will be calculated as the sum of two components as described in Section X – Cost of Power Adjustment Clause of our Rules and Regulations. The sum of these two components, calculated on dollars per thousand-gallon basis, will be applied to all water consumption charges. Your Committee finds that the power costs adjustment for the proposed budget is calculated to be \$0.18 per 1,000 gallons. This is the sum of the calculated budgeted unit power costs of \$0.09 per 1,000 gallons and the actual unit power costs of \$0.09 per 1,000 gallons. Based on the projected total consumption of 4.521 billion gallons, revenues are projected at approximately \$0.814 million.

Any power costs adjustments will be implemented on July 1st of each year. The Committee found that in realizing that this adjustment allows the automatic pass through of unanticipated power cost increases to customers through the water consumption charges, the Committee recommended that the power costs adjustment be implemented for the proposed budget year to recover such costs.

The Committee had revised the actual unit power costs from \$0.09 to \$0.14 per 1,000 gallons. This is to include and recover the \$0.207 million in electrical power cost charged to the Department for the purchase of water through the Water Treatment and Delivery Agreement. As a result, the power costs adjustment rate has been revised from \$0.18 to \$0.23 per 1,000 gallons and is projected to generate an additional \$0.226 million in revenues.

The Committee also recommended for future budget deliberations, the aspects, approach, and concept of comparing to actual results in developing the budget should be considered and addressed. The Committee further recommended interim financial statements indicating the operating results of the Department on a monthly/quarterly basis be also developed.

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The Committee had revised the proposed budget to include in the contractual services account \$0.400 million for strategic planning implementation, \$0.200 million the Water Plan 2020 Sustainability Program implementation, \$0.100 million for financial statement and budget development and structuring, \$0.100 million for financial management and rate analysis, \$0.100 million for special counsel and vice versa have deleted from the account \$0.025 for a legislative liaison and \$0.250 million for personal training and organizational development. We have also increased the board travel account to include an additional \$3,800.00 to provide for the increase the number of attendees to the AWWA national conference from three (3) to five (5) board members. In the staff travel account, we have decreased the amount provided to attend the AWWA national committee meetings by \$1,600.00. For the equipment account, we have amended the purpose of the \$0.200 million budgeted for the design and furniture purchase for the micro-lab second floor office to be instead for the overall redesign, reorganization, and furniture purchase for the Department's base yard office buildings. The Committee also found that as part of the Department's recruitment program, has added to the public relations account \$0.050 million for an initial scholarship program for two engineering students.

The Finance Committee recommended approval of the actions taken and the adoption of the Budget for Fiscal Year 2007-2008.

Waterworks Controller Ganaden stated there was one correction to the Finance Committee Report on Page 4, 6th Paragraph for the power cost adjustment. It should be increased from 18 cents to 22 cents.

Ms. McCrory moved to approve the Budget for Fiscal Year 2007-08 and to forward it for final approval by the full Board, seconded by Ms. Sakoda; motion was carried.

Finance Chair Kyono thanked Waterworks Controller Ganaden and his staff for a job well done.

The Finance Committee was adjourned at 10:05 a.m.

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