

Finance Committee Meeting

May 29, 2014
3:00 p.m.

Committee Members Present: Chair Larry Dill called the Finance Committee meeting to order at 3:08 p.m. Chair Dill, Hugh Strom and Laurie Ho answered present at Roll Call.

Staff Present: Kirk Saiki, Marites Yano, Dustin Moises, Val Reyna, Keith Aoki, Carl Arume

AGENDA

Ms. Ho moved to approve the agenda, seconded by Mr. Strom; with no objections, motion carried with 3 ayes.

OLD BUSINESS

1. Manager's Report No. 14-50 – Draft Budget FY 14-15

Ms. Ho moved to Receive for the Record an updated Manager's Report No. 14-50 – Draft Budget FY 14-15 and an updated Operating Budget Summary; seconded by Mr. Strom; with no objections, motion carried with 3 ayes.

RECEIVED FOR THE RECORD

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve It!"

MANAGER'S REPORT No. 14-50

May 29, 2014

Re: Proposed FY 2014-2015 Budget

RECOMMENDATION: Board review and approval of the Proposed FY 2014-2015 Budget

BACKGROUND: The Budget is prepared by Funds and then broken down into a) Resources and b) Use of Resources. The Department of Water (DOW) maintains four (4) different funds namely: Water Utility Fund ("WUF"), Facilities Reserve Charge ("FRC") Fund, Build America Bond ("BAB") and State Revolving Fund ("SRF").

I. WATER UTILITY FUND.

This budget is submitted with the recommendation of a full implementation of the last of four (4) scheduled water rate increases as approved in FY 2011.

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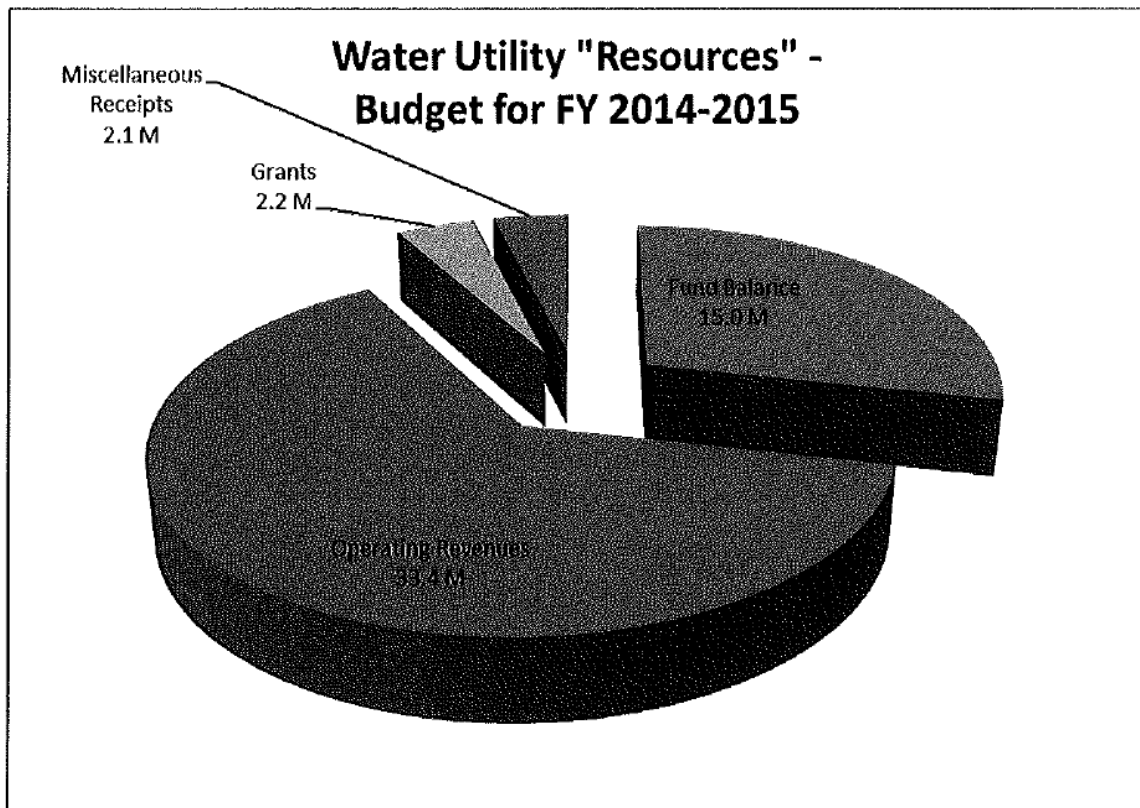
I. WATER UTILITY FUND.

This budget is submitted with the recommendation of a full implementation of the last of four (4) scheduled water rate increases as approved in FY 2011.

The FY 2011 – FY 2016 rate increase was approved subject to having capital replacement and refurbishment projects going to bid in a timely fashion and yearly Board approval to implement the next year proposed increase. At this time the FY 11, FY 12 and FY 13 increases have been implemented.

One of the considerations when the Board approved the FY11-16 increase was to allow for any shortfall in the Facilities Reserve Charge (“FRC”) fund that may have to be covered. It was assumed at that time that 30% of the Build America Bonds (“BAB”) would go toward system expansion. We have not yet encumbered the 30% equivalent of this amount. In any case, the BAB started paying debt principal and interest in August 2013. It was not expected rate payers would pay the FRC debt but the water revenue fund has sufficient reserves to allow inter fund borrowing and/or transfers until the FRC fees are sufficient to reimburse the Water Utility Fund. In this budget year, the WUF has sufficient resources to cover the shortfall of FRC Revenues.

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A. RESOURCES:

1. Beginning Fund Balance \$15M (estimated)

2. Operating Revenues \$33.44M (projected)

2.1 Water Sales - \$29.1M. The Department of Water (DOW) is a self-supporting entity of the County of Kauai. As an enterprise fund, DOW generates revenues from the operation of various water systems island wide through water sales. Revenues from water sales account for 87% of our projected revenues. Projection is based upon the new water rate increase effective July 1, 2014. This increase is the last of four (4) yearly water rate increases approved by the Board in conjunction with the 2010 Water Rate Study.

There has been a decline in water usage for the last 10 months. At this time, it is unknown if the water usage trend continue to decline therefore water sales revenue is projected conservatively at a lower scale. We will continue to monitor the usage until the proposed budget is ready to be finalized. These budget proposals may be changed in between until the Finance Committee is ready to make their final recommendation to the Board for approval

2.2 Grants - \$2.23M. DOW entered into a "Goods and Services" contract to accept a grant for \$230K from the State Department of Health for Project WET. In addition, the State approved the appropriation allotment of \$1.3M last fiscal year which is a state grant and the release of funds is contingent upon a specific project going out for construction. A \$700,725 or 70% of

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\$1,001,107 of BAB Subsidy is also budgeted under WUF, the remaining 30% or \$300,332 is allocated to FRC fund.

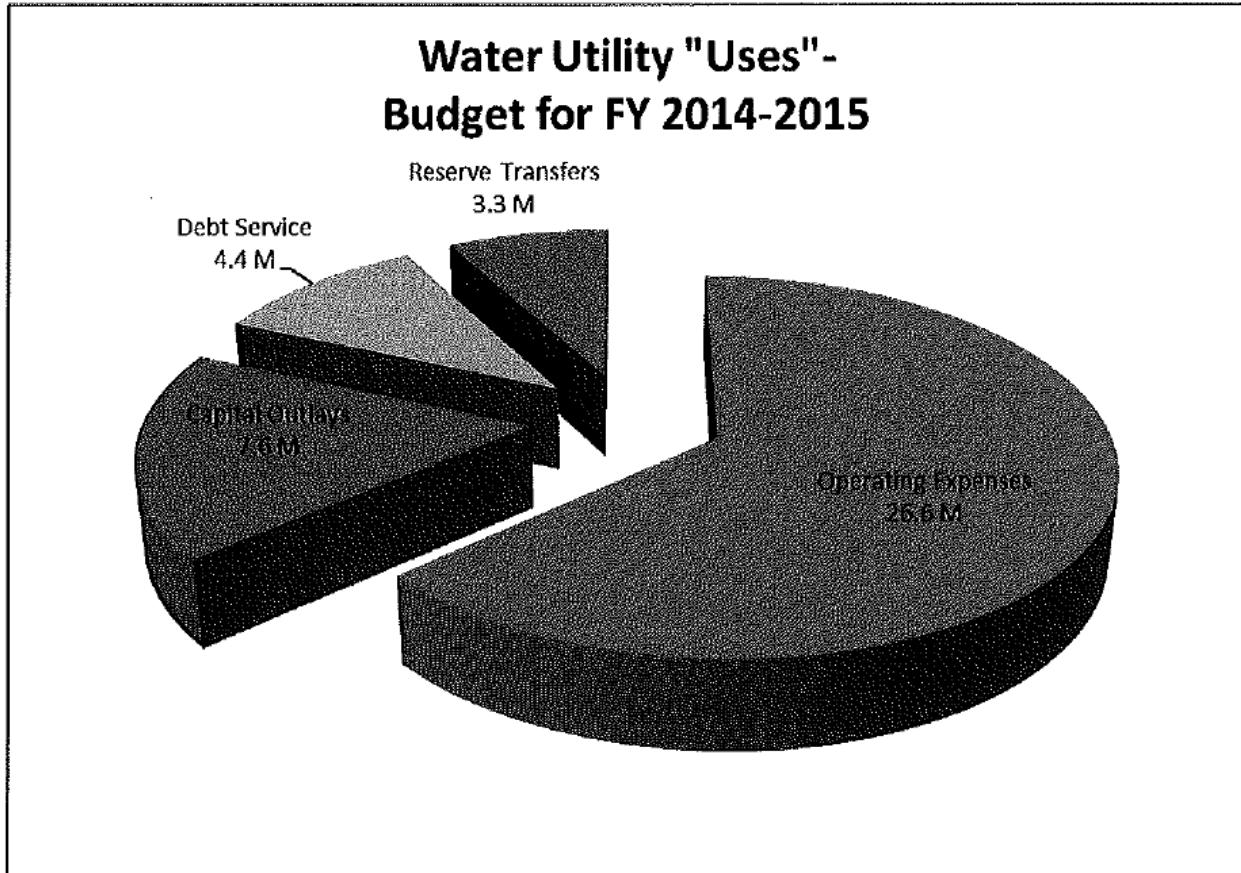
2.3 Revenue from Public Fire Protection - \$1.989M. This is non-cash revenue that we bill the County of Kauai for 2,778 total number of public fire hydrants that DOW maintains island wide. The County doesn't pay the department for this bill but in exchange, DOW benefits from the county wide services that they provide to the staff.

2.4 Other Revenues of \$120K. These account for other water revenues such as installations, jobbing and late charges, interest income and gain or loss from the disposal of capital assets.

3. Transfer from FRC - \$1.3M (projected)

FRC Receipts is estimated @ \$1M and 30% of BAB subsidy or \$300,332 will be treated as transfers to WUF to partially reimburse related FRC debt service.

B. USE OF RESOURCES:



1. Operating Expenses - \$26.6M

The operating expenses are grouped by major expenditure items or similar category for this reporting purpose. An Operating Expense Summary and Operating Expense Detail are attached for your further review.

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1.1 Salaries for FY 14 are budgeted at \$6.1M, and it is \$0.4M or 7.5% higher than last year. The increase is attributed to the recently approved union negotiated pay increases and additional hires. HGEA, UPW and the EM's (Executive Managerial) have implemented their respective negotiated pay increases in FY 2014 and another set of approved salary increases will be implemented starting July 1, 2015. Salaries for Appointed Staff were budgeted with @ 10% increase to cover Fiscal Years 2014 and 2015.

1.2 Employee benefits of \$1.94M or 5% increase cover FICA taxes, Employee Retirement benefits and Health Premiums; the first 2 were calculated based on total salaries while health premiums were fixed amounts based on plan subscriptions. Other Post-Employment Benefits ("OPEB") costs were estimated @ \$884K using GRS Consultants and Actuaries' Actuarial Valuation Report for DOW Retiree Health Care Plan draft report as of July 1, 2013 .

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1.3 Services which include Professional Services, Accounting & Auditing, Other General Services, Public Relations and Miscellaneous Services totaled \$3.3M, an increase of \$1.66M as compared to FY 2014 budget. Major projected expenditures under Services category are:

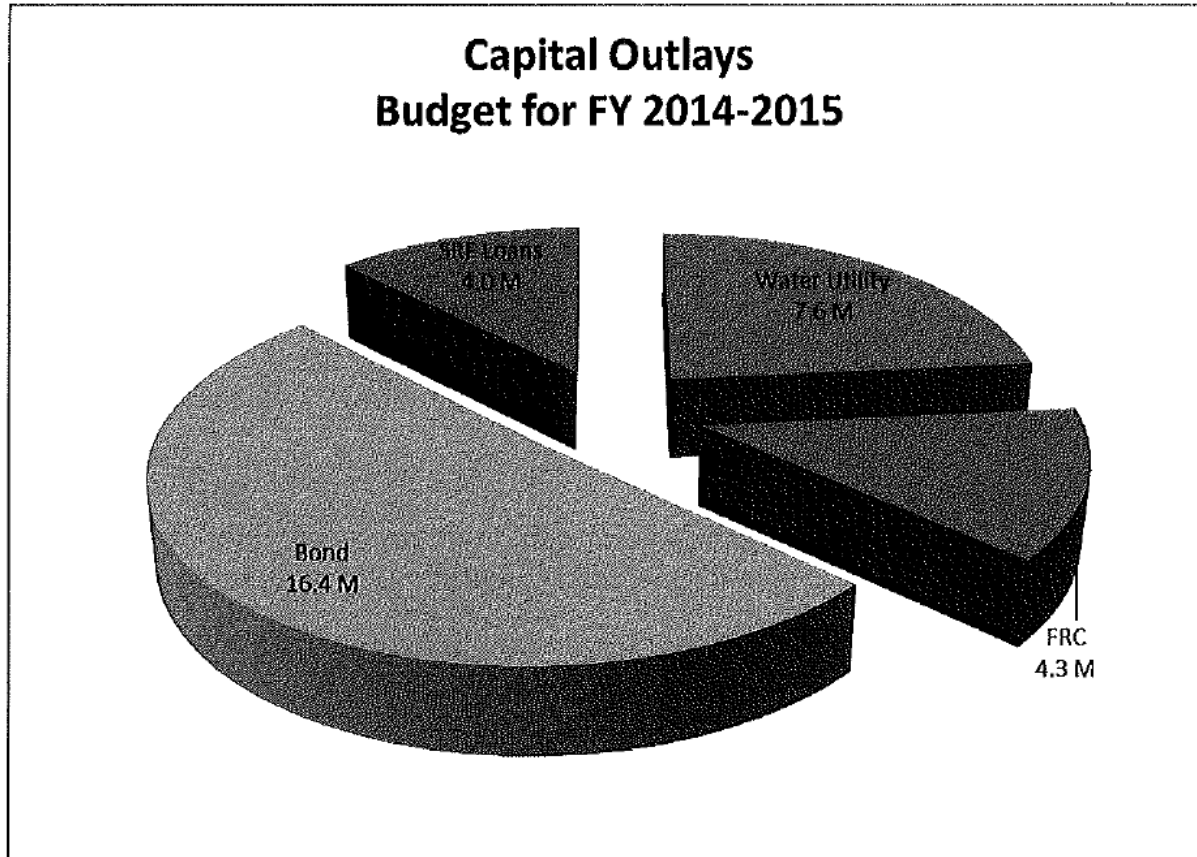
- 1.3.1 Professional Services - includes a.) Professional Services - General includes a new requested board budget of \$110K, an additional \$375K to fund a \$500K budget for a hydraulic modeling update which was originally budgeted at \$125K in the prior year. In addition, a new budget is allocated for FRC and Water rate studies for \$40K and \$150K respectively. Engineering and Construction Management's budget for preliminary engineering - \$60K, feasibility studies - \$60K and as needed construction services of \$50K; these preliminary engineering costs were budgeted under Capital Outlays in the prior years.
- 1.3.2 Accounting and Auditing budget increased by \$20K. DOW's 3 year contract with the current Auditors ends in FY 2014. We are procuring a new 3 year contract which commence in FY 2014-2015.
- 1.3.3 Other services – general and billing costs total budget is \$660K, a net increase of \$321K for FY 2015. DOW received a proposal agreement from Honolulu Board of Water Supply (“HBWS”) for a proposed service and capital outlay annual recovery cost of \$260K. This is a pro-rata share of DOW for HBWS service and capital outlay in hosting the newly developed Customer Care & Billing (“CC&B”) system. An additional \$100K budget was included for Fiscal change orders and report enhancements that may be required in either the CC&B or Microsoft Dynamics system.
- 1.3.4 Public Relations' budget amounts to \$318K. This includes an expenditure budget of \$230K, same amount estimated as grant revenue from the State Drinking Water State Revolving Fund (“SDW SRF”).
- 1.3.5 Miscellaneous services such as Communications, Freight & Postage, Rentals & Leases and Insurance account for \$618K in the budget; an increase of \$71K from FY 14. The increase of 70K is mostly from Operations' budget in Rentals & Leases.

1.4 County Service Charge at \$1.989M is a non-cash expenditure where revenues from public fire hydrants are billed to the County of Kauai and the same amount is charged as a contra-expenditure for services rendered by the County to DOW.

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New Capital Outlay:



Department of Water (DOW) Capital Outlays are categorized as **Expansion or Renewal & Replacement (R&R)**. Each project is categorized before identifying the fund sources. Fund Source will be selected from one or more of the following based on available resources and purposes of the fund:

- 1.1 Water Utility Fund (WUF)
- 1.2 Facility Reserve Charge (FRC) Fund
- 1.3 Bond Fund
- 1.4 State Revolving Fund (SRF)

Capital Outlay budget are categorized and funded below as follows:

1. Capital Purchases
 - New
 - Rehabilitation and Replacements ("R&R")
2. Capital Projects – R&R
 - Design
 - Construction
3. Capital Projects – Expansion
 - Design

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- Construction

Capital Outlay / Water Utility Fund: \$7.5M

Capital Purchases - \$2.5M

- Replacements. \$2.153M. This includes a new budget of \$1.274M in AMR transponders and \$266K for document imaging system & project management which is a continuation of the IT Plan implementation. In addition, Operations vehicle management program has budgeted \$495K replacement costs to purchase two (2) F450 pickup trucks, one (1) F250 pick up with lift gate and one (1) backhoe and trailer equipment.
- New. \$298,500. This includes a new request for GIS Map viewer and mapping layers for \$199,500 and \$95,000 in one (1) new truck, leak detection & security equipments for operations.

Capital Projects – R&R - \$5.1M

- Design – R&R Projects has 8 proposed projects, two (2) of which are partially R&R and Expansion. Total proposed budget is \$1.252M, 1 of which is funded @ \$1.00.
- Construction – R&R has 4 proposed projects with a proposed budget of \$3.850M, one being funded @ \$1.00.

Capital Projects – Expansion – None

- Design budget – None
- Construction budget – None

Capital Outlay/ FRC Fund – \$4.263M. Proposed capital projects for expansion have a total of \$4.263M. As of this date, FRC fund is not in a position to wholly fund these proposed projects. An Inter-fund loan from Water Utility Fund to FRC fund will be initiated if these proposed projects will go out for bid. This will be done thru a Manager's Report to the Board of Water Supply for approval.

Capital Projects – Expansion - \$4.263M

- Design budget – There are 9 proposed expansion design projects with a total budget of \$1.463M, four (4) of which are dollar funded each.
- Construction budget -- Yamada Tank, clear well & connecting pipeline is identified as 56% expansion so \$2.8M is allocated from a \$5M estimated cost.

Capital Outlay / BAB Fund- - \$22,210,101

Capital Projects – R&R - \$5.133M

- Design budget - none
- Construction budget – \$5.133M There's 8 proposed projects, one being funded @ \$1.00 .

Capital Projects – Expansion - \$11.242M

- Design budget – There are three proposed projects for \$165K, one funded @ \$1.00
- Construction budget – There are eight (8) proposed projects for \$11.077M, one funded @ \$1.00.

Capital Outlay/ SRF Fund - \$4M. DOW staff has been working with the State Department of Health to obtain SRF Loan in anticipation of the funding requirements that the proposed DOW building may require if the Board approves the funding. To date, a \$2M grant and another \$2M in loans are available for DOW to avail with.

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Capital Projects – R&R - \$4,000,000

- Design budget - none
- Construction budget at \$4,000,000 for proposed DOW building.

Thank you for your attention to this matter and we look forward to working with you to refine the proposed budget.

Respectfully submitted,



Kirk Saiki, P.E.
Acting Manager and Chief Engineer

MY:ein

Mgrrp/May 2014/14-50 Proposed FY 2014-2015 Budget (FCM 5-12-14, 5-29-14):ein

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Operating Budget Summary

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Water Utility Fund				
Operating & Miscellaneous Capital Purchases				
	FY 2013-14 Approved Budget	FY 2014-2015 Proposed Budget	INCREASE (DECREASE)	% INC/ (DEC)
Budgeted Revenue from Operations	\$30,921,690	\$33,440,068	\$2,518,378	
Water Sales	\$27,197,203	\$29,099,651	\$1,902,448	7.00%
Grants, Investment Income & Misc Revenues	\$3,724,487	\$4,340,417	\$615,930	16.54%
Budgeted Operating Expenses	\$23,079,089	\$26,581,106	\$3,502,017	
Salaries (Regular & Special Wages)	\$5,655,763	\$6,079,790	\$424,027	7.50%
Other Operating Expenses	\$17,423,326	\$20,501,316	\$3,077,989	17.67%
Debt Service	\$4,034,944	\$4,407,049	\$372,105	
Debt Service - Principal	\$4,034,944	\$4,407,049	\$372,105	9.22%
Budgeted Capital Purchases	\$3,678,449	\$2,451,800	-\$1,226,649	
Capital Outlay - Vehicles, Equipments & Misc. Expenditures	\$3,678,449	\$2,451,800	-\$1,226,649	
Other Uses of Revenue	\$129,207	\$113	-\$129,095	

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Capital Projects Summary

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Capital Projects Budget Summary					
	Water Utility General Fund	Facility Reserve Charge Fund	Bond Fund	State Revolving Loan Fund	TOTAL
Estimated Beginning Balance	\$17,902,250	\$194,644	\$24,995,338	\$1,937,410	\$14,420,562
Net Rollover from Prior Year (Anticipated Supplemental Budget)	\$2,902,250	\$194,644	\$2,770,236	\$1,937,410	\$7,804,540
New Capital Projects	\$5,102,002	\$4,263,004	\$16,375,103	\$4,000,000	\$29,740,109
TOTAL Capital Outlay - New & Prior Year Encumbrances	\$8,004,252	\$4,457,648	\$19,145,339	\$5,937,410	\$37,544,649

FY 2014- 2015 draft budget
Summary Budget Workbook R-5.29.14

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Fund Balance Projections

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Fund Balance Projections							
	Water Utility General Fund	Water Utility Emergency Reserve	Water Utility Debt Reserve	Facility Reserve Charge Fund	Bond Fund	State Revolving Loan Fund	TOTAL
Estimated Beginning Balance	\$17,902,250	\$3,600,000	\$2,100,000	\$194,644	\$24,995,338	\$1,937,410	\$50,729,642
Net Rollover from Prior Year (Anticipated Supplemental Budget)	-\$2,902,250	\$0	\$0	-\$194,644	-\$2,770,236	-\$1,937,410	-\$7,804,540
Revenues	\$33,440,068	\$0	\$0	\$1,300,332	\$150,000	\$2,000,000	\$36,890,400
Transfers In (Out)	-\$899,668	\$0	\$0	-\$1,300,332	\$0	\$2,000,000	\$0
Estimated Total Resources Available	\$47,740,400	\$3,600,000	\$2,100,000	\$0	\$22,375,102	\$4,000,000	\$79,815,502
Operating Expenses	\$26,581,106	\$0	\$0	\$0	\$0	\$0	\$26,581,106
Debt Principal Repayment	\$4,407,049	\$0	\$0	\$0	\$0	\$0	\$4,407,049
New Capital Purchases	\$2,451,800	\$0	\$0	\$0	\$0	\$0	\$2,451,800
New Capital Projects	\$5,102,002	\$0	\$0	\$4,263,004	\$16,375,103	\$4,000,000	\$29,740,109
Reserve Transfers	\$3,300,000	-\$1,200,000	-\$2,100,000	\$0	\$0	\$0	\$0
Ending Balance	\$6,898,443	\$4,800,000	\$4,200,000	-\$4,263,004	\$5,999,999	\$0	\$16,635,438

FY 2014- 2015 draft budget
Summary Budget Workbook R-5.29.14

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BACKGROUND

Chair Dill reported that the Department would prioritize the Capital Improvement Project (CIP) expenditures that would generate FRC revenue. The Finance Committee will consider focusing on getting the Operating Budget to the full Board, followed by the Capital Budget.

DISCUSSION:

Admin. Budget Detail (Tab 1, Page 2) – From the May 21st Finance Committee meeting, Chairperson Nakaya proposed to add \$50,000 in Professional Service for a Forensic Accountant and \$60,000 for the advertising fund on the recruitment of a new Manager - \$110,000.

The Operating Budget Summary showed the actual expenditures from FY 2012 – 2013 and Approved Budget FY 2013 – 2014 and Proposed Budget FY 2014-2015.

The uploaded packet was the full set of the proposed budget and was broken down into different sections for Budget Summary, Revenues and Operating Expenses by Divisions.

IT Budget Detail – (Tab 7, Page 10) – Automatic Meter Reading

Chair Dill previously requested Waterworks Controller, Ms. Yano to explain why there was an increase of \$3.077M in the Other Operating Expenses.

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Significant increases included:

Professional Services such as As Needed Engineering Services, WRP Hydraulic Modeling were categorized as Miscellaneous Capital Expenditures in the past. With the recommendation of our IT consultants, these Consulting Services should be budgeted under the Operating Expenses that explains the increase of Professional Services this year.

Repairs (previously a Miscellaneous Capital budget); this year, Fiscal is budgeting these under Operating Expense - \$585,000

Operating supplies - \$314,000

Employment Benefits – is the result of Collective Bargaining Agreements.

Customer Care & Billing (CC&B) – increased due to a new cost allocation proposal from the Board of Water Supply.

Project Wet Grant - \$230K one time grant (reimbursement basis).

Overall increase in the Operating Expense Budget is \$3.077M.

Revenues (Page 3 of 21) – \$4.8M Miscellaneous Revenues consisted of several grants and the County Service Charge.

Revenues (Tab 00, Page 3) – \$1M (BAB subsidy) was received from the Federal government. \$700,000 (Federal grant) of the \$1M was broken down to 70% which is allocated to the Water Utility Fund and 30% (Federal grant) allocated to the FRC fund. (\$700,000 + \$300,000 = total Federal subsidy.) State money has to be appropriated before the money is received from the state.

State Grant - \$1.53M for the Kīlauea waterline project.

Capital Outlay - \$1.3M for proposed project.

Capital Projects -

Replacement and Rehab (R&R) projects are financed under the Water Utility fund and Expansion projects are financed under the FRC fund. The projects were allocated based on the engineer's estimates. Line items were recreated under the FRC budget.

The FRC projects will reflect a negative Ending Balance of -\$4.2M.

WU would lend money to the FRC fund (inter-fund transfer), if there is not enough money to pay WU at the end of the year, the Department could come to the Board for an inter-fund loan or inter-fund transfer. The Board could approve a resolution for an inter-fund transfer to offset the FRC fund negative balance.

Ms. Yano's recommendation for the Board was to do an inter-fund loan and to review the negative balance at the end of the year. The inter-fund loan would be done when projects are awarded (fund from WU fund).

Revenue Summary/FRC Fund (Page 3 of 21) – \$1M

FRC revenues - \$1.3M

Fund Balance Projection -

Balances are not yet available for open projects which were approved for FY 2013-2014. At the end of the year, the balances can be rolled over for the next FY.

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Capital Outlay (Page 15 of 21) -

Hanamā'ulu Main Replacement (\$50,000 WU fund and \$99,000 FRC fund, 34% R&R).
Kapa'a Town 8" Main Replacement (R&R 13%, \$26,000). \$174,000 was moved under FRC.

\$2.8M is Capital Construction is part of FRC which would be categorized under Design.

The Yamada Tank is the only construction project.

Line 47 – “and construction” will be deleted.

Civil Engineer, Mr. Keith Aoki mentioned that the projects on the BAB list are mostly R&R and are currently being worked on. These projects may be revised for the coming year.

18" Cane Haul road mainline - \$90,000 (cost shared with Grove Farm).

Grove Farm started the design but there is a procurement problem with the fee of the consultant. Grove Farm would absorb the cost of the design if the Department would kick in the 2/3 share of construction. Grove Farm would turn over the design to the Department, and the Department would do the construction through the Request For Proposal (RFP) process.

Mr. Aoki commented that the construction may be funded this fiscal year. The Department suggested to provide all the money for the construction cost to get reimbursed by Grove Farm unless there was another agreement.

Mr. Strom suggested to have Grove Farm formulate a basis of the design for a bid package and to put the final design out on the street. The Deputy County Attorney, Andrea Suzuki could investigate the legal process of this project. The construction cost would remain at \$90,000.

Chair Dill was ready to move the Operating Budget to the full Board.

Ms. Yano clarified that the Operating Budget Summary included the Operating and Miscellaneous Capital Purchases which will be recommended to the Board.

The Department will get back to Chair Dill on when they could meet on the Capital Budget in June.

A subsequent Finance Committee meeting on the capital projects will be in July.

At 4:14 p.m., Chair Dill adjourned the Finance Committee meeting; with no objections.

ein