

Finance Committee Meeting

May 12, 2014
1:00 p.m.

Committee Members Present: Chair Dill called the Finance Committee meeting to order at 1:07 p.m. Larry Dill, *Chair* and Laurie Ho answered present at Roll Call. It was noted that Chair Clyde Nakaya was present and Hugh Strom was excused.

Staff Present: Kirk Saiki, Marites Yano, Kim Tamaoka, Mary-jane Garasi, Carl Arume, Val Reyna, Ryan Smith, Sandi Nadatani-Mendez, Jeff Mendez, Eddie Doi, Dustin Moises, Keith Aoki

AGENDA

Chair Dill accepted the agenda as circulated; with no objections.

MINUTES

Chair Dill accepted the January 15, 2014 Finance Committee minutes as distributed; seconded by Ms. Ho; with no objections, motion carried with 2 ayes.

Chair Dill accepted the January 22, 2014 Finance Committee minutes as distributed; seconded by Ms. Ho; with no objections, motion carried with 2 ayes.

Chair Dill accepted the February 4, 2014 Finance Committee minutes as distributed; seconded by Ms. Ho; with no objections, motion carried with 2 ayes.

OLD BUSINESS

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

BACKGROUND

Acting Manager and Chief Engineer, Mr. Saiki commented that the estimated beginning balance for 2014-2015 was \$15M, Operating Revenues - \$33.33M, and Operating Expenses - \$26.4M.

Waterworks Controller, Ms. Yano explained the Summary Budget, is a compilation of all estimated resources and expenditures. Resources composed of Revenues and estimated roll over from the prior year's fund balances, and Expenditures which are broken down by divisions using the new assigned division code numbers listed below:

01 – Administration	22 – Water Resources & Planning
02 – Information Technology	30 – Fiscal/Billing
10 – Water Quality	31 – Fiscal/Accounting
20 – Engineering	40 – Operations
21 – Construction Management	General Administrative Expenses-Overall Expenditures (not assigned to any division)

The Budget Comparison Summary worksheet is a comparison of the FY 2013-14 Approved Budget and the proposed FY 2014-2015 budget.

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Chair Dill requested to see prior year's actuals for FY 2011-2012 and FY 2013-2014 in the updated Budget Summary.

For FY 2013-2014, the estimated amount to be collected in water sales is \$29M; a 7% estimated increase which is lower than the 11.2% increase in water rates that was implemented. This estimate was based on the actual receipts year to date. Current data shows water usage is going down as compared to previous year's usage.

Other categories in the Budget Comparison include:
Grants and Investment Income & Misc. Revenues at \$4M
Salaries (Regular & Special Wages) at \$6M
Debt Services – Principal at \$4M
Capital Outlay – Vehicles, Equipments & Misc. Expenditures at \$2M

Revenue Summary, Page 3 of 21 – Facility Reserve Charge (FRC)

The proposed budget for FY 2014-2015 is \$1M.

The estimated \$1.5M revenue for FRC in FY 2014 is unlikely to be achieved. It was initially estimated that the Department would have implemented a partial FRC increase during the year but did not happen. FY 2014 YTD FRC receipts is \$800,000. FRC collected in FY 2013 was \$761,000.

Chair Dill would like to have some assumption on the FRC to generate more revenue.

Operating Expenses, Page 4 of 21 - Operating Expenditures were broken down by salaries. The new Stand by pay was not included in the budget. The Stand by pay will be increased by 50% based on the supplemental agreement between the United Public Workers (UPW), the state, and the four counties. Operations overtime is not going down but is not increasing significantly. Operations overtime is \$309,000 (Page 7 of 21). The purpose of Stand by is to have available crew on a call. Overtime hours have stabilized.

Acting Manager and Chief Engineer, Mr. Saiki clarified that currently the Stand by time is assigned to a crew who is paid to stay home until they are called to an emergency. Previously, the supervisor would go down a list of phone numbers of the Ops crew on an emergency call. If the Ops crew was not available or did not pick up the call, the next person on the list was called. The Ops crew was still paid overtime whether they were called or not; therefore, the overtime would not decrease. The UPW's pay rate increase was established at 2% every six months. The projection on the anticipated overtime was based on a pay raise of 3% and a 4% increase for Hawai'i Government Employees Association (HGEA) members.

Overtime this year is close to \$250,000. Five (5) years ago overtime was \$500,000 to \$600,000. The over time budget was then cut to \$125,000 which ended up over budget.

Chair Nakaya pointed out to look at the rational and justification for the overtime. Chief of Operations, Mr. Reyna stressed the need to provide service for the customers immediately.

Chair Dill was satisfied with the Ops budget based on the projected current rate of expenditures.

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Ms. Yano explained the reason for large increase in overtime are the result of two (2) major conversions: 1) Customer Care & Billing (CC&B) and 2) Financial Accounting System conversion.

Debt Principal Repayment, Page 14 of 21 – Proposed Budget for 2014-2015 is \$4.4M. The Debt principal repayment is \$4.4M

New Capital Outlay, Page 15 of 21 –
Capital Purchases – Replacement - \$1.9M for Information Technology (IT) which includes the transponder replacement.

Capital Projects – New – Rehab and Replacement (R&R) Design - \$1.5M

Capital Projects - Expansion Projects (Design) – Construction Project Management Officer, Mr. Moises commented on the following design projects design (Po'ipū IMG Storage Tank, 18" Cane Haul Road Main, and Amfac Shaft Well). These design projects should not be listed as expansion projects under the Water Utility Fund.

Capital Projects – Expansion – (Construction) – Yamada Tank is more replacement and partial expansion. Expansion should not be in the Water Utility Fund. There several ways to fund the capital projects based on the purpose of the project and the availability of the resources. There are no available resources for expansion projects under FRC. Capital projects can be funded from the Water Utility Fund because it is unrestricted upon approval by the Board.

Chair Dill suggested showing 80% of the cost for R&R under Water Utility, 20% of the cost for expansion under FRC, and show separately in the inter-fund transfer of any deficit.

Chair Nakaya commented to show for budget purchases:

\$4M = Replacement from Water Utility

\$1M = Expansion

FRC only has \$1/2M to Expansion

Inter-loan fund as a separate entry for clarity to show where the \$1/2M is going.

Ms. Yano will show the 20% inter-fund transfer from Water Utility to FRC to fund the expansion projects. A journal entry would be made to allocate the costs. The percentage would be worked on with Mr. Moises so both categories will be clear for accounting and tracking.

Budget Comparison Summary, Page 1 of 21

The Budgeted Capital Outlay of \$2.487M is from Capital Purchases (not Capital Projects).

Net Rollover from FY 2013-2014, Page 2 of 21 – List of different funds include:

Water Utility General Fund

Water Utility Emergency Reserve

Water Utility Debt Reserve

FRC Fund

Bond Fund

State Revolving Loan Fund (SRF)

The New Capital Outlay is \$11.8M

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Capital Outlay (New), Page 15 of 21 - \$38M includes FRC and bonds.

New Capital Outlay - \$11.8M will be funded partly from the current resources budget which includes water sales and estimated grants to be received this year.

The new Capital Outlay details are shown under Engineering and Construction Management's budget.

Fund Balance Projections, Page 2 of 21 - Are the estimated net rollover from prior years. The estimated fund balance will be used to fund capital projects.

Open Contracts & Projects, Page 18 of 21 – Rollover balances will change at the end of June 30, 2014.

Fund Balance Projections, Page 2 of 21 – The Water Utility General Fund is an unrestricted fund. In addition are two reserved funds; the Emergency Reserve Fund (ERF) and Debt Service Reserve Fund (DSRF). This year the Department is proposing to transfer \$1.4M to the ERF which would reach \$4.8M and \$2.1M to DSRF to make it \$4.2M at the end of FY 2015. Total Reserve transfers proposed are \$3.3M.

Water Utility Fund column has a beginning balance of total \$23.1M in operating funds and an ending balance of \$10.6M. Chair Dill asked if the \$12.5M balance is depleted this year, could the Department afford to deplete the operating balance by \$12.5M. Is the Department spending more rapidly?

There are no new capital outlay for next year and no reserve transfer next year. Next year the beginning balance would be \$1.6M which may mean the Department would be out of money.

It was explained by Ms. Yano that a reserve transfer won't have to be budgeted and the ending balance next year would be \$1.6M+.

Based on Chair Dill's calculations, if the Department does not have the new capital outlay, and no reserve transfer, the Department would still be \$622,000 in the red.

Ms. Yano clarified Revenues are \$33M, less Operating Expenses of \$26M minus Debt Principal payment of \$4.4M. If Revenues, Operating Expense, and Debt Principal payments are compared from the current resources and current operating expenditures, it would net a \$2.5M balance. Interest is included in the Operating Expenses.

\$11.8M in new capital outlay may not be spent according to Mr. Moises. \$8M - \$10M per year would be from R&R based on the rate increase at 11.2%

Mr. Dill's concern was that balances are being depleting but according to the budget comparison, the Department is operating at a break even scenario. The fund balance would be the same as the end of the year than the beginning of the year.

Capital Outlay is not a recurring charge and could be planned to be spent on different places as resources become available in each year. Ms. Yano clarified the reason for the increase in operating expenses was due to new classification of some expenditures which are presented as operating expenses this year where as these were under miscellaneous capital budget in the prior years.

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Each division is responsible for their own budget; each will be reviewed as we go through each division's budget.

At 2:24 p.m., Mr. Dill called for a recess.

At 2:38 p.m., Mr. Dill reconvened the meeting.

Revenue Summary, Page 3 of 21 - Water Sales was budgeted at \$29M. Water consumption (in gallons) projections is lower than the prior year based on the decreasing usage trend. In FY 2013, water consumption was higher while water usage in FY 2014 is decreasing with no explanation of the low water usage. Possible reasons could be from water conservation notices. Water rates were established from the Rate Study which goes up every year.

State Grants, Page 3 of 21 - \$1.3M for the Kīlauea Kolo Road and \$230,000 for Project Wet/Public Relations.

BAB Investment Income of \$150,000 is estimated interest income generated from unspent BAB funds. In FY 2013, \$200,000 was budgeted. The FY 2013 interest income budget was under WUF.

Interest income in 2014 was \$100,000 and is added to the Budget Comparison.

Correction on page 3 of 21: \$150,000 should be under the BAB Investment income.

SRF Federal Funds, Page 3 of 21 - \$1,750,000 (\$1M for Kahili and \$750,000 for Wailua Houselots). \$2M for the new building was budgeted for FY 2014-2015.

General Expenses - Page 1 - Other Post Employment Benefits (OPEB) was funded 100%, based on actuarial report.

County Service Charge is a contra account. The Revenue and Total Budget for FY 14-15 will be changed to \$1.9M.

Interest Expense - \$4M, including estimated borrowing for the new building.

FRC/Transfer to Other Funds - \$1.3M is proposed which would be transferred to WUF to fund partial interest and principal expense on FRC related projects.

SRF/Transfer to Other Funds - \$2M is a transfer for the SRF loan.

General Expenses - Admin. (01), Page 2 of 21 -

Training and Development - In 2013 the budget was \$50K and the proposed budget for 2014 is \$21K. Each division will budget their own training and development.

Public Relations, Page 4 of 21 - Grant for \$230,000 are a budgeted income and expense, budgeted expenses increases the PR budget.

Legislative Liaison, Page 1 of 21 - \$10,000 was for Professional Services for 2014.

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General Expenses – IT - \$1.5M is for transponders on all the meters which need to be replaced.

IT Tech Specialist I, Ms. Sandi Nadatani-Mendez clarified that ten (10) trial kits were put out. The current battery life of the transponders is ten (10) years and currently it has eight (8) years of battery life used. The transponders have been failing with no read. When the meter readers verify the read and the transponder failed, water being used by the customer would not be charged. As a result, the customer would only be charged the service charge. Transponders would be replaced with approx. 15,000 to 20,000 meters. If IT does not get the transponders, they would need a backup AMR lap top (for the Badger meters). If the trial doesn't go well, the meter readers will continue to replace the existing meters with the same type of meter. It was recommended to include a meter maintenance program and to re-GPS the meter to get accurate points.

Ms. Nadatani-Mendez distributed the IT write up explanation for AMR Transponders which was Received for the Record.

RECEIVED FOR THE RECORD

REQUEST TO PURCHASE: EQUIPMENT/FURNITURE/VEHICLE FOR FISCAL YEAR 2014-2015				MAY 12 2014
Request Item:	Replacement of AMR Transponders			
Quantity:	1	Estimated Cost:	\$1,640,000.00	
Replacement/Addition:	Replacement	Requested For:	Administration/IT	
EXPLANATION & JUSTIFICATION FOR ITEM				
<p>Our current AMR Transponders are coming to the end of their life cycle. The department has seen a number of batteries that have stopped working. This request is to replace the old transponders with the new AMA transponders. This will allow the department to respond to customer needs more effectively – and resolve billing issues quickly. This system will also allow us to find leaks quickly, streamline revenue management, better conservation evaluation, etc. The system will also allow our customer the tools to easily view and understand their water usage through their computers and/or smart phones/tablets.</p> <p>The department is in the process of doing a trial of some accounts using this new transponder, if the results are positive we would like to implement the replacement of the transponders in phases.</p>				

~~Approval is recommended:~~

Manager and Chief Engineer

Date

~~Approval is granted by the Finance Committee:~~

Implementation of New Document Imaging System & Project Management went from \$108,000 to \$288,000 for the IT Strategic Plan. IT currently manually scans documents. If this is put on the division level, they could scan and index documents.

Upgrade Network Cabling - \$55,000 - Cat 6 Cable/Ports are failing in the building which needs upgrading.

Develop Web based GIS viewer and mapping layers - \$90,000 to \$190,000 - The viewer was added for the whole department to view a meter if it cannot be located.

Water Quality – Operating Expenses Plus Capital Outlay - \$99,000

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Water Quality Reports CCR's - \$2,400 will be used to ship samples with special plastic bags for wet ice instead of using blue ice.

Engineering – Acting Manager and Chief Engineer, Mr. Saiki explained there is a reallocation for a CE I position. CE V positions are on a continuous recruitment.

Water Utility Fund – Capital Projects –Four (4) projects would remove restrictions for more people to generate water rate revenue and FRC revenue: 1) Wailua Homesteads 538 1.0 MG Storage Tank (\$1.00 funded). A feasibility study would be done to locate a site (see Professional Services \$178,000), 2) Amfac Shaft Well, 3) Po'ipū 1 MG Storage Tank and 4) 18" Cane Hard Road Main (partial expansion).

General Expenses – Engineering (Water Plan 2020). Staff will provide the following:

- Provide a list of source & storage and identify FRC revenue.
 - Reprioritize Water Plan 2020 Projects and include in the budget.
 - An update from the BAB project list on the budget would be brought before the Board.
- 30% + of the \$60M could be FRC projects.

General Expenses – Construction Management – Mr. Moises clarified that every construction project is based on priority design completion.

Bond Fund – Capital Projects - Mr. Moises deducted \$800,000 from the last Request for Proposal (RFP) on the Līhu'e Baseyard Improvements.

- \$1 Fund BAB (\$6M) – Līhu'e Baseyard Improvements (new building).
- \$4M under SRF (DOW is not obligated on the SRF loan).

Construction Management (CM) – a two (2) year recurring contract is funded every year for \$50,000 for an on-call CM crew to do project assignments.

CAK & Misc. Workshops for CM Staff Travel – Budgeted for \$1,700.

General Expenses – Water Resources & Planning

Hydraulic Model Update/Updating the Calibrating the hydraulic model – Budgeted at \$500,000 (est.). Professional services will be hired to update the hydraulic models to be Geographic Information Systems (GIS) compatible (whole island system).

There is a need to update Water Plan 2020 and to determine the water restriction situation (i.e., how many meters can be released and available). The hydraulic model will improve transmission restrictions.

The Finance Committee agreed to add a staff position (Hydraulic Modeler) for this year's budget.

General Expenses – Billing – The Billing section is fully staffed.

New Meter Applications – \$300,000 is estimated by the end of April.

Feasibility study for alternative payment options – Page 3 of 7 – \$25,000 would be used for professional services to explore a credit card payment option for water bills.

The Finance Committee agreed to \$1 fund the feasibility study for alternative payment options until Fiscal can investigate the credit card payments and options with Maui Board of Water Supply's implementation.

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Billing System Enhancements – Page 4 of 7 – \$100,000 would be used for the enhancements on CC&B which are unknown and unstable at this time.

Interactive Voice Response (IVR) – Is configured in the phone system which integrates into CC&B the customer's phone number, account number and appears on the billing screen. This would improve customer service.

Lock Box Services – is under Billing costs at \$30,000 for CC&B. Payments are sent to a P.O. Box (bank) to input payment. Fiscal will be receiving a Lock Box contract.

- Fiscal will provide a detailed breakdown of the \$100,000.

Billing System – Page 1 of 7 - \$260,000/yr – Honolulu Board of Water Supply (HBWS) is allocating the cost of a new CC&B. Fiscal has a proposal to recover the cost of the software and support from HBWS. There will be a request from the Department to pay the service fee.

- Fiscal will explore a different billing system.

Additional Training for CC&B software - Page 7 of 7 - \$15,000 would allow one billing person to be trained at the Maui BWS which would include airfare.

General Expenses – Accounting

Accounting & Auditing, Page 4 of 8– The Consultant Services was increased to \$20,000 (not \$15,000).

Other Services, Page 3 of 8 - \$10,000 was deleted for professional services.

Bank service fees, Page 5 of 8 - \$28,800 (\$2,400/month). Currently there are six (6) accounts. Fiscal will provide an update to the Board on the reduction status of bank accounts to save bank service fees.

Training and related support for transition to new accounting system, Page 7 of 8 – \$15,000. Fiscal will obtain a proposal from BRIO to provide training for the Accounting staff. This account will be \$1 funded for software training, process training and documents from BRIO.

Government Finance Officers Association (GFOA) Conference - \$3,500 will be budgeted for one person (instead of \$7,000) to attend the conference.

At 5:00 p.m., Chair Dill recessed the Finance Committee meeting to Friday, May 13th at 8:00 a.m.

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Finance Committee Meeting

May 13, 2014
8:00 a.m.

Committee Members Present: Chair Dill *reconvened* the Finance Committee meeting at 8:12 a.m. Larry Dill, *Chair* and Laurie Ho answered present at Roll Call. It was noted that Chair Clyde Nakaya was present and Hugh Strom was excused.

Staff Present: Kirk Saiki, Marites Yano, Kim Tamaoka, Mary-jane Garasi, Val Reyna, Ryan Smith, Sandi Nadatani-Mendez, Jeff Mendez

OLD BUSINESS

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

General Expenses – Operations

Chief of Water Operations, Mr. Val Reyna reported the following vacant positions: 1 Equipment operator, 1 SCADA Tech, 2 Pipefitter Helpers, 1 Water Plant Helper, and 1 Assistant Helper (10% of positions are vacant). Operations Division continues to hire and recruit. There are 45 permanent positions and 1 temporary position as needed.

Design services for Equipment Carport and Roof over bins w/PV System (New Project), Page 3 of 19 – Budgeted at \$100,000 for the Engineering design. The carport and roof will provide protection for heavy equipment and county vehicles.

County Roadway Maintenance Contract, Page 4 of 19

Ops T and D/Other Services – County Roadway Maintenance Contract of \$50,000 will be deleted and put in one account (T and D/Repairs and Maintenance – Other than Water System) under Rehab and Restoration Services - \$175,000 budgeted.

“State Highway” will be deleted and renamed to “Roadway rehab and repairs, including Baseyard driveway and parking lot”, Page 11 of 19 - \$304,000 budget amount.

“Baseyard Driveway & Parking Lot” line item will be added - \$25,000 budgeted.

Fuel, Page 5 of 19 – (no change)

Power/Pump/ Utility Services, Page 7 of 19 – (no change)

Rentals and Leases, Page 8 or 19 - Construction equipment rentals & Misc. construction equipment rental will be combined - \$70,000 budgeted.

Miscellaneous Capital - \$360,000 budgeted.

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Repairs & Maintenance – Water System, Page 9 of 19

SCADA System Integrator Consulting and Maintenance Contract (Annually) - \$150,000 increased \$40,000 from \$110,000 (budgeted). Eight (8) replacement routers and MDS radios are part of the contract.

Transmission Repairs and Maintenance – Water System, Page 10 of 19 - \$125,000 budgeted.

Mr. Reyna will explore an asset management plan for pumps (pump replacement & tracking of performance).

Vehicle Maintenance & Service, Page 11 of 19 - \$105,000 budgeted.

Operating Supplies, Page 12 of 19

Replacement 5/8” meters - to replace 300 meters and include new installation.

Fiscal will change title of Replacement to “New Installation & Replacement.”

To date, there have been 250 meter applications which are on track for this year’s estimate of 300 new meters. The existing meter inventory will be repaired.

Miscellaneous Rehab Projects, Page 13 or 19 – (no change)

Purification / Operating Supplies, Page 14, of 19

Sodium Hypochlorite and Chlorine Gas - \$75,000 is based on actual expenditures. Most sites have been converted to sodium hypochlorite and seven (7) remote sites out of 50 sites are left on Chlorine Gas.

Power & Pumping, Page 15 of 19 - (no change)

Operator Certification, Page 16 of 19 – Ops training and development (no change)

Meeting Expense, Page 17 of 19 - Tapping Team Expenses – (no change)

Capital Outlay – Rehab & Replacement/Equipment, Page 1 of 19 – Trucks that are being replaced have over 100,000 miles. Old equipment is auctioned off every other year. \$235K will be added to the 2013-2014 budget. Fiscal will explore lease to own equipment with the County.

Capital Outlay – Expansion/Equipment Page 19 of 19 –

Fiscal will delete “New position” in description of “(Water Service Leak Investigator) needs vehicle”

Budget Comparison, Page 1 of 21 - \$3M

Chair Dill expressed concern in the growth of the Department’s expenses and exact total of budgeted items. Ms. Yano clarified that the prior budget debt interest expense (\$4M) was not part of the operating expense.

Salaries - There are no new positions in the budget.

The Stand by pay (Special Pay) for Ops will be budgeted (based on the supplemental UPW Agreement).

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Fiscal Division and Administration Division reallocation salaries will be added in the budget subject to Board approval.

Ms. Yano will provide the following at the next Finance Committee meeting:

1. Explanation on the \$1M decrease in the budget.
2. Provide the supplemental breakdown with details of the numbers.
3. Future presentations will include:
 - a) YTD actuals
 - b) Fiscal year actuals throughout the report
 - c) Show previous budget numbers
4. Provide a budget schedule.
5. Present the proposed budget at the *March 2015* Regular Board meeting.
6. Start budget presentation at the *May 2015* Regular Board meeting.

The next Finance Committee Meeting will be held on Wednesday, May 21, 2014 at 1:00 p.m.

Chair Dill adjourned the Finance Committee meeting at 9:27 a.m.; with no objections.

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