

BOARD OF WATER SUPPLY of the COUNTY OF KAUA‘I

FINANCE COMMITTEE MEETING

Board Room, Second Floor, Department of Water
4398 Pua Loke Street, Līhu‘e, Kaua‘i, Hawai‘i 96766

Friday, March 6, 2020
1:00 p.m. or soon thereafter

- A. CALL TO ORDER
- B. ROLL CALL
- C. ACCEPTANCE OF AGENDA
- D. OLD BUSINESS
 - 1. Manager’s Report No. 20-40 - Discussion and Possible Action on Proposed Board Policy No. 31 to Fund the Net Pension Liability and the Net Other Post Employment Benefit Liability as determined by the Government Accounting Standards Board (Update)
- E. ADJOURNMENT

PUBLIC TESTIMONY

The Board is required to afford all interested persons an opportunity to present testimony on any agenda item. At each Board meeting, the Board will accept oral and written testimony on any agenda item at item E Correspondence/Announcements/Public Testimony.

If any member of the public wishes to submit written testimony, please submit the written testimony to Edie Ignacio-Neumiller, the Commission Support Clerk via email at eineumiller@kauaiwater.org at least two (2) business days prior to the meeting and the Commission Support Clerk will provide copies to the Board members or bring eight (8) copies with you the day of the meeting.

SPECIAL ASSISTANCE

If you need an auxiliary aid/service, other accommodation due to a disability, or an interpreter for non-English speaking persons, please contact Edie Ignacio-Neumiller at (808) 245-5406 or eineumiller@kauaiwater.org as soon as possible. Requests made as early as possible will allow adequate time to fulfill your request. Upon request, this notice is available in alternate formats such as large print, braille, or electronic copy.

DEPARTMENT OF WATER

County of Kauaʻi

“Water has no Substitute – Conserve It!”

MANAGER’S REPORT No. 20-40 (Update)

February 28, 2020

Re: Discussion and Possible Action on the Proposed Board Policy No. 31 to Fund the Net Pension Liability and the Net Other Post Employment Benefit Liability as determined by the Government Accounting Standards Board

RECOMMENDATION:

It is recommended that the Board review and discuss the proposed revisions to the Board Policy on the DOW’s Reserve Funds and to consider one of the options presented at the end of this report.

FUNDING: Water Utility Fund

BACKGROUND:

The DOW is revising its initial proposal that we submitted on January 24, 2020 Board meeting regarding the establishment of a new Reserve Board Policy for unfunded pension and retirees’ health benefit costs that may occur in case sudden spikes in expenses and obligations occur.

In alignment with the County of Kauai (COK)’s accounting practices on the pension and retirees’ health benefits costs and the COK’s reserve fund policies, the staff is requesting additional time to prepare a draft of the proposed revised Board Policy.

Our inquiry of the County of Kauai’s Reserve Fund Policy found that their reserve fund was revised on March 22, 2017 which established a target minimum of 30% of the County’s previous years General Fund revenues as identified in the most recent Comprehensive Annual Financial Report (CAFR).

In comparison with the DOW, we have two established reserve funds, and these are: 1. The Emergency Reserve Fund (ERF) and the Debt Service Reserve Fund (DSRF). The combined ERF and DSRF of \$9.3M as of 6/30/2019 which is the last audited financial statements is equivalent to 30% of the DOW’s operating revenues of the last audited DOW financial statements.

Since the DOW ’s total reserve funds are similarly equivalent to the COK’s target minimum of 30% of the last audited operating revenues, the DOW may no longer need additional reserves and so the following proposal are submitted for your consideration:

1. No additional reserve fund is needed.
2. Revised Proposed Board Policy (BP) 31 - to combine the two reserve funds; ERF (BP 26) & DSRF (BP 27) while maintaining a target minimum of 30% of the operating revenues based on the last audited financial statements and eliminate BP 26 & BP 27.
3. Propose Board Policy 31 - expands the list of restricted uses to include the DOW’s ability to use the reserve funds for expenditure volatility and revenue shortfall;

4. Re-prioritize the combined and proposed list of restricted uses as follows:
 - a. Emergency repairs after a declaration of emergency by an authorized government official or as deemed fit by the Board of Water Supply.
 - b. Debt service requirement.
 - c. Unfunded non- recurring costs such as:
 - Unfunded mandates i.e. spike in pension costs & OPEB.
 - Unfunded legal services and legal claims.
 - Uncovered insurance claims i.e. deductibles

In combining the DOW's existing reserve funds and expanding the list of its restricted uses, the DOW won't need a separate new reserve fund to address the volatility in expenditures which are non-recurring in nature and are not included in the annual preparation of the DOW's operating budget. If we choose this approach, the DOW may only need to maintain a single reserve fund equal to 30% of the DOW's operating revenues with an expanded list of restricted uses as approved.

OPTIONS:

Option 1: Approve the proposed Board Policy No. 31 as recommended.

Pros: If approved, the DOW will maintain a single reserve fund equal to 30% of the DOW's last audited operating revenues; delete BP 26 which is the ERF & BP 27 which is the DSRF and expand the list of its restricted uses to include unfunded non-recurring costs such as spike in pension and retirees' health costs.

Con: None.

Option 2: Do Not Approve; refer to Finance Committee for further discussion.

Pros: The Board and staff will have ample time to review and discuss the revised proposal and may come out with new ideas and recommendations before it goes to the Board for final action.

Cons: The additional time needed may delay some financial decisions that may come up.

Option 3: Do Not Approve.

Pros: No Board Policy changes on ERF & DSRF; total reserve fund remains equal to 30% of the Annual Operating Revenues.

Cons: The existing ERF & DSRF will remain unchanged but there's no Board policy to address spikes in expenditures that are unfunded.

MY/ein

Attachment: Board Policy 26 – Emergency Reserve Fund (ERF) Updated 5-24-19
Board Policy 27 – Debt Service Reserve Fund (DSRF) Approved 7-24-14
Proposed Board Policy No. 31 – The DOW Reserve Fund (to be Received for the Record)

Mgrpp/February 2020/20-40/Discussion and Possible Action on the Proposed Board Policy No. 31 to Fund the Net Pension Liability and the Net Other Post Employment Benefit Liability as determined by the Government Accounting Standards Board (1-24-20, 2-28-20):ein

BOARD OF WATER SUPPLY POLICY NO. 26 (*Updated May 24, 2019*)

Re: Emergency Reserve Fund (ERF)

The Board of Water Supply (BWS) deems it prudent to establish an Emergency Reserve Fund (ERF) as a contingency for unforeseen events or crises that may arise.

Purpose: As authorized by the Manager and Chief Engineer the Department may incur obligations or make expenditures from the ERF for use in the event of an emergency, disaster, or other severe crises without additional Board approval.

Establishment of the Emergency Reserve Fund (ERF): The establishment of the ERF provides a separate fund for the DOW to use that is not to be used for normal and ordinary business purposes.

ERF Requirements:

1. The ERF shall be funded from the DOW's general operating account.
2. A separate general ledger fund account shall be established and maintained as the Emergency Reserve Fund.
3. The amount in the ERF shall be reviewed and approved annually during the preparation of the DOW's annual operating and capital outlay budget.
4. The ERF Funding requirement shall be the total of:
 - a. The maximum deductible limit on the County of Kaua'i's insurance policy, plus
 - b. 25% of the DOW's Total Operating Expenses based on the prior year's audited financial statements, less
 - c. Interest Expenses, less
 - d. Depreciation & Amortization Expenses, less
 - e. Any non-cash operating expenses, (i.e. The County of Kaua'i's contra-claim).
5. At the beginning of each fiscal year, the ERF shall be adjusted to equal the ERF amount as shown above. If necessary, an accounting entry to "transfer in" or "transfer out" funds in the ERF shall be done in accordance with the approved annual operating budget to record the adjustment.
6. Expenditure of ERF funds; Reporting.
 - a. In order to expend ERF funds:
 - i. The Manager and Chief Engineer must make a determination that an emergency, disaster, or severe crisis exists. Where the Governor of the State of Hawai'i or the Mayor of the County of Kaua'i has issued a proclamation pursuant to HRS 127A for which the expenditure of funds is proposed, such a proclamation satisfies the requirements of this subsection (i).

- ii. The balance of the general operating account must be insufficient to cover the DOW's necessary operating expenditures as a result of an emergency, disaster, or crisis.
- b. Where ERF funds are expended, the DOW will provide a report to the BWS at the next occurring Board meeting of the expenditures, balance of the ERF, and any then known anticipated expenditures.

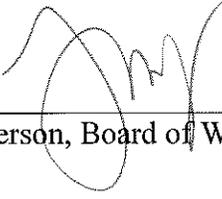
Operating Procedures:

The DOW shall procure or maintain emergency standby contracts for materials, services, and equipment. The DOW shall periodically (but not less than annually) report to the BWS the emergency standby contracts entered into by the DOW.

The ERF will be restricted to the following uses:

- A. Insurance Claims not covered by the County of Kaua'i's Insurance Policy. The DOW is covered under the County of Kaua'i's insurance policy; however, the insurance deductible is subject to change. Therefore, should the maximum deductible amount change, the DOW shall adjust the ERF amount on the next budget year as soon as possible.
- B. In the event of an emergency, the following procedures shall be followed:
 1. The DOW must continue to adhere to the procurement laws and regulations of the State of Hawai'i.
 2. The DOW must submit a Manager's Report to inform the Board of any use of Emergency Reserve Funds at the next occurring Board meeting. The report shall also include any anticipated emergency needs of the DOW.
 3. If necessary, the DOW will request a special board meeting to present the emergency needs of the DOW.
 4. Labor is to be furnished from DOW staff. The budgeted funds for labor costs shall be exhausted in any budget year before any monies from the emergency operations reserve fund are used for the purpose of labor costs.
 5. If necessary, emergency contract labor may be utilized. At the earliest Board meeting possible, the DOW shall submit a Manager's Report to inform the Board if any new contracts or contract amendments requiring additional funds have been utilized or will be utilized with funds from the ERF. The report shall also include monthly reports of expenses and reimbursements from the emergency standby contracts, amounts invoiced, labor expenditures, and any other significant information.
 6. Funds that are expended from the ERF Fund shall be replaced as expeditiously as possible.

APPROVED BY:

A handwritten signature in black ink, consisting of a large, stylized 'O' followed by a vertical line and a small flourish.

Chairperson, Board of Water Supply

Date:

5/24/2019

RE: EMERGENCY RESERVE FUND (ERF)

Effective date: _____

BOARD OF WATER SUPPLY POLICY NO. 27

Re: Debt Service Reserve Fund (DSRF)

The Debt Service Reserve Fund (DSRF) is a reserve fund established on June 28, 2012 to service Department of Water (DOW) interest and principal payment obligations arising out of DOW short and long term debt. One of the purposes of the fund is to insure full and timely payments to DOW creditors.

Maintenance of the DSRF:

The DOW shall establish and maintain a DSRF equal to one half (½) of the upcoming fiscal year's Debt Service Requirement (DSR). Changes for each upcoming fiscal year shall coincide with the preparation of the DOW's annual budget. As changes occur in the DSR for any upcoming fiscal year, the DSRF shall be adjusted accordingly.

DSRF Requirements:

1. The DSRF shall be funded from the DOW's general operating account.
2. A separate general ledger fund account shall be established and maintained for the DSRF.
3. Bookkeeping and accounting adjustments to the DSRF shall occur at the beginning of each fiscal year to equal one half (½) of the upcoming fiscal year's annual DSR.
4. Disbursements from the DSRF require BOW approval.

APPROVED BY:

Date:



Chairperson, Board of Water Supply

JUL 24 2014

RE: DEBT SERVICE RESERVE FUND (DSRF)

JUL 24 2014

Effective date: _____

BOARD OF WATER SUPPLY POLICY NO. 31 - *PROPOSED*

Department of Water Reserve Fund (DRF)

I. Objective:

The objective of this policy is to establish and maintain a target minimum reserve of 30% of the operating revenues from the previous year's last audited financial statements.

II. Purpose: To ensure that the Department of Water (DOW) maintains financial stability with the ability to perform the following:

1. To continue the DOW's normal operations and respond without delay to emergency situations during natural disasters or extreme circumstances.
2. To ensure full and timely payments of the DOW's loan obligations during economic downturns.
3. To ensure that the DOW has funds to pay non-recurring costs that may arise such as:
 - a. Unfunded mandates i.e. spikes in pension costs & OPEB.
 - b. Unfunded legal services and legal claims.
 - c. Uncovered insurance claims i.e. deductibles

III. Background:

Risks are imminent and unpredictable. The DOW is tasked with the highest responsibility of delivering the most precious natural resource, “water” to the constituents of Kaua'i and it is critical that the department has the ability to continue its operations without delay during emergency situations and economic downturns.

To mitigate any unforeseen risks, the DOW previously established two reserve funds separately and these are:

1. Board Policy (BP)-26, the Emergency Reserve Fund (ERF) and
2. BP-27, the Debt Service Reserve Fund (DSRF)

These two reserves were created to ensure that funds are available to meet DOW obligations that may arise during natural disasters and economic downturn.

BP-31, is now established to create a single DOW Reserve Fund to replace BP 26 and BP 27 by combining the ERF & DSRF together while maintaining a minimum target of 30% of the DOW's last audited operating revenues.

The eligible uses of the ERF and DSRF are consolidated into the DRF and extend the purpose of this fund to address the risk of expenditure volatility as a buffer for DOW to use when non- recurring costs occur due to unforeseen circumstances

IV. GUIDELINES: The DOW shall use its available unrestricted funds before using the DRF funds and if there's a need to use the DRF, the following must be enforced:

1. The Manager & Chief Engineer ("Manager") must make a determination that an emergency or crises exists.
2. The need to use the DRF must be presented to the Board of Water Supply for approval. If necessary, the DOW shall request a Special Board Meeting to get approval for the release of funds to be used for the emergency or crises.
3. The DRF shall be used in the order of priority as follows:
 - a. Emergency response to natural disasters and/or significant extreme events; *i.e. emergency capital repairs or replacements.*
 - b. Fund debt service requirements that are immediately due when there's cash flow or revenue shortfall during economic downturn; *i.e. timely loan payments.*
 - c. Fund non-recurring costs that are not budgeted such as *spikes in pension & retirees' health benefit costs, legal services, legal claims and other non-covered insurance claims.*
4. To maintain the 30% target minimum of the previously audited operating revenues, the DOW shall adjust and/or replenish the DRF annually during the preparation of the DOW's annual operating and capital budgets of each year.

APPROVED BY:

Chairperson, Board of Water Supply

Date: _____

RE: BOARD OF WATER SUPPLY POLICY NO. 31
Department of Water Reserve Fund (DRF)