BUDGET AND FINANCE COMMITTEE
Council of the County of Maui

MINUTES

August 14, 2012

Council Chamber, 8th Floor

CONVENE: 1:32 p.m.

PRESENT: Councilmember Joseph Pontanilla, Chair
Councilmember G. Riki Hokama, Vice-Chair
Councilmember Gladys C. Baisa, Member
Councilmember Robert Carroll, Member
Councilmember Donald G. Couch, Jr., Member
Councilmember Danny A. Mateo, Member
Councilmember Michael P. Victorino, Member (In 1:42 p.m.)
Councilmember Mike White, Member

EXCUSED: Councilmember Elle Cochran, Member

STAFF: Scott Kaneshina, Legislative Analyst
Camille Sakamoto, Committee Secretary

ADMIN.: Sananda K. Baz, Budget Director, Office of the Mayor
Robert M. Shimada, Deputy Chief, Department of Fire and Public Safety (Item BF-105)
David Thyne, Assistant Fire Chief, Department of Fire and Public Safety
Danilo F. Agsalog, Director, Department of Finance (Item BF-106)
Jeffrey T. Ueoka, Deputy Corporation Counsel, Department of the Corporation Counsel

Seated in the gallery:
David S. Taylor, Director, Department of Water Supply (Item BF-106)

OTHERS: Two (2) additional unidentified attendees

PRESS: *Akaku: Maui Community Television, Inc.*

CHAIR PONTANILLA: ...*(gavel)*... The Budget and Finance Committee meeting for August 14, 2012 is now in session. The time is 1:32. Chair would like to introduce the Members that are here this afternoon: Member Carroll, Member Baisa, Member Couch, Member Hokama, Member White, and Chairman Mateo. Excused at this time are Members Cochran and Victorino. From the Administration, we do have from Corporation Counsel, Jeff Ueoka; Budget Director Sandy Baz.

MR. BAZ: Aloha.

CHAIR PONTANILLA: Aloha. And from the Department of Fire and Public Safety, we do have Deputy Chief, as well as Mr. Thyne. Supporting the Committee is Scott Kaneshina as well as Camille Sakamoto. Camille, do we have anybody signed up for public testimony?

MS. SAKAMOTO: No, Mr. Chair.

CHAIR PONTANILLA: Thank you. Having none signed up for public testimony this afternoon, Chair, without any objections, would like to close public testimony.

COUNCIL MEMBERS: No objections.

CHAIR PONTANILLA: Thank you.

ITEM BF-105: AMENDING FY 2013 BUDGET: DEPARTMENT OF FIRE AND PUBLIC SAFETY (U.S. DEPARTMENT OF HOMELAND SECURITY, FEMA ASSISTANCE TO FIREFIGHTERS GRANT) (CC 12-165)

CHAIR PONTANILLA: Okay, Members, the first item that we have today is BF-105, Amending Fiscal Year 2013 Budget, Department of Fire and Public Safety (United States Department of Homeland Security, FEMA Assistance to Firefighters Grant). And the purpose of the proposed bill is to amend the Fiscal Year 2013 Budget by adding a $10,000.00 grant appropriation to the Department of Fire and Public Safety from [*sic*] the "United States Department of Homeland Security Federal Emergency Management Agency Assistance to Fire Firefighters Grant Program - Fire Prevention and Safety Grants". The grant will be used to provide smoke alarm to at-risk population. So at this time, I'd like to have Mr. Baz provide us with some opening comments.

MR. BAZ: Thank you, Mr. Chair. And…good afternoon, Members. Before you this afternoon is a bill for an ordinance to amend the Appendix related to grant revenue, to show this grant revenue, and we do have Deputy Chief and Assistant Chief here to provide comment on the use of the funds.

CHAIR PONTANILLA: Thank you. Deputy Chief, opening comments?

MR. SHIMADA: Thank you. Good afternoon everybody. I'd just like to provide you with some stats in regards to fire alarms. In our population here on Maui, approximately 12 percent of Maui County's population is 65 years or older. And recent studies by the National Fire Protection Association have showed that a smoke alarm reduces your chance of death caused by house fires by as much as 50 percent.

CHAIR PONTANILLA: . . . That's it?

MR. SHIMADA: That's it. Thank you.

CHAIR PONTANILLA: Thank you. So, basically this grant for at-risk population…mainly seniors?

MR. SHIMADA: Yes, that's correct.

CHAIR PONTANILLA: Okay. Thank you. So facilities like Hale Mahaolu, Hale Makua, and the like will be provided with these smoke alarms?

MR. SHIMADA: I don't know if they're equipped with fire…smoke alarms. But it will take care of some of the other households around Maui County.

CHAIR PONTANILLA: Okay. How about public housing?

MR. SHIMADA: You know, I'm not sure what kind of system they have, but normally that type of housing does come with a more detailed system, yeah.

CHAIR PONTANILLA: Okay. Members, any questions? Member White, followed by Chairman Mateo.

COUNCILMEMBER WHITE: Thank you, Chair. How would these be distributed?

MR. THYNE: The program. . .we've tried to get this funding for I think the last three or four years. And what it was was we really had to design or author a fully developed program in order to be awarded. The program that was developed through our Fire Prevention Bureau and our grant writer basically boils down to working with the Office on Aging, getting some of these at-risk population lists from them, and then we're going to have also representatives from the International Brotherhood of Electrical Workers that would go out with us as well. And then we want to maintain a database because they will be a battery operated type of alarms, so they'll be have to constantly be monitored and made sure that the batteries are changed and so on and so forth. So we're looking at working with our companies out in the different districts to dispense them or hand them out, if you will. Proper installation then, of course, keeping a database on when the battery should be changed--whether it be every six months or a year, depending on manufacturer's recommendations. So it will be a good community outreach for us as well and we can also start talking with those folks about some other safety issues that may be present--for instance, keeping their yard clean from weeds and accumulated household items, if you will. So we're looking at that positive…in a positive way as well.

COUNCILMEMBER WHITE: Chair, if I could ask another…

CHAIR PONTANILLA: Go ahead.

COUNCILMEMBER WHITE: The other question that comes to mind is how much…how many homes already have fire detection equipment in them?

MR. THYNE: Well, we would hope on the positive side that most do; however, we all know that even though they may only cost 30 to 50 dollars, it may be something that folks don't recognize or think is an issue. And that's why statistically over the course of the past three or four years we've found out there many fatalities that are possibly related to not having any sort of detection. We're hoping to fund--with this amount that we're asking for--500 alarms, excuse me, 500 homes. Five hundred alarms, maybe two to three per home, depending on the size of the dwelling. So, again, through the Office on Aging and working with the folks that are out there doing outreaches for elderly communities and such, we'll get a better number on that. And we're continue…we're going to continue to pursue this grant. That's one thing good about our program--is it's developed to sustain itself and continue. So you'll be seeing this again, hopefully, attached to Appendix A next time and not this surprise amendment. But that's our plan--is to continue this program for the years to come as well.

COUNCILMEMBER WHITE: So this indicates that you've received approval for this grant.

MR. THYNE: Yes, that's correct. The clock is actually ticking, but we've been doing a lot of ground work with IBEW and our fire prevention folks as well, networking with the Office on Aging and such. So--

COUNCILMEMBER WHITE: If it…sorry, but if it's battery-operated, what's the role of IBEW?

MR. THYNE: I had that question myself. And so I think that possibly, what it is is they want to possible look at upgrading these systems in the long run to a hard-wired and then a battery backup. And so not that's it's not sales pitch, but we hope that that's eventually the route that they'll take. Because, of course, you know that batteries goes bad and we know the power goes out, so it was just, again, part of that program where you needed experts, if you will, that needed to be attached to the program. And that was a link that was made in some mainland programs that we followed and so we made that link as well. And they were willing to work with us, so we're very happy for that.

COUNCILMEMBER WHITE: Okay. Thank you.

MR. THYNE: You're welcome.

COUNCILMEMBER WHITE: Thank you, Chair.

CHAIR PONTANILLA: Thank you. Chairman Mateo?

COUNCILMEMBER MATEO: Chairman, thank you. My questions was already addressed. Thank you.

CHAIR PONTANILLA: Okay. Members, any more questions? Seeing none, Chair would like to make his recommendation.

COUNCIL MEMBERS: Recommendation?

CHAIR PONTANILLA: The Chair's recommendation is to pass on first reading a proposed bill entitled: A Bill for an Ordinance Amending the Fiscal Year 2013 Budget for the County of Maui as it pertains to Appendix A, Part I, Grant Revenue – Schedule of Grants by Departments and Programs, Department of Fire and Public Safety; and filing of County Communication No. 12-165.

VICE-CHAIR HOKAMA: So moved.

COUNCILMEMBER COUCH: Second.

CHAIR PONTANILLA: Moved by Member Hokama, seconded by Member Couch. Any more discussion? All in favor of the motion, please say "aye".

COUNCIL MEMBERS: Aye.

CHAIR PONTANILLA: Any opposed? Seeing none, motion is carried--seven "ayes"; two "excused", Members Cochran and Victorino.

VOTE:	**AYES:**	**Chair Pontanilla, Vice-Chair Hokama, and Councilmembers Baisa, Carroll, Couch, Mateo, and White.**
	NOES:	**None.**
	ABSTAIN:	**None.**
	ABSENT:	**None.**
	EXC.:	**Councilmembers Cochran and Victorino.**

MOTION CARRIED.

ACTION: **Recommending FIRST READING of bill and FILING of communication.**

CHAIR PONTANILLA: Thank you, guys.

MR. SHIMADA: Thank you.

ITEM BF-106: PROPOSED BILL AUTHORIZING THE REFUNDING OF GENERAL OBLIGATION BONDS (CC 12-166)

CHAIR PONTANILLA: The next item is BF-106, Proposed Bill Authorizing General Obligation Refunding Bonds. The purpose of the proposed bill is to authorize the issuance and sale of up to $24,241,568 of General Obligation Refunding Bonds. The proceeds from the sale will be used to repay the County's existing State Revolving Fund Loans that have higher interest rates. Members, Chair's going to take a lot of discussion on this item here and Chair is, at the end of our discussion, defer this item. We do have some information that we still need to get in regards to the numbers that were…that was proposed to us. So at this time, I'd like to call on Mr. Agsalog, Finance Director.

MR. AGSALOG: Thank you, Mr. Chair, and good afternoon, Members. Thank you for taking this item today as we can start a discussion as far as trying to see if we can cut down some of the costs, interest costs that we have with the existing loans that we have. Mr. Chair, when I came on board I had looked at some of our outstanding loans and the timing of our bond sales is coming up. We are now in our new. . .General Fund loans to bonds is, we going to about close to 46 now, 45-million-something right now. So, and we still have some projects that's being started also. So the timing of proposing, this is a very new to all of us, Mr. Chair, I might say that--refunding an SRF. SRF, Mr. Chair, has always been the lowest interest rate in the past. Because of the low rates now, Mr. Chair, I think we can realize more…a lower rate. And I have asked our Financial Advisor to have a discussion with the Department of Health that administer our SRF to see if we could recalculate our interest to the newest rate at the moment. They prefer that we would prepay, prepay so that we…they can loan the new money that we'll pay them. The way that they calculate the SRF, Mr. Chair, is that it's the current market at or lower on the current market. That's how they calculate it for the rate for the 20-year bond rate. So right now when we approach them to see if they can recalculate, they'd rather have us pay the money that we owe them on selected SRF that has a higher interest rate so that they can fund new projects. We were told that they have more projects than money that they can lend out. So they would love the money, to have it so that it can fund new projects. Having said that, Mr. Chair, now that we are going to float a new bond I think if we can put this as…in addition to the new money that we going to borrow, I think it will reduce a lot of our interest cost because the SRF for Wastewater, Mr. Chair, right now we range from 3.34 to about 3.6. And we can return this money and get an interest rate of less than 2 percent. And when we calculate the net…present value, the savings that we would get would be over 4 percent. In fact, one is 7 percent savings and the other one is over 9 percent. For the Water Department, that we can get about 9 percent net…percent value savings. And the SRF for the Wastewater is about 7 percent. I will answer any question, Mr. Chair. I think the Budget Director have given you a refunding option…two-page…two handouts that detail the proposed projects that we are…that are candidates for refunding to the SRFs. One is for the Department of Water Supply and one is for the Wastewater.

CHAIR PONTANILLA: Thank you. Thank you, Mr. Agsalog. I hope you heard what I said earlier in the meeting about deferring this item and then taking it up on a second meeting that we're going to have. We still have time to…to get this thing approved in September prior to going to San Francisco, so don't be alarmed.

MR. AGSALOG: Oh, thank you, Mr. Chair.

CHAIR PONTANILLA: We just need to ensure ourselves that the information that we got from you guys and our research basically tells us that if this is the way to go. Okay. Questions? Mr. Hokama?

VICE-CHAIR HOKAMA: Chairman, thank you. And I appreciate the proposal from Directors Agsalog and Baz for this consideration. I think timing is good but what I'm curious since we don't have it is, who is this professional consultant that is advising you, why was they chosen and do they make a percentage out of the savings of the refinancing?

MR. AGSALOG: Um…

CHAIR PONTANILLA: Director?

MR. AGSALOG: Mr. Chair, I have retained Mr. de Crinis that was the Financial Advisor they had in 2010, and he have helped me throughout my transition for when I lost the staff at Treasury. And at this time he's now retained in the planned…sale of the bond that we are going to do, and he's been retained as a Financial Advisor for that, Mr. Chair.

CHAIR PONTANILLA: Thank you. Mr. Hokama?

VICE-CHAIR HOKAMA: So he is being compensated, Chairman, and he will have a portion of the savings?

CHAIR PONTANILLA: Mr. Agsalog, as far as Mr. Hokama's question, how will we pay the Financial Advisor, and will he be paid from portions of the savings that we get from…if we do refinance?

MR. AGSALOG: It's not a commission, Mr. Chair, if that was the question. It's on contract, it's not a commission.

CHAIR PONTANILLA: Thank you.

VICE-CHAIR HOKAMA: Okay, I can pull up the contract later, Chairman, so thank you. We can find out what he's getting compensated for this. My other question, gentlemen, and I…while I appreciate you folks are doing this due diligence, what interests me in your response, Mr. Agsalog, was that you…when you mentioned something, the loss in your staffing in Treasury. Can you help the Committee 'cause we have a Treasurer that is supposed to be able to assist you with this refinancing and bond float as well as the short term portfolio investment strategies. So that person is…there's no warm body Treasurer currently, is that what our understanding is? And that is why this professional, third-party consultant is assisting the County in this efforts now?

CHAIR PONTANILLA: Mr. Agsalog?

MR. AGSALOG: Mr. Chair, thank you for the question. Mr. Chair, it's not that we don't have a Treasurer, we do had a Treasurer, we had an acting Treasurer when…on the process of hiring the Treasurer. Once we hired the Treasurer, the Investment Officer left us and…that…that's when I hired a Financial Advisor to help us go through the transition because I was lacking a staff at that time. It's not that we didn't have a Treasurer, we did have a Treasurer, new hire but the acting Treasurer at that time that…that, that was also an Investment Officer for the County left us. So that's why I was able to use the salary for the Investment Officer to hire a Investment Advisor.

CHAIR PONTANILLA: Thank you.

VICE-CHAIR HOKAMA: Okay. And this person is only contracted until we sell the…we go and get the bond sale squared away?

MR. AGSALOG: Yes, sir. The current contract that he have now is for the sale of the bond. He's no longer in the contract when we didn't have the staff. Because I already have the staff in the…the Treasury staff are complete. So we don't have him for that particular function anymore. So since this particular company or individual helped from the 2010, I was more comfortable that he has already that experience in the last bond sale. So, I have asked him to stay.

VICE-CHAIR HOKAMA: Uh-huh. No, I think that's a…it can assist your Department well, Director. My only concern is, I hope that there's safeguards in the contract because he's going to know where we're going to be placing certain monies because he's analyzed our books.

MR. AGSALOG: Yes.

VICE-CHAIR HOKAMA: I want to make sure he doesn't get unfair advantages by knowing where we…we going to put our money or how we're going to place money investment whereby then he has inside information working for us. So I just…I'm sure you folks did your due diligence and structured the agreement accordingly. But that's just one of my concerns to safeguard the County's position, gentlemen. And people like Mr. Ueoka needs to ensure that this County's protected by those agreements. So I appreciate your efforts. Thank you, Chairman.

CHAIR PONTANILLA: Okay. Member Victorino?

COUNCILMEMBER VICTORINO: Thank you. And first of all, Mr. Agsalog, I want to thank you and Mr. Baz because you did bring some of this to us earlier and I appreciate the heads-up. And secondly, like Mr. Hokama said, timing is everything and whenever and wherever you can refinance and save money--especially substantial amounts of money--makes good sense. But also, Mr. Agsalog, will this not also, hopefully open up the SRS…SRF funding ability because we've paid back and because it's a revolving fund, there will be more funds in there for not only Waikamoi and other things that we are looking forward? Instead of us taking some SRF fund, maybe some cash, maybe some bonding, this will combine everything in one area especially…we cross our fingers, with the ability to pay it down so that more money is available. Or if Mr. Baz wants to answer, either one.

CHAIR PONTANILLA: Mr. Baz?

MR. BAZ: Sure. Thank you, Mr. Chair. Yeah, the State Department of Health has told us that they don't have enough money for the projects that have been requested. And so, while they can't guarantee that this will give us a better chance of receiving more monies for our projects, it does make it so that as an aggregate there is more money to lend.

COUNCILMEMBER VICTORINO: Correct.

MR. BAZ: And we're going to be…have a better chance at it.

COUNCILMEMBER VICTORINO: Yeah. And so there's a stronger possibility--

MR. BAZ: Correct.

COUNCILMEMBER VICTORINO: --that we don't have to get additional funding or outside funding. And the SRF funds are extremely low as far as interest rates now, yeah, as on what…isn't it as low or lower than the bonds?

MR. BAZ: Yes.

COUNCILMEMBER VICTORINO: Yes.

MR. BAZ: The current interest rates for Sewer Fund projects will be related to the fees approximately three-quarters of a percent, and for water projects they're between 1 and 2 percent. So they're significantly lower than 20-year bond.

COUNCILMEMBER VICTORINO: So just and if, Mr. Chair, you'll indulge me one quick question. So the public they just heard that, so let's take $5 million real quickly, Mr. Baz. Five million dollars at 1 percent interest, how much would that be over…amortized over what, 20 years, 10 years, I don't know what. I thought you knew the answer, that's why I asked you. …*(laughter)*… Oh, my God. I sorry.

ALL: . . .*(laughter)*. . .

COUNCILMEMBER VICTORINO: I apologize putting you on the spot.

MR. BAZ: No, Mr. Chair, I have to put that into…we have a calculator that--

COUNCILMEMBER VICTORINO: Yeah, okay, okay.

MR. BAZ: --amortizes out the numbers.

COUNCILMEMBER VICTORINO: No, just because I like the public--they hear these numbers, but what does that really mean in dollars and cents? And I know you've explained that many times to us and even in my office and…so when they hear that, they can truly understand this 1, 2 percent really is a big difference over 2½, 3 percent. I mean even though it may sound small, the overall aggregate is much less.

MR. BAZ: What we could…if you look at the Refunding Analysis, say if we look, take the Sewer Fund Refunding Analysis as of July 26 there. You can see that the interest rates that are currently, like Mr. Agsalog mentioned, that between 3.34 percent and 3.6 percent. And we're looking at the market rate for…including the cost of issuance was about 1.45 percent, would have been the true interest cost. So you can see that's probably about a 2 percent decrease, right, so overall that $14 million is going to…we're going to be saving about a million dollars worth of money from that 2 percent change.

COUNCILMEMBER VICTORINO: And the public can be assured that…first of all you're doing your due diligence, and we appreciate that part. And secondly that we're looking to cut costs in every area and one of the big areas is by refinancing higher borrowed money with lower money…lower borrowed money now. And so, and I appreciate that because I think this is another area we can save. Mr. Couch always mention when we go to NACo they talk about bonding and all that. Well, the bonding they were referring to, a lot of it is refinancing high bonds with lower interest bonds and SRF and all these other things. So you're doing exactly what we've been told at NACo and other areas, Mr. Chair. So we appreciate that. So if you have anything else you'd like to share, Mr. Baz?

MR. BAZ: Thank you, Mr. Chair. And Member Victorino and Members, this is like Mr. Agsalog mentioned this is an option that we're presenting to you for your review and decision. It's something that we look at…the overall savings that we're going to do. There's a caveat in there…in the bond issuance bill that we presented that says that we need to have a present value savings of more than 4 percent or otherwise we wouldn't do it. And so we're going to make sure that we do have that kind of savings before we enter into an issuance.

COUNCILMEMBER VICTORINO: Yeah. And I remember when you refinance your house they always say that if you don't get at least 1 percent difference, it's not worth all the closing costs and all the other costs that are involved. So you have to have where you save really is a true savings, not just go down and not end up with any real savings. So thank you, Mr. Baz, Mr. Agsalog. I really appreciate it. Thank you, Mr. Chair.

CHAIR PONTANILLA: Thank you. Following up with Mr. Victorino's question. When we take a look at the Sewer Fund, a few of the Sewer Fund SRFs are near the end of their repayment period, one to four years. Is it even worth the cost that may be incurred to refinance those lower rate for an extended period from four to eight years? As an example, would we refinance our 5 percent APR mortgage that has two years of repayment left in exchange for a 3 percent APR mortgage for an additional eight years of repayment? So those are the things that we trying to address here and that's the reason for part of…part of the reason why for the deferral. So we have loans that are between one and four years before we pay it off and now we're going to refinance and we probably extend that repayment up to eight, ten years. So. . .Mr. Hokama?

VICE-CHAIR HOKAMA: Chairman, what I was going to ask is that when you look at some of the recommendations for refinancing, for me there are some amounts that if makes better sense why wouldn't we just cash it out instead of reborrowing? Which is part of the point you just shared with the Committee immediately prior to recognizing myself. So I think we should look at that, I mean for people like me…if I'm going to look at a SRF loan with a 300,000 balance, 394, why wouldn't we just pay it off?

CHAIR PONTANILLA: And I agree--

VICE-CHAIR HOKAMA: And again, maybe there's a good reason why Mr. Agsalog wants us to consider refinancing versus payoff. And maybe those are the kind of things that…as we share information we can understand. But I'm like other Members of this Committee--like Ms. Baisa, if I can pay off my bill, I would rather pay off the bill than take another payment even if it's less, still keep paying a bill. So if we can get maybe some advice? Again, refinancing is a good option in this point in time. Many people are doing it, when you're looking at the prime rates and everything else involved. But oversee for us yeah, Chairman, I hope that by refinancing doesn't mean it all of a sudden opens up a huge amount to reborrow. I think we've taken up a more sound fiscal approach than just saying 'cause we clearing ten mill were going to borrow ten million to replace that ten million we just cashed out. And so I hope we look at this and I appreciate your consideration of a deferral to get a more verification, work with the two Directors here and come up with the best plan possible. Thanks.

CHAIR PONTANILLA: Thank you. Thank you for that comment. And Chair failed to mention about looking at some of this numbers. Yeah, cash may be a way to get rid of the older borrowing that we have done, maybe back in 1994. One of the projects that we…I see here…it still has like ten years of repayment to be done and those kind projects I can readily agree. In fact, projects that have between eight and ten years or maybe six and ten years to repay, that we should be taking a look at…to see what can be done as far as savings. But I agree the Chair and Staff will continue to look at this to ensure that when…at the end of the day that the savings that we get basically is what we want.

VICE-CHAIR HOKAMA: Yeah.

CHAIR PONTANILLA: Thank you. Okay. Member Baisa?

COUNCILMEMBER BAISA: Thank you very much, Chair. And I, too, really appreciate what Mr. Hokama has brought up. If we can pay, then I would say pay, but I don't know what kind of criteria our fiscal folks are using in deciding whether to pay or not pay and I don't know if they want to give us any comments in regard to Mr. Hokama's comments. 'Cause I think it's really relevant…was there a reason why you guys didn't look at…well just pay this off?

MR. AGSALOG: Mr. Chair?

CHAIR PONTANILLA: Mr. Agsalog?

MR. AGSALOG: That is a very good question and it's a policy and it's also a way to look at--because our loans are structured already from way before and we have calculated the future Debt Service for that particular one and that's what we budgeting for. So let's say an example of 300,000 as was mentioned before. So if our portion of that payment for annually would be about 50,000 and if you paid off, so you have to come up with another 250,000, so in this time that you need to pay, so having it drag it on with 50,000, 50,000, you're not going to have that big amount. You could use that 250 for now that you are doing a project. So that was the intent of borrowing the money--is to pay in a yearly basis instead of paying it now. And I agree with you, if we have the money now, we will pay it off. But the new money that we get as a revenue, as you would know, will be for that particular year plus the Debt Service that we have. I hope I explained it properly, Mr. Chair.

CHAIR PONTANILLA: Uh huh.

COUNCILMEMBER BAISA: Thank you. May I follow up, Chair?

CHAIR PONTANILLA: Sure.

COUNCILMEMBER BAISA: Interesting. Couple days ago…oh I don't know…I was interviewed for…by one of the business organizations here on Maui. And one of the questions they asked me was "what are you going to do about Maui County's deficit?" And of course, my first reaction to them was we don't have a deficit. Under the Charter we have to have a balanced budget. And I think they were looking at things like this, where we borrow money to fund things. And it took a while for me to explain to them about how we do bonding and yes we owe. But we make sure that what we owe can be covered by money that we have to make the payments on. And so I think this is really a good financial matter for us to be discussing on television. So that people can see how the County handles its money, and we borrow money but then we plan to make the payments and we include them in the budget so that we don't get into trouble and we don't borrow more than we can afford to pay. Follow-up question is, what happens…and again I ask…I think I know the answer but I think it would be good for people to hear. What happens to the money that we save?

CHAIR PONTANILLA: Departments?

MR. BAZ: Mr. Chair, thank you--

COUNCILMEMBER BAISA: Do we run out and spend it?

MR. BAZ: No, Madam Baisa. The two SRF, the State Revolving Fund programs are for utilities that the County provides to its people. Those utilities would…there's cost of Debt Services included in the utilities' budget. So, therefore, the rates that people pay for their water and for their sewer are, include the Debt Service payments that are required. So in your…the first initial response is paying it off early. If we did decide that we wanted to pay off this debt early, we would have to take it out of the Water or Wastewater's budget. Their…we just finished the budget and their budget's balanced as far as what their expected revenue is going to achieve and what their expected expenditures are going to have. If we go and want to pay if off earlier, then we would have to amend their budget by either reducing their expenditures in other areas or by raising revenue which is rates and fees. So that's one consideration for that. If…what to do with the savings is that the departments' budget would be reduced by that savings amount. And if you look at the Analysis, what you're seeing is that the amount of Debt Service they were paying on an annual basis is not being reduced. So we're not…like a normal mortgage where you…you go and refinance your house, you're…a lot of times doing that so that you can reduce your monthly payment. Well, we're not doing that, we're not reducing the monthly payment on this, so we're just paying it off earlier. So what this does is it prevents us from raising rates in the future to continue to pay for this kind of debt. So that's why we're looking at it from this…that perspective.

COUNCILMEMBER BAISA: I want to thank you very much for paying attention to what we're paying and finding a way to pay less. Because we're always on the pinhead being asked what are you doing to make government more efficient and spend less money. This is a good example of how that can be done. Thank you.

CHAIR PONTANILLA: Thank you.

MR. AGSALOG: Mr. Chair?

CHAIR PONTANILLA: Yes?

MR. AGSALOG: I have to add that I can say to the people in the public that we do not have a deficit. Okay. To answer the question as far as the savings, we call that Carryover and reappropriate it during the budget time. So we do not have savings per se, that we are keeping there, we always have a balanced budget as the Budget Director will present to you and you guys deliberate at very diligently. That's why I don't think we have deficit. There is a provision in our Charter, that if there is ever a deficit, the Mayor has to report to you. And I can tell you today, as the Finance Director, and to the people of the County of Maui, we do not have a deficit.

COUNCILMEMBER BAISA: Thank you very much, Mr. Agsalog. That's very clear.

CHAIR PONTANILLA: Members, any more questions? Oh, I have several over here. How many different maturities of GO bonds are going to be issued? For example, is this $24 million SRF refunding authorization going to be combined with the maturities of the other GO bonds that have already been authorized in Fiscal Year '12 and '13 Budget?

MR. BAZ: Thank you, Mr. Chair. We're actually looking at about four or five different series, and the State…State law requires that the Debt Service be paid back on a consistent basis. We have to have basically level Debt Service payments throughout the maturity of the loan. And so to do that, there's going to be a kind of a sub-factor of the bond issuance that will have different, what's called, series, different areas that we were going to look at refinancing. The…the Wastewater would be one; the Water would be one; the refunding of the other bonds that are issued before, so we going save on money on those, is going to be one; and then the new…new monies, the 45 million or so in new monies that we're going be borrowing will be a fourth one.

CHAIR PONTANILLA: Okay. And how much does it cost to issue a single series of bond? And does the cost increase with each additional series?

MR. BAZ: Mr. Chair, from my understanding, the meeting with the Financial Advisor and his discussion, when we issue…the cost of bond issuance is relative to the issuance itself as an aggregate. So when we have that full disclosure statement, whether there's a number of series or not, is just more for our accounting function.

CHAIR PONTANILLA: Okay. Thank you. And then, for those of us that have not dealt with this before, what is true interest cost and how is it calculated?

MR. BAZ: The true interest cost that's shown on your papers here is the interest rate that we're looking at paying the yield that is current market. This was…analysis was done on July 26, so it most likely has changed since then. Plus the cost of issuance, so there is going to be some costs of issuance to that. And so just like when you do a mortgage for your house--and those of you who have done it before, you get a Federal statement or true cost of financing statement and in that it shows the percentage that you're going to be paying, that's your retail rate of what your percentage is plus all the costs of the closing of that loan. And so those. . .included all of the costs is that 1.45 or 1.77 percent that we're looking.

CHAIR PONTANILLA: Okay. Thank you. I have couple kind of long questions and I think I'm going to put it in writing. But I do have one short one. Should the County choose not to issue the SRF refunding GO bonds, will the underwriting cost fees charged to Fiscal Year '12 and '13 bond authorization issuance go up?

NOTE: Silence.

MR. BAZ: I don't think so.

MR. AGSALOG: Can you repeat the question, Mr. Chair.

CHAIR PONTANILLA: Yeah. Should the County choose not to issue SRF refunding GO bonds, when we go through…will the underwriting cost fees charged for the new bonds, Fiscal Year '12 and '13, will the authorization issuance go up?

MR. AGSALOG: Mr. Chair, and again this time that we're going to sell a bond and I have discussed it with the team that I have put together, that the…way that we will do this bond sale, it will be competitive. We will not hire an Underwriter, Mr. Chair. We are hiring, however, a Bond Counsel as we always have been in the past. So that they…in this particular sales, once we have the bond person…rating presentation, we going put up bids so that they…anyone that wants to buy our bonds can put a bid and then we will look at it that way. It's not, instead of negotiated with a bond writer that we use or Underwriter that usually negotiate for us. Okay. So I think the cost would be…of selling the bond would be the cost of the Bond Counsel that we have and then the Financial Advisor which is, I have it on contract.

MR. BAZ: And the rate--

CHAIR PONTANILLA: Okay--

MR. AGSALOG: And the rating presentation, I'm sorry, Mr. Chair. Because the rating presentation, I think is about 25 per rating agency, so 26. So we will have that also on top of the authorized amount.

CHAIR PONTANILLA: Okay. I know when the County issue bonds, there's a lot of investors out there just waiting to purchase our bonds because of our repayment which is very good. Mr. Hokama?

VICE-CHAIR HOKAMA: So we are just clear on timing, Chairman.

CHAIR PONTANILLA: Sure.

VICE-CHAIR HOKAMA: The RFP, I guess, for the underwriting purposes of the bond, that's going to be done prior to the visit to the rating agencies?

MR. BAZ: No.

MR. AGSALOG: No, Mr. Chair. I will…after the…when we receive our ratings, we will put up a bid for the amount that we are selling, the amount of bond that we going to sell. And then them considering the ratings that we will have and the amount of bonds we going to sell, agencies will put their bid too, and then we will see the lowest rates from there.

MR. BAZ: Mr. Chair?

CHAIR PONTANILLA: Mr. Baz?

MR. BAZ: I think what's different than what has happened in the past is that an RFP was issued for us to enter into contract with the Underwriter prior to the issuance of the bonds. This time because we want to do competitive--which is a GFOA recommended area for our size and our rating--the…there is no RFP that goes out…it's…when we issue the bonds, then the Underwriters will then compete for those purchases.

VICE-CHAIR HOKAMA: Okay. No, I'm just trying to visualize my experiences on how we going to approach the rating agencies. And the assurances of the strength of the County's ability to sell all of its bonds is part of the strategy in how we prepare prior to going before the agencies, Chairman. So I was just curious on the advantages. Because if you going before S&P, Moody's or Fitch's and they know you pretty much have everything that you're going to ask for regarding the rating, is pretty much presold, it makes a difference.

CHAIR PONTANILLA: Yeah.

VICE-CHAIR HOKAMA: Makes a difference. So I'm looking forward to the strategy and the approach, yeah. And I think there's nothing wrong in trying another option, especially now that we have decent rates and we can again provide a Bond Counsel, knows who they're working for. We have an opportunity, Chairman, that I think may be beneficial to the taxpayers. Thank you.

CHAIR PONTANILLA: I agree. Any more questions, Members? If not, no more questions, the Chair is going to defer this item to our next Budget and Finance Committee meeting which is…

MR. KANESHINA: It's the first Tuesday in September, I think it's the fourth.

CHAIR PONTANILLA: Okay. September the 4th and we still have time to get second and final before we go to Bond Counsel. So, thank you, Members. If you do have any more questions for the next meeting in regards to the item, if you could prepare yourselves and also shoot a memo to the Chair so that Staff and I can…we'll discuss along with Mr. Baz and Mr. Agsalog. And Members, we have met in regards to the strategy and what we want to do for the County of Maui. And if you know me, I'm not going to do anything that's going jeopardize this County.

COUNCIL MEMBERS VOICED NO OBJECTIONS. (excused: EC)

ACTION: DEFER pending further discussion.

CHAIR PONTANILLA: So, with that, Members the Budget and Finance Committee meeting for August 14th is now adjourned. . . *(gavel)*. . .

ADJOURN: 2:18 p.m.

APPROVED:

JOSEPH PONTANILLA, Chair
Budget and Finance Committee

bf:min:120814:km

Transcribed by: Karen Maeda

CERTIFICATE

I, Karen Maeda, hereby certify that the foregoing represents to the best of my ability, a true and correct transcript of the proceedings. I further certify that I am not in any way concerned with the cause.

DATED: the 6th day of September, 2012, in Kahului, Hawaii.

Karen Maeda