

Finance Committee Meeting

May 23, 2013
8:30 a.m.

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

Board Members Present: Randy Nishimura, *Board Chair*, and Raymond McCormick

Staff Present: David Craddick, Kirk Saiki, Marites Yano, Dustin Moises, Keith Aoki, Val Reyna, Dustin Moises, Sandi Nadatani-Mendez, Jeff Mendez, Mary-jane Garasi

Chair Dill reconvened the Finance Committee Meeting at 8:55 a.m.; quorum was achieved with two members present.

GUESTS

Ms. Shawn Shimabukuro, Grove Farm Company
Mr. Royce Kawabata, Grove Farm Company
Mr. Jim Williams, Mears Consultant
Mr. Manabu Tagomori, Oceanit Consultant

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

Chair Dill reported that the Finance Committee covered the FY 2013 – 2014 budget and recommended the Operations Budget to the Board at the May 21st Finance Committee meeting.

DISCUSSION:

Ms. Yano presented changes on the Operations budget from the May 21st Finance Committee meeting. The Kaua'i Island Utility Corp (KIUC) report on the per kilowatt hour indicated a rate of 48 cents. The kilowatt rate was changed on the budget from 52 cents to 48 cents with a decrease of \$16,560. Chair Dill and Mr. Nakaya accepted the kilowatt change.

Finance Committee Meeting
May 23, 2013

On the operating summary report, Ms. Yano reported there were no changes made on the Operations budget.

Page 2 on Manager's Report No. 13-4 – Under Salaries Items b, c, & d were added which explained the salary increases.

Page 2, Item a. (3rd bullet) - Normal Expenditures – Materials, supplies & services were 20% or \$.108M higher after changing the Utility budget.

Page 4, Item No. 5 – Miscellaneous Capital Expenditures –The chart in the report showed the breakdown of the Revenue Expenditures. Miscellaneous Capital Expenditures are comprised of:

- a. 102 Miscellaneous Other Capital Expenditures budget. The Operations' budget is decreased by 615K due to the following:
 - The SCADA budget of 200K was encumbered in this year's budget and no new amount is budgeted under Operations for FY 2014.
 - Pump & Hydrant replacement programs were decreased by 465K.
 - Miscellaneous Rehabilitation Projects increased by 50K.
- b. Tab 11 is a detailed listing of all contracted capital expenditures and miscellaneous encumbrances for FY 2013 that are not fully paid as of the end of the current fiscal year.

Manager Craddick added to change the wording next year to possibly “Expenditures & Reserves” because the Emergency Reserve hopefully will not be an expenditure.

Mr. Nakaya referred to Page 4, 1st paragraph - Miscellaneous Receipts was lower than budgeted at \$3.5M but on worksheet Tab 3, Page 1 it stated that Miscellaneous Receipts did not decrease by \$3.5M.

Ms. Yano described Miscellaneous Receipts (Line Item No. 2 to No. 5d) by categorizing the revenues of Water Sales and Service Charge 2) Miscellaneous Receipts, 3) Interest Income, 4) Fire Hydrant Service Charge, 5) Other-SRF/State Allotment, 5a) Other Receipts–Grants (SRF), 5b) Other–BAB Subsidy, 5c) FRC Debit Service Payback, and 5d) Grant-Department of Health. The Overall total was decreased by \$3.5M.

Page 7 – Part II - Capital Improvement Projects (CIP) – Sources of capital projects come from water sales Revenues, Bonds, SRF loans, WSDF charges and Reserves from previous years.

Proposed Capital Projects – FY 2014

Tab 12, Line Item 101 – CRPL Projects & Contracted CRPL Projects is the proposed Capital Project at \$7.5M under Water Utility.

Tab 12, Pages 2 to 4 – Lists the Itemized Proposed Projects.

Finance Committee Meeting
May 23, 2013

Tab 12, Page 1 – Reflected the proposed budget for FY 2013 at \$14M. Projects were proposed at the beginning of 2013.

Tab 12, Page 4 – Contracted Additions & Deletions Column indicated projects that came from the proposed CIP projects which were then categorized to Contracted projects for FY 2014.

Page 4 – Ms. Yano explained that the total contracted projects was \$14M at the beginning of the fiscal year and contracted at \$8.5M. \$14M minus \$8.5M would equal the remainder of \$6.3M. The FY 2014 proposed Additions and Deletions totaled \$1M.

The proposed budget at the beginning of the FY 2014 year would be \$7.5M.

Tab 13 – Capital Rehabilitation projects was \$250,000. The overall total for proposed capital Projects is \$7.8.

Contracted Capital Projects

Tab 12, Page 10 - \$8M is in addition to the beginning of \$2.9M of contracted Capital projects.

The Estimated Payments Column can go up or down depending on the payments that are made at the end of the year. The overall budget would not be affected because if the underpaid as estimated, the ending balance would be higher. The encumbered balance would be higher at the beginning of the year. (Example: When the Board approves a project for \$4M, that amount would be encumbered.)

Tab 12, Page 3 – Chair Dill commented that the contract for Job 02-13, WK-28, Wailua Houselots was budgeted for \$5M and approved by the Board. This contract was written for \$4.671M and questioned if \$329,000 would be the remaining appropriation balance which was not encumbered funds?

Ms. Yano acknowledged that a correction would be made to reflect that the budgeted appropriation decreased by \$329,000.

Tab 12, Page 4 – Chair Dill again questioned why the FY 2012 – 2013 Budget column of the CIP Replacement Projects at \$14.9M reflected zero on the Estimated Payments column?

Ms. Yano clarified that those were not contracted projects and had no estimated payments. The \$8M was moved to the Contracted portion.

Tab 12, Page 1, Line Item 101 - Chair Dill inquired why was the \$2.945M not \$8.6M?

Ms. Yano clarified that \$2.945M is from the beginning balance of the new year and is the balance of all contracted projects (remaining appropriation). There are two (2) categories 1) *Proposed Projects* at \$14.9M on Line item 101 and 2) *Contracted projects*.

When the contract is awarded funds are taken Line Item 101 and moved to the 2nd line item. \$2.9M was the starting number at the beginning of FY 2013. The \$2.9M plus \$8M contracted from the

Finance Committee Meeting
May 23, 2013

proposed projects less the estimated payments at the end of the year is \$6.5M which then comes out to a proposed budget \$4.9M for FY 2014.

Proposed Build America Bond (BAB) Projects

Tab 15, Page 1 - Chair Dill questioned if the \$60M bond is anticipated to be encumbered in FY 2014?

Ms. Yano explained that \$19.8M is remaining in the BAB bond and will be encumbered as proposed in FY 2014. The remaining balance of the contracted projects is approximately \$10.9M. The contracted projects will be paid at the end of the year.

BAB CIP Fund and Contracted CIP Projects

The unencumbered FY 2013 balance is \$21.9M. The contracted balance was \$10.9M which started with \$32M at the beginning of the year. \$10.7M will be paid on the contracted projects leaving \$750,000 remaining balance at the end of the year. The starting budget for FY 2014 is \$21.5M.

Tab 13, Page 3 - Manager Craddick noted on WK K02, Drill & Test Kīlauea Well #3, \$750,000 was encumbered for FY 2013. Chair Dill brought to Ms. Yano's attention to correct the amounts which are remaining appropriation balance (not encumbered) for all proposed projects.

Mr. Moises suggested Kīlauea Well #3 name be changed to the contracted name, Puu Pani Well #3.

Chair Dill commented that the \$4M funding was going to be removed for the IMG Kīlauea tank.

Manager Craddick indicated it was recommended to complete the well first before the tank is put in. This will be an expansion project.

Chair Dill noted that the Grove Farm tanks were being defunded.

Manager Craddick stated this project is to increase the size and the current contract design is being worked on.

It was Board Chair; Mr. Nishimura understanding that the two tanks were not going to be built based on a earlier report. He inquired if the design incorporates the concerns of AECOM and what is the time frame?

Manager Craddick explained the tanks were to be built in the year it was reported. The project would depend on where the treatment plan goes once AECOM completes their recommendation. The Department is aware of AECOM's proposal but they left out where the water was going to settle out. If the treatment plan is done at the site, the water should be recycled through the treatment plant which would require settling tanks. There is a possibility of not needing the two tanks but the benefit is that water could gravity feed into the tank site from Kokolau.

Civil Engineer, Mr. Aoki also explained Safeway want to remove the tanks but the Safeway project did not start last year. It appears the Safeway project could start up again. Until the tanks are

Finance Committee Meeting
May 23, 2013

demolished for the DOW, Safeway cannot move on its project. The GF tank project was dollar funded. The tank design will accommodate the treatment plant just not the settling basin.

Mr. Moises clarified the reason this project was dollar funded was because the design is in the preliminary stages. With the BAB to spend down, it would be another year before the design could be complete even if Safeway were to start.

Mr. Aoki commented that the AECOM financial report was not accepted and they were requested to resubmit another report. Manager Craddick will follow up with AECOM on the status.

Board Chair, Mr. Nishimura questioned if the Grove Farm tanks are built would they be dropped from the list and funded.

Manager Craddick confirmed the tanks would be funded by cash and would be dropped from the list.

Board Chair, Mr. Nishimura's expressed concern that the BAB money was borrowed for specific purposes. He understands the desire to spend down and if it will deplete funding on the FRC side. The Department may consider reducing the FRC projects. If the Department is going to take the Grove Farm tanks off, then Kokolau would be taken off. The impetus for the \$60M was for replacement.

Manager Craddick commented that the CIP list has \$60M in projects left with only \$20M to spend. Prioritization has been done with the projects that came to bid first. Jobs that were added to the BAB that were not on the original list were amended with Board and Bond Counsel approval. There may be one more projects to be amended to the list this year. The Puu Pani Well project is a proposed contract from last year's budget which can move forward.

On the county side, Chair Dill mentioned that CIP monies do not lapse.

Ms. Yano added that if funds were from the proposed FY 2013 budget, it should be okay.

Board Chair, Mr. Nishimura recommended that the Department check to make sure that the Capital Budget monies do not lapse at the end of June 30, 2013.

Mr. Moises added that the worst case scenario on CIP for construction/design, the Department would have to come back to the Board before a contract is signed.

Tab 15, Page 1 – Proposed BAB for FY 2014 is \$21.5M was the balance of the previous year.

Tab 15, Page 3 – The new proposed additions for FY 2014 was \$2M for the Base Yard and the \$7.9M for the Kapahi Tank.

Tab 15, Page 4 - Aukulikuli Tunnel indicated a \$5M estimate but under the proposed FY 2014 new Additions column, it showed \$36,000. Ms. Yano indicated the \$36,000 was left over monies from the \$20M of BAB proposed projects. Some projects were dollar funded. At the time of the budget

Finance Committee Meeting
May 23, 2013

on the proposed list, the Department did not know which project would be come first. The projects should be rearranged for the Board's approval at a later time. The total that is available for all CIP proposed projects is \$20.8M.

Mr. Nakaya moved to approve the Operating Budget regarding the CIP on the BAB whether the money can be encumbered for FY 2013 and to have Deputy County Attorney, Andrea Suzuki investigate penalties, seconded by Chair Dill.

DISCUSSION:

Chair Dill commented that at the last Finance Committee meeting the Operating Budget be forwarded to the Board. He agreed that checking with the Deputy County Attorney if monies can be encumbered for FY 2013 in 2014 until the new budget is approved. To have the CIP forwarded to the full Board by the June 20th meeting and the CIP budget to get approved by July 1st was Chair Dill's goal.

Manager Craddick stated that the quicker the BAB projects are out the door, the safer the Department will be regarding the subsidy. The subsidy is 35% of the total interest paid for by the federal government. Two-thirds of the money was encumbered by March 2013. The government could take away one-third of the subsidy if it is not encumbered. We need to be able to give the committee a clear picture of where the BAB funding will go with the Water Service Development Fee (WSDF) still not being approved.

Mr. Nakaya retracted his first motion; seconded by Chair Dill; with no objections.

Mr. Nakaya moved to have Deputy County Attorney, Andrea Suzuki, investigate if in the event the FY 2014 CIP budget is not Board approved by June 30th, can the Department continue to work off the FY 2013 CIP Budget until such time as the Board approves the FY 2014 CIP Budget; seconded by Chair Dill, with no objections, motion was carried with 2 ayes.

Chair Dill adjourned the Finance Committee meeting at 9:57 a.m.

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