

MINUTES
FINANCE COMMITTEE MEETING
September 19, 2022

The Finance Committee of the Board of Water Supply, County of Kauai resumed its meeting on Monday, September 19, 2022. Committee Chair Lawrence Dill called the meeting to order at 2:32 p.m. Quorum was achieved with 3 members present.

COMMITTEE MEMBERS

Lawrence Dill, *Committee Chair*
Ka'aina Hull
Kurt Akamine

PUBLIC TESTIMONY

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

There were two (2) guests who joined the meeting remotely.

NEW BUSINESS:

1. *Manager's Report No. MR 23-03* Discussion and Possible Action on the Approval of the Department of Water (DOW)'s Supplemental Budget for Fiscal Year 2023 (*referred from August 25, 2022 Regular Board Meeting*)

Finance Chair Dill noted that additional documents have been provided as requested by the Committee at the last meeting. He requested an explanation of what makes up each non-zero variance and what the changes are from the original Budget Resolution approved in May to what is included in the Supplemental Budget being presented today.

Page 12, Water Utility General Fund, Cash, Investments & Receivables Variance in the amount of \$1,412,422:

Waterworks Controller Marites Yano explained that the first line item – Cash, Investments & Receivables – represent the revenues received and expenditures paid out up until April 30, 2022. Mr. Dill stated he understands that, noting that the projection was \$45.2 million but the actual was \$46.6, and asked for an explanation of what caused the number to go up. Ms. Yano stated that it is a combination of whatever was spent, but she did not receive the itemized expenditures for the remaining two-month period. Manager Tait asked to clarify that the \$1.4 million represents what was received in investment return or revenue after the original budget was presented in April to which Ms. Yano replied yes, explaining that this line item reflects the revenues and expenses and will always change. Mr. Dill stated he may have misunderstood as he thought the \$45.2 million was the projection for June 30 to which Ms. Yano stated no, explaining it is the actual number. Manager Tait asked to clarify that the budget approved in May was based on the \$45.2 million, and that they still had May and June left to receive income from revenue or investment returns. Ms. Yano stated yes but stated that she would not count much on the investment returns as their receipts mainly come from water sales, noting what reduces the revenue is what was paid out during May and June. She added that they also may have received some invoices that they haven't paid out, but they still recognize it as an expense.

She pointed out the ‘Current Liabilities’ also changed from \$3.4 million as of April 30, 2022 to \$4.2 million as of June 30 meaning they have received services or materials, but haven’t paid out on it. She further explained that the difference between the \$1.4 million increase in ‘Cash, Investments and Receivables are offset by the increase in Current Liabilities; the variance is actually about \$600,000. Manager Tait asked whether all the variance numbers shown the numbers that would have been submitted had the books been closed in June to which Ms. Yano replied yes. Mr. Dill stated he is comfortable with the June 30 number but asked to clarify whether the \$45.2 million as of April 30 is exclusive of any projections as of May and June to which Ms. Yano replied yes, those are the actual cash balances as of April 30. Mr. Dill then stated for clarification that we are not considering water revenues for May and June in doing the budget for the following year, which he would like to see included in the initial proposed budgets. Ms. Yano explained that while they were able to project their operating revenues and expenses for May and June, they were not able to project what was paid out in contracts, which are extraordinary expenses; those expenses are based on a completed job. Committee member Akamine asked if those contract numbers can be annualized at an average to which Assistant Waterworks Controller explained that it would be difficult to annualize as sometimes contracts lay dormant for six or seven months and though costs are accrued, it may not get paid out until after the year end. Mr. Dill then suggested communicating with their contractors and have them provide a projected estimate of their billing expenses for the last 2 months of the fiscal year.

Page 12, Water Utility Fund, Prior Year Encumbrances

Board Member Dill asked whether those encumbrances would include those construction contracts that are currently active to which Ms. Yano replied yes. She noted that this line item shows balances as of April 30, 2022; she added a line below that to show procurement in process, noting they had anticipated encumbering contracts before the end of the fiscal year. She referenced the last three columns on Page 14 where it shows an estimated encumbrance of \$17.3 million in contracts but ended up with \$29.5 million.

In response to Committee Chair Dill, Ms. Yano explained that the ‘Prior Year Encumbrances’ line item reflects actual contracts as of April 30, and ‘Procurement in Process’ reflects contracts that were encumbered after April. Mr. Dill questioned whether payments to existing contracts should already be included under the ‘Prior Year Encumbrances’ line item to which Ms. Yano replied no, explaining that though they are active contracts, they may not have completed the work. Mr. Dill asked whether they are showing the expanse of the entire contract to which Ms. Yano stated they are showing the remaining amount for the actual contract and the actual contract balance as some of those projects haven’t been started. She elaborated by stating they are simply showing how much is encumbered from the existing funds allocated for these contracts and cannot be spent. Mr. Dill asked if these contracts are expected to last more than Fiscal Year 2023 to which Ms. Yano stated yes, based on their experience they have lasted more than 2 years. He asked for example, if it is a \$2 million contract but we’re only expecting to spend \$1 million in Fiscal Year 2023, should that entire contract amount be shown. Ms. Yano stated if they do not show it, it may result in the department over-awarding for contracts they do not have. In response to Mr. Dill, Ms. Yano agreed that this method of reporting is too conservative to which Mr. Dill asked what change is recommended to the reporting. He added that he does not know the significance of the numbers shown and asked for clarification on the

'Prior Year Encumbrances' line for the BAB Fund and W/U State Grants, specifically asking if the \$12.8 million in State Grants will be spent in Fiscal Year 2023. Ms. Yano stated that she would like to defer that to the engineers as they are the ones managing the projects to which Mr. Dill stated that while he understands that it is Ms. Yano's responsibility to assemble the numbers. Mr. Dill stated he feels we may be over-projecting the numbers to which Manager Tait questioned whether variances are being identified by what we know or what we estimate? He noted that typically contracts have milestone dates that are attached to a payment with the expectation that they have met that milestone. He asked if we know a milestone date has not been met but we estimate it will be met by the time the budget is presented to the Board, is that accounted for? Ms. Yano stated the amount of the entire contract is accounted for, and they do not have any progress reports on a project. Manager Tait then stated if they know up front based on the CM reports from the contractors that provide a status of the project, that should then adjust the expected variance. Ms. Yano stated that would require working with the Project Manager to get an estimate of how much will be paid out in the Fiscal Year; Fiscal is not doing that as part of the current process now. Assistant Waterworks Controller Marcelino Soliz stated that our Attorney's legal opinion was that if it is a multi-year contract the entire amount should be stipulated; however, it makes more sense to him accounting-wise to stipulate that each year is based on fund availability and you should only account for the first-year period. He stated for example that last year there was \$15.4 million of CIP Projects for which they only paid out \$549,000 leaving \$14.9 million to be carried forward. He added that theoretically, if a P.O. is submitted on an annual basis, which is then closed out at the end of the year and if funds are available it is executed. He noted there are some contracts that are seven years old that we have not paid a dime for, so the amounts get carried over. Civil Engineer Dustin Moises added that past practice has been that as long as the contract was executed the full amount was encumbered and would continue to be carried over until the contract was fully paid out.

Committee Member Hull stated he could understand the concern of using over-conservative practices if the Department was scrambling to get funds for their projects. However, Manager Tait is still in the process of righting the ship, it seems that the Department has more cash available than there are engineers and staff to run projects. He noted that they could have Fiscal re-adjust the way they do the estimates to make more cash available, but to what end? Manager Tait stated that goes back to Chair Dill's question of how the Department would account for the funds differently than the standard practice of rolling funds forward. Ms. Yano stated that they can require that Project Managers submit a timeline with an estimated budget. Mr. Akamine asked if it makes a difference if grant monies came in, but the project was not started in the ensuing years, do we capture that as a credit? Ms. Yano explained that grants and SRF loans are accounted as Anticipated Revenues, adding that what is shown in P.O. Rollovers in the amount of \$42.5 million is not exactly what is being used as cash. Mr. Dill stated he did not think this would be solved today as there seem to be some legal requirements to have 100% of the funds available when the contract is signed. He is unsure if there is an option to enter into a contract for a specific amount but will only guarantee a certain amount of funds for the first year and additional funding upon Board approval. He would like to see what options are available.

Page 12, Prior Year Encumbrances, PO & Contracts Variance in the amount of -\$1.1 million

Ms. Yano stated the negative number represents what was paid out to which Mr. Dill stated for clarification that the \$12 million is the actual amount that was paid out from May 15 to June 30 to which Ms. Yano confirmed.

The \$2.9 million variance under Procurement in Process represents Purchase Orders that were encumbered up until May 15 as detailed on Page 18. Mr. Dill asked to clarify that if he excludes the \$12.7 million at the top of the page, the rest of the numbers total to \$29.5 million to which Ms. Yano stated yes, explaining that those are the additional encumbrances made after May 15. Ms. Yano provided an explanation of some of the bigger numbers listed on Page 18.

Page 12, Current Liabilities Variance in the amount of \$802,096

Ms. Yano explained the current obligations were \$3.4 million but went up to \$4.2 million by June 30.

Ms. Yano noted that these are all unaudited and that the audited financial statements will vary as they take into account any year-end adjustments based on valuation for retirement, pension, and EUTF. Those expenses are detailed on Page 11. Mr. Dill asked whether the OPEB expenses in the audited statement is the only thing that would affect the supplemental budget to which Ms. Yano stated there are other reclassification adjustments at the end of the year as value is added to unpaid vacation and comp time and accrued liabilities may change as well. Mr. Dill stated that it seems like the numbers will increase a bit based on the audit and requested that the department provide a summary of the impact the audit has made on the supplemental budget.

Page 13, Transfer In under W/U State Grants in the amount of \$26,425,711

Mr. Dill noted that there is no change there, but it is listed as a 'Transfer Out' of the Water Utility General Fund, but a 'Transfer In' to the Water Utility State Grants. Ms. Yano explained it is a transfer and once the money is received from the State it is transferred to be accounted separately from the General Fund; the receiving end is the Water Utility Fund. Mr. Dill asked if that transfer is part of the \$60 million Revenue number to which Ms. Yano stated yes, but it is being transferred out. Mr. Dill stated it would be cleaner to not include it as part of the General Fund Revenues line item under State Grants for the next budget presentation. Mr. Dill used the reporting for the BAB Fund and the FRC Fund as an example of how he'd like to see the State Grant Funds reported.

Page 14, SRF Funds

Ms. Yano explained \$13 million was projected, but before the end of the year, \$10.6 million was encumbered bringing the New Capital Outlay – CIP to \$2.4 million.

Mr. Dill requested that the Department provide a report to the Board on how multi-year projects are affecting the annual budget, how they are being reporting, and what accounting options are available.

Mr. Dill also requested that the date in parentheses for line item 'Cash, Investments & Receivables' be removed, and include that date in the appropriate columns instead.

Committee member Hull moved to refer Manager's Report No. MR 23-03 back to the full Board with a recommendation to approve the Supplemental Budget based on discussions held in the Finance Committee meeting, seconded by Mr. Akamine; with no objections, motion carried with 3 Ayes.

ADJOURNMENT

The meeting was adjourned at 3:26 p.m.

Respectfully submitted,



Cherisse Zaima
Commission Support Clerk

Approved,



Kurt Akamine
Secretary, Board of Water Supply