

Committee Meetings

June 25, 2009

Board present: Randall Nishimura, Ian Costa, Dee Crowell, Donald Fujimoto, Raymond McCormick, and Roy Oyama. Absent & excused: Leland Kahawai

Staff present: David Craddick, Paul Ganaden, Gregg Fujikawa, Keith Fujimoto, Bruce Inouye, Faith Shiramizu, and Deputy County Attorney Amy Esaki. Absent & excused: William Eddy.

FINANCE COMMITTEE MEETING:

As Finance Committee Chair Randall Nishimura was presiding over this meeting in the absence of Chair Kahawai, Raymond McCormick was the pro-tem Finance Committee Chair and called the meeting to order at 10:00 a.m.

Re: Claims Payable (as of May 31, 2009):

WATER UTILITY FUND:	\$ 1,398,671.42
BOND FUND:	\$ 415,823.98
FRC FUND:	\$ 155,820.00
STATE FUND:	\$ -0-
TOTAL	<u>\$ 1,970,315.40</u>

Mr. Costa moved that the claims be approved for payment, seconded by Mr. Oyama; motion was carried.

Re: Submittal of the Proposed Budget for Fiscal Year 2009-2010

Pro-Tem Finance Committee Chair McCormick submitted the following Finance Committee Report on behalf of the Finance Committee.

“Your Finance Committee, after careful review and deliberations on the budget, finds and recommends appropriate action on the following items.

We find that the proposed Annual Operating and Capital Improvement Budget for FY 2009-10 is based upon projected operating resources of approximately \$49.135 million and an estimated carry-over fund balance of \$11.879 million. The total operating fund resources of \$61.014 million are generally allocated as follows: \$23.534 million for operating expenditures; \$9.845 million for the Capital Improvement Program (CIP); and \$27.636 million for the Capital Rehabilitation Program (CRP).

Revenues from water sales and service charges are projected at \$19.978 million, which is \$1.036 million or 5.5% more as budgeted for the current fiscal year. The projection is based upon the scheduled increase in water rates adopted and effective January 1, 2010, along with a 1.25% increase in consumption and a 1% in customer growth, along with an increase in cost of power adjustment revenues. Other revenue is estimated to decrease by \$0.275

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million or 16.9% and is primarily due to a decrease in interest income. Interest income is projected to decrease by \$0.240 million or 36.9% due to anticipated lower interest rates and a lower investment base. Other – State Revolving Fund (SRF) are projected at \$27.804 million which consists of \$20.6 million carried over from the current budget year and an additional \$7.2 million that is anticipated to be obtained in the proposed budget year to finance certain capital projects. The overall decrease in total revenues and other resources is, therefore, estimated at \$6.794 million or 12.1%.

The fund balance at the end of the current fiscal year is estimated to be \$11.879 million. The fund balance is primarily the result of the following:

- (1) \$33.697 million from the CIP and CRP Budget, which is attributable to: \$14.489 million in encumbrances of appropriations for CIP and CRP projects in progress or planned in the near future; \$8.896 million in CIP and CRP contract encumbrances; and \$10.312 million as a net result of appropriation and contract balances not required.
- (2) \$6.396 million in operating expenditures under the current budget, which is mainly attributable to: \$1.551 million in unexpended salaries primarily due to vacancies; and accordingly, \$0.209 million in related employee benefits cost; \$0.850 million in contractual services encumbrances, and \$0.360 million budgeted for contractual services and not required; \$1.445 million in the materials and supplies account for roadway restoration contractual services unexpended and re-budgeted ; \$0.175 million in unexpended provisions for insurance liabilities; \$0.053 million in debt service requirements not required; \$0.549 million in encumbrances in the equipment account; \$0.250 million for other capital expenditure contract encumbrances; \$0.643 million in other operational savings.
- (3) \$28.214 million in total resources under the current budget. This is a net result of water sales and other revenues being projected \$0.542 million and \$0.113 million less than expected; other receipts being \$0.700 million more; and SRF loan proceeds being \$27.052 less than the \$34.659 million that was projected to be received in the current budget year. This is a result of \$11.900 million being re-budgeted for those projected that did not start in the current budget year, \$8.704 million in loan proceeds projected to be received in the proposed budget year, and \$6.448 million in loan proceeds not required as anticipated.

In general, the total expenditures for the proposed budget for FY 2009-10 are budgeted at \$61.014 million. The operating expenditures, which accounts for 38.6% of the total budget, are budgeted at \$23.534 million. This represents a decrease of \$1.761 million or 6.7% over the total operating expenditures budgeted for the current fiscal year. Earmarked for CIP and CRP is \$9.845 million and \$27.636 million and respectively accounts for 16.1% and 45.3% of the total budget. The CIP and CRP budget combined, accounts for \$37.480 million or 61.4% of the total

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budget and is \$8.370 million or 18.2% less than the current budget. Taken together, the proposed budget is \$10.131 million or 14.2% less than the current budget.

Highlights of the proposed budget by major expenditure categories are described as follows:

The salaries budget of \$6.150 million has decreased overall by \$0.108 million or 1.7% over the budgeted salaries for the current fiscal year. This reflects no provisions for salary increases, a decrease in overtime provisions of \$0.1347 million or 16.2% and a provision of \$1.262 million for those positions that are currently vacant. The number of departmental permanent positions is proposed to remain at 99 full-time positions and includes the Waterworks Legal Advisor position.

The Normal Expenditures budget of \$13.491 million shows an overall decrease of \$0.713 million or 5.0%. Administrative, Office and Engineering expenditures overall has decreased by \$0.742 million or 28.8%. Most notable is the overall decrease of \$0.538 million in contractual service requirements and is mainly attributable to the \$0.371 million included in the current budget for various contract balance encumbrances and \$0.350 million for budgeted contractual services that was not required. It should also be noted, included in the contractual services account are the encumbrances of \$0.150 million for GIS implementation support, \$0.100 million for a County Water Use Development plan update, \$0.200 for financial management planning and water and water rate and Facilities Reserve Charges analysis. Insurance and Employee Benefits has increased overall by \$0.102 million or 3.6% and is primarily due to a projected increase of \$0.051 in employer retirement system contributions due to the increase in the contribution rate and \$0.052 million in employer health fund benefit contributions for projected increases in health fund premiums and Other Post Employment Benefits (OPEB) costs. Operations and Maintenance expenditures has decreased overall by \$0.059 million or 1.0% and is a result of operation and maintenance expenses being budgeted relatively at the same levels of the current budget. The County Service Charge which reflects the same amount budgeted for Public Fire Protection revenues is also basically the same amount as budgeted for the current year.

The purchase of furniture, vehicles, and equipment is estimated to cost \$0.761 million. This includes the cost of \$0.549 million for those items that are currently budgeted for and have been re-budgeted. This consists of \$0.108 million for computer related equipment purchases, \$0.141 million for future system upgrades, enhancements, customization, and additions to the computerized accounting system, \$0.100 million for phone system improvements, and \$0.200 million for design and furniture for the Micro-lab second floor office. The amount added for new purchases is \$0.212 million and consists of \$0.027 million for office furniture and equipment and \$0.185 million for vehicle and equipment purchases. The major items for vehicle and equipment purchases are \$0.075 million for a trailer mounted vacuum excavation system and \$0.080 million for a 17,000 GVWR truck w/hydraulic dump.

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The debt service requirement is budgeted at \$2.239 million, which is \$0.062 million or 2.7% less than the current budget. The debt service requirement for the proposed budget is 10.5% of the projected operating revenues as compared to the 10.8% for the current budget year. It is anticipated that the interim and final SRF loan agreements for the 1.0 MG Stable Tank project for \$7.374 million, the Kapilimao 0.5 MG Tank project for \$3.987 million, and the Kekaha – Waimea Kaumualii Highway 12-inch main replacement project for \$4.5 million are expected to be executed in the proposed budget year. It should be noted that the first repayment for the SRF loans becomes due one year after the date of the Notice to Proceed or the date of the Final Loan Agreement, whichever is later. The initial debt service requirement for the three (3) loans totaling \$15.861 million is estimated at \$1.269 million and is projected to be budgeted in Fiscal Year 2010-2011. The initial debt service requirement for the \$19.100 million in SRF loans in the proposed budget would be approximately \$1.528 million.

Miscellaneous Capital Expenditures, Others is budgeted at \$0.893 million. This consists of \$0.113 million in contract encumbrances for other miscellaneous capital expenditures and a property and supply budget of \$0.780 million, which is relatively the same as the amount budgeted in the current budget.

The Capital Improvement Program (CIP), which totals \$9.845 million and accounts for 16.1% of the total budget, is appropriated as follows: \$0.681 million in appropriation encumbrances; \$4.149 million in contract encumbrances; \$3.887 million in funding for new and existing CIP projects; and a CIP reserve of \$1.128 million. The highlight of the proposed new additions is the \$2.2 million appropriated for the acquisition of various sites and \$1.5 million to construct the Omao 0.5 MG storage tank, LO-4. Combined with the \$2.0 million budgeted in the FRC Fund, the total amount budgeted for this project is \$3.5 million.

The Capital Rehabilitation Program (CRP), which totals \$27.636 million, accounts for 45.3% of the total budget. This consists of \$13.808 million in appropriation encumbrances; \$4.747 million in contract encumbrances; and \$9.080 million in funding for new and existing CRP projects. The highlight of the CRP Budget is the \$3.2 million in construction funds added for the Lihue Town 6-inch main replacement project, PLH-09 and the \$4.0 million for the Waimea Town 6-inch main replacement project, KW -16. It should be noted that both projects are designated as the Department's ARRA projects and are anticipated to be financed through the SRF fund.

A Capital Improvement Program Budget of \$6.406 million is proposed to be financed from the FRC Fund. The FRC-CIP Budget consists of \$1.037 million in appropriation encumbrances; \$1.388 million in contract encumbrances; \$3.097 million in funding for new and existing CIP projects; and CIP reserve of \$0.884 million. Highlights of the proposed new additions include construction funds of \$2.0 million added for the Omao 0.5 mg storage tank million, LO-4 and \$1.097 million for projected FRC Offset payments.

A Capital Improvement Program of \$0.966 million is proposed to be financed through bond proceeds. The bond proceeds derived are to be utilized for the purpose of funding construction

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and acquisition of improvements to the waterworks system. The bond fund consists of \$0.765 million in contract encumbrances and a CIP reserve of \$0.201 million.

Your Committee finds that as part of the annual budget review process, the Department will review the actual unit costs of power for each twelve-month period ending March 31st and the budgeted unit power costs. At this time, the power costs adjustment for the upcoming fiscal year will be calculated as the sum of two components as described in Section X – Cost of Power Adjustment Clause of our Rules and Regulations. The sum of these two components, calculated on dollars per thousand-gallon basis, will be applied to all water consumption charges. Your Committee finds that the power costs adjustment for the proposed budget is calculated to be \$0.34 per 1,000 gallons. This is the sum of the calculated budgeted unit power costs of \$0.13 per 1,000 gallons and the actual unit power costs of \$0.21 per 1,000 gallons. Based on the projected total consumption of 4.658 billion gallons, revenues are projected at approximately \$1.584 million.

Any power costs adjustments will be implemented on July 1st of each year. Your Committee finds that in realizing that this adjustment allows the automatic pass through of unanticipated power cost increases to customers through the water consumption charges, your Committee recommends that the power costs adjustment be implemented for the proposed budget year to recover such costs.

Your committee also recommends that the Department conduct an assessment of the Operations Division's overtime requirements. Your committee feels that as the circumstances for overtime requirements for the Operations Division can be both unique and unpredictable, an evaluation and review of its overtime requirements would be helpful in identifying opportunities for improvement, efficiency, and staffing requirements.

Your committee finds that with current economic conditions and the predictability that water sales consumption and revenues will more than likely decrease, recommends that for future budget deliberations, the Department should also consider on how it may reduce and/or streamline its operational expenditures. Further, as your committee feels that spending should be more towards utility plant replacement and additions, recognizes by reducing operating expenditures, in effect provides additional funding for capital projects.

Your committee in realizing the importance of organizational continuity recommends that the Department begin to develop effective succession planning strategies. In recognizing that succession planning is key to developing a workforce capable of continuity, further recommends that an integral part of these strategies should include training that facilitates employee development, career planning, and opportunities for growth and promotions.

Your committee in its deliberations has also noticed that water sales consumption for the current budget year is less than projected. When compared with the previous fiscal years, it indicates that water sales consumption has been steadily declining and below the previous year's level.

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To reflect the current trend of declining water sales consumption, we have decreased the projected water sales consumption and water sales revenues for the current budget by 3.0 million gallons and \$0.738 million. Accordingly, we have also reduced the corresponding levels for the proposed budget by 3.332 million gallons and \$1.290 million.

Your committee also finds that in correlation with the declining demand in consumption, the costs for pump electrical and the purchase of water through the Surface Water Treatment Plant have also declined and, as a result, have decreased the current budget's projected costs by \$0.450 million and \$0.380 million, respectively.

Your committee has revised the proposed budget to decrease the salaries account by \$1.050 million, which reflects a decrease in the provision for vacant positions by \$0.732 million and the provision for overtime by \$0.318 million. In relation, we have decreased the employer's share for retirement benefits and FICA taxes by \$0.048 million and \$0.024 million, respectively. For the equipment account have deferred and deleted the amount budgeted for the Micro lab second floor design and furniture of \$0.200 million and reduced the amount budgeted for billing and accounting system enhancements and upgrades by \$0.050 million.

The Finance Committee recommends approval of the actions taken and the adoption of the Budget for Fiscal Year 2009-2010.”

Mr. Oyama moved to approve the Proposed Budget for Fiscal Year 2009-2010 and to refer the budget to the full Board, seconded by Mr. Costa; motion was carried.

The Finance Committee Meeting was duly adjourned at 10:07 a.m.

RULES COMMITTEE MEETING:

Rules Committee Chair Dee Crowell called the Rules Committee Meeting to order at 10:07 a.m.

Re: Proposed Rule Amendments of the Board of Water Supply, County of Kaua'i

Mr. Crowell requested that this matter be deferred until the new manager is hired and the assignment of the deputy attorney or the hiring of outside counsel to service the Department is available. The Department will then begin drafting and preparing the rule amendments.

He also asked if there were any other items of interest for inclusion to let him know.

Mr. Nishimura moved to defer the proposed rule amendments, seconded by Mr. Costa; motion was carried.

The Rules Committee was duly adjourned at 10:08 a.m.

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ADJOURNMENT:

There being no other business, the Committee Meetings were duly adjourned at 10:08 a.m.

Mr. Costa brought up that the 2 agenda items for the Finance Committee and the one agenda item for the Rules Committee the vote was inadvertently not made; therefore, the 2 Committee Meetings were called back to order to formalize the voting process.

FINANCE COMMITTEE MEETING:

Pro-Tem Finance Committee Chair McCormick called the Finance Committee to order again at 10:09 a.m. and called for the vote to approve both the Claims Payable and the Proposed Budget for Fiscal Year 2009-10. All voted aye. Motion was carried.

RULES COMMITTEE MEETING:

Rules Committee Chair Dee Crowell called the Rules Committee Meeting to order again at 10:09 a.m. and called for the vote for the receipt for the files of the Rules Committee Report. All voted aye. Motion was carried.

ADJOURNMENT:

There being no other business, the Committee Meetings were duly adjourned at 10:10 a.m.

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