BUDGET AND FINANCE COMMITTEE

Council of the County of Maui

MINUTES

September 24, 2012

Council Chamber, 8th Floor

CONVENE: 1:30 p.m.

PRESENT: Councilmember Joseph Pontanilla, Chair
Councilmember G. Riki Hokama, Vice-Chair
Councilmember Gladys C. Baisa, Member
Councilmember Robert Carroll, Member
Councilmember Elle Cochran, Member (In 2:40 p.m.)
Councilmember Donald G. Couch, Jr., Member
Councilmember Danny A. Mateo, Member
Councilmember Michael P. Victorino, Member

EXCUSED: Councilmember Mike White, Member

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

ADMIN.: Danilo F. Agsalog, Director, Department of Finance
Sananda K. Baz, Budget Director, Office of the Mayor
Jeffrey T. Ueoka, Deputy Corporation Counsel, Department of the Corporation Counsel

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

CHAIR PONTANILLA: . . .*(gavel)*. . . The Budget and Finance Committee meeting is now convened. Today is September the 24th, 2012. Good afternoon, Members.

COUNCIL MEMBERS: Good afternoon.

CHAIR PONTANILLA: At this time, the Chair would like to recognize the Members that are here this afternoon. We do have Member Carroll, Member Baisa, Member Couch, Member Hokama, Member Victorino, and Chairman Mateo. Excused at this time are Members Cochran and Member White. From the Administration, we have Jeff Ueoka, Deputy Corporation Counsel, Sandy Baz, Budget Director, Danny Agsalog, Director of Finance. And then supporting the Committee we do have Scott Kaneshina, Michele Yoshimura, both our Legislative Analysts, and Camille Sakamoto, Committee Secretary. Members, we don't have anyone signed up for public testimony at this time, so without any objection, Chair would like to close public testimony.

COUNCIL MEMBERS: No objections.

CHAIR PONTANILLA: Thank you.

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

CHAIR PONTANILLA: The item on our agenda today is BF-106. BF-106 is a Proposed Bill Authorizing General Obligation Refunding Bonds. And it's entitled A Bill for an Ordinance Authorizing the Issuance and Sale and Specifying Certain Terms of not to Exceed Twenty-Two Million One Hundred Forty-Eight Thousand Five Hundred Dollars Aggregate Principal Amount of General Obligation Refunding Bonds of the County of Maui for the Purpose of Refunding all or a Part of Certain Outstanding State Revolving Fund Loans of the County; Authorizing the Director of Finance to Determine Certain Terms of Such Bonds; Providing for the Retirement of the State Revolving Fund Loans to be Refunded; and Providing for Other Actions Related to the Issuance, Sale and Delivery of Such bonds. Members, we have received from the Budget Office, in regards to today's agenda'd item, a handout. And again, Members, the last meeting that we had, we had an issue, or the Chair had an issue in regards to the amount being refund, the amount that we were gonna remove from the State Revolving Fund Loan, which was \$19,661,876. And at the time, the bill called for \$22,148,500. There is a gap of \$2 million approximately in regards to the analysis that was made for the requested bond. And at the time, the Director of Finance, as well as Budget Director, explained to us in regards to the \$2 million that was requested for contingency. Again, Members, the monies that we talking about are public monies, and in regards to the analysis made at the time, you know, the Chair was recommending that the \$2 million, you know, be also included in the analysis. But I will have both Budget Director as well as Finance Director explain to us in regards to the two million dollar contingency as requested. Mr. Baz, or Mr. Agsalog, either one.

MR. AGSALOG: Good afternoon, Mr. Chair. And at this time I will take the lead since I have asked for this request again. And, first of all, Mr. Chair, good afternoon. I apologize for taking you out from your busy schedule to have this special meeting. And I'm really grateful that you have accommodated our request to review this again so that I can come on the record to request what we have put in there apparently at that time. I apologize that we didn't discuss that, in the worst case scenario, that I was requesting I needed a flexibility to be able to sell the bonds and refund the SRF, and ten, I requested 10 percent of the bonded amount as a flexibility because at that time, and even today, we haven't had experience doing the refunding of a State Revolving Fund. This is the first time that we are doing this, and I'm asking for your indulgence to allow us to try at least once so that we know how this refunding for SRF going to go. The worksheets, Mr. Chair, that are provided to the Committee now is presenting to you, they are presenting to you a worst case scenario that I'm requesting the 10 percent bond. Most likely, Mr. Chair, it's the regional representation that we have that we going to save at least 7 percent that present value, and I think 9 percent for the other one. This worst case scenario, Mr. Chair, allowing me to have the flexibility of the 2 million contingency if we use it. Most likely we don't, but if we able to use that, the net savings again, net present value still be 4.5 for the Water, and then for the Sewer it will be 4.3 net present value. It's still within the allowable refunding for the, when we refund bonds within the general provision of our Budget Ordinance. So again, I'm just requesting this flexibility because we haven't done it in the past, and I wanna come on record that yes, there is 2 million contingency that we put there. It's 10 percent of the bonded amount that we going to float. So I will answer any more question, Mr. Chair. And again, I thank you for this cooperation that you have brought us this afternoon to this meeting because this is, I realize this is a special meeting.

CHAIR PONTANILLA: Thank you, Mr. Agsalog. Just a fast question. The 4 percent that you talk about, and Members, if we can have you explain the 4 percent in regards to you mentioned if it's below 4 percent according to ordinance, it's a no go.

MR. AGSALOG: Yes, Mr. Chair. There's a restriction in our refunding in Section 2 of our general provision in the Bond Ordinance that we will only refund such loans if we save at least 4 percent of the net present value of what we trying to refund, Mr. Chair. And that, we have that in consideration. And again, this particular worksheets that I have with you is the worst case scenario. And if that will not, we should know before we even go for the bid because at that time the fluctuation shouldn't be so bad anymore. If the current rate is going as the way it is right now, we should not be selling at a discount, and therefore, we should be very close to the original worksheets or proposal that we had given you, which is at least 7 percent of net present value savings. So that's what the request that I have, Mr. Chair, is just to have the flexibility that when we go we don't restrict the bid process by not allowing discount or other restrictions that we might put into the bidding process.

CHAIR PONTANILLA: Thank you. One last question before I ask the Members to ask you questions. The 7 and 9 percent represents what?

MR. AGSALOG: Again, that's the net present value, Mr. Chair. On the original calculation that we have asked before, I think it's the first worksheets that came with the, the one dated 9/4/12, Mr. Chair on the Budget Finance Committee, that was the time that the 2 percent was not included in the worksheets.

CHAIR PONTANILLA: Okay. Members, any questions? Let me start with Chairman Mateo. Questions?

COUNCILMEMBER MATEO: None at this time.

CHAIR PONTANILLA: Mr. Victorino?

COUNCILMEMBER VICTORINO: Not at this time.

CHAIR PONTANILLA: Mr. Hokama?

VICE-CHAIR HOKAMA: Thank you, Chairman. And thank you, gentlemen, for being here. I'm still trying to understand. I cannot remember ever, when the County ever did one 10 percent contingency for bond. So is this one of the advantages of going out for bid instead of negotiated underwriting? Because I don't like this 10 percent, to be honest.

CHAIR PONTANILLA: Director?

MR. AGSALOG: Mr. Chair, thank you. In the, when we float new money bonds and the refunding bonds, it's normally it's easier to calculate in how we do it because our Bond Counsel work with us there. This particular calculation, as far as paid off amount and all that with the State, it requires a little bit more coordination with the State. The contingency that I have asked, we never had the contingency for a regular, regular bond float, Mr. Chair. And I think the Council man from Lanai is accurate in that, because it's always put in the cost of bonds when we float a new bond. It's included there. But again, the pricing of the bond is depending and how they come in, negotiated even in the negotiated one. If you want to put restrictions, you still be able to put, do restrictions. In the last bond float, in fact, we sold some of our bonds on a premium and we got more than the bond amount that we are selling for. In this worst case scenario, as I'm discussing with you right now, is I'm just looking at it that if the bids comes with discounts because of the coupon rates are lower than the yield, then we will need, I will need that caution to be able to still execute without jeopardizing the bigger bond sales that we must do. This SRF is just a rider to our sale for our bond, because I just realized that this refunding some of the high yield SRF just makes sense. And this came about when I was looking at our investment and our, the agencies that we invested our money keep calling our investment, and, in fact, I had one for four months to maturity and they still called it because the interest rate was a little higher at that time. So now we have quite a bit of our investments being called, and I wanted to look at what are the high yielding loans that we have and it was included in the SRF. So that's the reason that we have this proposal on hand at the moment. But again, yes, we never, I don't think we have done any, asked for, we never asked any contingency because it was a straight bond float authorization. This is a different authorization if I see it that way.

VICE-CHAIR HOKAMA: So the 2 million is already calculated in in this scenario?

MR. AGSALOG: Yes, sir. In the 4.52 for the Water, that is calculated part of the 2 million. And in the SRF, Sewer is the same thing. It's also a portion of that. It's 10 percent of the bonded amount, sir.

VICE-CHAIR HOKAMA: Have you already discussed this with the current Bond Counsel, and they willing to sign off?

MR. AGSALOG: Yes, sir. In fact, we are in the, in the process already that we going to put the amounts of bonds that we going to sell in our OS. Therefore, it is very timely that we are discussing this now because I really need to know if this is a go or not because if I cannot get an approval for this, maybe we don't include it in our numbers already. Because we getting very close for the presentation to the bond rater in a week, two weeks' time.

VICE-CHAIR HOKAMA: Well, gentlemen, you know, refinancing at right times is a good thing. Two million, ten percent contingency, you know, I've made my own calls to financial networks and I'm still not comfortable with the contingency at this time. Chairman, you know, I'm happy to give the floor. I'm sure other Members has their important questions.

CHAIR PONTANILLA: Thank you. Member Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair, and thank you, gentlemen, for being here. Mr. Agsalog, this contingency is only, can only be used if we, you know, need the extra funding for whatever, right? You can't have it go to different projects. It just has to be in the sale of these bonds. Is that correct?

MR. AGSALOG: That's correct, Mr. Chair. And the sale of the bond is only, I think, in the proposed bond it's identified which loan we going to repay. And that's all we can do with it. And with that I, when we sell the bonds, I will ensure that any proceeds of the bonds we'll only use for that. And I can assure you that I will only use whatever needed to sell the bond. And as I been talking to the Budget Director, if the rates is going the way it is right now and we have a good proposal and a budget, we might not need that. And it's most likely that the original proposal that we have to save 7 percent would be the amount that we will get. With all the research that I have done so far, that would be the case. But this particular worst case scenario, I'm just asking this as a flexibility just in case so that it does not jeopardize the sale of the bigger amount of our bond.

COUNCILMEMBER COUCH: Right. But you're not going to get, borrow that on the contingency basis. You're only going to borrow it if it's needed.

MR. AGSALOG: Yes, sir. Whatever is needed to pay off the SRF because by then we should have a good number from the State to tell us the payoff amount, and of course we will also look at how our bond are priced. And by then, if we will be selling at par or premium, we might not need any penny of that contingency. But if we are selling at a discount, then we might need some of it. I just cannot tell you now. I don't have a crystal ball.

COUNCILMEMBER COUCH: Right. So you're looking at this is just kind of a buffer, and I guess my colleague's concerns is that might be too big of a buffer. Is that, is there a number in between or…?

MR. AGSALOG: Again, Mr. Chair, this is exactly what I was asking from the beginning since we haven't done it before. The only drawback on me as going along with a smaller contingency is that if it was sold at a discount, and I cannot pay for all that discounts, then we might have to go and rebid again the bond. And we will lose time, and also lose credibility as an institution if we are not sure of what we are going to do. I just need that authorization and I will promise you that I only do what is into that ordinance. I don't think that if you allow me that 2 million right now and I only need 50,000 of it to pay for the discount, I don't think that I will go over that.

COUNCILMEMBER COUCH: Okay.

MR. AGSALOG: It's also, it's also mentioned in the ordinance itself what I can use that for.

COUNCILMEMBER COUCH: And, one last question, Mr. Chair, if I may. Just for the people who don't get, you know, all the paperwork that we're looking at, what are we looking at, what's the range of savings if we go this route?

MR. AGSALOG: Right now, the worst scenario, Mr. Chair, we going to send net present value of 483,386. This is the worst scenario for the water loans, the two loans that we have. And in the Sewer, the four loans that we are asking to refund with a net present value of 385,965. And in the most likely scenario that we have already presented to you before, on the Sewer, we going to save 700,663. And for the water loan we going to save net present value of 1,020,893. Okay. So that is the most likely scenario at the moment. But again, the first one that I read you, since I am trying to justify the 10 percent, we have run using the worst case scenario that 10 percent, $2 million contingency, we will save the County still 385,965 for the Sewer and 483,386 for the Water.

COUNCILMEMBER COUCH: Okay. Thank you, Mr. Chair.

CHAIR PONTANILLA: Thank you. Mr. Agsalog, just a fast question. In regards to the 10 percent that you say is already built in, already built in where?

MR. AGSALOG: That's what in the…okay, the handouts that you have today, Mr. Chair, the Sewer, it should be the "Par Amount" at the top, $9,820,000 plus $12,325,000 in the second sheet, Mr. Chair, for the water calculation.

CHAIR PONTANILLA: Just the "Par Amount"?

MR. AGSALOG: Yes, sir. And then the discount will also, the discounts of $1,331,063, those will be the one that, where the 2 percent will go.

CHAIR PONTANILLA: Okay and if you need to pay discount rates, what would be your best guesstimate?

MR. AGSALOG: Say that again, sir.

CHAIR PONTANILLA: Discount rates.

MR. AGSALOG: Yeah, this is the maximum we will pay, Mr. Chair.

CHAIR PONTANILLA: Two million dollars?

MR. AGSALOG: Yeah, right around there, $2 million, Mr. Chair.

CHAIR PONTANILLA: Okay. So based on your calculations as of today's handout then you would need the ordinance as written being higher than 4 percent, looking at this.

MR. AGSALOG: Yes, sir. The net present value again with this calculation will meet the 4 percent as restricted by the general proviso of the bond ordinance. We still a little bit higher.

CHAIR PONTANILLA: Okay. So when you have that opportunity to go for this bond to refund our State Revolving Fund Loan, if and when at that time that you find out that it's gonna be below 4 percent, then it's not a purchase of refunding bonds for the County of Maui.

MR. AGSALOG: Then I won't be able to do it, Mr. Chair, as your Finance Director because then that would be lower than what it requested in the Section 2. Therefore, the sale will only be for the, about $86 million, not including the SRF.

CHAIR PONTANILLA: Okay. Fine. Thank you. Member Baisa?

COUNCILMEMBER BAISA: Yes, thank you very much, Chair. I have a question that may sound very elementary, but I think it's important because not all of us have had the opportunity to be involved in bond refunding. In fact, usually, you know, it's the Finance folks that do this. But the rest of us are not involved.

CHAIR PONTANILLA: Rest for us.

COUNCILMEMBER BAISA: So I would like to ask if somebody will explain the difference between premium and par, premium discount and par, so that we kind of understand what is at issue here. We're hearing these terms, but we're not sure what they mean. Is that, maybe Mr. Baz?

CHAIR PONTANILLA: Mr. Baz. Okay.

MR. BAZ: Thank you, Mr. Chair and Ms. Baisa. That's actually a good question because, you know, as we're going through this, I try to relate it to something that I'm more familiar with. And if you, let me try to relate it to something that most of us have gone through a refinance of a home.

COUNCILMEMBER BAISA: Thank you.

MR. BAZ: When you approach a bank to refinance your home, you get an offer from the bank that says, you know, how much your interest rate's gonna be. Generally in that offer, there'll be sometimes an opportunity to buy down the interest rate so where you pay points ahead of time to buy down your total interest rate itself. So what we're looking at here, that would be a discount. That would be where what we're doing is where we're paying money ahead of time to get a discounted interest rate. So we take this money, this contingency that we're asking for and, depending on the banks, if the people that are, the Underwriters are saying that, you know, we will give you this interest rate, but to get this interest rate, then you're gonna have to pay us this much money upfront. And that's kind of what we're doing here.

COUNCILMEMBER BAISA: So what I'm hearing you say is you want this contingency fund up your sleeve. This is your ace.

MR. BAZ: Correct.

COUNCILMEMBER BAISA: Because you may need it to negotiate.

MR. BAZ: Yes, that and…

COUNCILMEMBER BAISA: And although this has never been done before, apparently that anybody remembers, that it is earmarked so that you can't use it for anything else but for that purpose.

MR. BAZ: The, it's true that this has not been done before with SRF loans. And the authorization that we're requesting is for the SRF loans. The current and in the past, any refunding that we've done of bonds, those kind of negotiations whether it be discounted, which we discussed, par which means you get value for value. And then a premium is where they actually pay you more money than you really are asking for basically. Those are the options that are available in and when we're refunding bonds, and those options can be included in the bond issuance because they're already issued bonds, and the authorization's already there. And in the past, those type of things have occurred.

COUNCILMEMBER BAISA: Okay. I'm getting very clear about why you wanna do this. What I'm not clear on, Chair, is why we don't wanna do this, and maybe Member Hokama can help me understand. It's important.

CHAIR PONTANILLA: Okay. Fine. Mr. Hokama, if you wanna provide us more information?

VICE-CHAIR HOKAMA: For me, Chairman, it's because Council needs to be told before we give approval what the money is for. Contingency is a term for something you don't know what's gonna happen. Okay. And when we borrow money, the County borrows money, or even when I borrow, I don't like question marks out there. I want all the blanks filled in. So normally, Chairman, what we would have is a comparative analysis, why they recommending us to go the way it is, and all the blanks should be filled in or with one range. Not if we have one worst-case scenario, we may need $2 million. No, no, on. Let's eliminate that. We're supposed to know exactly what we should be getting from the State Revolving Funds, either through our Staff or the Administration staff finding out what is the actual advantage for us. That's why we normally go negotiate Underwriter. We must tell the Underwriter if it's to our best interest you gonna eat this difference if it happens because you should have told us prior for us going forward with this authorization. Not come back to the Council and say, well, we didn't know this so you know you gotta put up 2 million. Bull kaka.

CHAIR PONTANILLA: No. I agree.

VICE-CHAIR HOKAMA: Okay. We don't borrow money like that. We don't refinance like that. It should be upfront in front of us. We should be finding out and know exactly what we're talking about. Because what do you tell the rating agencies? Well, we have one worst case scenario. What is the scenario? Well, we're not sure yet because it never happens. We don't know. Well, tell the Underwriter, you want this job? Bond Counsel, you want this job? This is the parameters of the County of Maui's requirements. We don't want blanks. We wanna know exactly what is arranged. Tell us why today we not considering commercial paper, something we gotta float for 365 days. Those par points, premium points, we pay upfront. That's why we go and get bond ratings, Chairman. Then we pay the difference to the AAA. We know that. We've done it in the past, almost every single time we floated bonds. But don't ask me to give money for something that I not sure what we're going be paying for, 'cause I don't give money that way. And I don't know how you're gonna convince the three agencies why we should be asking for additional monies that we have no idea what is potentially useful. We should be, know exactly what we would use it for, and know exactly why it's gonna be part of the bond total amount. You know, I've read all these documents, Chairman. I've done a lot of this financing, and I would like to be comfortable, but I'm not.

CHAIR PONTANILLA: Thank you. Member Baisa?

COUNCILMEMBER BAISA: Yes, follow up. And thank you very much, Mr. Hokama. It's, you know, like I said, new to some of us. We need to understand. And what I'm hearing is that it sounds like a lot of this negotiating really goes on before we do what we're doing. And is this different?

CHAIR PONTANILLA: Sound like it.

MR. AGSALOG: Mr. Chair.

CHAIR PONTANILLA: Go ahead.

MR. AGSALOG: Yeah. If I may, it must have been that I have not communicated very well in how we going to use the 2 million. The 2 million, again, is the worst case scenario when we will sell the bond. And we sell it at a discount. And the reason that I'm saying that if it goes to that, I don't want the main bond sales to be jeopardized because when we go out for competitive sale, we will not put any restriction in hope that we will get a better field of proposals including paying discounts, including having premiums which we get. But if we restrict them to only bid premiums or par, we might not get the best deal. That's the reason that I'm asking for a flexibility. I think this particular contingency is, in part, understood now as expenditure now. It don't have to be if we get the best deal through the competitive process or method that we are trying to implement. Mr. Chair, I have taken a bold step to change the way we trying to sell our bonds, and I'm hoping that this collegial body will help me try to explore other ways to sell the bonds. Previously, or historically, we have always gone to a negotiated process. I'm not saying that's not a good thing. But I wanna explore the competitive best practice recommended by GFOA. But if I go out to competitive bid, as your Finance Director, and I put restrictions here in there so that I do not have to ask you for 2 million contingency, then I think I will not be doing my job. I'm asking you to let me have some flexibility, $2 million, and I will deliver to you and to the people of Maui some savings that I think we can achieve. Right now I think the worst case scenario that I present to you is unlikely to happen. But again, I'm not gonna jeopardize the bigger sales of the bond. The most likely scenario that I have presented to you of 7 percent and 8 percent scenario, with the current rates right now, will happen. It's just that we have to work together and give me the tools to get you there. If I need to individually explain to you the process, and I know probably a lot of you are more experienced in bond ratings and all that, but again, time are changing also. Recommendation from GFOA are changing, so we have to kind of look at ways that it may not be the most popular to do it, but it's the right thing to do.

COUNCILMEMBER BAISA: So I'm hearing that you're saying that this proposal that you have before us is a recommended best practice?

MR. AGSALOG: The competitive method of sales for bonds, I think San Francisco in California do, if I'm not mistaken, 70 percent, 75…what?

MR. BAZ: Hundred percent.

MR. AGSALOG: Hundred percent of their sales is competitive. But a lot of municipalities I think it's a good, right now, probably about 70 percent does negotiated sales. They don't? That's my reading, last reading.

MR. BAZ: For municipalities our size, it's actually 51 percent of bond sales in the last few years have been competitive, not negotiated. And negotiated have been 49 percent. So it's and it's something that the GFOA looks at when you look at the rating that we have currently, and the size of our organization and the size of our issuance. They're recommending that we go to a competitive sale. The competitive versus negotiated really is the underwriting process. It's not necessarily the actual bids that we get when it comes down to the actual sale themselves.

COUNCILMEMBER BAISA: Thank you very much, Mr. Chair, and thank you, gentlemen.

CHAIR PONTANILLA: Thank you. Mr. Carroll?

COUNCILMEMBER CARROLL: Thank you, Chair. I too am not an expert in the financial dealings that we're talking with at this level over here. But I do read, and I do follow generally not only our County, but other counties and the problems they've had, and good and bad about mostly with the flexibility that they've been given. Worst case scenarios Orange County et cetera, et cetera. Best case scenarios, not very many. At this point, I would yield to the Chair, Mr. Pontanilla, and to those over here that have had much more experience in dealing with giving out the flexibility to the Administration, and how much flexibility to be given at this time to obviously save us money and yet be secure. So I will defer to the Chair and wait for his recommendation at the end of the discussion. Thank you.

CHAIR PONTANILLA: Thank you. Mr. Agsalog, just a few questions on my part. In both the Sewer and the Water, you have already written in there a contingency for cost of issuance, contingency for Underwriter fee, and then also additional proceeds, that amounts to like 1 percent of whatever is being borrowed. So what is the difference between that and the contingency that you asked for?

MR. BAZ: Mr. Chair, which sheet are you looking at?

CHAIR PONTANILLA: The one that was handed out today I guess. Yep, 9/24. So to the far right hand column.

MR. BAZ: Okay. The estimated payoff amount, Mr. Chair, is something that we've tried to guess at from the State. It, every time we request a payoff from them, it takes about a month for them to respond to us with a payoff amount. So this is based on the last request that we had, a payoff of 8/1, and the fees, the administrative fee and interest that they do charge. This is the estimated payoff that we're coming up with for, as of December 1st, which is when we think that we're actually gonna be issuing the payoff. The cost of issuance again is the amount that we are assuming is gonna be the cost to issue the bonds, the Underwriter fee goes to the Underwriters, and then the additional proceeds is an amount of $1,587 is because you can only issue bonds in $5,000 increments. And so that's what the additional proceeds are from. That's where you get the total uses of funds of 10,993,936. And if you take that and you add what we're putting in here, what we're calling contingency really is just the ability that we have to buy down the interest, what we call the discount that gets us up to that "Par Amount" of 12,325,000. So that's how all of those numbers add up.

CHAIR PONTANILLA: So rather than…well it's part of the contingency, right?

MR. BAZ: Excuse me?

CHAIR PONTANILLA: It's part of the contingency, in regards to the sale?

MR. BAZ: Yes. That's correct. The discount, so the contingency, the amount that we're asking over and above the principal amounts of these include, and only include, so we're clear here on what we're asking for, they include the cost of issuance, which includes the bond rating presentation costs. It includes the Underwriter fees, which is the fee we pay to an Underwriter that we're guessing, you know, is gonna be about 1 percent, and the additional proceeds that you see here and then a discount if we're gonna buy the bonds at a discount or issue them at a discount. So those are the costs of the, over and above the principal amount that we're discussing. That's only what we would pay for it.

CHAIR PONTANILLA: I hope, Mr. Baz, as well as Mr. Agsalog, the reason why all of this question is that, you know, I know it's never been done before by the County of Maui, and what is so, I guess our main concern is a contingency of $2 million. Really, you know, there's no, well for me, it's just an estimate that is being requested for a contingency, a 10 percent figure. Not really knowing, you know, will 1 percent, 2 percent, or 3 percent suffice. I don't know. I don't know.

MR. BAZ: Mr. Chair, if I could respond?

CHAIR PONTANILLA: Yeah.

MR. BAZ: Okay. Thank you. We do completely understand the hesitancy and uncertainty that is, that we're presenting in this proposal. And that is something that, until we go and get the pricing bids, we won't know exactly what that number is. But I can guarantee to you that we will not issue, we will not spend more money than what's required. So if only 1 percent's required, then that's all we'll spend. If no money is required, then we won't spend any extra money. And that's really, it comes down to the final analysis of the, how much we're paying for a discount versus the rate that we're gonna receive as part of that discount. And it will, so two things that your Finance Director and myself will make sure of is that we're not spending a dime more than we need to, and that we still will save at least 4 percent as part of this ordinance is required.

CHAIR PONTANILLA: And then you also meet the provisions of the Budget Ordinance?

MR. BAZ: Yes.

CHAIR PONTANILLA: Okay. Members, any more questions? Mr. Victorino.

COUNCILMEMBER VICTORINO: Thank you, Chair, and thank you, Mr. Agsalog and Mr. Baz, for the explanations. I think that's important. Most of us, as it's been mentioned, we're not financial experts and these are opportunities for us and the public to understand what you're trying to accomplish and the methodology that you're using. So I think that's important. So if it sounds elementary, well it is. And that's okay, because I think people need to know this, know what you're intending to do and what they're going to save in the overall scheme of what we're trying to do. And I guess my only question, after all of this, is one, is really simple. You're saying, if I heard you correct, Mr. Baz, a minimum of 4 percent that we would save over, and if we're talking these monies and 4 percent, again, what are we talking in actual dollars? 'Cause people like to hear, you know, $1, $10, $20, 100,000. And again, more or less again, and I not trying to put you on the spot like I've done in the past and I apologize, but really. What is it so that the public understands when you're trying to do all of this, worst case scenario, best case scenario, what do we save? Because this is a lot of work. We wanna save money, and we've, you know, I've always was told when it comes to refinancing your house, if you go more than 1 percent of your total cost, you don't do that because you don't make out when you go over the amortization. Now again, I'm not smart to know these things, but I listen to the experts. And it does work out in a dollar sense. So if we do what you said we going to do, and worst case scenario, what would we save as a County, because I think that's what people would like to understand. I know I would, please.

MR. BAZ: Mr. Chair, and Member Victorino, that's a very valid question. And just for, if you look at the sheet that we passed out today, for the Sewer Fund refinancing, you'll see that over the life of these loans, we would save, you know, we're calculating as 4.33 percent, so it's fairly close to 4 percent, is $385,965. So that's the real dollar value that we're looking at. For the water, at a 4.25 percent net savings, you would be looking at a total of $483,386. So the worst case scenario that we're looking at, we would save at least about $870,000.

COUNCILMEMBER VICTORINO: Thank you. And I know we have the sheets, but the public doesn't have these sheets.

MR. BAZ: And there's a lot of numbers on these sheets, too. So you have to analyze them and know what you're looking at, and I appreciate the questions, because this is a decision that is something that is unfamiliar to, you know, all of us when we first started this. And we wanna make sure that you have the most knowledge that you can and make an informed decision.

COUNCILMEMBER VICTORINO: And I think the other aspect, Mr. Chair, of this, we are charting, chartering unchartered waters. You know, we're going into something we've not done in the past. And like other things we've done, we've seen success and we've seen failures, aka the student loan, and we don't wanna go through that. But we've tried different things and sometimes they work and sometimes they don't. What we want to do is eliminate as much of a chance of losing or not getting what we really need to save in this case versus taking a chance and maybe getting more. Like, you know, we had originally looked at 1.3, 1.4 million, which would be on the best case scenario. So we have two dichotomies right now, and I understand. If this is the best case scenario, and you're talking 900,000 almost, I think that's a nice chunk of savings for the County. I think the concern on the 2 million contingent, I think, you know, raises some, some concern on our part. And I understand Mr. Hokama, and I look to him for financial wisdom, because he has been doing this for a long time, just like Mr. Pontanilla. So we lean on these Council members for their wisdom in what you're saying. I like what I see. I, you've answered all the questions in my mind fairly accurate and fairly honestly. I would just for the recommendation by the Chair, but thank you very much. And I think the public can be assured you've done your homework, you've done your due diligence. And thank you, gentlemen. Thank you, Chair.

CHAIR PONTANILLA: Thank you. Mr. Mateo.

COUNCILMEMBER MATEO: Mr. Chairman, thank you. This is kinda hard for me because I can look at this and both ways is fine with me, because one, my difficulty with contingency, you know, I always equate contingency with the blank check concept right. And that sure as hell bother me. And on the other hand, you know, as businesspeople, you understand the need and the flexibility in being able to negotiate. And the ultimate I guess objective, for us when you take a look at when the smoke and mirrors are gone and you're looking at sheer numbers, what you actually looking at is the opportunity for the County to actually save. So for me, I'm kinda like sitting on the fence waiting for one strong wind to come so it can blow me one way or the other because, you know, at this point, I can understand both sides. And it is difficult, and both come with a little hesitation. So, you know, like the good soldier do, I will await the Chairman's proposal or recommendation. And I'm ready to go. Thank you, Mr. Chair.

CHAIR PONTANILLA: Thank you. Just, I guess, a question from me to both of you in regards to the bigger picture in October. How will this play out, I don't know, in regards to the bond rating?

VICE-CHAIR HOKAMA: Chairman, if I can ask the gentlemen a question, please?

CHAIR PONTANILLA: Okay. As soon as I'm done. Okay. I don't know where it's gonna go. And, you know, if we somehow stumble, you know, again, you know, stumbling means our bond rating goes down. And, you know, it's kinda hard knowing that we've taken this long to get to AA+ and, you know, I hate to jeopardize that. Mr. Hokama.

VICE-CHAIR HOKAMA: Chairman, you know, from what I've heard early in the meeting, there's two components, yeah- the regular GO consideration for the normal CIPs and whatnot, then a refinancing component is a second part of this consideration. So that would be accurate, Mr. Baz?

MR. BAZ: Yes. Mr. Chair, there's actually gonna be three components. One…

VICE-CHAIR HOKAMA: Okay, the third component is?

MR. BAZ: One is the issuance of new money, that's for the CIP that we're going out now, approximately 45, 46 million dollars in new monies for water and General Obligation bond. Then the other is refunding of current bonds, and then the third is the refunding of these SRF loans.

VICE-CHAIR HOKAMA: Okay. Can you, do you have something you can show us with the refunding of the regular GO bonds, so we can see the difference with this special funds refunding component? Maybe that would make it easier for us because then we will see two refunding instruments, one for the General Obligation and one for special purpose?

MR. BAZ: Yeah. No, we don't, I don't have that with me right now to show you. I think I understand. What you're asking, you wanna compare okay, if this SRF thing is something new to us, and the regular GO bond refunding is something that we've done in the past, you wanna try to, to sit there and compare the two. We have an analysis of what the GO bond refunding would be, you know, which bonds we were gonna refund and things like that. But we leave, since it is already authorized for us to issue bonds on that and the cost of bonds is appropriate, we don't have an analysis like what we presented today. We don't have that net present value savings analysis to you. But it's something we would evaluate prior to actually issuing the refunding bonds is that we make sure that we're gonna be having savings of at least 4 percent.

VICE-CHAIR HOKAMA: Could the arbitrage be used to offset the contingency request?

MR. BAZ: No. I mean arbitrage we have as money that we can use to refund projects with, and we usually include that in lapsed bond proceeds for us to issue when we come back to you for authorization to issue and spend that money on Capital Projects. We don't, and since we just did the budget process, we don't really have much lapsed bonds available at this point.

VICE-CHAIR HOKAMA: But wouldn't we get some arbitrage out of this process of this new bond consideration, since we refunding?

MR. BAZ: Only if we would have the…the answer's no because we wouldn't be issuing more bonds than we need to refund the exact amount we need. So because of that, then the idea of arbitrage, the idea of us gaining interest money off of the monies that is issued to us isn't gonna happen, because once, as soon as we issue the bonds for this refunding, then we're going to be paying off the State immediately. So there's not that time period or significant time period that we would actually make money on the interest of that fund. So the arbitrage wouldn't be available.

VICE-CHAIR HOKAMA: So then those borrowed monies we actually going be paying more than what we would have, right?

MR. BAZ: Excuse me, which borrowed monies?

VICE-CHAIR HOKAMA: There comes a point where, even in your analysis, you're showing that we're losing because the option payment is less than the principal, right?

MR. BAZ: Plus interest over time, yes.

VICE-CHAIR HOKAMA: Over the time?

MR. BAZ: Yeah. So that, that's where we're calculating, you know, the payoff amount we're estimating at December 1st. And that's what we're getting the cost we've asked, requested from the Department of Health what would the payoff be. I think, actually I think it's gonna be as of November 15th because they do it at the 15th of every month. So that's what we're estimating the payoffs are gonna be as of November 15th. So, you know, as soon as we issue the bonds, then we're gonna pay off that money. There won't be any additional interest costs at the State level that we don't need.

VICE-CHAIR HOKAMA: The way I see it, you know, Mr. Baz, you know, if the Underwriter of the Council has, or something comes up with the rating agency's return comments to the County, I think you have it in a way that we can lop off the SRF side and not jeopardize the GO side.

MR. BAZ: Exactly.

VICE-CHAIR HOKAMA: In case it needs to be done in that manner, you know, I don't have a problem with separating and considering the refinancing of the special funds separately to make sure that the County moves forward on these requirements of general obligation, standards and GO obligation. I mean, if you don't understand my brain then, you know, you gotta ask me the questions, 'cause it's real clear in my brain.

MR. BAZ: Mr. Chair, I had that similar question. Was would this SRF jeopardize the refunding of all of our bonds or the new issuance and how that relates. And because they're separate components of our bond issuance, the ability to say, hey we don't wanna refinance that section of it is very possible, yes.

VICE-CHAIR HOKAMA: Okay. Well, I guess, you know, the Chairman and I will hear your approach to the agencies in the next week or so. So, you know, I be looking forward to that approach of, because as you say, there's three separate components in one request.

MR. BAZ: That's correct.

VICE-CHAIR HOKAMA: And so I can see the options available to us. What do you have, so there's no one that's gonna assure us on the underwriting prior to meeting with the rating agencies?

MR. BAZ: No. We have met with Underwriters, and they're all very anxious for us to issue.

VICE-CHAIR HOKAMA: I'm sure.

MR. BAZ: In fact, we get called from a couple of them almost daily now, saying oh, can…we're almost there, almost there, so. And one of the components that they're looking at is this. They're following this very closely because they're more interested in refunding these loans as well.

VICE-CHAIR HOKAMA: So I hope they're listening, 'cause then they better give us the best deal possible.

MR. BAZ: Yeah, and that's what we're pushing for. We're really, you know, pushing this so that we get the best deal possible from the different Underwriters to make sure. You know, we're looking at this and, you know, there's a discussion as you know, the Underwriters will get together and bid on this. So you're gonna have more than one company. The size of this is so large. They're gonna have one, more than one company in this, one will be the lead of course, and then we're gonna have probably two or three partners in each of the bids as we get them. And we're looking forward to receiving about six or seven bids on this based on the various interests that we've got so far.

VICE-CHAIR HOKAMA: Okay. Thank you, Mr. Baz. And the interest we calculate, the State does it what, semi-annual interest calcs, or they do a daily calc for us, or a…?

MR. BAZ: Mr. Chair, we believe that it's based on a kind of a monthly analysis because of the 15th of each month being kind of a breakout period. The, it's very hard for us to backtrack from when we asked for the payoff, when we asked for the payoff as of August 1st, which was the original request. It was very hard for us to backtrack to the beginning of that fiscal year and the total Debt Service compared to--they had the two components, right--the administrative fee and then the interest cost, which is the money that goes back into the Revolving Fund. And because of those two components, it seems like they charge the administrative fee on a six-month basis. So we paid for six months, they're not gonna credit for if we pay it off early kind of situation. But the interest it seems that they, is more of a either monthly or quarterly kind of a basis.

VICE-CHAIR HOKAMA: Is this from DAGS?

MR. BAZ: No, this is Department of Health.

VICE-CHAIR HOKAMA: Health Department does their own calcs?

MR. BAZ: Yes.

VICE-CHAIR HOKAMA: They don't use DAGS?

MR. BAZ: No.

MR. AGSALOG: They have account counsel.

VICE-CHAIR HOKAMA: Oh, interesting.

MR. BAZ: They have these loan, they don't call 'em loan fund managers, but they have these analysts in the Department of Health that work on…majority of the Department of Health's, and part of the reason there's so much ambiguity and we're gonna discuss shortly when it comes to some switching around of SRF monies for water and wastewater projects is because it's completely based on their cash flow. And so the money that's getting paid in is available money they have to get paid out, and they calculate it out a number of years based on, you know, availability of funds and which projects are coming through. So they analyze this and it could be why it takes so long to get a response from them is that it's not very basic amortization schedule.

VICE-CHAIR HOKAMA: So who actually accounts for the money in Health Department?

MR. BAZ: Yes. The Health Department is the one that accounts for the funds.

VICE-CHAIR HOKAMA: And they turn in the annual audit to the Leg?

MR. BAZ: As far as we know, yeah.

VICE-CHAIR HOKAMA: Interesting. Interesting. Well, that's another tree to climb one day. They got their big tree to climb called University of Hawaii today. Chairman, thank you very much. I appreciate you letting me ask the gentlemen those questions.

CHAIR PONTANILLA: Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Mr. Agsalog, or Mr. Baz, either one, just to see if I can simplify it further. The $2 million is for if we spend the $2 million, then we're gonna, 'cause it's worst case scenario, then we're gonna save around, what was it, about $800,000 if we spend the 2 million. If we don't spend the 2 million, we're gonna save around $1.7 million. I mean, those are the--

MR. BAZ: Those are the different scenarios that we've been looking at, correct.

COUNCILMEMBER COUCH: So still, if we spend $2 million, we're gonna save. I mean, it's not anything extra. We're still coming out ahead $800,000ish, right?

MR. BAZ: Mr. Chair, that is correct.

COUNCILMEMBER COUCH: Okay. Thank you.

CHAIR PONTANILLA: Thank you. Members, any more questions? Okay. Seeing none, Chair is gonna call for a maybe five minute, four minute recess up to 2:35. Thank you. Meeting is in recess, four minutes. . . .*(gavel)*. . .

RECESS: 2:31 p.m.

RECONVENE: 2:40 p.m.

CHAIR PONTANILLA: . . .*(gavel)*. . . The Budget and Finance Committee meeting is now reconvened. Members, you guys got any more questions for either Mr. Baz or Mr. Agsalog, or Mr. Kuwada *[sic]* at this time?

COUNCIL MEMBERS: Kuwada?

CHAIR PONTANILLA: I'm sorry. Ueoka.

COUNCILMEMBER VICTORINO: Oh, you got a new name.

CHAIR PONTANILLA: Oh, sorry. Look like one Kuwada.

UNIDENTIFIED SPEAKER: He got fired and all.

CHAIR PONTANILLA: Oh yeah, you guys all wait. Members, at our September 4th Committee meeting, the Chair sent a correspondence to Mr. Agsalog in regards to, and Mr. Baz, in regards to the request to, the request to the SRF loans being paid off through bond, refinancing bonds. And today's meeting is, basically, is in regards to the correspondence that the Chair had sent. At the September 4th meeting, we already took a vote, and the vote was eight to zero in moving forward on the bond request of $22,148,500. So, Members, if the Committee this afternoon does not make any changes to the proposed bill, then no further action is required at this time. So Members, I leave it open to you folks. Any questions? Mr. Hokama.

VICE-CHAIR HOKAMA: Chairman, thank you for that explanation to the Committee. You know, I'll just say what my position is. I understand what the two, our two Directors, Mr. Baz and Mr. Agsalog, trying to do. And I can be, support. I'm just uncomfortable with that level of contingency, 10 percent. So I will state my reservations on that and again, at this point in time, you know, I'm kinda, I'll be open because I know what it takes to prepare and go through those bond rating agency reviews. Because after that, we just twiddle our thumbs and sit on our okoles hoping for the best rating possible from those agencies. So since you and I have been, will be participating with both Directors, I think that maybe during our review of how the agencies come forward with their questions, 'cause they're doing their analysis. They doing their own in-depth due diligence, Chairman, that they always do. We'll see how it goes and then if need be to refine later, we can talk with those gentlemen and make appropriate adjustments for the County's benefit. But, you know, again, it's just my uncomfortableness with that level of contingency 'cause, to me, the tighter we can make it, we also show the agencies we have a very good grip on exactly what we want to do and we've put our limitations within. You know, for me, the Finance Director and I have talked about, you know, double digits or digit kind of percentages for certain things, and he and I are coming to a meeting of the minds that, you know, there's areas we can work together on. So I'm willing to give the County and the Departments a couple more weeks 'til we get through this agency review period. Thank you, Chairman.

CHAIR PONTANILLA: Thank you, Mr. Hokama. And I just wanna make a short comment in regards to what Mr. Baz had already said, that when we, because there's three components that he mentioned that he is, will be involved. One of them will be the General Obligation refunding bonds, refunding of the bonds, looking at lower interest rates. Again the Capital Improvement request for General Obligation bond and again, the also refinancing of some GO bonds for better rates. The Chair, you know, like you, Mr. Hokama, felt very uncomfortable in the contingency. I think we all are uncomfortable, but with the ordinance, Budget Ordinance already set in place, you know, if there's no savings less than 4 percent, then it doesn't go. So I'm kinda comfortable with that. But again, yeah, $2 million is a lot of public money, but looking at the safeguards, you know, we do have some safeguards in place at this time. So, Members, without any objections, the Chair would like to request again from all of you to have Staff do unsubstantitive *[sic]* changes to the ordinance itself.

COUNCILMEMBER VICTORINO: No objections, Chair.

COUNCILMEMBER COUCH: No objections.

COUNCILMEMBER COCHRAN: No objections.

CHAIR PONTANILLA: Thank you. So with that, the Budget and Finance Committee meeting is now adjourned. Thank you. . . .*(gavel)*. . .

ADJOURN: 2:46 p.m.

APPROVED:

JOSEPH PONTANILLA, Chair
Budget and Finance Committee

bf:min:120924:ak

Transcribed by: Amanda Kaili

CERTIFICATE

I, Amanda Kaili, 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 this 15th day of October 2012, in Kahului, Hawaii.

Amanda Kaili

Amanda Kaili