

Committee Meetings

June 5, 2008

Board present: Leland Kahawai, Ian Costa (10:19 a.m.), Dee Crowell, Donald Fujimoto, Steven Kyono, and Randy Nishimura. Absent & excused: Roy Oyama

Staff present: Wynne Ushigome, Paul Ganaden, Gregg Fujikawa, William Eddy, Keith Fujimoto, Bruce Inouye, Faith Shiramizu, Amy Esaki, Edward Doi, & First Deputy County Attorney Harrison Kawate.

FINANCE COMMITTEE MEETING:

Finance Committee Chair Steven Kyono called the Finance Committee Meeting to order at 10:15 a.m.

Re: Claims Payable:

WATER UTILITY FUND:	\$587,017.63
BOND FUND:	\$ -0-
FRC FUND:.....	\$ 4,600.00
STATE FUND:	\$ -0-
TOTAL	<u>\$591,617.63</u>

Mr. Crowell moved that the claims be approved for payment, seconded by Mr. Nishimura; motion was carried.

Re: Proposed Draft Budget for Fiscal Year 2008-09

The proposed Budget for Fiscal Year 2008-09 was submitted to the Board at the Thursday, May 8, 2008 Board Meeting, with a Finance Committee Meeting on May 27, 2008 to discuss the proposed budget. The following is the report from the Finance Committee:

Your 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 2008-09 is based upon projected operating resources of approximately \$54.887 million and a carry-over fund balance of \$14.032 million. The total operating fund resources of \$68.919 million are generally allocated as follows: \$24.407 million for operating expenditures; \$15.589 million for the Capital Improvement Program (CIP); and \$28.924 million for the Capital Rehabilitation Program (CRP).

Revenues from water sales and service charges are projected at \$18.659 million, which is \$2.752 million or 17.3% more as budgeted for the current fiscal year. The projection is based upon the scheduled increase in water rates adopted and effective January 1, 2009, along with a 1.25% increase in consumption and a 1% in customer growth, along with an increase in cost of power adjustment revenues. Other revenue is estimated to increase by \$0.143 million or 9.6% and is primarily due to an increase in fire hydrant service charge revenues of \$0.123 million.

Committee Meetings

June 5, 2008

The increase in the fire hydrant service charge revenues is a result of the increase in its rates effective January 1, 2008. Interest income is projected at \$0.650 million, which is relatively the same as the current budget year. It is anticipated that interest rates and investment base will remain at the same level. Other – State Revolving Fund (SRF) are projected to increase by \$21.698 million or 168.2%. It is expected that the Department will proceed to obtain an additional \$22.4 million in SRF loans for a total of \$34.6 million to finance certain capital projects. The overall increase in total revenues and other resources is therefore, estimated at \$24.593 million or 81.2%.

The fund balance at the end of the current fiscal year was estimated to be \$14.032 million. The fund balance is primarily the result of the following:

- (1) \$19.319 million from the CIP and CRP Budget, which is attributable to: \$11.771 million in encumbrances of appropriations for CIP and CRP projects in progress or planned in the near future; \$7.502 million in CIP and CRP contract encumbrances; and \$0.046 million as a net result of un-required appropriation and contract balances.
- (2) \$6.388 million in operating expenditures under the current budget, which is mainly attributable to: \$1.264 million in unexpended salaries primarily due to vacancies; and accordingly, \$0.245 million in related employee benefits cost; \$0.077 million in contracted encumbrances, \$1.225 million in contractual services encumbrances, and \$0.258 million in funds budgeted for contractual service not required; \$1.445 million in the materials and supplies account for roadway restoration contractual services; \$0.145 million in unexpended provisions for insurance liabilities; \$0.509 million in debt service requirements not required; \$0.719 million in encumbrances in the equipment account; \$0.317 million for other capital expenditure contract encumbrances; \$0.184 million in other operational savings.
- (3) \$11.675 million in total resources under the current budget. This is a net result of water sales and other revenues being \$0.330 million and \$0.141 million more than projected; \$0.92 million in other receipts; and SRF loan proceeds being \$12.237 less than anticipated to be received in the current budget year and accordingly are projected to be received in the proposed budget year.

In general, the total expenditures for the proposed budget for FY 2008-09 are budgeted at \$68.919 million. The operating expenditures, which accounts for 35.4% of the total budget, are budgeted at \$24.407 million. This represents a decrease of \$0.068 million or 0.03% over the total operating expenditures budgeted for the current fiscal year. Earmarked for CIP and CRP is \$15.589 million and \$28.924 million and accounts for 22.6% and 42.0% respectively, of the total budget. The CIP and CRP budget combined, accounts for \$44.513 million or 64.6% of the total budget and is \$19.986 million or 81.5% more than the current budget. Taken together, the proposed budget is \$19.918 million or 40.6% more than the current budget.

Committee Meetings

June 5, 2008

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

The salaries budget of \$6.257 million has increased overall by \$0.484 million or 8.4% over the budgeted salaries for the current fiscal year. The majority of the increase is due to the \$0.246 million for salary increases based on collective bargaining agreements, \$0.123 for three (3) additional positions, \$0.033 million to fully fund a previously dollar funded janitorial position, and a \$0.065 million increase in overtime provisions. The increase in overtime provisions is a result of the increase in pay rates and a projected increase in overtime requirements due to anticipated vacancies throughout the budget year. The number of departmental permanent positions is proposed to increase from 96 to 99 full-time positions. Proposed in the salary budget is the addition of a Board of Water Supply Secretary, a Staff Services Assistant and a Computer Systems Support Technician position. Also proposed and included in the salaries budget was the contract renewal for the Waterworks Legal Advisor position.

The Normal Expenditures budget of \$13.789 million shows an overall decrease of \$0.276 million or 2.0%. Administrative, Office and Engineering expenditures overall has decreased by \$1.040 million or 31.5%. Most notable is the overall decrease of \$1.081 million in contractual service requirements and is mainly attributable to the \$0.841 million in the current budget for the Strategic and Business Planning and the Water Plan 2020 Sustainability Program implementation. 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, \$0.200 for financial management planning and water rate analysis, \$0.100 million for outside accounting services for a financial statement reporting and structure development, and \$0.077 million in a contract encumbrance for the Automated Meter Reading (AMR) project. Insurance and Employee Benefits has increased overall by \$0.711 million or 33.0% and is primarily due to a projected increase of \$0.758 million in employer health fund benefit contributions. This is a result of the \$0.725 million budgeted for the projected annual required contribution (ARC) for health care benefits. The projected ARC is based on an actuarial valuation of the Hawaii Employee-Union Trust Fund's (EUTF) Other Post-employment Benefits (OPED). Operations and Maintenance expenditures has increased overall by \$0.482 million or 6.6%. This reflects an increase of \$0.422 million for pump-electrical costs due to anticipated rising fuel prices, \$0.220 million for the purchase of water through the Surface Water Treatment Plant (SWTP), and a decrease of 0.163 million for the safe drinking water act program, which is due to the \$0.178 million in contracted services encumbered in the current budget year. The County Service Charge which reflects the same amount as for the Public Fire Protection revenues, has increased by \$0.123 million 17.0% 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 \$0.994 million. This includes the cost of \$0.719 million for those items that are currently budgeted for and have been re-budgeted. This consists of \$0.600 million for office furniture and equipment, which mainly includes \$0.156 million for computer related equipment purchases, \$0.141 million for future system upgrades, enhancements, customization, and additions to the computerized accounting system,

Committee Meetings

June 5, 2008

\$0.100 million for phone system improvements, and \$0.200 million for design and furniture for the Micro-lab second floor office. The remaining \$0.119 million is for equipment purchases that include \$0.100 million for a SCADA system maintenance and support program. The amount added for new purchases amounted to \$0.275 million and consists of \$0.080 million for office furniture and equipment and \$0.195 million for vehicle and equipment purchases. A major portion for office furniture and equipment is \$0.060 million for computerization related purchases. The major items for vehicle and equipment purchases is \$0.105 million are for the normal replacement of two (2) vehicles and \$0.070 million for a replacement skid steer loader.

The debt service requirement is budgeted at \$2.301 million, which is \$0.151 million or 6.2% less than the current budget. The debt service requirement for the proposed budget is 11.3% of the projected operating revenues as compared to the 14.2% for the current budget year. It is anticipated that the interim and final SRF loan agreements for the 1.0 MG Stable Tank project of \$6.6 million and the Kapilimao 0.5 MG Tank project of \$4.1 million were expected to be executed in the proposed budget year. It should be noted that the first repayment for the SRF loans becomes due one year after the date of the Notice to Proceed or the date of the Final Loan Agreement, whichever is later. The initial debt service requirement for the two (2) loans is estimated at \$0.860 is projected to be budgeted in fiscal year 2009-2010. The initial debt service requirement for the additional \$22.4 million in SRF loans would be approximately \$1.792 million.

Miscellaneous Capital Expenditures, Others is budgeted at \$1.065 million. This consists of \$0.317 million in contract encumbrances for other miscellaneous capital expenditures and a proposed property and supply budget of \$0.747 million, which is relatively the same as the amount budgeted in the current budget.

The Capital Improvement Program (CIP), which totals \$15.589 million and accounts for 22.6% of the total budget, is appropriated as follows: \$7.800 million in appropriation encumbrances; \$3.875 million in contract encumbrances; \$1.285 million in funding for new and existing CIP projects; and a CIP reserve of \$2.629 million. The highlight of the proposed new additions is the \$4.2 million in construction funds for the Wailua/Kapaa 1.0MG Stable tank project, WK-42. Combined with the \$2.4 million budgeted in the FRC Fund, the total amount budgeted for this project is \$6.6 million. Included also in the budget is the \$4.1 million for the Kapilimao 0.5 MG tank project, KW-25. It should be noted that both of these projects was proposed to be financed through SRF loan proceeds.

The Capital Rehabilitation Program (CRP), which totals \$28.924 million, accounts for 42.0% of the total budget. This consists of \$3.899 million in appropriation encumbrances; \$3.627 million in contract encumbrances; and \$21.398 million in funding for new and existing CRP projects. The highlight of the CRP Budget is the \$23.9 million in construction funds that was proposed to be financed through SRF loan proceeds.

A Capital Improvement Program Budget of \$5.285 million was proposed to be financed from the FRC Fund. The FRC-CIP Budget consists of \$2.564 million in appropriation encumbrances;

Committee Meetings

June 5, 2008

\$1.309 million in contract encumbrances; \$1.212 million in funding for new and existing CIP projects; and CIP reserve of \$0.200 million. Highlights of the proposed new additions include construction funds of \$2.4 million for the Wailua/Kapaa 1.0 MG Stable tank project, WK-42, \$0.800 million to design and drill Kilauea Well No. 3, WKK-2, \$0.339 million for the Kapaa Homesteads 0.5 MG and Kapahi 1.0 MG tanks project, WK-08 and WK-09, and \$0.237 million to design the Kilauea 1.0 MG storage tank, WWK-15.

A Capital Improvement Program of \$3.261 million was 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 entire \$3.261 million has been directed to fund the Kapaa Homesteads 0.5 MG and Kapahi 1.0 MG tanks project, WK-08 and WK-09.

Your Committee found that as part of the annual budget review process, the Department would 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 found that the power costs adjustment for the proposed budget is calculated to be \$0.25 per 1,000 gallons. This is the sum of the calculated budgeted unit power costs of \$0.14 per 1,000 gallons and the actual unit power costs of \$0.11 per 1,000 gallons. Based on the projected total consumption of 4.722 billion gallons, revenues are projected at approximately \$1.181 million.

Any power costs adjustments will be implemented on July 1st of each year. Your 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, your Committee recommended that the power costs adjustment be implemented for the proposed budget year to recover such costs.

Your Committee has revised the actual unit power costs from \$0.11 to \$0.17 per 1,000 gallons. This is to include and recover the \$0.277 million in electrical power cost charged to the Department for the purchase of water through the Surface Water Treatment and Delivery Agreement. As a result, the power costs adjustment rate has been revised from \$0.25 to \$0.31 per 1,000 gallons and is projected to generate an additional \$0.283 million in revenues.

Your Finance Committee found that the Department has a number of vacant positions that have not yet been filled and or created and reiterated that these positions should be filled in a reasonable time period. Your Committee recommended that the status of such vacant positions, related issues and concerns be monitored on a periodic basis and should also consider how the recruitment process may be expedited.

Committee Meetings

June 5, 2008

Your Committee also found that the Department has requested three additional positions, a Board of Water Supply Secretary, Staff Services Assistant and a Computer Service Support Technician position. In its deliberations, your Committee recommended that the Department re-evaluate whether the Board of Water Supply Secretary position should be a Board appointed or contracted position rather than a civil service position as requested. Further, it was also recommended that the Department investigate the propriety and mechanisms involved in having this position to be an appointed position. In relation to the Staff Services Assistant position, your Committee, in recognizing the need to provide staff with additional support in its efforts to expedite the filling of vacant positions, recommended that this be a major aspect of this position and be included as a justification of this position. Associated with the addition of a Computer Service Support Technician position, your Committee felt that the Department should share an update of its technological capabilities and in the near future begin to consider the potential of progressing towards a “paperless” business environment.

Your Committee also recommended that the Department conduct a current assessment on the life cycle costs and benefits of leasing versus purchasing computers before entering into any new agreements to lease computers. For its request to purchase a replacement skid steer loader, your Committee requested for additional information and clarification from staff. Your Committee has revised the CRP Budget to include an additional \$1.4 million for the Kalaheo Nursery Tank renovation project.

Your Finance Committee recommended approval of the actions taken and the adoption of the Budget for Fiscal Year 2008-2009.

Mr. Kahawai moved to approve the amended Budget for Fiscal Year 2008-09 and to forward this budget to the full Board for approval, seconded by Mr. Nishimura; motion was carried.

RULES COMMITTEE MEETING:

Rules Committee Chair Dee Crowell called the Rules Committee Meeting to order at 10:18 a.m.

Re: Update on Proposed Amendments to the Rules and Water System Standards, as Amended, of the Board of Water Supply, County of Kaua'i, State of Hawai'i and the Public Hearing Results

The Public Hearing for the Amendment of Rules and Water System Standards was held on Thursday, May 8, 2008, 10:00 a.m., as the first order of the day. No one attended the Public Hearing to testify on this proposed rule amendment.

Note that the public hearing notice was published in the Wednesday, April 2, 2008 issue of The Garden Island; and we had previous concurrence from the SBRRB to move forward with this public hearing.

Committee Meetings

June 5, 2008

Attached is the post-public hearing response from the Small Business Regulatory Review Board (SBRRB), who confirmed their concurrence, as there was no testimony received for or against our proposed rule amendment at our Public Hearing.

Therefore, the Rules Committee recommended that the Board officially approve the proposed rule amendment at the Thursday, June 5, 2008 Regular Meeting to follow.

If approved, the secretary will follow up with the necessary signatures from the Mayor, County Attorney and the County Clerk. Once the County Clerk signs the proposed rule amendment, it takes effect 10 days thereafter. This rule needs to be in place before the deadline date of June 30, 2008; otherwise, the rule in its present form will sunset as of July 1, 2008.

Mr. Nishimura moved to approve the final rule amendments and to forward this rule amendments to the full Board for approval, seconded by Mr. Kyono; motion was carried.

Mr. Ian Costa present at the meeting at about 10:19 a.m.

There being no other business, the Committee Meetings were duly adjourned at 10:20 a.m.

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