

# Finance Committee Meeting

May 16, 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: David Craddick, Kirk Saiki, Marites Yano, Dustin Moises, Keith Aoki, Val Reyna, Sandi Nadatani-Mendez, Mary-jane Garasi

Chair Dill called the Finance Committee Meeting to order at 1:14 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:

Manager Craddick referred to the proposed Annual Operating and Capital Improvement Budget format for FY 2013-2014 which was the same format used on the annual audit. There was a big jump between the Operating Expenditures from \$14M compared to \$19M which does not include depreciation.

The total Operating Expenditures included Debt Service at \$30M. Ms. Yano explained the difference between the \$19M on the Annual Operating and Capital Improvement Budget and the Operating Expenditures of \$30M. Some of the Salaries & Benefits were capitalized as well as Debt Service and Vehicles & Equipment. The regular detailed budget format showed the Salaries & Benefits capitalized under the Operating Expenses.

Chair Dill requested clarification on the summarized Annual Operating and Capital Improvement Budget format which reflected the Total Operating Expenditures at \$19M and the Total Operating

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Costs Charged to Ops was \$27M. On the regular detailed budget the Total Operating Expenditures reflected \$30M.

Ms. Yano explained that on the regular budget format, 100% of the Salaries were shown as Operating Expenditures. The calculations of salaries on capital expenditures were based on prior years. The dollar amounts in the totals are the same which matched the format of the audit.

Manager Craddick pointed out that the proposed budget format was introduced at a previous Finance Committee meeting. Fiscal will need to get the total operating costs closer to the audit numbers. Last year the operating cost was \$14M not including the depreciation. The Finance Committee has the option of utilizing the proposed format.

Mr. Nakaya referenced the Expenditures & Reserves of \$52.3M on the proposed budget format that matches the total on the regular budget format. He suggested that the categorization needs to be clearer on both formats.

Manager Craddick commented that the Normal Expenditures of \$13.3M and \$5.9M for Salaries is approximately \$19M. Much of the engineering salaries are capitalized and \$2M budgeted is usually not spent. If the capitalized salaries and equipment were taken out, it would be closer to the audit.

Chair Dill agreed that the proposed format will be easier for the Board to compare when the audit is done.

Board Chair, Mr. Nishimura questioned the Department if the accounts will feed into *both* formats and end up with the same results on the bottom line beyond the budget process. Explanations of any discrepancies will be needed, if any.

Manager Craddick explained that the new format would be shown month by month through the end of the year with all supporting documents.

Ms. Yano indicated from the last Finance Committee meeting (April 25, 2013), the Department will use the 12 month rate increase. Revenue Water Sales went up over \$1M which was the only change based on the rate increase.

Tab 7.1 - Construction Management – \$115,000 shown in the 2013-2014 Proposed budget column was formerly \$40,000. \$75,000 (for two (2) inspection vehicles) was added under Line Item 106 - Vehicle was taken out of Administration (Tab 6) from the Supervision Control and Data Acquisition (SCADA) system.

Manager Craddick noted that the SCADA System Upgrade would be in the next Regular Board meeting Manager's Update report. The SCADA System Upgrade contract will expire this year and the full amount will be needed for next year.

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Deputy Manager, Mr. Saiki added that a second bid was \$50,000 below the \$200,000 which was part of the IT SCADA. The \$200,000 was from the Ops budget (replacement of the servers). Plans for the \$100,000 are for the IT program. SCADA was previously budgeted at \$175,000. There will be no effect on the expenditure totals.

Tab 7 - Seven (7) additional travel participants were added for the Hawai'i Water Works Association (HWWA) conference for 2014. The new total is now eleven (11) participants. State monies will not be provided this year. The budget will include plane fare and lodging. The registration fee remained the same in Line 33. Some of the registration fees are under Human Resources (HR) Development and Seminars and Workshops that provide Continuing Education points for licenses.

Board Chair, Mr. Nishimura suggested instead of increasing the amount, move the monies into the HR Development Seminars and Workshop and Employee Training. If staff needs to go on educational trips, it should be directly related to their training and development. This gives staff the flexibility to continue their training but not as a travel line item. Board Chair, Mr. Nishimura raised the concern of increasing the other line items which could stay the same unless the Board would like to move the money into Seminars and Training.

Chair Dill agreed that the increase should be shown under HR Development for Training. The increased amount of \$4,000 will be moved to Line Item 32.

Tab 12, Page 1, Line Item 106b – The CIP Reserve Fund included an additional project. Manager Craddick commented that the extra money the Department is getting will be for the implementation of a rate increase.

*At 1:34 p.m., Chair Dill exits the meeting and passed the gavel to Mr. Nakaya to continue the meeting.*

Board Chair, Mr. Nishimura inquired what was the reduction on Line Item 106b which changed to \$5.2M?

Ms. Yano explained that a new project for \$1.3M was added for Job 12-1 (106b) H-05, Weke, Anae, Mahimahi & Hee Road.

Manager Craddick requested adding a new project to the budget because the Department will be receiving \$1.3M state funding which the Governor signed off for the Kīlauea project. The \$1.3M would be shown on the budget as grant money with no cost implications. The Department would have to request for the funds to be released. The design of the project is completed and can go out to bid right away.

Mr. Nakaya requested for a summary synopsis on the budget expenditures for 2013 and 2014 if there were potential increases or decreases.

Ms. Yano clarified that a comparison can be shown on the budgeted column and the proposed column. The estimated column is estimated expenditures. The budgeted column for Salaries was

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\$5.5M and in the proposed column the increase was \$5.9M for FY 2013-2014. \$300,000 is anticipated on the reserve for possible pay increases.

*At 1:44 p.m. Chair Dill re-enters the meeting and resumes Chairmanship.*

Chair Dill questioned why was a comparison made on the budgeted amount instead on the estimated amount?

Tab 4, Page 4 – Normal Expenditures - The summary shows the increases from 2013 – 2014 under Normal Expenditures.

Tab 4, Page 2 – Salaries Summary - \$8.8M represent vacant positions. If positions are not filled, this amount will be a salary savings. Ms. Yano will make adjustments on the Total Positions (98) listed on Page 2 compared to 89 Total Positions on Page 1. The Total Salaries in the FY 2013-2014 Proposed column reflects \$5,835,885 on Page 1 but on Page 2 the Total Salaries After Provision reflects \$5,836,885 which is a \$1,000 difference (i.e., one (1) position).

Chair Dill pointed out on Page 1, that Administration shows 16 proposed positions but on Page 2, the No. of Positions reflect 15 budgeted for FY 2014 with a \$200,000 salary difference.

Manager Craddick clarified that one (1) position in Administration was dropped.

Tab 4, Page 4 - Normal Expenditures – Ms. Yano explained that part of the Normal Expenditures are possible increases in Salaries & Benefits.

Tab 5, Pages 1 & 2 – County Service Charge – Part of the increase of \$180,000 on the County Service Charge is a non-dollar transaction which is not an actual expenditure. Fiscal will bill from fire hydrants revenues which affects the budget. There was a \$160,000 increase based on the fire hydrant water rates (up 11%). This is a contra services expenditure.

Tab 5, Page 1, Line Item 62 - Additional increase in Normal Expenditures on the Retirement System Contributions went from \$1.2M against \$1.3M which is dependent on the salaries because of the 5% potential increase.

Tab 5, Page 1 Line Item 34 - Total Materials & Supplies went from \$528,000 to \$653,000 due to an increase in utilities.

Tab 5, Pages 5 & 5 – Maintenance Agreements: Software M-Pet/MMIS reflects \$40,000 (original amount was \$60,000).

Tab 5, Page 4 Line Item 27 - Contractual Services - M-Pet received \$20,000 for additional services for possible upgrades which is not part of maintenance.

Tab 5, Page 1 Line Item 24 –Maintenance and Troubling Shooting is a new item at \$50,000. Information Tech, Specialist, Ms. Nadatani-Mendez added that this amount will be used in case there are issues with the system that cannot be handled.

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Chair Dill asked what is IT currently using to address computer needs? Ms. Nadatani-Mendez indicated that Century Computer block of hours was used as a resource but has changed names. IT now utilizes several companies for different computer needs.

Tab 6, Page 9 Line Item 103 - Office Furniture and Equipment for Great Plains – Redevelop Chart of Accounts will be spent this year. Board Chair, Mr. Nishimura suggested the \$250,000 return to the software account and be reclassified under a different category.

Ms. Yano explained that in 2013, there was \$150,000 for accounting software. Since the Board approved the plan at the March Board meeting, the Department asked that the contract amendment with EMA start as part of the IT implementation. The budget for FY 2014 reflected \$250,000 for Redevelop Chart of Accounts which will be encumbered in 2013. Fiscal returned \$150,000 under the financial accounting software package. The proposed plan was for more than \$250,000 because IT may need additional monies for possible technology options. There may be recommendations on the existing Great Plains if it needs better accounting software.

Board Chair, Mr. Nishimura questioned the Department if the monies that have been encumbered are sufficient for the software issue? If so, would the money serve other purposes in the IT plan because this has not been incorporated in the proposed budget?

Tab 4, Page 5 – Equipment/Administration – Board Chair, Mr. Nishimura pointed out that the budget increased by \$400,000 from FY 2012 – 2013 from \$200,000 to \$663,000 for FY 2014 which was part of the Normal Expenditures that went up \$2M. This was in addition to the Salaries.

Tab 2, Page 1 – Ms. Yano explained that the \$663,000 is under the Vehicles & Equipment category which reflects the total for FY 2014 at \$1,245,000 (Tab 4, Page 5).

Mr. Nakaya requested Ms. Yano to provide a synopsis for the full Board in the Manager's Update.

Ms. Yano confirmed that the IT plan (Phase 1) was approved from the last Finance meeting.

Manager Craddick indicated that the DOW will receive \$1.3M grant funding from the state for Kīlauea School. He suggested adding the \$1.3M to the budget as replacement for this year. The Department will request from the Governor to release the funds. Currently the design is with Department of Accounting & General Services (DAGS). The DOW will be the contracting agent.

The Hanalei pipeline for \$1.3M is a replacement project which is in the process of design.

Tab 2, Page 1 – Debt Service showed a \$2M increase from \$6.5M to \$8.5M which will pay principal on the BAB.

Tab 11 – Miscellaneous Capital Expenditures & Encumbrances – Ms. Yano explained that encumbrances will increase at end of the year. If encumbrances are not paid by the end of the year, they will be transferred to the Contracted Capital Expenditures. The encumbrances shown in the 2012 – 2013 budget columns are for FY 2013 which totaled \$2M. The estimated pay out could be \$1.8M but if at the end of the year the \$1.8M is not paid, the amount of \$419M will go up. The

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estimated cash could go up at the end of the year because it may not get spent. All line items for FY 2014 will be paid at the end of the year.

Tap 8, Page 1 Line Item 27.3 – Kaua'i Water Shed Alliance under the Water Resources and Planning Division will be paid at the end of the year.

Chief of Operations, Mr. Reyna confirmed that thirteen (13) energy efficient motor installations will come from the Operations budget. The motors were received and the installation will be done by the Ops crew and are scheduled to be completed by the end of June 2013.

Tab 12, Page 4 - Capital Improvements – The \$16M highlighted was due to the change in the CIP Reserve.

Page 1 - \$5.2M – CIP Reserve Fund – Ms. Yano explained that the Fund Revenue was increased by \$1.1M. Because the DOW is not deferring the rate increase, a project was added at \$1.3M. Under the Estimated column of \$3.4 for the 2013 CIP Reserve, if this amount goes down, the CIP proposed budget could go up.

Ms. Yano previously submitted a summary from the last Finance Committee meeting regarding the salary increases. Travel was added in the operating expenses. The significant line items will be updated on the Manager's Update for the next meeting. The line item for Great Plains will be re-described.

Board Chair, Mr. Nishimura requested for Ms. Yano reconcile the latest IT changes and if monies should go into a General account for additional IT work or to put back money from the software account in the amount of \$150,000. Currently the software package is currently zero and \$150,000 would be added to the software package.

Chair Dill clarified that if more money is needed for the IT software package, the Department can come back to the Board.

Point of Order was requested by Commission Support Clerk and asked if Ms. Yano's report will be a Manager's Report or a Manager's Update for the next Board meeting.

Manager Craddick clarified that there will be a committee report outlining the recommendations discussed for approval.

Board Chair, Mr. Nishimura suggested that the budget be presented to the Finance Committee again before it goes to the full Board.

Mr. Nakaya moved to add additional funds from the Travel Expense to Training and the inclusion of the \$1.3M project for Kilauea to the budget for approval by the full Board; seconded by Chair Dill; with no objections, motion was carried with 2 ayes.

The next Finance Committee meeting will reconvene on Tuesday, May 21, 2013 at 1:00 p.m.

Chair Dill recessed the Finance Committee meeting at 2:45 p.m.

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