

MINUTES
FINANCE COMMITTEE MEETING
May 18, 2022

The Finance Committee of the Board of Water Supply, County of Kauai resumed its meeting on Wednesday, May 18, 2022. Committee Chair Lawrence Dill called the meeting to order at 1:06 p.m. Quorum was achieved with 3 members present.

COMMITTEE MEMBERS

Lawrence Dill, *Committee Chair*
Ka‘aina Hull (*entered at 1:24 p.m.*)
Kurt Akamine

STAFF:

Manager & Chief Engineer Joseph Tait	Chief of Operations Valentino Reyna
Deputy County Attorney Mahealani M. Krafft	Civil Engineer VI Dustin Moises
Commission Support Clerk Cherisse Zaima	I.T. Specialist Wayne Takabayashi
Deputy Manager Judith Hayducsko	Asst. Waterworks Controller Marcelino Soliz
Waterworks Controller Marites Yano	Info. and Education Specialist Jonell Kaohelaulii
Civil Engineer VII Michael Hinazumi	Private Secretary Mary-jane Akuna

PUBLIC TESTIMONY

The department received no public testimony prior to the meeting, and there were no registered speakers.

There was one (1) member of the public who joined in the meeting.

NEW BUSINESS:

1. Discussion and possible action on Draft Budget for Fiscal Year 2022-2023
 - a. Draft Operating Budget FY 2022-2023
 - b. Draft Capital Outlay Budget FY 2022-2023

Commission Support Clerk Cherisse Zaima noted there was one item to be received for the record, which had been posted to the Department’s website and made available to the public.

Deputy Manager Hayducsko provided an overview of the Responses to Finance Committee Members and Updates to Proposed Draft Budget for FY 222-23.

Baseyard Master Plan

Committee Chair Lawrence Dill asked for the status of relocating Operations personnel to the 2nd Floor of the Microlab to which Ms. Hayducsko explained that move has been completed. Mr. Dill requested an update on the plans for the development of the Baseyard. Ms. Hayducsko stated the current plan is to remove the old Administration Building and regrade that area. Based on the Committee’s response to the proposed budget, the Department will regroup and reassess. Manager Joseph Tait added that as part of addressing safety issues and emergency response, the Department will be taking a look at the existing facilities and any required upgrades throughout the Department.

Water Rate Study

Ms. Hayducsko explained that there is a current contract for a modeling study to project what kinds of revenues to expect in the future; to call it a “Water Rate Study” adds to the lack of clarity as there are no current plans to continue with a Water Rate Study.

Fleet Management Program

At the request of Mr. Dill, Ms. Hayducsko provided an overview of Page 151 that lists line items for WU/Ops/Capital Outlay – R&R/Misc. Capital Purchases. Mr. Dill requested to see the year of the vehicles and miles/hours of use for the items being replaced either within the line item or an additional document that lists that information. Referencing line item “Infrastructure Inventory” Mr. Dill requested a breakdown of the \$1,186,000 to which Ms. Hayducsko explained that Page 146 lists those items. Mr. Dill asked to clarify that these items are what make up the \$1,186,000 to which Ms. Hayducsko replied yes. Mr. Dill noted that Page 146 shows line items for replacement meters, but his understanding was that just the transponders were being replaced in many of them. Ms. Hayducsko stated that meter components are included in the meters, which was the intent with how the line item is listed. Manager Tait stated they will make the change to specify “meter parts/components”.

Retirement Report

Ms. Hayducsko stated their intent is to try and explain the accounting entry and how the Department is accounting for future liability and current obligation. She explained that the \$24 million mentioned was not money that the Department had and was maintaining but was an entry that was discussed being inserted in various ways into the audit paperwork. Waterworks Controller Marites Yano added that the \$24 million was an accounting entry to recognize the liabilities of the Department as per the government Accounting Standards Board which required every agency to recognize the earned future benefits of the current employees. It was a one-time recognition of what we earned and moving forward this amount is amortized every year and whatever was paid into the retirement fund is what is put into the budget. The State provides the dollar amount that they have to calculate into the fund, which the amount that is included in the annual budget.

Committee member Hull stated his understanding is that the Department had to designate certain monies and shifting the \$24 million allowed it to be designated elsewhere. Ms. Yano stated that was a misunderstanding, further explaining that at the time that the requirement was mandated, the Department was unsure how to address this liability. The Department proposed to set aside a reserve fund; however, the Board questioned this and additionally required the Department work with the County of Kauai to compare how they were treating that liability. DOW resolved this by proposing a different reserve fund which combined the Debt Service Reserve Fund and Emergency Reserve Fund, adding language that stated that whenever there are spikes in retirement and pension benefits that are not in the budget, that reserve fund could be tapped into. Ms. Yano reminded the Board that at the time, there were two reserve funds, and they were recommending an additional reserve fund, but with the realization that those were too many reserve funds, they were combined into one that addresses what they need. Mr. Hull stated he does remember shrinking the amount of monies that were being donated to the reserve funds and being able to use the new reserve fund for pension liabilities; however, shrinking the reserve fund should have freed up several million dollars. Mr. Dill stated he believes what Mr. Hull is focused is not so much the reserve fund, but rather the OPEB and the way that is being addressed. In recognizing the liability of the entire amount instead of the annual amortized amount affected the way we report the beginning year balance of the budget. Mr. Dill feels that

this issue may require a separate meeting with two members of the Finance Committee, the Manager, and Waterworks Controller to go over that. Mr. Dill stated he is confident that it was addressed appropriately at the time, but it would be good to have a refresher to ensure everyone is on the same page. Mr. Hull requested that meeting be scheduled prior to the Regular Board meeting to ensure the questions get answered.

Facilities Reserve Charge

Ms. Hayducsko stated current spending on the FRC is being used to reimburse bond payment for construction expansion projects. Mr. Hull requested a review of the possible restructuring of the FRC program. At the request of Mr. Dill, Civil Engineer VII Michael Hinazumi explained that part of the Water System Investment Plan is to look at funding opportunities to build expansion projects as well as CIP and Capital Improvements R&R projects. Currently, there is a great challenge with the impact fees and some in-equitabilities, and the Department is looking at a program similar to Honolulu Board of Water Supply. As soon as there is a better handle on what they wish to propose, they will work through Manager Tait to do a presentation to the Board. Manager Tait added that initiative is being handled by a third-party professional services contract which will provide internal staff with some options that were not implemented in the past and provide an outside perspective. Mr. Hull asked if the Department is aware of any water programs that offer the FRC be paid monthly as opposed to a one-time payment considering how sizable it is and may be a barrier to entry. He also stated he would be interested to find out whether homeowners would be open to have an option to fold the FRC into their monthly water bill. Ms. Hayducsko stated they could research that.

Work Orders

Ms. Hayducsko stated the Department does recognize that the work order maintenance tracking system has some problems which they are looking at upgrading. She explained how Operations is currently managing work orders as well as an explanation of the new maintenance program they are looking at; those enhancements are included in the current budget. Manager Tait added that in addition to Operations, the I.T. division handles roughly 15-20 customer request tickets per week which will also benefit from those enhancements.

Auto Paid Water Bills

Ms. Hayducsko provided a brief summary of the table included. Mr. Dill asked which method is most efficient from the Department's perspective to which Ms. Yano stated the Auto-pay and Lockbox methods are easiest. Mr. Dill suggested looking into ways we can encourage our manual pay customers to convert to Auto-pay or Lockbox payments and further promote those two options.

Procurement Policies

Ms. Hayducsko stated there are current Board policies as well as Department SOP's in place and she and the Manager are continuously evaluating and looking to improvements in the future. Manager Tait elaborated, stating that there are a series of 60 plus SOP's that staff edits, updates and modifies from time to time, many of which are related to procurement in one way or another, so the Department is looking at all of those SOP's in a holistic way. Mr. Dill requested a future Board update on the status of that review.

Meter Replacement Program

Ms. Hayducsko stated the Department is gaining additional knowledge as they move forward and would like to present a more comprehensive answer to the Board in June.

Ms. Hayducsko stated there were some changes to the document received for the record today noting that the Capital Outlay and Operating expenses have changed slightly as they moved money from Operating Expenses to the Capital component. She asked Ms. Yano to clarify what budget is being presented to the Finance Committee at this time. Ms. Yano explained that there were additional changes made to the document that was received for the record this morning, but she was told it was too late to make those updates. Manager Tait stated now would be a good time to mention those changes. Referencing Page 5, Ms. Yano stated the Operating Expenses are showing \$36.7 million but it should be \$30.9 million which is a decrease from the original proposed budget. This is due to a last-minute change under the Professional Services line item on Page 7 which shows \$10,203,100 but should actually be \$4,353,100. Referencing Page 5, Ms. Yano restated that the Operating Expenses that show at \$36,727,791 is actually \$30,877,791; the Estimated Available Balance which shows \$2,038,047 is actually \$7,888,047; the Total Estimated Amount Available which shows as \$11,491,396 is actually \$8,431,396. Mr. Dill asked for the details of the \$6 million line item for Professional Services to which Ms. Yano referenced Page 11, noting that the \$2,925,000 that repeats 3 times is an error; 2 of the 3 lines should be removed with only one remaining. In response to Mr. Dill Ms. Yano confirmed it was an inadvertent duplication.

Mr. Dill noted a significant change was the \$2 million that was removed for the Baseyard Master Plan and asked to clarify that it would carry through to the summary sheet. Ms. Yano referenced Page 17 that shows the line item for DOW Baseyard Phase 1 at \$0. Mr. Dill pointed out two other deletions of note at roughly \$2.9 million and \$5.8 million, totaling about \$7.8 million and he would expect the Operating Expensed to be decreased accordingly at almost \$8 million; however, the budget reflects a \$6 million decrease. He asked if expenses have increased by \$2 million in aggregate elsewhere to which Ms. Yano stated in aggregate it decreased by \$774,836. Mr. Dill questioned that Ms. Yano stated in aggregate it was decreased by \$6 million to which Ms. Yano stated that she may be comparing it to the prior original submission noting that the \$2 million decrease would not show here. Mr. Dill referenced Page 5 and asked to clarify that the \$36 million shown reflects the deletion of the \$2,000,000 to which Ms. Yano replied yes. Mr. Dill asked to clarify that the Estimated Available Balance of \$11.4 million is now at around \$17.5 million to which Ms. Yano stated yes. Ms. Yano pointed out that after discussion with everyone present in the room, it was decided to increase the projections by 5% instead of 1% based on the trends they are seeing in Operations.

Mr. Hull asked what the status of the Baseyard Master Plan response. Ms. Hayducsko stated that the Department recognizes that the Board is uncomfortable with prior designs for the Baseyard Master Plan. Modifications have been made to the upstairs Conference Room formerly used by the Board to expand offices which are the improvements that has occurred to date utilizing internal staff and supplies. The old Administration Building will be removed which was budgeted for this fiscal year and will be re-budgeted in the upcoming fiscal year. If there are additional items that may be used for facility improvements, they will be looking at all department properties rather than just the Baseyard to ensure funds are being used wisely, and they will come back before the Board before expanding on those design projects.

Mr. Dill concluded by summarizing that the total Estimated Available Balance at the end of the fiscal year will be approximately \$17.5 million and includes \$9.2 million in reserve funds, which leaves approximately \$8 million in available funds. He wants to ensure that if there is money that can be used toward projects that the Department be aggressive and come to the Board for approval for funding another project, noting he doesn't think that they need to keep \$8 million in

a bank account in addition to the reserves. Mr. Akamine noted that there was previous discussion about a water rate study and projecting what the needed revenue will be in the future whether it be for water source or infrastructure repairs. He noted that we may feel flushed with money at this point, and while we are in a good place now, as we project forward we should also be mindful of future projects knowing we have some aging infrastructure as well as sourcing issues to contend with.

Committee Member Akamine moved to refer this budget to the May 26, 2022 Regular Board meeting with the updates on the fund balance projections to reflect the changes resulting from the inadvertent duplication under Professional Engineering Services, seconded by Mr. Hull; with no objections, motion carried with 3 Ayes. Mr. Dill clarified that he wants this presented at the May meeting to give the Board two cracks at it if necessary. Mr. Hull reiterated that he would like a meeting with the Manager and Waterworks Controller regarding the OPEB liabilities prior to the May meeting.

ADJOURNMENT

The Finance Committee meeting adjourned at 2:10 p.m.

Respectfully submitted,

Cherisse Zaima

Cherisse Zaima
Commission Support Clerk

Approved,

Kurt Akamine
Kurt Akamine (Jun 24, 2022 11:35 HST)

Kurt Akamine
Secretary, Board of Water Supply

FCM (05-18-22) Minutes - for signature

Final Audit Report

2022-06-24

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