

Finance Committee Meeting

May 21, 2013
1:00 p.m.

Committee Members Present: Larry Dill, *Chair*, and Clyde Nakaya answered present at Roll Call.

Board Members Present: Randy Nishimura, *Board Chair*

Staff Present: Kirk Saiki, Marites Yano, Dustin Moises, Keith Aoki, Val Reyna, Sandi Nadatani-Mendez, Mary-jane Garasi, Deputy County Attorney, Andrea Suzuki

Chair Dill reconvened the Finance Committee Meeting from May 16th and called the meeting to order at 1:21 p.m.; quorum was achieved with two members present.

AGENDA

Mr. Nakaya moved to accept the agenda; seconded by Chair Dill; with no objections, motion was carried.

MINUTES

There were no minutes for review and approval for this Finance Committee meeting.

OLD BUSINESS

Manager's Report No. 13-40 - Draft FY2014 Budget

- a. Draft FY2014 Budget
 - i. Operations Budget
 - ii. Accrual Budget Format
 - iii. Capital Budget

DISCUSSION:

Chair Dill requested Ms. Yano to review FY 2014 budget from the last Finance Committee meeting of May 16th.

Tab 12, Page 4 - Ms. Yano reported that the only change was the \$1.3M on the State Grant Appropriations for the Kīlauea School upgrade project. The same amount was added to Tab 3, Page 4 under Revenues. There was no affect on the Reserve balance.

Tab 6, Page 9 – The updated budget item for the Financial Information System (FIS) Software & Implementation reflected \$250.000 and no dollar amount was changed.

Ms. Yano's initial draft synopsis for the Proposed Budget for FY 2013 – 2014 only included Part 1 – Operating Budget Total Resources, Expenditures, Salaries, Normal Expenditures, Debt Service and Vehicles & Equipment. The draft synopsis summarized increases and decreases in expenditures.

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The Total Resources are explained in: 1) Projected Carry - Over Balance and how it was generated and 2) Revenue – Explains the sources of revenues broken down by water sales and miscellaneous receipts. The Summary of Expenditures consisted of Salaries, Normal Expenditures, Debt Service and Vehicles & Equipment.

Tab 6, Line Item 28 - The Travel funds were decreased by \$4,690 and transferred to Line Item 33 from \$40,000 which increased to \$44,690. This is had a zero effect on the proposed budget.

Total Resources: A carry-over balance from this year's budget was estimated at \$14.4M from:

- a. \$6.6M in Proposed CIP and Construction Work In Progress (CWIP).
- b. \$0.5M in Miscellaneous Contracted Capital Expenditures and other Encumbrances.
- c. \$2.4M in Emergency Reserve (no expenditures in 2013).
- d. \$4.9M in General Fund Balance (unassigned fund balance / not encumbered) which was derived from a projected higher water sales receipts in 2013.
\$1.8M is projected due to higher water sales revenues over the estimated budget.
The Operating expenditures were estimated at \$2.5M less compared to the projected budget.
\$0.6M was from unspent contingencies on contracted CIP projects that were closed in 2013.

Projected Revenues in 2014 were estimated at \$26.5M or \$3M higher than the DOW's projection this year (equivalent to an 11.5% increase). This reflected the new water rate increase effective July 1, 2013 due to higher water usage.

As of April 2013, there was a 12% increase in the annual year-to-date water consumption. Last year the DOW saw a decrease in consumption compared to the prior year.

Mr. Nakaya questioned if there will be a 12% rate increase for the next year?

Tab 3, Page 2 - Ms. Yano pointed out that the Project Consumption would be \$4.373 billion increase compared to \$4.272 from last year based on the 2013 budget.

Chair Dill commented that since the DOW's water rate is increasing by 11%, shouldn't the revenue increase by 11%?

Tab 3, Page 2 - Ms. Yano explained that the Cost of Power Adjustment went down from 31 cents to 16 cents, a decrease from \$1.2M to \$700,000. The estimated projection of an 11% increase is decreased by \$500,000.

Initially the proposed water sales and service charge was projected on the FY 2012-2013 proposed budget at 23.5%. Water usage of 100,000 million gallons was incorporated at an approximate 12% increase. The budget was updated based on estimated receipts. The actual receipts show an increase which has not been incorporated in the proposed budget. Therefore, the 12% increase is being compared to the original budgeted amount.

Page 1 – Revenues/Miscellaneous Receipts (from synopsis) - Estimated receipts under FY 2013 to collected \$6M in SRF loans and grants. To date \$700,000 has been collected from SRF loan

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reimbursements. Reimbursements were carried over to the FY 2013 - 2014 budget which was \$4.6M and \$3.5M.

Tab 2, Page 2 - The \$3.5M was highlighted because \$1.3M was added after the initial budget was proposed.

In item No. 2, Miscellaneous Receipts, Mr. Nakaya noticed that \$60,000 was budgeted in FY 2012 - 2013 but \$2.5 was estimated to be collected.

In Ms. Yano's synopsis, \$2.5M for water sales was included in direct deposit from prior years for Miscellaneous Receipts.

Tab 2, Page 3 - Expenditures Budget - Salaries \$5.9M was budgeted (a \$0.4M increase or 7%). Part of the increase is the provision of \$0.25M in anticipated salary increases. A two (2) year contract for Bargaining Units 2, 3, 4 was negotiated and will be ratified by HGEA. The other union would have a similar increase.

Chair Dill questioned the remainder from the \$250,000 salary increase out of the \$400,000 increase.

Ms. Yano explained that there were reallocation requests from Construction Management, Administration and Fiscal. The Assistant Chief of Operations position was dollar funded which will be included in an updated synopsis.

Normal Expenditures - The proposed Normal Expenditures are budgeted at \$13.4M. This represents an increase of 6% or \$0.8M over the projected operating expenditures for the current fiscal year. The increase reflects an escalation of the purchasing of goods and services.

Tab 5, Page 1 – Fixed Charges – The Fixed Charges increased overall by 8% or \$0.4M. Part of the increase was due to Health & Retirement benefits which went up by 5% or \$.123M.

Tab 5, Line Items 62, 63, 64 & 67: Retirement System – Employer's Share, FICA Taxes – Employer's Share, Health, Dental and Group Life, and Health and Dental – Retirees. The projected salary increased at \$1.4M or \$123,000.

Tab 5, Line Item 19 - County Service Charge was at 11% or \$1.63M higher. This expense account is a non cash item created as a contra account against the fire hydrant service charge assessed to the County.

Tab 5, Page 1 - Fixed Charges - Materials, Supplies & Services are Utilities, Office Equipment Maintenance and Contractual Services increased to \$124,000 or 24% compared to the current fiscal year budget. The increase was coming from the Utilities budget due to the increasing cost of electricity at \$63,000 compared to last year.

Line 24 & 27 – Office Equipment Maintenance and Contractual Services represents \$61,000 or a 27% increase.

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Line 21 – Utilities is a combination of electricity and telephone which represented a 25% increase for the office and Micro Lab. The kilowatt per hour is at 52 cents. The current kilowatt per hour rate is about 40 cents which reflects a 25% increase.

Tab 4, Page 1 - Administrative Office and Engineering Expenditures – The overall minimal increase was \$14K. In the Administration’s budget under the legal counsel was a decrease by \$50K. The Fiscal budget increased by \$61K. This is primarily due to the “E-services” added under billing & collection.

Tab 6, Page 1 – Office Equipment / Total Materials, Supplies and Services reflects FY 2012 - 2013 Proposed Budget at \$494,448 to FY 2013 - 2014 Proposed Budget of \$430,388.

Board Chair, Mr. Nishimura noted Special Counsel was budgeted up to \$25,000.

Ms. Yano explained that \$100,000 was budgeted for 2013 but Manager Craddick requested this amount be reduced to \$50,000. Estimated expenditures will increase to \$20,000.

Board Chair, Mr. Nishimura noticed the encumbrance was not shown and that Contractual Services went from \$120,000 to \$60,000. He asked if this was adequately funded.

Chair Dill questioned if the \$50,000 for Special Counsel is adequate.

Depending on how litigation goes, Deputy Manager, Mr. Saiki mentioned the initial request was \$25,000.

Deputy County Attorney mentioned that the past the budget was at \$250,000. The current litigation will be on going. But during the past three years, Ms. Yano indicated that Special Counsel was budgeted at \$100,000 and none of the monies were spent.

Construction Project Management Officer, Mr. Moises does not foresee litigation in the next year based on the current projects.

Tab 4, Page 5 – Contracted, Miscellaneous Capital Expenditures, & Others - Board Chair, Mr. Nishimura raised a concern which reflected a budget from \$2M this year down to \$400,000 and if this was adequate.

Tab 11, Page 3 – Contracts/Encumbrances – Ms. Yano explained that FY 2012 – 2013 Budget encumbrances was \$2M. Contracted/Additions/(Deletions) was \$233,378 and the Estimated Payments was \$1.8M which could go up or down for payments in 2013. If the \$1.8M is not paid, the encumbrances on the carry over balance and FY 2013 - 2014 will go up. The effect would be a zero dollar amount because the carry over balance and expected expenditures will go up by the same amount. All encumbrances will increase by the end of June 30, 2013. Capital expenditures that are not paid at the end of the year will be paid from the encumbrances.

Chair Dill acknowledged that the Department can come back to the Board if additional monies are needed for Special Counsel. At this time, \$50,000 for Special Counsel should be enough.

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Tab 9, Page 3 – Fiscal – The Bill processing fee of \$140,000 was previously under Line Item 27 but was moved to Line Item 30 which did not change. Line Item 30 includes the Lock Box Service, E-bill Services and the Bank Service Fees. The Bank Service fee was a reoccurring expenditure during the prior years. This was netted against the water sales, in prior years and never shown as a budget expense.

Mr. Nakaya brought to Ms. Yano's attention that the E-bill Services should be reworded because the \$12,000 is a combination of the Lock Box Service, E-bill Services and the Bank Services Fees. This correction will be updated by Ms. Yano.

Tab 10, Line Items 51 & 55, Operations and Maintenance – The 2013 Proposed Budget increase was \$4M or 6% in Line Item 51. The increase went up by \$195,000 in pumping electrical expenditures. Line Item 55 – Purchase of Water was at \$183,000 or 10%. Line Items 40 & 41 reflected a 7% increase or \$25,000 for Vehicle - Material and Service and Vehicle – Fuel.

Chair Dill noticed that the electrical for the office and shop electrical increased to 25% but Line Item 51 was a 6% increase which is an accurate estimate.

Deputy Manager, Mr. Saiki explained that Mr. Reyna increased the annual electrical bill by 6% based on passed charges and Ms. Yano increased the kilowatt cost by 25%.

Chair Dill stated that 52 cents per kilowatt was too high and suggested that the Department do something along the lines of 6% in consumption based on the anticipated utility increase.

Deputy Manager, Mr. Saiki commented that the treatment plan usage was pumped up which lowered the pumping costs.

Ms. Yano indicated the \$0.4M was based on the calculation of \$6.7 minus \$6.3.

Board Chair, Mr. Nishimura stated that the electrical at the shop will be lower from the pumping costs. The difference in the rates is much higher for the pumps due to the size of the motors and payment of penalties. This would be less than 6% due to the increase in water usage on the surface water. Chair Dill suggested the Department to consider reviewing this issue.

Tab 5, Page 3 – Utilities/Telephone – The increase added \$4,167 for internet bandwidth which will add up to the 25% increase.

Tab 10, Page 1 – Vehicle Material and Service and Fuel had a \$25,000 increase between Line Item 40 and 41. Gas Boy is the system used for tracking and effective for operations purposes.

Tab 2 - Debt Service was from \$6.5 in 2013 budget to \$8.6M in 2014 due to the principal payment towards the \$60M Build America Bond (BAB). This is a gross Debt Service payment as resources come in.

Tab 2, Page 1.1 – Debt service payment reflected \$6.5 to \$8.5 for FY 2014 (\$2M).

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Board Chair, Mr. Nishimura requested clarification on the Debt Service that increased by \$2M and asked if the FRC Debt Service pay back will pay for this?

Ms. Yano explained that a different calculation was used on a combination of projects that were funded under SRF loan and BAB.

Tab 2, Page 18 - Vehicles and Equipment Budget – The 2013 budget was budgeted at \$800,000 compared to the proposed budget of \$1.2M which was higher from the current year's budget. The total amount requested for vehicles and equipment was \$.465M which included three (3) vehicles in Construction Management, one (1) pick-up truck, dump truck and a compact excavator and equipment trailer in the Operation's division (details Tab 4, Page). A total of \$.253M or 1.2% was higher from this year's current budget

Mr. Nakaya questioned the detailed chart which showed a budget of \$1.2M but \$600,000 (on the synopsis) was higher from the current year. Ms. Yano will make the correction to reflect total equipment budgeted at \$400,000 which should be .4 higher.

Tab 6, Page 9 – Office Furniture and Equipment – IT Master Plan - The Administration went from \$308,000 to \$663,000 which was a combination of reoccurring budget items plus a new IT Master Plan of \$558,000.

Chair Dill inquired if equipment leasing has been considered.

Mr. Reyna will research equipment leasing with Allied Machinery's "lease to own" regarding heavy equipment and other county options.

Board Chair, Mr. Nishimura referred to the IT Master Plan's budget of \$558.00 and questioned Ms. Nadatani-Mendez if the Kofax Capture & Oracle Upgrade, Microfilm to Image Conversion, AMR Laptop/Case Software or Computer Leases could be eliminated?

According to Ms. Nadatani-Mendez, the Oracle will not be used any long since IT is using Kofax. The following equipment would be capitalized: Implementation of New Document Imaging System, Develop web based GIS viewer and map layers, Finance Information System (FIS) Software & Implementation, SCADA System Upgrade and Web Monitoring Software.

Tab 10, Page 9, Line Item 102 – Operations Budget/ Miscellaneous, Capital Expenditures, & Others decreased from \$975,000 to \$360,000. Mr. Reyna explained that the Hydrant Replacement Program made up the \$975,000. The last purchase of 200 hydrants was done in 2009. For FY 2013 – 2014 60 fire hydrants will be ordered and this fiscal year, 100 hydrants will be ordered.

Ms. Yano noted that SCADA was taken out of the Miscellaneous budget for FY 2013. The SCADA upgrade is going out to contract.

Tab 2, Page 18 – Operations Division Expenditure Budget – FY 2012 – 2013 was budgeted at \$2M and proposed for FY 2013 – 2014 down to \$419,999 (details on Tab 11).

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Tab 2, Page 1 – Capital Expenditures – The Debt Service budget for FY 2013 – 2014 is \$2.1M. Ms. Yano indicated that the goal is to set up 25% or \$3.6M. In 2014 Emergency Fund will be fully funded. The Debt Service Reserve goal is 50% of the annual Debt Service. In 2014 the DOW will budget 25% of the Debt Service.

Ms. Yano will prepare the Capital Improvement Project synopsis before the June 20th Board Meeting.

Chair Dill moved the Operations Budget FY 2013- 2014 as presented, subject to a minor utility cost for approval to the Board; seconded by Mr. Nakaya; with no objections motion was carried with 2 ayes.

Chair Dill recessed the Finance Committee meeting at 2:45 p.m. to reconvene on Thursday, May 23, 2013 tentatively at 8:30 a.m.

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