

FINANCE COMMITTEE MEETING

Tuesday, May 19, 2020

Committee Members Present: Finance Committee Chair Lawrence Dill, Ka`aina Hull (exited @ 11:32 am) and Lester Calipjo (joined @ 10:11 am). Also present was Board Advisor Steven Kyono (exited @ 11:45 am), Gregory Kamm & Troy Tanigawa

Staff Present: Michael Hinazumi, Carl Arume, Edward Doi, Marcelino Soliz, Valentino Reyna, Marites Yano, Jonell Kaohelaulii, Christine Erorita, Jas Banwait, Mary-jane Akuna, DCA Mahealani Krafft

Finance Chair Dill called the meeting to order at 8:16 a.m. and quorum was established.

D. OLD BUSINESS

1. Manager's Report No. 20-40 – Discussion and Possible Action on the Proposed Board Policy No. 31 to establish a new Reserve Fund which would replace the Emergency Reserve Fund and Debt Service Reserve Fund established by Board Policies 26 and 27

After discussion of Manager's Report No. 20-40, the committee and Mr. Kyono agreed Board Policy No. 31 was in alignment with the County.

Mr. Hull approved Option 1 Proposed Board Policy No. 31 and to move Manager's Report No. 20-40 to the full Board for Approval; Chair Dill seconded; with no objections motion carried.

Option 1: The DOW will maintain a single reserve fund equal to at least 30% of the DOW's last audited operating revenues; delete BP 26 which is the ERF & BP 27 which is the DSRF and expand the list of restricted uses to include unfunded non-recurring costs such as spikes in pension and retirees' health costs.

Mrs. Yano discussed a previous second motion "*Mr. Hull moved for the Finance Committee to analyze the unreserved monies incorporated into the Water Rate Study and the priorities of the Department; seconded by Mr. Kagimoto; motion carried with 6 ayes.*" A meeting was conducted with Mr. Hull and Mr. Dill on February 6, 2020 and March 6, 2020 which included the County Finance Director Reiko Matsuyama. The County financial accounting impact was presented on the net pension liability and net Other Post-Employment Benefits (OPEB) liability.

Proposed Budget Impact on the Department of Water (Page 13) – Historically the unrestricted fund balance projections was used to estimate beginning resources when the budget was prepared for the next fiscal year. Based on previous discussions, the Department proposed to use a different method of available resources by using cash investments and receivables. The Department no longer reserves equivalent cash to the net pension liability and OPEB liability. This frees up debt encumbered the long term liability.

Estimated Ending Balance year end (Page 13) - \$9,071,304. The previous preparation of the budget would not have enough funds to pay for projected operating expenses, miscellaneous capital purchases, and the new capital outlay. This is the current impact of the new proposed Board Policy No. 31 that was recommended for approval; by releasing the amount restricted for the long term liability.

DISCUSSION:

Mr. Hull asked if the Water Rate Study will have adjustments? Mrs. Yano answered yes. The Water Rate Study uses the budget for the upcoming rate study period. The Department could come back to the Board with the Water Rate Study adjustments that could be made to the proposed rate hikes.

E. NEW BUSINESS

1. Draft Budget for Fiscal Year 2020-2021
 - a. Fiscal Year 2020 - 2021 – Draft Operating Budget
 - b. Fiscal Year 2020 - 2021 – Draft Capital Outlay Budget

BACKGROUND

Waterworks Controller Ms. Yano provided a brief background for the new Board members that the Department of Water (DOW) is a semi-autonomous agency of the County of Kaua'i operating as an enterprise fund. The Manager & Chief Engineer manages the operations who is appointed by the Board of Water Supply with a Deputy Manager and seven division heads who manages their own divisions.

Three parts on the proposed budget include: 1) the Operating Budget and 2) New Capital Outlay Budget. At year end, there will be a 3) Rollover on outstanding Purchase Orders (PO). These are unexpended encumbrances for this fiscal year that have not been completed. These will be added to the Operating Budget and the New Capital Outlay Budget. A separate presentation will be done at the close of the fiscal year.

The DOW maintains three sources of funds: 1) Water Utility (WU) fund and general operating account, 2) Facility Reserve Charge (FRC) fund and 3) the Build America Bond (BAB) fund. The WU is used to pay for the operating expenses and various capital outlays as approved by the Board. The FRC fund is the impact fee that is charged to developers (who connects to the DOW's infrastructure). FRC funds are used to expand the water system. BAB fund is a loan obligation and the DOW initially borrowed \$60M. To date, \$9M is the balance that needs to be spent to pay for Capital Improvement Projects (CIP).

Water sales are the main revenues to over 22,000 customers with 4M gallons of water provided for multi-family, ag, commercial, government and mix use accounts from nine public water systems island wide. New projected revenues would be adjusted due to the COVID pandemic. (Page 17)

Water usage has declined from 2015 at 3.9 billion gallons with a projection for FY 2020 to be below 3.8 billion gallons. (Page 18)

Water Utility Fund Resources (see pie chart; Page 19) – This fund is available for DOW projects and other CIP. Two reserves - Emergency Reserve fund is \$5.2M and the Debt Service Reserve fund is \$4.1M were discussed later in the meeting. These funds were equivalent to 30% of revenues from the last FY 2019 and in alignment with the County of Kaua'i. Additional uses will be added to the reserve fund and water sales will be readjusted.

Fire hydrants are \$2.2M from non-cash revenues that were recognized in the General Accounting Standards for maintenance of the hydrants island wide. Grants & Contributions – Each year DOW receives a BAB subsidy. \$4.4M are expected in State grants which will be presented by Construction Management (CM) budget. (Page 20).

DISCUSSION:

Mr. Hull mentioned the BAB excess of \$9M due to the inability of filling positions to get projects moving. Mrs. Yano explained that projects under the BAB and State grants received in previous years were used first before using the BAB fund. The DOW has access to the \$9M and \$3.7M has been encumbered in the BAB; leaving \$6M to be encumbered and spent on projected projects.

Mr. Dill asked about the reserve fund that would be replaced on the two reserve funds if they were 30% of revenue? Mrs. Yano said the COK is 30% of their fund revenues and DOW's reserve fund is equal to the 30% of revenues. If revenues go down, it will affect the DOW reserve funds. Prior year's revenues were \$29M but currently the projection is \$24.2M that will be impact of the new reserve fund policy. Mr. Dill asked how were the fire hydrants budget of \$2.2M determined? Are there any value to the DOW in getting money back from the County? Under the Rules and Regulations, there are fixed service charges on installed hydrants and applied to the number of hydrants. In Mrs. Yano's opinion, it is not worth \$2.2M and Mr. Dill would discuss this at a later time.

WUF pie chart – Allocation of Available Resources (Page 21) - \$21.6M is for WU funded projects.

New Capital Outlays pie chart – All Funds (Page 24) – FRC has \$.7M

Mrs. Yano indicated DOW is starting with \$50M in available cash investments and receivables in addition to the reserved monies in WU Emergency Reserve and Debt Service Reserve of \$9.3M. An unexpended POs is \$16M (outstanding from April).

Available resources for operating expenses are showed on Page 27. At the end of the fiscal year close, there would be a leftover of \$6.8M as of FY 6/30/2021. A 10% reduction of water sales would be adjusted in the revenues to \$22.9M. Chair Dill was in agreement with Option 1 of \$41.7M for the Estimated Available Resources for Budget Appropriation – 7/1/20 (Page 195). Option 2 will have to be readjusted in each division if needed.

Action items for Draft Budget Background:

2.1 Water Sales (Page 20)

- Waterworks Controller Mrs. Tess Yano will make a recommendation from the Department on the policy to the Board at the next Board meeting if the Department should consider the Reserve Fund of 30% on expenses or 30% of revenue.

1.1 DOW Salaries & Wages (Page 20)

- Vacancies will be funded approx. 50% - funded on the anticipated time they will be filled.

Admin.

Private Secretary Mrs. Mary-jane Akuna provided line items that had a significant increase.

Professional Services – Performance Audit = \$300,000; actuals are half of budget Pending if the Board wanted to keep this amount. Travel needs to be revised due to COVID on conferences to start in October/November. Currently no travel is being arranged and the June conference was cancelled. Mrs. Akuna indicated that Chair was aware of the positions percentage that would be funded.

DISCUSSION:

Chair Dill recommended that travel costs can remain in the budget. Mr. Hull commented that travel in all division should have a 60% cut in the budget (same as COK). Mrs. Akuna shared that Admin. manages six main conferences for the Manager and Deputy Manager.

General Expenses for Admin., GL 545-000 (Page 48) - Rentals & Leases are ongoing. Payments to Grove Farm are owed back which Civil Engineer Mr. Bryan Wienand is working on including a new lease price with Kōloa Well 16 A, B, & E. Chair Dill wanted a discussion on the outstanding liability on the Surface Water Treatment Plant with Grove Farm.

Insurance & Bonds (Page 49) – was decreased from \$1M to \$150,000. Chair Dill asked if the \$150,000 should be zero and if there is a claim to tap the Emergency Reserve fund? DCA Krafft added that Small Claims is \$5,000 and any amounts over \$10,000 will be brought before the Board.

Vacant Positions (Page 190) – Chair Dill requested to add a column to show the vacancy dates.

Operating Expense Summary details on Page 29 will be presented by each division head.

Action Items for Admin.

- Department needs to cut 60% of travel on all divisions that agrees with the County.
- Discuss with the full Board of the 60% travel cut this fiscal year. How much required training travel and/or discretionary travel which does not require to keep the Department running will be discussed at the Board level. Conference registration & Per Diem needs to be cut.
- Grove Farm's Outstanding Liability (SWTP) – Discuss with the Board. (Page 48)
- Board Approved Claims – Remove \$40,000 (Page 49)
- Worker's compensation Settlements - Remove \$150,000 (Page 49)
- All Board Travel – discuss reduction at the Board meeting (Page 57)
- Tess to add last column to show history of all vacant position dates (Page 190)

Information Technology (IT)

Mr. Michael Hinazumi will reduce the travel budget. Operating Expenses were down and capital budget was equal.

Professional Services/Great Plains Upgrade (Page 62) – Cost of upgrade will be encumbered this year.

Cells phones will be replaced for some staff in Operations to be used with SCADA to track workflow. An inventory of cell phones will be accounted for. (Page 64)

Repair and maintenance – Firewall upgrades have increased to \$6,000 but may come back to the Board on teleworking and network requirements if costs increase again. (Page 67) Mr. Hinazumi mentioned that some items have been slow to bill; others are being worked on and encumbered the end of the fiscal year.

Publications, Subscriptions & Memberships – There are plans to move to Office 365 in the next several months. Beacon Subscription fee is for the automatic meters that will be moved to Operations at \$15,000.

Training & Development – Will encourage web-based training; reduce costs to 60%. (Page 70)

Rehabilitation & Replacement/Misc. Capital Purchases – Share Point upgrades are ongoing at \$295,000 that has been encumbered. SCADA – ongoing & encumbered (Page 72)

Asset Management – has not started and will be rolled over to the next fiscal year. Currently Mr. Hinazumi is the lead on this. IT Consultant Mr. Jas Banwait have been in talks with the vendor in upgrading Maintenance Prevention Evaluation Technology (MPET) including Mr. Val Reyna and Mr. Ryan Smith with Operations. Procurement will proceed within the next three months. Mr. Reyna added if MPET will be replaced, and understanding discussions with vendor Four Winds is to show Operation's features of the Asset Management program that could be under Operations instead of IT. The first year will be about \$17,000. The budget was reduced to \$50,000. Mr. Reyna will come back to the Board if MPET is being utilized adequately (Page 72). Accountant Mr. Marcelino Soliz

mentioned the Four Winds contract has a \$59,000 balance which includes everything that was discussed. He asked if the balance would be in addition to the \$50,000? Mr. Reyna will have to discuss this in his budget presentation and the SCADA costs for Operations.

The Develop Web based GIS viewer and mapping layers would be reduced on the review of the information. (Page 73)

New computers & storage – Necessary to be replaced the next fiscal year. (Page 73)

Vacant positions (Page 190) – See Action Items below.

Action Items for Information Technology

- Firewall upgrades – may come to Board for final proposal if cost increases (Page 67)
- Beacon Subscription Fee moved to automatic meter reading & confirm if in the Operations budget \$15,000 (Page 68)
- IT Training – Reduce costs 60% (Page 70)
- Asset Management / MPET – Add to Operations and reduce to \$50,000 & update usage on the line item (Page 72)
- CMDP Federal/State Reporting System – Move \$40,000 to Water Quality budget (Page 72) Last column will be zero.
- Val to look into the Four Winds Contract on its remaining balance of \$59,000 relating to MPET.
- Develop web based GIS – Reduce to \$50,000 & review the information.
- Salaries (Page 190) – Tess to correct IT Manager's pay to approx. \$110,000. IT Manager is expected approx. 3-4 months.
- Add IT Support Extension (to 9-30-20) for \$120,000 to the updated proposed budget.

Chair Dill called for a Recess at 10:03 am and Reconvene to 10:15 a.m.

At 10:11 a.m., Board Member Lester Calipjo joined the meeting.

At 10:16 a.m., Chair Dill reconvened the meeting.

Water Resources & Planning

Kaua'i Watershed Alliance & USGS ground monitoring program to be done by next fiscal year and continues to be funded. Water Plan 2040 will move forward to the end of December.

Vacant positions (Page 190) – List of names were received for CE I and will interview.

Action Items for Engineering

- Reduce Travel – 60 % (Page 92)

Water Quality

Refer to Action Items discussed.

Action Items for Water Quality (WQ)

- A new CMDP Compliance Monitoring Data Portal software application - move to WQ budget.
- Laptops – Reduce from \$6,000 to \$3,000 for 1 computer (Page 81)
- Training – Delete line item / no meetings scheduled (Page 83)
- Vacancies - None

Fiscal (Billing)

Chair Dill noted the budget went up \$50,000 from last year. Mrs. Yano explained outstanding issues on the Customer Care & Billing program (CC&B). Currently Fiscal is using the Oracle consultant that Fiscal is paying a high amount of money yearly which will end in three years. Fiscal would like to explore new billing options with the \$100,000 budget because issues of CC&B are outside the expertise of the existing IT staff. Budgeted items are reflected in IT and paying \$250,000 under technical support for CC&B. (Page 129)

Customer Service Trainings – OK if virtual training. (Page 134)

Action Items for Fiscal (Billing)

- Costs under IT for \$250,000 in technical support will move to billing budget. (Page 128)
- Meter Reader Trucks – Check if the trucks can be postponed until next year if trucks are OK with the mechanic (Page 136)
- Vacancies (Page 190) – Customer Service Rep. I - Reduce to 80%; interviews in June.
Accountant I – Reduce to 50% (move to Accounting chart)

Fiscal (Accounting)

Accounting's FY 2020-2021 Proposed Budget for WU went up to \$553,195 (Page 138). The actual valuation was based on current expenses. Fiscal paid the State Auditor, State Employee Retirement System (ERS) and County of Kaua'i for actual valuation a shared cost. (Page 139)

Water Rate Study – With the current pandemic, the Board may reconsider not moving forward for a rate increase. \$20,000 will be left in the budget as a place holder. (Page 139)

Consulting Services – DOW will develop Financial Policies and plans to be done this fiscal year for \$100,000. (Page 139)

Project Management – Phase 1 will be completed this year for Office 365/Sharepoint. The implementation will be completed this fiscal year for \$220,000. (Page 139)

Action Items for Fiscal (Accounting)

- Training – Reduce 60% (Page 145); virtual training OK.
- Bank Services Fees – Reduce to \$20,000 (Page 141)
- Vacancies (Page 190) – Assistant Waterworks Controller – Reduce to 80%
Accountant II – Reduce to 50%; move to the Accounting section.

Operations

Construction equipment rentals – are under repair & will be used after repair. (Page 171)

Pump replacement program – Chair Dill mentioned if Four Winds would assist with pump replacements. (Page 173)

SCADA maintenance – includes a call out rate that is in addition to the flat rate and “as needed” service. Budget includes late billing and call outs. Servers also need replacement. (Page 174)

Mr. Hull exited the meeting at 11:32 a.m.

AMI meter replacement could be replaced over five years. (Page 181)

Grove Farm Water Purchase Agreement – leave as is. (Page 183)

Skid Steers – Keep 1 (Page 187)

Mr. Steven Kyono existed the meeting at 11:45 a.m.

Action Items for Operations


- One Call Center – Reduce to \$1,500 (Page 169)
- Rehab & Restoration Service - Reduce to \$40,000 (Page 175)
- Building Equipment Repairs – Reduce to \$5,000 (Page 175)
- Vehicle maintenance & service – Reduce to \$40,000
- Sodium Hypochlorite on-site generation – move to Capital budget (Page 176)
- Disinfectant Supplies – Change line item description; Remove Chlorine Gas (Page 177)
- AMI Meter Pilot Tests – \$50,000 move under Capital budget (Page 181); Replace meters with AMI meters are cellular.
- Capital Purchases/Travel – Reduce to \$1,000 each (Val will work with Tess) (Page 187)
- Pickup truck – Defer purchase for 1 year (Page 187)
- Skid Steers – Defer 1 year / Auction 1 (Page 187)
- Reinstate the Sewer Lift Station in baseyard \$30K (Page 187)
- SWTP GF Agreement Delivery– Pending invoice from GF, reduce & balance amount will be adjusted (Page 189)
- Vacancies (Page 190) – Revise 2602, Sr. Acct. Clerk was filled – Tess will remove.
Water Meter Mechanic – fill at 50%
Auto Mechanic I – fill at 60%; will recruit this fiscal year

Chair Dill mentioned that Engineering will be reviewed on Wednesday, May 20th at 8:00 am and CM on Thursday, May 21st at 8:00 am.


F. ADJOURNMENT

Chair Dill recessed the meeting at 12:00 p.m. and to reconvene on May 20, 2020 at 8 am with no objections.

Respectfully submitted,


Edith Ignacio Neumiller
Commission Support Clerk

Approved,


Elesther Calipjo
Secretary – Board of Water

