MINUTES
FINANCE COMMITTEE MEETING
May 4, 2022

The Finance Committee of the Board of Water Supply, County of Kauai commenced its meeting on Wednesday, May 4, 2022. Committee Chair Lawrence Dill called the meeting to order at 1:05 p.m. Quorum was achieved with **3** members present.

COMMITTEE MEMBERS

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

STAFF:

Manager & Chief Engineer Joseph Tait
Deputy County Attorney Mahealani M. Krafft
Commission Support Clerk Cherisse Zaima
Deputy Manager Judith Hayducsko
Civil Engineer VII Michael Hinazumi
Waterworks Controller Marites Yano
Info. and Education Specialist Jonell Kaohelaulii
Chief of Operations Valentino Reyna
I.T. Specialist Wayne Takabayashi

PUBLIC TESTIMONY

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

There were two (2) members 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

GENERAL OVERVIEW

Deputy Manager Judith Hayducsko provided a brief overview of the FY 2022-2023 Draft Budget.

Committee Member Hull questioned the inconsistencies he is seeing in the FRC fund, noting his concern that this fund has been building and building over the last 12 years at roughly $700,000 a year without expenditures on DOW's side. Yet the Department and the Board have jacked that rate up by $10,000. His concern is the public imagery of the Department raising that rate up so high giving the impression that we needed it, but it seems that all we've done is squirrel those funds away. Deputy Manager Hayducsko stated that there are plans to spend the FRC funds and the Department is looking at leveraging those funds against State and National grants and loans. They are aware that this is a concern and will be paying attention to it moving forward. Currently, the FRC funds are being spent on annual payments for FRC eligible expansion projects for things such as new wells or tanks rather than existing rehabilitation projects. Manager Tait stated that in the past FRC funds have been used for other projects, but, as Mr. Hull pointed out, the FRC fund is still at this elevated level.

Chair Dill thanked Mr. Hull for bringing up that important point noting that since the FRC funds are collected from our customers for the purpose of expanding our water systems, we need to show that we are receiving these funds responsibly and expending them timely. In looking at Page 12, his understanding is the Department's plan is that the $4.4 million of New Capital Outlay (CIP) to be funded by the FRC funds, which would then be an overspending of that balance. He noted that he asks the same question every year of how realistic the projections of funding those as well as the rollover projects are.

At the request of Manager Tait, Mr. Hinazumi explained that there is a severe deficiency in the Kilauea Water System and the Department is projecting to have those projects – at least the tank portion – bid out next year with the drill and test for the Kilauea well hopefully being done next fiscal year as well. In response to Mr. Dill, Mr. Hinazumi stated that project would more than likely expend all of the $4.4 million noting that the tank is estimated at $5 million and the drill and test at approximately $1 million.

Mr. Hull stated that as a board member he has always had a problem with the FRC fund and its methodology, adding that that this has been a particular concern of his that he has brought up with the previous administration. He understands that Manager Tait just got here and is still trying to get his arms around this budget but he would like the Department to look into whether the Water Rate study should be done and where the FRC fits into that, and possibly looking into changing up the methodology by which the FRC funds are extracted. As a board member, one of his priorities would be restructuring the FRC program. Manager Tait stated that with the launching of the Water System Investment Plan program, one of the tasks is to weigh the options against the current FRC structure. Mr. Hinazumi added that the board's concerns have not gone unheard and there have been recent discussions on the realistic 5-year CIP projections and what should be included in this rate structure. He is hoping that this structure that will be presented to the Manager and Board is what they are looking for, noting that it will model fixture unit count rather than direct meter sizing.

The meeting recessed at 1:33 p.m. to address technical issues.

The meeting reconvened at 1:38 p.m.

Deputy Manager Hayducsko stated that the Department has tried to identify which projects are FRC eligible when they are evaluating for CIP. On Page 24, the Miscellaneous Capital Outlays have been occurring in the background and include items that become depreciable, items that are listed as assets that receive an asset tag and are tracked. Ms. Hayducsko noted that during this budgeting process, she discovered that there have been a few things that may not have been identified correctly as CIP in the past. They are trying to identify those things more clearly and will try and include those items on the dashboard to show the Board the progression of the annual CIP projects funded out of the Water Utility Fund (WUF). She pointed out the Satellite Operations Facility (Hanalei Baseyard) on Page 25, which was added to the budget last year and which funds were increased for; they will need additional funds for that; it is not the two-hundred or four-hundred thousand dollars originally discussed but is the six-hundred sixty-thousand plus an additional ninety-nine thousand. Other items of note are the AMI Meter Replacement, and Tank Remediation and Repair which is based on the recognition that reservoirs of water systems are able to last longer if they are properly maintained and repaired. This new initiative is to ensure that they are cycling through the various reservoir tanks and repairing them on a regular basis. Ms. Hayducsko reminded the committee that because the Engineering Division has gone from three divisions down to one, the numbers may not seem consistent. The Training budgets have been moved from Administration back to the respective divisions, and I.T. has additional funds that used to be housed in other divisions, which they are now trying to consolidate into I.T.'s budget.

OPERATIONS

Ms. Hayducsko referenced Page 151 noting that the Department has no idea what the fuel costs are going to be starting July 1; however, they have included contingency funds based on the assumption that the utility companies will push those expenses for fuel out to the Department. Mr. Dill asked what month the YTD actuals are through to which Ms. Hayducsko replied as of the end of February.

On Page 164, Ms. Hayducsko explained that in the past the inventory stock included all the meters; however, they have recently recognized that the meters and hydrants are considered CIP and should be depreciated. They are moving those items from Inventory Stock to the Repair and Replace line of the CIP. Mr. Dill asked how many non-functioning meters the Department currently has to which Ms. Hayducsko replied there are approximately 1,000 transponders that are not functioning. Mr. Dill then stated that seems like a very high number and asked how many meters will be replaced this fiscal year and what the plan is for replacing those meters. Ms. Hayducsko stated she is unsure if there has been a decision on how or what they are replacing them with and that a discussion with staff needs to take place to determine the wisest course of action. She stated as mentioned at the last board meeting, there is a month-long delay on delivery, so what they want versus what they can get first is the discussion that needs to happen. Currently, the meters are still accurate and can be read in a number of different ways such as manually, or a different transponder can be installed and can be read via drive-by readings or via cellular signals being sent to a web page. The meter program is still in flux. Mr. Dill asked to clarify that all 1,000 are still being read and are able to generate accurate bills to which Ms. Hayducsko stated yes, they are being read manually on a monthly basis. Mr. Dill requested updates at the Board level to find out what the plan is to aggressively replace all the non-functioning transponders and meters.

On Page 169, R & R/ Misc. Capital Purchases, line item 10, Ms. Hayducsko explained that there is a pilot study currently in place to see what options are available for frequently hit hydrants. They are looking into wet barrels with check valves, as well as dry barrel installations; staff will be looking at dry barrel installations on the Big Island. Mr. Dill noted several line items for vehicles with no dollar amounts and questioned why that is to which Ms. Hayducsko explained those items were budgeted in either FY 2020 or 2021. Many of those vehicles are taking 700 days to arrive, so if they have been ordered in prior years, they are left in the budget for transparency. She noted that most of them have arrived, but they remain on the budgeting template to keep it balanced. Mr. Dill asked if they have arrived, wouldn't they see where the expense landed to which Ms. Hayducsko stated they do not have the ability to easily see what has been paid toward the various items noting the billing software does not provide data that is advantageous to this budgeting process. They are looking into upgrading that accounting software but is unsure whether it will provide a clearer picture. Mr. Dill stated he is confused as to why these items would show up in this budget if they have already arrived and been paid for. Manager Tait stated that the billing system failures over the past two years will be covered under the I.T. portion of the budget. Many of the items that are technology based are being appropriately moved into the I.T. budget as the accounting software should have been.

Ms. Hayducsko provided an overview of the Expansion Projects on Page 170.

Mr. Dill asked how many positions are in Operations, how many are vacant, and when they are anticipated being filled. Chief of Operations, Val Reyna, stated that there are currently 7 vacancies out of 57 positions in Operations. These 7 vacancies require special skills as they are semi and highly skilled positions, which are not as easy to fill; all of those positions are currently advertised, and some are on continuous recruitment. In response to Mr. Dill, Mr. Reyna stated all those vacancies are fully budgeted for, so theoretically, all those positions could be filled on July 1, 2022. Mr. Dill stated while that is an optimistic outlook, that may not be a very realistic outcome. On the assumption that all other vacancies Department-wide are fully budgeted at 100% and recognizing that they will probably not fill all those vacancies come July 1, 2022, Mr. Dill asked if they should consider budgeting the vacancies at a lower percentage. Manager Tait stated that they did have an internal discussion regarding that and determined that even if they did not fill or staff at 100%, the difference in the budgeted numbers gives them the flexibility to be competitive in their recruitment for some of the more technical positions that command a premium starting wage. Mr. Tait acknowledges that it is unlikely that they will fill all those vacancies by July 1, and even if they did, there would need to be some facility changes in the current building to accommodate new staff. Mr. Dill understands the issue of space, but referencing the funding for vacancies, he stated that if they anticipate filling all the vacancies for 75% of the year and budgeted accordingly, it wouldn't change the rate of pay being offered; he's not following how that would affect recruitment competitiveness. Manager Tait stated his understanding is that in the past the Department has not paid at a fairly high rate coming in from the outside. Ms. Hayducsko stated the other advantages of budgeting for the vacancies at 100% are as follows: For an employee who has maxed out their vacation and comp time retires, if a replacement is hired before that employee leaves, there needs to be additional funds to cover that salary. They did project UPW rates based on the new agreement, and anticipated HGEA raises. However, if there are lump-sum payments, they have budgeted for that. Mr. Dill stated he still does not understand the rationale, noting that the amount the Department budgets would be the amount they've decided they would recruit that position for. He still does not understand the competitiveness issue, because the salary offered is determined by the department that advertises the position up to a certain step. Ms. Hayducsko stated as an example UPW workers who are Water Plant Operators will get the same rate of pay no matter the years of service, if they have an Civil Engineer I, but they get bumped up to a CE II, what amount do they budget for? If they are recruiting externally, do they offer entry level salary, or at a higher level? This gives them the opportunity to recruit experienced accountants and engineers at a level commensurate with their experience. Manager Tait stated he understands Mr. Dill's concerns and offered to take another look at how they can fund those positions responsibly without losing the competitive edge. Mr. Hull stated firstly he does not think they are recruiting all vacancies at entry-level, secondly, he and Mr. Dill understand the intricacies of funding vacancies and potential pay-outs; however, it only becomes a problem if you fill every single one of your vacant positions on July 1 or shortly thereafter, which is unlikely to happen especially considering DOW has a history of having a slew of long-standing vacancies that remain unfilled. Manager Tait stated they are working toward cutting down the long vacancy rates and they do not want the salary to be a hurdle. He agrees that a 75% or 80% number is workable, but he wants to ensure they can remain competitive and have a shorter turnaround time with vacancies.

Mr. Dill asked how overtime is working for the current year versus what is being budgeted for in the upcoming year. Mr. Reyna explained that most of the overtime is related to after-hours call-outs, holidays, and weekends as well as occasionally working to complete a leak repair, etc. There are also SCADA system call-outs for things like pumps not running, or tanks at low levels.

Mr. Dill asked whether the implementation of the Master Plan for the Baseyard falls under Operations or Engineering. Mr. Reyna stated Operations has budgeted $2 million for the entire design of the baseyard which will be done in 8 or 9 phases over the course of 10 years; they will try and encumber that this fiscal year. Mr. Dill requested a refresher on the Baseyard Master Plan at an upcoming Board meeting to get a better understanding of where that is going. Mr. Hull pointed out that though it was a couple of years ago he was under the impression that the board voted to deny moving forward with the Baseyard Master Plan at that site given the costs as well as prioritization of other areas that needed upgrading. Mr. Dill stated that he doesn't recall whether they killed the whole thing or just scaled it back which is why he would like the Board to have a refresher. Staff will research board actions related to that item.

Mr. Dill asked how the Department intends to use Fuel Master to manage our fleet, noting his concerns with the numbers of vehicles DOW has, using them efficiently and maintaining them efficiently. Mr. Reyna stated the Fuel Master contractor will be there on May 11 to show the mechanics and supervisors how to use the system. Currently there are a little over 50 vehicles they maintain. The GasBoy that the Department currently has is not working anymore, and they found that Fuel Master is compatible with what the County currently has; IT has also recommended they transition to Fuel Master with the AIM system which will allow for vehicle diagnostics while gas is being pumped. Mr. Dill wants to ensure that DOW has the appropriate sized fleet and asked if any analysis has been done on the appropriate number of vehicles in the fleet. Ms. Hayducsko stated in this budget term they are consolidating all vehicles in Operations which include pool cars. They are looking towards more of a fleet management that has been done in the past and will be managed in Operations.

Mr. Dill asked how Operations is planning for retirement turnovers, the passing on of industrial knowledge and experience and succession plans. Mr. Reyna stated there is only so much they can prepare for and is dependent upon the interest and initiative of the upcoming employees. The do offer personnel all the training they need to qualify for the next position up or another position in Operations. Cross-training is also offered to allow staff to qualify for Temporary Assignments to higher positions which provides them actual work hour experience. On-the-job training and internships are also offered within the division.

Mr. Hull asked to go back to the overall budget overview.

<u>GENERAL OVERVIEW (revisited)</u>

Mr. Hull referenced Page 5 under Sources of Funds which total to just over $100 million and compared it to Page 6 that shows Uses – All Funds which total $86 million. He asked whether these are supposed to balance out. Ms. Hayducsko stated that she does not think these are supposed to balance out because there are reserves and encumbrances. She also pointed out that it shows a budget of $46 million for CIP but wanted to clarify that they are encumbering that amount, not spending; they are hoping to spend about half of that. Ms. Yano referenced Page 14 under Adjusted Balance, it shows $100 million and after the $86 million they have projected, they have $31 million allocated. Mr. Hull asked what the $13 million projected balance reflects to which Ms. Yano explained $9.2 million of that is for reserves and whatever is leftover can be used for possible projects that are not included in this budget. Mr. Dill further explained that $9.2 million of the $13 million projected balance are reserve funds, and the remaining $3.6 million in the Water Utility General Fund can be used as working capital or buffer money to run the Department. Mr. Hull asked if the Water Utility General Fund contains line items and what would be the Department's capacity to access it to which Mr. Dill stated the Manager would need to come before the Board to access those funds for something not currently identified in the budget. Mr. Hull referenced Page 5 under Sources of Funds where Water Utility Funds (WUF) are listed at $65 million, but on Page 9, the Water Utility Fund – Projected Resources show a total of $33 million. He questioned where the other $30 million is coming from. Ms. Yano referenced Page 14 explaining that they take the estimated unspent balance of $44.4 million taken from the March 31, 2022 DOW financial statements and reduce it for encumbrances and contracts that have been extended, which leaves them with the estimated available resources of $24.5 million at the beginning of the fiscal year. They then add the projected resources and add the $9.2 million in reserve funds which brings the WUF to $56.5 million.

Mr. Hull stated a couple of years ago, the Board adjusted the manner in which the Department was budgeting for the retirement program in the amount of approximately twenty or thirty million dollars. The expectation was that the Board would receive a report every year on what that extra $20 million dollars was used for. He requested a report prior to the end of the Finance Committee sessions on what that money is being used for, or how it is being redirected. Ms. Yano stated the $24 million dollars he is referencing was not in the budget but was something they were working on to try and establish a reserve fund for future benefits. However, that was not implemented, and they ended up combining their two existing reserves at that time – the emergency reserve fund and debt services reserve fund – to create the current reserve fund of $9.2 million; the proposal they attempted to establish did not happen. Mr. Hull stated he recalls that the action the Board took back then should have freed up $24 million. Ms. Yano stated that was true, but they changed the way they prepared the budget; instead of using the net position of the start up balance, they are now using cash investments and other assets that are readily available to liquidate out of accounts receivable. She noted that Page 14 shows that they have changed the estimated beginning balance from the net position; if they had used the net position, it would have been much lower, showing at $24 million. Mr. Dill stated that though he does not remember the details, he recalls that this issue was addressed by changing the way we adjusted our initial position, which would have been a one-time adjustment that carried through new balances and projections for each years' budgets. He asked to clarify that it made a one-time adjustment to change the way we report, and we have been reporting in that new fashion ever since, to which Ms. Yano replied yes. Mr. Hull stated no matter which way we're reporting, we have to account for that $20 million in the budget and where we put that money. If we're not required to put that in the retirement program, where is that money going? Ms. Hayducsko asked if Ms. Yano could share an additional document to which Commission Support Clerk stated that she did not have the document to share, and it has not been made available to the public not physically present. Mr. Hull stated he does not need that information right now but would like a report prior to the end of the Finance Committee sessions. Ms. Yano stated she would provide a report at the next Finance Committee session.

OPERATIONS (revisited)

Mr. Dill reiterated his request made at a previous Board meeting for clarification on work orders as far as how they are being created, corrected and closed out which will help him understand the performance of the Operations division.

FISCAL

Ms. Hayducsko provided a brief summary of the billing budget. Mr. Dill asked how customers are billed for malfunctioning meters. Ms. Hayducsko explained those bills are estimated per Administrative Rules. She noted that there have been some bills that were sent out prior to them being corrected and they have begun working on that process. Mr. Dill asked how we are preventing bills from slipping through uncorrected. Ms. Hayducsko stated she believes there was some staff training that was done, noting that some staff members didn't understand the importance of having the correct bill go out, and instead of making corrections they would just provide a credit. Manager Tait added that there was a need for more understanding of how the system operates. Mr. Dill asked what percentage of customers were on auto-pay versus manual pay to which Ms. Yano stated she would get back to the committee with that information.

Referencing Page 113 under Bill Collection/Billing Costs, Mr. Dill stated the numbers from FY 2019-2020 through FY 2022-2023 jumps from $117,00 to $223,790. Ms. Hayducsko stated she believes that is due to the cellular rate for the meter reading data collection. Ms. Hayducsko pointed $775,000 in Capital Outlay that was budgeted last year for their billing software. Because they did not have a chance to encumber those funds, they have moved that over to I.T. who will continue to assist with implementing a new billing system.

Referencing Page 124, Mr. Dill stated it seems the majority of the increase to this account is due to Line Item 1 and asked for elaboration on what those funds are for. Ms. Hayducsko explained they are for Professional Services listed on Page 125. Mr. Dill asked to confirm what the numbers at the top of the table represented to which Ms. Hayducsko explained those numbers are the actuals and proposed budget numbers for FY 2019-2020 through FY 2022-2023. She noted that Raftelis has already been encumbered but no payments have been made yet which is why it is not showing up on the spreadsheet. Mr. Dill stated that it is unclear to him what line items those numbers at the top are capturing and asked that they be formatted appropriately in the correct boxes to make it easier to understand the information. Mr. Dill asked where Raftelis is listed to which Ms. Hayducsko stated its Line Item 4, but it's mislabeled as New Water Rate Study. Mr. Dill noted it's budgeted at $100,000, but he does not recall what the Board's latest position on the water rate study is. Ms. Yano stated the Department has an existing contract with Raftelis and they will be providing an updated financial model and training on how to use that financial model. Mr. Dill asked if the Board does not want to proceed with a water rate study at this time, is there a value to having Raftelis continue with updating the model? Ms. Yano stated her recommendation is to have them continue with the financial model, and while she knows the Board is not ready for a water rate study, it would help the Department determine their projections for the future. She added that the Board may not be ready for a rate increase, but it's important for the Department to have that information. Mr. Dill stated he would like to know more definitively the value to the Department in proceeding with this if we don't think a rate increase is justifiable or necessary in the near future. He added that the update to the Water Plan 2040 would also be a determining factor to any considered rate increase. Mr. Hull stated he is in agreement with Mr. Dill and is hesitant on having a water rate increase without better understanding. He does understand where Ms. Yano is coming from in knowing what their financial projections will be though he does not think Joe is able to determine the need for a rate increase without getting a better handle on the budget. Manager Tait agreed, stating that he needs to get a better handle on how the Department is receiving, investing, storing, spending, and planning money; being only 6-months in the Department, he could not support it today. Mr. Dill requested a report to the full Board with justification on whether it is wise and prudent to proceed with this work now or to put it on hold for the time being. Manager Tait stated he would be in support of the modeling training piece of it as the more staff can do would save the Department money. Additionally, if it's the Department's own model, they can tweak and adjust things on their own rather than having consultants come back each time. He believes the current contract includes a couple of training sessions with Raftelis, but he needs to look at whether the scope of work goes beyond that but noted that making a leap from training to a formal rate study is not something he could support.

Mr. Hull requested feedback on the following three things that he feels are the most contentious issues that have come up during his time on the Board:

1. The $2 million dollars the previous administration budgeted for the Baseyard Master Plan – there is huge concern about funding baseyard improvements as opposed to other infrastructure projects.
2. The $100,000 budgeted for a Water Rate Study for a potential water rate increase – why are we considering raising the rates?
3. The $24 million freed up from the retirement fund – readjusting how this money was put away.

Mr. Dill clarified Mr. Akamine's comment that he would not be opposed to at least the water rate study and then determine whether or not to raise the rates. Mr. Dill added that his recollection is that the Board had previously agreed to proceed with the financial model, but shelf the rate study until they determined whether a rate increase was required.

Chair Dill recessed the Finance Committee meeting at 3:06 p.m. to reconvene at 1:00 p.m. on May 6, 2022; the May 5, 2022 session was cancelled.

Respectfully submitted,	Approved,
Cherisse Zaima	Kurt Akamine
Commission Support Clerk	Secretary, Board of Water Supply