

**BUDGET AND FINANCE COMMITTEE**  
Council of the County of Maui

**MINUTES**

**March 30, 2015**

**Council Chamber**

**CONVENE:** 9:04 a.m.

**PRESENT:** Councilmember Riki Hokama, Chair  
Councilmember Mike White, Vice-Chair  
Councilmember Gladys C. Baisa, Member  
Councilmember Robert Carroll, Member  
Councilmember Elle Cochran, Member  
Councilmember Don Couch, Member  
Councilmember Stacy Crivello, Member  
Councilmember Don S. Guzman, Member (in 1:59 p.m.)  
Councilmember Michael P. Victorino, Member

**STAFF:** Michele Yoshimura, Legislative Analyst  
Mark R. Pigao, Legislative Analyst  
Yvette Bouthillier, Committee Secretary

Ella Alcon, Council Aide, Molokai Council Office (via telephone conference bridge)

Denise Fernandez, Council Aide, Lanai Council Office (via telephone conference bridge)

Dawn Lono, Council Aide, Hana Council Office (via telephone conference bridge)

**ADMIN.:** Lance Taguchi, County Auditor, Office of the County Auditor (BF-9)  
Danilo Agsalog, Director of Finance, Department of Finance

Seated in the gallery:

Jacob Verkerke, Chief Technology Officer, Information Technology Services Division, Department of Management (BF-9)

Holly Ficke Ho, Waterworks Fiscal Officer, Fiscal/Customer Service Division, Department of Water Supply

Wayne Fujita, Accounting System Administrator, Accounts Division, Department of Finance

May Anne Alibin, Accounting System Assistant Administrator, Accounts Division, Department of Finance

**OTHERS:** **Item BF-9(1):** Blake Isobe, CPA, Principal, Assurance Services Division, N&K CPAs, Inc.  
John Bautista, CPA, Senior Manager, Assurance Services Division, N&K CPAs, Inc.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

**Item BF-52(1):** Wesley Machida, Director of Finance, State Department of Budget and Finance  
Paul George, Employees' Retirement System, State of Hawaii, Maui District Office  
Emalu-Hima Cleveland, Employees' Retirement System, Maui District Office

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

---

CHAIR HOKAMA: . . . (*gavel*) . . . Council's Committee on Budget and Finance shall come to order. This is our meeting of March 30, 2015. Present today in our meeting are Members, Mr. Carroll.

COUNCILMEMBER CARROLL: Good morning, Chair.

CHAIR HOKAMA: Good morning, sir. Ms. Baisa.

COUNCILMEMBER BAISA: Good morning.

CHAIR HOKAMA: Good morning. Ms. Cochran.

COUNCILMEMBER COCHRAN: Aloha. Good morning, Chair.

CHAIR HOKAMA: Mr. Couch.

COUNCILMEMBER COUCH: Good morning, Chair.

CHAIR HOKAMA: Ms. Crivello.

COUNCILMEMBER CRIVELLO: Aloha and good morning, Chair.

CHAIR HOKAMA: And Mr. Victorino.

COUNCILMEMBER VICTORINO: Aloha, Chair.

CHAIR HOKAMA: At this time, excused will be Messrs. White and Guzman. Before we start on the day of the working on the agenda, we shall take public testimony from anyone in the Chambers or in our District Offices. First, I'll ask if anyone has signed up? No one has signed up for testimony in the Chamber as of this time, Members. Hana Office, Ms. Lono, anyone wishing to provide testimony?

MS. LONO: Good morning, Chair. This is Dawn Lono at the Hana Office and there is no one waiting to testify.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: Thank you. Ms. Fernandez, Lanai, anyone wishing to provide testimony?

MS. FERNANDEZ: Good morning, Chair. This is Denise Fernandez on Lanai and there is no one waiting to testify.

CHAIR HOKAMA: Thank you. On Molokai, Ms. Alcon, anyone wishing to provide testimony?

MS. ALCON: Good morning, Chair. This is Ella Alcon on Molokai and there is no one here waiting to testify.

CHAIR HOKAMA: Okay, thank you very much, ladies. Members, with no request for testimony, we shall close testimony for today's meeting with no objection.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Thank you so much, Members. So ordered.

**ITEM NO. 9(1): SINGLE AUDIT REPORT (FISCAL YEAR 2014)** (CC 15-85)

**ITEM NO. 3(1): COMPREHENSIVE ANNUAL FINANCIAL REPORT ("CAFR")**  
**(FISCAL YEAR 2014)** (CC 15-40)

CHAIR HOKAMA: May I direct you to BF-9(1). It is the Single Audit Report under the Fiscal Year 2014. Present today this morning we have our County Auditor, Mr. Taguchi, and Mr. Taguchi will introduce our auditors for the Single Audit Report purposes. Mr. Taguchi?

MR. TAGUCHI: Chair Hokama and Members of the Budget and Finance Committee, with me is from the firm of N&K CPAs, Incorporated in Honolulu is Blake Isobe. He is a partner with the firm, and John Bautista, and he's a Senior Manager. They worked on completing the Capital Audit and the Single Audit and the Department of Water Supply Audit. They're here to give you a brief presentation and respond to any questions that you may have regarding the reports.

CHAIR HOKAMA: Okay, thank you very much. Mr. Isobe?

MR. ISOBE: Good morning, Council. I'm Blake Isobe, I was the engagement partner on the audit and this is John Bautista. He was the Senior Manager in charge of the audit. We're pleased to be here today to report to you the results of the audit of the County of Maui for the Fiscal Year ending June 30, 2014. We would like to cover the scope of the audit and the reports that we delivered as a result of the audit. We were engaged and we performed the audit of the County of Maui Comprehensive Annual Financial Report or the CAFR, and also audited the Department of Water Supply. And because the County expended \$61.3 million in Federal funds, we also performed the audit of

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

the Federal funds or what's called the Single Audit. As a result of the audit, we issued five separate reports. The first report which is the Comprehensive Annual Financial Report, within there on Pages 19 to 21 is our Independent Auditor's Report. Within this report on Page 20 is our opinions on the financial statements and we were able to issue an unmodified opinion or what's also known as a clean opinion on the County's CAFR. The second report we issued is contained within the Department of Water Supply's financial statements. Our Independent Auditor's Report is on Pages 3 to 5 of the Department of Water's financial statements. And here on Page 4 is our opinion on the financial statements. And here on the Department of Water Supply, again, we issued an unmodified opinion or what's known as a clean opinion on the Department of Water Supply's financial statements.

COUNCILMEMBER COUCH: Mr. Chair, excuse me?

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: Kind of point out...can he point out where he's looking at?

CHAIR HOKAMA: Okay, thank you for that question.

COUNCILMEMBER COUCH: Because when he says, Page 3 to 4 it has nothing to do with Water on this...

CHAIR HOKAMA: Yeah, we'll ask the auditor which copy he's referring to in his comments, please?

MR. ISOBE: Okay, sorry. So that first report that we issued on Pages 19 to 21 is the CAFR, the Comprehensive Annual Financial Report.

COUNCILMEMBER COUCH: Okay, I'm trying to look at...which, can you show us which report that is?

CHAIR HOKAMA: That's the one with white cover letter.

COUNCILMEMBER VICTORINO: This one.

COUNCILMEMBER BAISA: Page 19...

COUNCILMEMBER VICTORINO: Right there, the folder.

COUNCILMEMBER COUCH: Oh, in this one. Thank you. Thank you, Chair.

CHAIR HOKAMA: Okay, thank you. And then on the Water component, Mr. Isobe, it's on--

MR. ISOBE: Sorry, on-

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: --the Single Audit Report.

MR. ISOBE: Okay, on the Department of Water, it's Pages 3 to 5 of the Department of Water report. That's also our Independent Auditor's Report where we issued an unmodified opinion or what's known as a clean opinion.

COUNCILMEMBER VICTORINO: That's a different one.

CHAIR HOKAMA: One second, yeah, Members.

COUNCILMEMBER VICTORINO: Okay, I'm looking for it.

CHAIR HOKAMA: Okay, we may not have the Water report, because the Water report was referred to...the audit was referred to Water Committee and not Budget which is not a traditional referral for these reports. That's why this Committee does not have all of the requirements of the past budget reviews on this matter, Members. But I think you need that report before you since it is the auditor's comments. So we'll take a short recess and try and get the appropriate documents for the Members. We'll be in recess subject to the call of the Chair. . . . *(gavel)* . . .

RECESS: 9:11 a.m.  
RECONVENE: 9:19 a.m.

CHAIR HOKAMA: . . . *(gavel)* . . . We shall return to order. So everyone is clear on where we are--I know the auditor is talking about the CAFR--so, but we will also talk about the Single Audit, Members. So with no objections, I'll allow the discussion to be on BF-3(1) which is the CAFR, the Comprehensive Annual Financial Report. And when the auditor moves into the Single Audit portions we'll discuss it too. Action will be done separately as posted by the agenda. Okay. And if we have difficulty, then I'll make the appropriate adjustments for meeting purposes. So now that we have all the documents, Mr. Isobe, if you would please continue?

MR. ISOBE: Okay, sorry about that.

CHAIR HOKAMA: No. No apologies.

MR. ISOBE: Okay, so now that we have the Department of Water Report, now that we have the Department of Water Report, on Pages 3 to 5 of that report is our Independent Auditor's Report on the Department of Water Supply's financial statements. Located on Page 4 is our opinion which is an unmodified opinion on the financial statements. The third report that we issued will be the Single Audit Report which is the green report. Within this report on Pages 6 and 7...okay, on Pages 6 and 7, this is our report on Internal Control Over Financial Reporting and On Compliance and Other Matters, and this is required by government auditing standards. So we issue this report. Within this report, we note that we noted no material instances of

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

noncompliance with laws and regulations. We do indicate that we noted one material weakness and ten significant deficiencies, and we can go over those findings shortly.

CHAIR HOKAMA: Okay, thank you.

MR. ISOBE: Also within this report, we issued another report on Pages 9 through 11. This is our Independent Auditor's Report on Compliance for Each Major Federal Program and Internal Control Over Compliance. We also issued a report on the Fair Presentation of the Schedule of Expenditures of Federal Awards or what's referred to as the SEFA. On Page 10 is our opinion on the County's Federal Major Programs. Here we issue, also issue an unmodified opinion, and we state that the County complied in all material respects with the compliance requirements that could have a direct and material effect on the County's major Federal programs. We also report that there are two internal control findings that we'll also discuss shortly. The Federal programs that we audited this year appear on Page 24 of this report. There are seven major programs and I think in the prior year there were five; so we did a little bit more programs just based on the size. I wanted to go over one more thing before we get to the findings and this is a letter that's required communication to those charged with governance. And it's kind of like an audit wrap-up letter or summary letter and it's, it goes over the significant audit findings. So I think you guys got a separate letter that's addressed to you. I'll go over the main highlights of this letter. These are just required communications.

CHAIR HOKAMA: Okay, thank you. Proceed.

MR. ISOBE: Okay. So, part of the required communications is the significant accounting policies which appear in Note 1 in the CAFR. The County did adopt a new accounting principle which was Government Audit Accounting Standards Board, Statement No. 65. We could describe it here. That new pronouncement required a prior period adjustment to the financial statements to restate the presentation of several items within the financial statements. Also, within the Department of Water, they also implemented that GASB 65, and so they also have a prior period adjustment related to the implementation of that new accounting principle. All other accounting policies are consistent with the prior year, and there were no transactions entered into the County that lacked authoritative guidance. Accounting Estimates. The County's financial statements contain a number of accounting estimates. The more significant ones are the estimate of doubtful accounts which is the collectability of the receivables. This estimate is based on account analysis and collection history. Depreciation of the County's capital assets which is based on the estimated useful lives determined by management. Accrued Other Post-Employment Benefits Liability which is based on actual determinations. Claims and Judgments Liability which is based on a large part on the County's Corporation Counsel's estimates of the County's outstanding liabilities. And the last, the landfill closure and post-closure cost liability which is based on cost and capacity estimates by management, engineers, and third-party contractors. As part of the audit, we look at these assumptions and factors used to develop these estimates and we believe that these estimates are reasonable.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

Difficulties in Performing the Audit. We did not encounter any significant difficulties in dealing with management in performing and completing the audit. As in the prior year, the County was able to secure an extension by GFOA to submit its financial statements by the end of January, and they were able to meet this deadline. Understand this was a transition year for both change in auditors and you know, for the County so there was additional work on both ends by the County and by us to gain the understanding, and you know, I believe Department of Finance, you know, they spent a lot of time helping us gain that understanding. We appreciate it. Corrected and Uncorrected Misstatements. Here as noted in Note 14 to the County's CAFR and as a finding that we will note in the Single Audit Report there was a material adjustment that was corrected by management to the prior year financial statements which was related to revenues reported in the Agency Fund. That adjustment does not affect our opinions on the financial statements and we still are able to issue an unmodified opinion. There were no disagreements with management in the financial accounting, reporting or auditing matters and management was able to provide us a management representation letter required for the audit. Again, this letter is just a summary, and you know, it's a required communications to those charged with governance. Okay, moving onto the Single Audit Report and the findings within that report. These findings start off on Page 25 of the Single Audit Report.

CHAIR HOKAMA: Okay, Members, you have that, Page 25? Okay, Mr. Isobe?

MR. ISOBE: Okay, starting with Finding 2014-001. Internal Controls Over Automated Payroll Processing System. This finding was noted by the prior auditors and again, we feel--

CHAIR HOKAMA: Mr. Isobe, you know, I apologize for interrupting at this point, so our tax base can understand and for the Committee's understanding, why don't you first tell us the difference between one material weakness and one significant...what was the other term, deficiency?

MR. ISOBE: Okay, sure.

CHAIR HOKAMA: You folks place it in two categories, am I correct?

MR. ISOBE: Yes, correct.

CHAIR HOKAMA: It's either material or--

MR. ISOBE: Significant.

CHAIR HOKAMA: --significant. So maybe if you could just give us one sense of how we should be looking at these two terms, please?

MR. ISOBE: Okay, sure. The definition for significant deficiency and material weakness appear on Page 10 to the, this report, and I can kinda go over it real quickly. A

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

significant deficiency in internal control, sorry...that's the compliance one, I'm sorry. Sorry, for the financial statement purposes it appears on Pages 6 and 7, sorry. So a significant deficiency is a deficiency or combination of deficiencies in internal control that's it's not as severe as a material weakness, but yet you know, we feel it's, merits attention by those charged with governance and so, therefore, we do report them within this report. Now a material weakness is a deficiency or a combination of deficiencies that there's a possibility that a material misstatement on the financial statements will not be prevented or detected and corrected within a timely manner. Meaning that you know, it's a high likelihood that a misstatement could occur and that would be a material weakness. Significant deficiency is not as a severe.

CHAIR HOKAMA: Okay, thank you.

MR. ISOBE: Okay, so back to Page 25, Finding 2014-001, the Internal Controls Over Automated Payroll Processing System, and this is recorded as a significant deficiency. So this finding was noted by the prior auditors, and again, you know we feel that the County's automated payroll system could improve. With payroll costing one of the largest expenditures of the County, the payroll processing system is one of the larger accounting systems. As noted within our finding and noted by prior auditors, there were missing approvals on the manual timesheets or automated timecards noted during our testing. You know, we were informed by the Department of Finance that there was a new Payroll Policies and Procedures Manual effective June 1, 2014. However, our testing was not included, did not include that pay period so we did note these findings. So what we did was we did a little additional work on the June 30<sup>th</sup> pay period, and we pulled a small sample, and did not note any findings during that small sample. Although that could be a good sign, you know, we're not able to say that it's resolved because we did note findings throughout the year. The next Finding on Page 27, 2014-002, Internal Controls Over Payroll System Historic Edits. Again, this is a repeat finding from the prior year. Historic edits are like corrections to either the time submitted or the amount being processed in the payroll system. The documented review and approval of these edits are the essence of this finding. Again, those new Payroll Policies and Procedures Manual established roles and responsibilities of the departments and employees to follow regarding these historic edits. So there was some corrective action as it relates to the issuance of new policies and procedures related to this finding. Moving onto Finding 2014-003, Timely Reconciliation of Federal and State Grant Programs. Okay again, this is a repeat finding. And the County has made efforts to identify and work with the departments to investigate and reconcile some of the older grant balances. Since majority of the grants are on a reimbursement basis where the County fronts monies and requests reimbursements from the Federal Government or the State Government, there are amounts that are shown as receivables from the State and Federal Government. But there's also amounts received in advance that are recognized as deferred revenues or monies that the County still needs to spend. What we're recommending here is that formal policies and procedures to timely reconcile the grants either monthly or quarterly along with the overall monitoring of the Federal and State grant programs which is also another finding that we'll go over soon. This grant position could

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

monitor their reconciliations and coordinate between the departments that are responsible for administering the grants and finance to ensure that the balances are accurate. The next Finding on Page 29, 2014-004, Internal Controls Over Miscellaneous Cash Receipts. Again, this is a repeat finding from the prior year. And although a large portion of the County's cash receipts and revenues are real property taxes and other taxes, there are small amounts that are collected at various departments and divisions within the County, and the finding here is just that internal controls over these miscellaneous cash receipts should be improved. Page 30, Finding 2014-005--

COUNCILMEMBER COUCH: Mr. Chair?

CHAIR HOKAMA: Yes?

COUNCILMEMBER COUCH: Are you allowing questions?

CHAIR HOKAMA: I want the auditor to finish this section.

COUNCILMEMBER COUCH: Okay.

CHAIR HOKAMA: And then I'll allow you folks to go and present your questions or concerns to the auditor.

COUNCILMEMBER COUCH: Thank you, Chair.

CHAIR HOKAMA: Okay, if you please, Mr. Isobe?

MR. ISOBE: Okay, 2014-005, Accounting for Construction Work in Progress. The County and Department of Water Supply maintain the construction in progress schedules manually. As noted in the prior audit, the transfer of the completed projects from construction in progress to capital assets were not occurring timely. This is primarily due to the communication from the project engineers to the fiscal staff to properly transfer these projects out of the CIP. There were also amounts that were capitalized as construction in progress that should have been expensed as repairs and maintenance. What we're recommending here is that the County establish procedures to maintain and reconcile the CIP schedule throughout the year and also to establish formal procedures to ensure that the completed projects are communicated timely and transferred. For Fiscal Year 2014, the reconciliation of the CIP schedule occurred after year end which lead to some of the delays in the current year CAFR which leads into the next Finding of 2014-006. 2014-006, Timely Preparation of the Comprehensive Annual Financial Report. This year we were able to issue and the Department of Finance was able to issue the County's CAFR about a month earlier than the prior year. Some of the issues that caused the delay was the implementation of the new accounting standard along with an adjustment to record the post-employment benefits, and as mentioned in a previous finding, the accounting for the construction in progress. Moving onto the next Finding, 2014-007, on Page 33,

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

Review Agency Fund Accounts. This one finding was the one that we reported as a material weakness. The County maintains agency funds that are custodial in nature and function similar to a clearing account and should not measure results of operations of the County. We looked into several of the larger balances and noted that there were three with reporting issues. The first account was the Real Property Tax Litigated Claims Fund where there was approximately \$850,000 had accumulated and was transferred out during Fiscal Year 2014. The second amount, we had requested the supporting reconciliation for the Parks and Recreation Trust Account. However, the County was unable to provide the listing of the deposits being held in this account. The last account was the Planning Application Fees. The Department of Finance had noted that they had discussed the transactions in this account and had been in discussions to correct this balance. In September 2014, there was approximately \$3.6 million transferred to the General Fund representing fees from 2002 to 2013. We understand that Department of Finance needs the support from the department agencies responsible for these different agency funds in order to do their part of the reconciliation. And as mentioned before, we considered this as a material weakness because for many years the amounts that were sitting in the Agency Fund, the 3.6 million would have misstated the current year financial statements if it was just moved and reported as current year revenues. So as described in the 2014 CAFR, Note 14, the amounts that were adjusted for and the current year amount is reported there. Page 35, 2014-008, actually the next four Findings 2014-008 to 2014-011, these four findings are new findings, and you know with the increasing reliance in information technology in the accounting systems, the County has several significant accounting systems, the first being the Integrated Financial and Administrative Solutions or IFAS which is the County's general ledger software. The second is iasWorld or IAS which is the County's Real Property Tax system. And the last system which is utilized by the Department of Water Supply and the County for its water and sewer billings is the Oracle Utilities Customer Care and Billing Systems or CC&B. As part of the audit of the financial statements, we got information about the systems and the processes in place that account for the County's records. The financial audit is not as in-depth as an IT audit and is primarily focused on what is considered these key accounting systems. So the first Finding 2014-008, Logical Access and Access Security. The first finding is related to the general control of who has access to the different systems and how secure these systems are? Some of the items noted by where there's not formal policies and procedures to review user access or no formal password policies. Our recommendation here is to establish a formal process to review and confirm access rights to different systems. This review should include determining the proper levels of accesses granted to the proper personnel, terminations and transfers have been removed, and if applicable, any changes should be sent to Finance for review and approval. We also recommend that there's a formal password policies, and procedures along with strengthening password controls which includes password length, complexity, and expiration. The next Finding, on Page 37, Backup and Recovery. This finding is related to the establishment of formal backup policies and procedures. The County should have policies and procedures that is effective in enabling the County to fully recover its data should the data be destroyed or lost. The County does have the systems and does perform backups of the County's

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

data on these key systems; however, the validity of the backup data...sorry, oh, the validity of the backup data is tested; however, a full recovery has not been performed. The next Finding on Page 38, 2014-010, IAS Program Changes and Development. This finding relates to the IAS system or the Real Property Tax system. What was noted here is that changes to the IAS system are requested by the Real Property Tax Division to the outside vendor, and the vendor will make changes directly into production or the active program. The recommendation here is that the change management policies and procedures are consistently followed. All changes that are made to the Finance applications should be logged, approved, documented, and tested before the changes are made to the system. Finding on Page 39, 2014-011, IT Governance. During the audit, we noted that the County does not have formally documented IT Governance policies and procedures. IT Governance is a set of policies and practices that helps ensure that the IT is aligned with and supports the IT...County's IT goals, and it also optimizes the County's investment in information technology. We're recommending that the County hold formal steering committee meetings and complete an IT Risk Assessment. With the increasing reliance on IT systems in the accounting section of the County, we wanted to communicate some of these issues that we noted during the audit. At the same time, we would like to communicate that the County does have policies and procedures in place within the IT Department and some of these findings noted in our report are a few areas that we feel that the County could use some improvement. We also understand that some of the constraints in IT will always be the cost and the available personnel. Moving onto...these are now the Federal Findings.

CHAIR HOKAMA: Hold on, Mr. Isobe. We'll stop at this point and I'll allow the Committee Members to ask questions on Section 2, Financial Statement Findings. You may ask questions on any of the 11 areas that the auditor has brought up. So I'll ask, Mr. Carroll, any questions you have regarding the findings at this time? Ms. Baisa?

COUNCILMEMBER BAISA: It's interesting you know as we're listening to all these findings that we have a unmodified opinion so it tells me that while there are issues and things that we need to correct that you didn't find them material enough to render the opinion unqualified. Okay, so you kinda feel that the corrective actions that have been taken are okay?

MR. ISOBE: Yeah, so the unmodified opinion is the presentation of the numbers within the CAFR.

COUNCILMEMBER BAISA: Okay.

MR. ISOBE: And with the one adjustment that was posted for that prior period adjustment on the...sorry, the Planning fees. Now if that wasn't corrected, in our opinion we possibly could have qualified the opinion on it and qualified it based on that presentation of those fees. However, upon discussion with Finance, you know, the agreement to properly present it allowed us to render the unmodified opinion.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER BAISA: Thank you. That's very important to me because you know when you listen to the findings, it's very easy to get worried about, geez you know is everything okay? But the bottom line is that when we look it we do have an unmodified opinion.

MR. ISOBE: Correct.

COUNCILMEMBER BAISA: So, thank you, Chair.

CHAIR HOKAMA: Okay, thank you. Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And no direct detailed question but I guess for me in general the repeat deficiencies that have occurred from the past continuing through for me is disturbing. And I just, I guess it's probably more for management or department but...and a lot of it, the initial ones it's because of the new accounting standards that they were delving into. Is it normal to take a year plus or more to adjust to it or to have it adjusted to a, you know, the government processes? Is that a typical normal thing?

CHAIR HOKAMA: We'll ask Mr. Isobe with his experience.

MR. ISOBE: Okay so the findings here which were reported by the prior auditors, you know, what we are doing is we're following up on 'em and we're determining, you know whether or not they have been resolved. Now the implementation of the new accounting principle, the actual presentation of that within the CAFR that's I think a separate issue from these significant deficiencies in internal control. On the reporting side, the actual accounting numbers and how it's reported that's where our unmodified opinion is on. The implementation yeah, I think that's more of a question for management. I understand that you know, some of these things have been going on for a couple years. Whether or not it's a quick fix, that's again a question for management, yeah.

COUNCILMEMBER COCHRAN: Okay, thank you. Thank you, Chair.

CHAIR HOKAMA: Okay, thank you. Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And that's kinda the question I had too is how come it's been carried over every year, but I guess we'll wait for management on that. These new findings it looks like it's, it's all mostly IT related if not all IT related. Have you discussed that with the IT Department?

MR. ISOBE: Yeah so, we met with Jacob and we did a couple conference calls. You know, a lot of the IT is I believe house cleaning...housekeeping and just setting some of these formal policies and procedures for some of these areas. I know let's say like on the access...the logical access and access security, just some of it is where, you know, just

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

reviewing who has access to IFAS and determining that everyone that does have access is properly, based on their position.

COUNCILMEMBER COUCH: Okay. Again, I guess that would be questions of the Department, through him. And I guess this is all encased in the fact that you're okay with the audit. I mean, these are just things that we may wanna work on. It's nothing major at this point?

MR. ISOBE: Correct.

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

CHAIR HOKAMA: Thank you. Ms. Crivello?

COUNCILMEMBER CRIVELLO: Thank you for being here. Thank you, Chair. Just one. Where you made note that in payroll, you know, lack of authorization for I guess being properly...is it noted any particular department that lacks the proper authorization or is this just payroll? I'm trying to understand when it lacks...did not have necessary approval from the authorized individual. Are you talking about supervisory, as far as employees?

CHAIR HOKAMA: What departments are giving us a problem? We wanna know what divisions of the departments are giving us problems?

MR. ISOBE: We had findings in Fire, Police, and the Department of Environmental Services.

COUNCILMEMBER CRIVELLO: Environmental Management. Okay. Thank you. One more question. So is it in when you know, proper authorization would it be like overtime, sick leaves or just regular, what do you call that, you're monthly or...

MR. ISOBE: Just the overall approval of the time card or time sheet.

COUNCILMEMBER CRIVELLO: I see. Okay, thank you.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. On that item, is there any concern with the amount when you see the lack authorization? Are they large amounts?

MR. ISOBE: See, I don't...I don't think we have a doubt that those hours were worked. It's just the process of actually somebody just signing off on the timesheet that they reviewed it and, you know, I believe it's more just administrative that you know, other people in the department have the signature on it. Now whether or not that was just oversight, it's hard for us to just make that determination.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

VICE-CHAIR WHITE: Right. Okay and I think...I think it's fair to say that we'll wait and see, see what happens next audit since they've established a new policy and hopefully that will take care of the problem. One of the other concerns that I had was on the...on Item No. 4, the Internal Controls Over Miscellaneous Cash Receipts. Again, the question in my mind is the degree of the amounts that we're looking at that might be at risk because of the lack of internal controls. And I understand that there's sometimes a balance you have to strike between having really tight controls and having proper staffing levels. And so could you comment on that?

MR. ISOBE: Yeah so, I mean there's always a cost factor to internal controls, segregation of duties. I think that's a balancing act that the County needs to take a look at. Now whether or not you're going to hire another position to be able to have that segregation in a department that might be collecting a few thousand dollars, there's always a cost factor there. And you know, in some of these cases, it's you know, your miscellaneous cash receipts through Parks, and yeah, I think that's where you have to take a look at it.

VICE-CHAIR WHITE: Yeah, but in your, in your review were the amounts of cash that were being handled at any given time large enough to be concerned that we need to implement additional staffing for the controls? 'Cause I mean, I do it in my business. We've have this exact same finding, so...and we've decided in certain cases it's something we're just gonna live with it because the risk is not high enough to spend the money to increase the control.

MR. ISOBE: Probably gonna have to get back to you on that one, exactly where and how much was going through those. I know in some cases, it's a coverage when somebody is out, but they do have the segregation normally. And when somebody is out, that segregation is broken 'cause there's no one there to separate the cash collection and the actual posting. So I think in some cases that's where we noted, you know, there's still that break in segregation.

VICE-CHAIR WHITE: Okay, and then on Finding No. 5, I understand the need for more timely booking of the construction work when it's completed so that it becomes a capital asset. But, from a financial standpoint, other than stating the capital assets versus construction in progress--because we don't take advantage of depreciation expense 'cause we don't pay taxes, right--so from a...it's not hurting us financially, it's just a matter of misstating one and the other. Is that correct?

MR. ISOBE: Correct. So if it doesn't...if the capital...I'm sorry, if the construction in progress is not timely moved to capital assets account, then depreciation isn't being recorded. In the government-wide financial statements, there is still depreciation expense and, you know, depending on how large of a capital asset you're talking about, you know, there could be an expense misstatement.

VICE-CHAIR WHITE: Okay, but it doesn't have a...it doesn't cost us more money because we're not paying taxes or we're saving taxes because of the depreciation.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. ISOBE: Exactly.

VICE-CHAIR WHITE: Okay.

CHAIR HOKAMA: You know, following up on that. I understand Mr. White's point, but the point is is it an actual and correct financial statement?

MR. ISOBE: Sorry, I'm not understanding your question.

CHAIR HOKAMA: I mean, you know you're telling us that, you know, if it's not a major thing that you know the statements are correct, but it's not how my brain works.

MR. ISOBE: No, so at...for the June 30, 2014, construction in progress balance, you know, we did look at it; and I believe, and based on our work, that that construction in progress balance is accurate and that the capital assets have been moved to their correct accounts. And that's where I think we had reported that there was a slight delay in, you know, completing the CAFR due to the time, the manual process it takes to go through all the construction in progress projects to get them cleaned up and moved into the capital assets accounts.

CHAIR HOKAMA: You know, but if we're doing normal construction--and again, County may not be normal--you know, when you come with the monthly progress payment reports and reviews, you should be able to catch all those assets right then on the monthly review of progress payment. You gotta justify, make your adjustments every time you cut one check. So, you know, what's boiling down is, we wanna know, is this a level of training, incompetence, what is it that we get continuing repeat issues on the same points in our audit findings?

MR. ISOBE: For this construction in progress one, I believe, you know, trying to do the reconciliation all at once at yearend is probably where it's the problem. I believe if, you know, it's done quarterly or more frequently, you know, it wouldn't be such a time consuming and it would also, you know, produce more accurate numbers.

CHAIR HOKAMA: Do we have just the wrong software that we cannot get it more current and more accurate? I mean, that's...you're telling us the fact was overstated, progress was overstated, while assets, accumulated depreciation, and depreciation expense were understated. I get problems with that kind of things. Big time problems. Okay, Mr. White, any other questions?

VICE-CHAIR WHITE: Yeah, on that line, what is the percentage of the misstatement? I mean, if you're looking at the \$3 million, what would that be as a--

MR. ISOBE: Percentage?

VICE-CHAIR WHITE: --percentage of the total capital?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. ISOBE: The total capital assets I believe is on the governmental funds is 600 million. Sorry, on the governmental activities, total capital assets is 695 million, net of 968 million in accumulated depreciation.

VICE-CHAIR WHITE: Okay, so it's like 5 percent of the construction in progress, but it's about half a percent of the--

MR. ISOBE: Total.

VICE-CHAIR WHITE: --the 3 million is maybe half a percent of the total. And then Chair, if you don't mind, I've got another one on the, on 007? Do you have a sense of where the money that was taken out of the Planning application fees, where did that money...where was that money transferred to?

MR. ISOBE: The 3.6 million?

VICE-CHAIR WHITE: Right.

MR. ISOBE: That was transferred to the General Fund.

VICE-CHAIR WHITE: Okay. And were you given a complete list of all the Trust and Agency Accounts during your review?

MR. ISOBE: Yes, yes.

VICE-CHAIR WHITE: Okay. Okay, thank you. Thank you, Chair.

CHAIR HOKAMA: Mr. Victorino?

COUNCILMEMBER VICTORINO: Thank you, Chair. I guess my questions really would come back to the department because the one thing I was concerned with and, you know, including what my colleagues have mentioned, was really the aspect of IT and really what got me was when you say we have systems that are no longer available from the manufacturer. And obviously, that's one of the things that is in my mind fairly dangerous. Because if that system goes down and there is no ability to utilize it, why do we have it and why are we continuous using it? So I wanna ask you, you said this was a significant deficiency, you did put that down, so--and I will ask the department when we get to IT, I think, you know, it be better to ask them--but, in your mind, is this a problematic situation that this County faces? Because again, repeat findings makes it seem to me that we're not making the strives we should be. But I'm asking you because you look it over as far as the audit, from your audit perspective.

MR. ISOBE: The repeat findings I can...well, first the IT findings are new.

COUNCILMEMBER VICTORINO: Yeah.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. ISOBE: Yeah, we just brought it up this year. The repeat findings, yeah, you know, on the payroll ones, we did take a look at couple of the transactions after they issued the new policies and procedures, and we did note, you know, no findings there. But you know, it is...it was a small sample that you know, we did pull to just establish, you know, whether or not that policies and procedures were issued so that we could put that within the report. Now on the IT side, you know, it is a high level review that we did do. Now if it was a true IT audit, you know, you...it would be a lot more in-depth.

COUNCILMEMBER VICTORINO: Right. So again, you know again, as this fiscal year unravels for this new budget, I think IT has come to us many, many occasions asking for money and we've consistently said no to a lot of issues. Maybe this is the eye-opener that we need to see, Mr. Chair, and maybe the old saying, putting our money where our mouth is as far as IT is concerned, because we've seen the global change and the hacking that goes on in many major systems and I don't want to get the County of Maui to get into this area along with the other issues of should the system go down, manufacturer no longer supports it, what do you do next?

MR. ISOBE: Yeah, and I believe you know with the reliance on information technology, you know, for the amount of transactions that are going, you know, through the County, it is something that you know, we felt that we should bring to, you know, those charged with governance, which is you guys. It might...and it's just in our opinion what we think we should, we should have brought to your guys' attention.

COUNCILMEMBER VICTORINO: And we thank you for that. No, it's not a critical...it's not criticism of what you're saying. And again, I guess the last thing, and again, that would come back to the department is the formal documentation and restoration...restoring the policy, the policies that we do not have existing right now that definitely needs to be, you know, in place, Mr. Chair. But again, that's the department and I don't want to spend all their time going over this. But thank you because this has made us, at least for me, has made me a lot more aware of what's going on, and I think the public appreciates a audit that is very factual, but more importantly frank and has discussion points for which we can look for improvements in not only this budget session but maybe future budget sessions. So thank you very much. I appreciate what you've done.

MR. ISOBE: Okay, thank you.

CHAIR HOKAMA: Okay, any other questions, Members on Section 2, Financial Statement Findings? I will say Mr. Verkerke has worked hard. He has contracted some very important cyber companies that will assist in malware issues and what others. So Mr. Verkerke is very well aware of the challenges we are facing so I can support that. I will say, though, I would appreciate if you guys could come up with a schedule on repeat findings and how long should the Council be tolerant before those findings are either addressed or, by policy, eliminated. Because I take all your findings very seriously gentlemen, very seriously. It will impact my recommendations to the

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

Members of this Committee. May I please ask you to move forward with Section 3, Mr. Isobe, the Federal Award Findings?

MR. ISOBE: Sure.

COUNCILMEMBER COUCH: Mr. Chair?

CHAIR HOKAMA: Yes?

COUNCILMEMBER COUCH: Mr. Chair, before you go any further on that one. In regards to your request for them, what about the on the schedule of the stuff that's been consistent significant finding? As Mr. White mentioned, some of those are just we're gonna live with it kind of things. Are we gonna get a list of those that we can determine are...it's just not worth adding the extra body or whatever and that we are gonna live with. Is that something that you're willing to work with on this in this Committee?

CHAIR HOKAMA: We'll definitely work on E/P counts and everything else. So it will be a Committee decision.

COUNCILMEMBER COUCH: So in that list that you requested, can we have it kinda broken out as to like dollar amounts? 'Cause he said if it's only a few thousand dollars, we're just gonna live with that coming up every time; but if it's millions of dollars, then we definitely want some sort of control kind of thing.

CHAIR HOKAMA: Hey, a dollar is a dollar to me, Mr. Couch.

COUNCILMEMBER COUCH: Well, but do you wanna for two-thousand or three-thousand dollars do you want a whole body to separate controls that's the kinda...

CHAIR HOKAMA: Well, that's what we're gonna need to talk about and decide how we're going to approach the issue.

COUNCILMEMBER COUCH: Okay.

CHAIR HOKAMA: There's many ways to skin the cat.

COUNCILMEMBER COUCH: Yep. Okay, thank you, Chair.

CHAIR HOKAMA: Yeah, thank you. Mr. Isobe, if you could please?

MR. ISOBE: Okay, sorry, moving back to Section 3, Federal Award Findings on Page 40. 2014-012, Completeness and Accuracy of the County's Schedule of Expenditures of Federal Awards or the SEFA. The prior auditors had commented on the completeness and accuracy of the County's SEFA Schedule and during our audit we noted a few errors in the schedule. The accuracy and completeness of the SEFA can also relate

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

back to one of the previous findings where there's the need to monitor and timely reconcile the Federal and State Grants. This will also lead into the next Finding, 2014-013, the recommendation for a Centralized Position to Monitor the Federal Programs, Federal Programs Compliance. In the current year there was approximately \$61.3 million of Federal money spent by the County. These grant monies are managed by the different departments and agencies throughout the County. And without a centralized position monitoring and overseeing these grants, the County's risk of compliance with the Federal requirements. This centralized position would be charged with overseeing the County's compliance and along with monitoring the recording and reconciliation of those outstanding grant balances along with completing an accurate and complete SEFA. So those are the two findings as it relates to the Federal awards and that's all of the findings in the report.

CHAIR HOKAMA: Okay, thank you. Ms. Baisa, any questions for the auditors on this component section?

COUNCILMEMBER BAISA: Not on this component. Thank you.

CHAIR HOKAMA: Okay, Mr. Carroll, questions? Mr. Victorino?

COUNCILMEMBER VICTORINO: No, I think he's covered it very clearly. I'd like to see that kind of a position done in the very near future, but we'll talk about that later on. Thank you, Mr. Chair.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: No questions.

CHAIR HOKAMA: Ms. Crivello?

COUNCILMEMBER CRIVELLO: Yeah, thank you. So when you recommend that we establish a centralized position to have oversight with Federal funds. Are you talking for all departments? Is this 61.3 specifically or is it all departments that receive Federal funds?

MR. ISOBE: So that's the full County receiving \$61.3 million dollars in Federal funds. And what we're saying is each of the different departments that manage their own grants, there's no one central position in the County that monitors compliance, monitors the reporting, ensures that everyone is aware of what the Federal requirements are. Also in reconciling and determining that, you know, everyone is properly reporting their grants within the County's accounting system. There's not one full centralized position for that.

COUNCILMEMBER CRIVELLO: Chair? So, you're saying then you find lack of compliancy with the reports from...with the Federal funds that we...say like Department of Transportation, I think that's one of...and Department of Human Services. So I guess

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

I'm trying to understand because in order for them to have repeated awards of grants, they would have to be in compliance to begin with.

MR. ISOBE: Correct. So there's I think if you look at your...the County's Schedule of Expenditures of Federal Awards, it starts on Page 12 and goes to Page 18. There's a number of different grants; and, you know, different departments each manage these different grants. Now when we conduct the Single Audit, it's based on a scope and based on size. And so, you know, the major programs that we actually look at is only, this year, seven. But the number of grants that you guys actually have here is a lot. Each of the different departments...and I can kind of just speak on Housing. We've been just recently working with Housing to do one of their required Federal filings that is actually due tomorrow. We just completed it and, you know, we worked pretty hard with Ortaeine and Department of Finance to you know, work with Housing to get their report...I guess their report accurate. And just that understanding of what that Federal requirement was to do that reporting, you know, was a lot of communication with Finance, and Finance did a lot of communication with Housing to understand what that compliance requirement was. Now, should they know? Housing, yeah, they've administering you know, these programs for, you know, years. It's not a new program to Housing. But when we took a look at it this year, you know, we did have some concerns that, you know, took a lot of effort from Finance to put together the schedule and reconcile the schedule so that we could do the work. And I don't believe Finance's position that Ortaeine is in is a full-time position to monitor all of these different grants and the different requirements and, you know, the changing requirements with the different Federal programs.

COUNCILMEMBER CRIVELLO: Okay. ...*(inaudible)*... I just having difficulty understanding how you need a centralized position to just do a check off, because each department is responsible to report to the...whatever Federal department is awarding. You know, they usually have a desk officer that they work with and, you know, they should be doing the double check. So I'm just trying to understand why a centralized position is just going to be another check off, you know, when each department should be...have that all in place. Okay, thank you.

CHAIR HOKAMA: Thank you. Mr. Couch?

COUNCILMEMBER COUCH: I'm still not sure...I got a good answer to Ms. Crivello's question 'cause I had the same, the same question.

CHAIR HOKAMA: Yeah, the Feds, it's make work to make job.

COUNCILMEMBER COUCH: Well, understood, but if it's gonna keep coming up in our audit?

CHAIR HOKAMA: No, you have a good point because we've been doing Federal grants for decades, so why is this kind of findings--

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER COUCH: Right.

CHAIR HOKAMA: --in the audit report? I understand.

COUNCILMEMBER COUCH: Okay, thank you, Chair. Well, I'd still would like to see...I didn't quite get a good answer to Ms. Crivello's question.

MR. ISOBE: Okay, so Finding 2014-003, Timely Reconciliations of Federal and State Grant Programs. You know, there's a large listing of these different grants that have balances that are older that still need investigation and clearing. Now, right now, they're reported as either Federal receivable or State receivables which in those cases the County have fronted monies for and you guys are waiting for reimbursement from these Fed or State agencies. Now if you're relying on the departments to have done this, then you wouldn't have these older balances that have built up, right. They're doing their job. They should have known these requirements so these things wouldn't have built up. There's also the other finding on the Schedule of Federal Awards, you know, where, you know, there's missing or programs that were improperly reported on the schedule. Now, in those cases, they've had those grants for this Department of Transportation Grant 20500 and 20509, they've had these grants for many of years, but it was improperly reported.

COUNCILMEMBER COUCH: So I'm not sure how a centralized person would make that any better.

COUNCILMEMBER CRIVELLO: Shouldn't Finance have that ...*(inaudible)*... I'm sorry.

COUNCILMEMBER COUCH: No, that okay. This for discussion.

CHAIR HOKAMA: Mr. Taguchi, you have a comment?

MR. TAGUCHI: Members, from my understanding in when I was monitoring the oversight of the contract from this audit and prior audits, I think what Mr. Isobe is trying to say is that the grants are monitored and taken care of within the department, but from what I'm seeing like with this Housing agreed upon procedures, there is a lack of understanding in the Department as to how things are handed on the IFAS System or the accounting system that is run by and is the responsibility of Finance. So in order to get these two things reconciled, in other words, what's being reported by the Department to the Federal agencies and to make it tie into the General Ledger Accounting System, there's a missing piece. And I think that's what they're saying this missing piece is someone in Finance that understands the IFAS System very detailedly and they can in communication with the Department get everything reconciled. So when the auditor comes in, everything ties in. In the last case of the agreed upon procedures, I think Mr. Isobe had to work with the Department as well as Finance personnel and he somewhat assist them in terms of meshing these two things together so he could sign off on the opinion. I believe that's the issue with having this one person.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER COUCH: So it's your...I mean, you've been in this seat over here and know the reluctance of this Committee to add E/Ps. It's your recommendation that we...this one might be one worth adding is that what you're saying?

MR. TAGUCHI: I didn't perform the audit. I'm just trying to clarify the statements as I understand them from Mr. Isobe. I haven't, you know, performed an audit on this. I don't...I can't tell you whether the knowledge base within each department is such that people can get trained enough on the IFAS accounting system to do it within the department under the grants management area. I don't know. I haven't audited it. But it is my understanding of the opinion of the auditor that this is necessary. But I don't wanna put words in his mouth. It's not my audit.

COUNCILMEMBER COUCH: Okay, thank you, Chair.

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And in other...I don't know if they have a answer to this, but I'm just looking at other County agencies if they have a certain centralized position to monitor their grants?

CHAIR HOKAMA: Mr. Isobe.

COUNCILMEMBER COCHRAN: If auditor's aware?

MR. ISOBE: I can speak for Kauai County. We performed that audit and they do have a centralized position.

COUNCILMEMBER COCHRAN: Okay.

CHAIR HOKAMA: What's their level of Federal grants if you can recall? Is it similar to our level?

MR. ISOBE: No. Kauai County is the smallest county, population of about 66,000.

CHAIR HOKAMA: Yeah, but it doesn't mean they cannot have a lot of Federal grants.

COUNCILMEMBER COCHRAN: True.

MR. ISOBE: Off the top of my head, I can't quote the amounts of Federal awards there.

CHAIR HOKAMA: Okay. Ms. Cochran?

COUNCILMEMBER COCHRAN: Yeah. And Chair, thank you. And so I'm looking at the corrected Action Status Reports also in reference to what we're discussing, Chair. And so it says that Finance did request and pass a budget for this particular position, and

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

I'm trying to recall what our discussions were as to...it says we denied it. But I remember this being a repeat issue, too, last year and the multi-millions of dollars that we stand to lose if we are not, you know, in compliance as we move forward. And so, I'm just trying to rehash what we...our discussion was. So I'm wondering if it would be plausible to think to assign an LTA to just get everything up on board and thereby then each department as they're, you know, doing their grants managing can pick up from there and just sorta stay on top of it, you know, as the year progresses if something like that could occur? Has that been thought about?

CHAIR HOKAMA: Mr. Isobe, can you give comment?

MR. ISOBE: Sorry, what's a LTA?

COUNCILMEMBER COCHRAN: I'm sorry, a limited term.

CHAIR HOKAMA: It's a...yeah.

COUNCILMEMBER COCHRAN: It's just like a--

CHAIR HOKAMA: It's not a permanent position.

VICE-CHAIR WHITE: Short-term employee.

COUNCILMEMBER COCHRAN: --short-term employee to just sorta get things up to speed, you know, or set a type of schedule or...and then each department can take it from there basically.

MR. ISOBE: See that would be more of a management call whether or not that's sufficient resources to perform that work. I don't think it's a auditor type of recommendation.

COUNCILMEMBER COCHRAN: Oh, okay. Fair enough. Fair enough, Chair. So that would be something perhaps to run by department to see if that's doable? As I, as Mr. Taguchi, I'm not aware of how IFAS works myself internally and what have you in relation to departments. So that was kinda my question I guess to see if it could be done that way.

CHAIR HOKAMA: Okay.

COUNCILMEMBER COCHRAN: Thank you, Chair.

CHAIR HOKAMA: Has there been any findings regarding Federal Grants? I guess each department goes and applies for their own grant. So every grant writer has their own style. We don't use a County template for Federal Grants whether it's from Water Department, Police Department, Fire Department. Is that a problem for us 'cause we have all different type of grant writers writing different narratives of what the County should or shouldn't be doing with the Federal money?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. ISOBE: See on the grant writing side it's not something...a scope of the audit. I mean, we don't look at that side of it.

CHAIR HOKAMA: Could that be a factor in your opinion?

MR. ISOBE: Sorry, I wouldn't be able to comment on that part of it. But, you know, on the Federal compliance side, you know, one person that has that type of knowledge of the different grants that are out there and also knowing, you know, any changes that are coming through on the Federal side. There is that what is now referred to as a Super Circular on the compliance, Federal grants compliance issues that are coming the down the pipe. And you know, there have been a lot of changes, and I know you guys have gone through it when the ARRA money came through and, you know, it's a Federal monies that is available.

CHAIR HOKAMA: Would you know if Federal grant money can be used to pay for the grant...for that compliance position for the Feds?

MR. ISOBE: I would have to get back to you on that, but I...I mean if it's directly related to Federal programs, the allocation of the costs would be allowable.

CHAIR HOKAMA: I would say that's part of the overhead to do the compliance reporting. That's why I'm asking you the question if that would be a, you know, reasonable expense from the grant for the County to utilize.

MR. ISOBE: Correct. And, you know, a portion of the...the Single Audit cost is also an allocable cost to the Federal Program.

CHAIR HOKAMA: Okay. Now these are only Federal audits as it applies to the County being the grantee; this has nothing to do with the audits that the County does for small entities that may not have the financial wherewithal to do their own single-family audits or is that not true? You also check the audits we do for agencies with Federal monies?

MR. ISOBE: No, yeah, so this Single Audit is only of the County's Federal funds that you guys are the recipient of Federal funds.

CHAIR HOKAMA: Okay, okay. Is there another portion of the report you'd like to take us through, Mr. Isobe?

MR. ISOBE: No, that's our complete report and everything that we have delivered on contract.

CHAIR HOKAMA: Okay.

VICE-CHAIR WHITE: Chair? I have a couple of question if you don't mind?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: Yeah, so what I'm going say is since we're talking about the Single Audit, I wanna just stay on the Single Audit area for now.

VICE-CHAIR WHITE: No, that's what--

CHAIR HOKAMA: And then we can move to questions regarding the CAFR or whatnot.

VICE-CHAIR WHITE: No, these are regarding the subject we've just been discussing.

CHAIR HOKAMA: Okay. Yeah, please proceed, Mr. White.

VICE-CHAIR WHITE: Mike, you mentioned the receivables balance in several departments. Approximately what is the total of receivables? You have a...it can be ballpark, you don't have to look it up. Where can we find it?

MR. ISOBE: Let me get back to you on that.

VICE-CHAIR WHITE: Sounds like it might help if we had somebody from the Department come down and...

CHAIR HOKAMA: Yeah. Maybe if Mr. Agsalog or one of your resource people could assist us? Director, we would appreciate your assistance please.

COUNCILMEMBER VICTORINO: Mr. Chair, if you don't mind, it's 10:30. Would you mind us taking a break now while they looking for this? I mean it seems like they need a few minutes.

CHAIR HOKAMA: I think that's a very good suggestion, sir. And the Chair will take that suggestion to heart and 10:45, Members?

COUNCILMEMBER VICTORINO: That would be fine, Chair.

CHAIR HOKAMA: Okay, we will be in recess until 10:45. . . . *(gavel)* . . .

RECESS: 10:31 a.m.  
RECONVENE: 10:47 a.m.

CHAIR HOKAMA: . . . *(gavel)* . . . The Budget Committee shall return to order. We went through a review of the Single, Federal Single Audit component from N&K CPAs, Inc. We'll move to the CAFR or the Comprehensive Annual Financial Report for the Fiscal Year 2014 or under the Committee's heading of BF-3(1). We'll have Mr. Isobe and Mr. Bautista take us through this section, please? Mr. Isobe?

MR. ISOBE: Okay.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER COUCH: Mr. Chair?

CHAIR HOKAMA: Yes?

COUNCILMEMBER COUCH: There was a question on the floor. I was just curious.

CHAIR HOKAMA: Oh, that's right, that's right. Thank you for making me remember before the recess. So gentlemen, any of you can respond to Mr. White's earlier question, please?

MR. ISOBE: Okay, so on Page 41 of the Comprehensive Annual Financial Report in the Grant Fund, the receivable is 6.6 million. There's also a related Unearned Revenues of about 1.6 million.

VICE-CHAIR WHITE: I'm sorry, what page was it?

MR. ISOBE: Page 41.

COUNCILMEMBER COUCH: What line?

MR. ISOBE: The Grant Fund, the fourth column.

COUNCILMEMBER COUCH: Oh, okay.

MR. ISOBE: There's a receivable from the State of Hawaii of 6.6 million. And in the Liability section under the Deposits and Unearned Revenue in the Grant Fund again, is the 1.6 million.

VICE-CHAIR WHITE: So you had mentioned that part of the problem was that these items were not being reviewed in a timely fashion, but how old would you say some of these are? I mean is it, are they, two, three, four years old or...and in what department are we the furthest behind?

MR. ISOBE: Okay, I can't give you the exact department, but you know there are some grants that go back to 2007. You know or they're a few years old in here.

VICE-CHAIR WHITE: Well, like how large are the receivables, do you have that?

MR. ISOBE: Okay, I'm gonna have to get back to you on those, the exact amounts and the departments and the grants that there are...yeah, I don't have the exact details right here.

VICE-CHAIR WHITE: Chair, if you don't mind, I'd like to request a list of those receivables by department and age?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: Okay, we'll forward that question to the auditors and we'll...upon receiving their response, we'll distribute to all Members.

VICE-CHAIR WHITE: And the other question I had was, are you all aware of any software that would make compliance with Federal contracting or grant monies easier on us?

MR. ISOBE: Sorry, I mean, I'm not aware of anything that would make it easier. I think you know, right now, IFAS tracks you know, each grant and they're all set up within IFAS on a grant by grant basis. And you know, with...it's a large volume of grants just because every year, every grant is set up individually in IFAS itself. So you know, there is that tracking mechanism and it's just sheer volume of grants that you guys do have.

VICE-CHAIR WHITE: Okay. I, too, have questions about just how to handle the supervision because there's...it may...if the understanding of IFAS is the big problem then it may be appropriate for us to move all the grant, grant managers into Finance; but, at the same time, if you look at it from the other standpoint, the criteria are different for every department. The kinds of grants they're running are all very different from Housing to Fire to Police and so on. So I'm not sure what the, what the solution is, but anyway, thank you, Chair.

CHAIR HOKAMA: Okay, thank you. Ms. Crivello, then Mr. Couch?

COUNCILMEMBER CRIVELLO: Thank you. You know, on Page 41, you make note, during our audit we noted that the County expended over 61.3 million, but you've also mentioned that we have like cost reimbursement. So is that included in the 61.3 so County up fronts so much monies, and then wait for the reimbursement comes from the Feds?

MR. ISOBE: Correct. In majority of the cases it's a cost reimbursement basis. One of the compliance requirements on the Federal side is cash management. The drawing of monies in a timely and not too early; and, therefore, and a lot of times the County will expend the money and then request reimbursement whether, whether it be from the State or from the Feds. A lot of the grants that you guys do have is passed through the State of Hawaii, so you know where it's presented a lot of it is, the receivable is from the State of Hawaii.

COUNCILMEMBER CRIVELLO: So I guess my question is that part of the over 61.3 million?

MR. ISOBE: Correct. So 61.3 is presented on accrual basis how the CAFR is presented.

COUNCILMEMBER CRIVELLO: Okay, thank you.

CHAIR HOKAMA: Thank you. Mr. Couch?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And back to Mr. White's questions and concerns, could it be that it's the actual software itself might be old enough or too old or too cumbersome? 'Cause I just talked to somebody during the break who said that they had their section of grants that they had to deal with and they balanced to the penny, but by the time you tried to get it to IFAS and work with Accounting, it would never ever balance. So I'm just wondering if that's the situation? I mean, IFAS is a pretty old piece of software in my understanding. So, and I know you don't want to throw anybody under the bus or throw any software under the bus, but is it...I mean, are we trying to create a position to fix a different design or old-fashioned design of software?

MR. ISOBE: Ultimately on the reporting side for the Federal grants, you know your General Ledger should be the basis of how you complete these reports. Now, I'm not sure exactly, you know, what basis they're using to create their Federal reports that they're turning in, but ultimately you know the General Ledger is the County's official records. So whether or not it's a bad system, I mean, I'm not into details, I mean I'm not one that's gonna do, you know, record transactions and pull reports and try and fill up...

COUNCILMEMBER COUCH: It's not necessarily a bad system, sorry for interrupting, but just an older system where it was where you put cards in...I mean I'm not saying it's that old, but the way you do your transactions as opposed to the way we're used to doing them now kind of thing.

MR. ISOBE: I wouldn't be able to provide an answer to that.

COUNCILMEMBER COUCH: That's fine, and Mr. Chair, maybe that might be something that the Department can answer at some time saying, yeah it's just due to the system that we have, you know, that's our limitations. The tool that we have is a little bit older than it could be. And then so, do we either hire somebody to interface with that or get a newer system which is another whole can of worms? So those are some of the things that if we had the information we could make that decision. Thank you. Thank you, Chair.

CHAIR HOKAMA: Other questions for the auditors at this time? I'd like them to go through their findings of the CAFR individually, please? Or if we have questions...if you have questions regarding their notes to the statements, Members? One thing I wanted to ask you because it was brought up in yesterday's meeting and so I...you may not be aware of this, but it was brought up to us. One of our departments told us they would do Capital Improvement Projects using Operational Funds, and then I guess try and reimbursement it with the CIP monies later. You know, I find that really hard to swallow. Is that one issue that we need to have you focus and review those kind of transactions, or that shouldn't be an issue for this Committee to be concerned about using operational monies for Capital Improvement Projects?

MR. ISOBE: For, I guess for reporting purposes and I guess the process that Finance uses to capture the Capital Assets I think that, you know, could create a problem on their

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

end. You know each project is tagged to be pulled to their schedule. So if it's running through Operations, I believe you know, it could be missed, and I do not think that that's the correct procedures that they should be using.

CHAIR HOKAMA: Okay, we'll notify that department of your response to our question. The other things, and Members, you know you look at the CAFR, the one that I really was kinda curious on Mr. Isobe is on Page...let's go to Page 86, Note 14, Restatements of Net Position and Fund Balance.

VICE-CHAIR WHITE: I'm sorry, Chair, what page?

CHAIR HOKAMA: Eighty-six.

COUNCILMEMBER VICTORINO: Eighty-six, thank you.

CHAIR HOKAMA: It's in this book with the white cover letter. So in this one you highlight two issues for us, \$3.6 million with the Planning Department's account, T & A account, and then we also have one increase eight-hundred more or less fifty-thousand in real property tax revenues. How do we...maybe on the first one, the Planning one, can we...you know, since you already told us that that was deposited in the General Fund, I believe by ordinance those fees are collected for specific purposes. So those fees were never utilized for the intent the ordinance is structured and it was collected? And so why are we keeping that money if they should have used it for a specific purpose?

MR. ISOBE: Yeah, so prior to this CAFR, and June 30, 2013's CAFR, and prior, those amounts were being reported in the Agency Fund. I believe that's on Page 97 of the current year CAFR. On the top of that page, you see the Liabilities and there's deposits of beginning in June 30, 2013 of 30...roughly 30.1 million, and those amounts were just sitting, you know, were sitting and being collected within this Agency Fund. You know, I know we spoke to Finance about it, and you know, they I guess were in talks to make that move and you know, I guess in September 2014, they did transfer the money out of the Agency Fund to the General Fund.

CHAIR HOKAMA: So you're not aware that the collection of the money for its intended use was ever done? You are not sure from the documents you reviewed that the purpose of its collection was ever used for the purpose it was?

MR. ISOBE: Well, the monies that were being collected were those Planning fees and you know, they were being collected and now...

CHAIR HOKAMA: And they were appropriated for a specific use, right?

MR. ISOBE: Correct. I think those fees were an established fee within the Budget Ordinance.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: So are you confident we provided the service for the fees collected? Because if we didn't provide the service and we collected these monies I think we have a problem here. And you know, I'm glad that Finance is up and up with it. I have no clue what the hell Planning Department's doing about it.

MR. ISOBE: So okay, so when we looked at those Planning fees that were being collected, this amount has accumulated over I guess from 2002 to 2013. Now those fees that were being collected, you know, there's amounts that are expended as it relates to the required public notice and, you know, payment for the advertisement that goes within for those permits and Planning fees that they were collecting. I'm sorry, is that what you're...

CHAIR HOKAMA: Well, it just disturbs me we have these issues. The other one that was kinda interesting is the Implementation of Accounting Principle 65. So what you're telling us is when the Administration brought us, sent us last year's budget or 2014's Budget, the beginning balances and the revenue projections were totally incorrect, then?

MR. ISOBE: No, so the implementation of this Accounting Principle GASB 65 pretty much what it was doing is it for presentation purposes this bond issuance cost used to be shown as an asset and it required the County to now treat it differently. The bond issuance costs are, you know, costs that were paid, you know, over the past couple years when each time the County floated bonds and that asset was being amortized over the life of the bond. So, you know, it's more of an accounting entry. They just required those amounts to just be expense that is incurred. So it's just more of an accounting treatment and the implementation of this GASB 65 required it to be retroactively applied to the prior year so that right off of 1.3 million represented the opening balance that GASB 65 that said to write off.

CHAIR HOKAMA: Would this in any way impact the beginning balances for the Fiscal Year 2016 Budget proposal?

MR. ISOBE: No, because going forward the...once it's implemented this GASB 65, the accounting for these type of costs will just be...will not be captured on the County's balance sheet anymore, it'd just be expense as paid.

CHAIR HOKAMA: Okay. Questions from the Members on portions of the CAFR? Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. You bring up a really good question and that is I'm assuming that this amount and this particular fund is separate from other Planning fees. Were there two accounts or three accounts? How many accounts were there in Planning?

MR. ISOBE: There was just that one that was collecting these different permits and Planning fees.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

VICE-CHAIR WHITE: But we have, we have a Planning Department fund that is able to utilize those funds for specific positions if I'm remembering correctly. So is this a separate fund than the one that is being utilized to fund positions?

CHAIR HOKAMA: Mr. Taguchi, can you respond?

MR. TAGUCHI: Chair Hokama, I am aware of this Prior Period Adjustment. When the auditor notified me, I looked into it because I thought it was a significant concern. From my understanding from my discussions with the auditor and reviewing a letter that was provided to me, I believe the amounts that you're talking about is for nonrefundable application fees for hearing application fees. So to the best of my understanding of it, these are fees that are paid. It's authorized in the Budget as fees. They're put into a Trust and Agency Account, but eventually these fees should be moved to the General Fund because at a point in time they're gonna be earned. I think the mix up was that, the movement of those fees as they were earned to the General Fund was never done. So this is not a situation of a, like a...I think in for example, DSA you have the Permit Revolving Fund. Those are fees that are specifically going to a special fund and expended from the special fund directly to provide the service. These are fees that...application fees that once the application is finalized and then at that point these fees should go to the General Fund as with any other fee that you have. It's not a...from my understanding it's not a fee that goes to a special fund in that sense.

VICE-CHAIR WHITE: Okay. Then the other question is if somebody pays a filing fee, and then doesn't proceed with the project are they, are they in that case refundable?

MR. TAGUCHI: I would pretty much defer to the Department. But from...I have requested because I wanted to get a better understanding of it and the Finance Director provided me a listing of the disbursements out of this fund 'cause naturally I was a little concerned about what the money was spent for. So the Director was kind enough to provide me two years' worth of disbursements from the funds, the in and outs of the funds. From my limited review, very limited now, I didn't look at invoices, I didn't do an audit of it, some of the disbursements out of the fund appear to be for advertising fees to local newspapers. Some appeared, from what I could see and tell just from looking at the General Ledger, to be reimbursements. So my thinking is that if someone put in a deposit, they decided not to move forward with their application then they were refunded money. But once again, I didn't audit this. I just looked at because I was concerned. I wanted to get a better understanding after it was reported to me because of the size of the amount. You know, because it's accumulated over a long period of time. So it was concerning, I looked at it preliminarily to do my due diligence, and that's my understanding. I think you need to talk to the Department or the Finance Director to get a very clear understanding. But that's my understanding from just looking at what was sent to me and my preliminary research into the matter.

VICE-CHAIR WHITE: Okay, so that it did look to you like some of the parties were reimbursed their fees?

**BUDGET AND FINANCE COMMITTEE MINUTES  
Council of the County of Maui**

**March 30, 2015**

---

MR. TAGUCHI: That's what it appeared, but I couldn't really tell because I don't know, you know, I didn't go as far as to look for--

VICE-CHAIR WHITE: Right.

MR. TAGUCHI: --if they had a application or anything. I just saw names that some I recognize as consultants and I think it seemed like because there are names of individuals, right some of them and I can't really tell, but I did look at it when it first came about and you know, with the help of the Finance Director, so...

VICE-CHAIR WHITE: Okay, thank you. Thank you, Chair.

CHAIR HOKAMA: Okay, other questions for the auditors?

COUNCILMEMBER COCHRAN: Chair?

CHAIR HOKAMA: Yes, ma'am?

COUNCILMEMBER COCHRAN: Thank you. And so in reference to I guess this, these monies, the Agency Funds, I guess topic, the Parks and Recreation Trust, \$383,000. So this Parks and Rec Trust is also a deposit being held in a particular account for people who owe park assessment fees or what? And I guess at this point, this balance, we're unable to determine whose monies these are? So how--

CHAIR HOKAMA: I swear it's mine on Lanai's.

COUNCILMEMBER COCHRAN: It's yours? It's yours, Mr. Hokama?

CHAIR HOKAMA: Hey, I've had a budget session where we had 300,000 in Park Assessment Fees and the next year we had zero with no Council appropriation made, okay. So I get issues with Parks and accounting.

COUNCILMEMBER COCHRAN: Thank you, Mister...but that was just my question as you're stating here too, how...this just sits there and I mean, this is...I don't know, can you shed more light about what this means?

MR. ISOBE: I believe what goes into that deposit account is deposits for reservations for, you know, using some of the park facilities. But you know, the actual listing of who made all of those different deposits and, you know, when those reservations are for is what was not being...was not able to be provided to us when we requested it. So that monies, yes that monies is sitting in your Agency Fund. So the cash is there, it's just the listing of who it's owed back to is what they couldn't provide us to.

COUNCILMEMBER COCHRAN: Okay, alright. Thank you.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: Which...that's the Finance Department or the department of origination? So if this is a Park Assessment is this a Parks Department information concern or is this a Finance Department concern?

MR. ISOBE: Correct, it's gonna be the Parks and Rec. They're the ones that are responsible for, you know, for the monies that they're collecting and putting into this account. I mean, Finance, you know, monitors the General Ledger for it, but ultimately it's these different departments that are doing the collections that you know ultimately are responsible for what they're putting in these accounts.

CHAIR HOKAMA: Okay. Hearing that, did the Department say that they don't have it at this time, but they can provide you with that information or they have no sense of information and they cannot provide anything to you?

MR. ISOBE: Well, during the audit, we, you know, we put out our audit request for, you know, the schedules. And, you know, the different ones that we're looking at and, you know, we weren't able...I mean, we had contacted, we sent through Finance the request to get those reconciliations and, you know, they weren't provided. And, at that point, we just said that, you know, at this point, it just needs to be a finding.

CHAIR HOKAMA: Okay. I hope we can find out who paid. I'm sure those who paid know because they have a canceled check. But it's not funny that we don't know who even gave us money. Other questions for the auditors on this? Mr. Couch?

COUNCILMEMBER COUCH: Is that unusual that you don't get the response from the Department or...cause it doesn't...and usually you would say something, hey these guys never responded to us.

MR. ISOBE: Well, in our finding, in the Single Audit Report, we did write that they did not respond, you know, they were unable to produce that listing to support that amount.

COUNCILMEMBER COUCH: But is that unusual or...

MR. ISOBE: Well, as auditors there's been, you know, there's always issues with, you know, responsiveness especially when, you know, you're looking at a lot of departments that are outside of Finance and their ability and, I guess, their knowledge of what exactly we're looking for, you know. I've seen many different examples of what a reconciliation is, you know, and the many different years and many different clients that I've worked on, you ask for a reconciliation and sometimes you would just get this General Ledger listing for the whole year for a Balance Sheet Account. Now the ability to produce what we're looking for, I guess it's not that uncommon where, you know, there's been times that other clients have not been able to provide that kind of information.

COUNCILMEMBER COUCH: Okay. Thank you, Chair.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: Thank you. Other questions for the auditor? My recommendation, Members, on the Single Audit Report is to file it unless you have more questions that you folks need additional information on? So I will entertain a motion to file the Single Audit Report for Fiscal Year 2014; and all attached communications.

COUNCILMEMBER VICTORINO: So move, Mr. Chair.

CHAIR HOKAMA: Okay.

VICE-CHAIR WHITE: Second.

CHAIR HOKAMA: I have a motion made by Mr. Victorino, seconded by Mr. White. Again, this is on the Single Audit Report, Members, any further discussion? All in favor of the motion, please say, "aye"?

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed say, "no"? Motion passes with eight "ayes", one excused, Mr. Guzman.

**VOTE:       AYES:       Chair Hokama, Vice-Chair White, and Councilmembers Baisa, Carroll, Cochran, Couch, Crivello, and Victorino.**

**NOES:       None.**

**ABSTAIN:   None.**

**ABSENT:    None.**

**EXC.:       Councilmember Guzman.**

**MOTION CARRIED.**

**ACTION:     FILING of communication by C.R.**

CHAIR HOKAMA: On the CAFR, Fiscal Year 2014, BF-3(1), I'm gonna defer this item. I'm gonna await additional reports from the County Auditor before I make a determination on this CAFR. So with no objections --

COUNCILMEMBER VICTORINO: No objections.

CHAIR HOKAMA: --this will be deferred.

COUNCILMEMBERS: No objections.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

**ACTION:     DEFER pending further discussion.**

CHAIR HOKAMA: Okay, the rest we need...1:30. So we are going to take an earlier break because our resource people from the State regarding Post-Employment Benefits will be arriving for the 1:30 session, Members. So, at this time, I'll ask Mr. Isobe, Mr. Bautista if there's any additional comments you wish to share with the Committee, we are very much open to those comments.

MR. ISOBE: I would like to thank Lance for, you know, Mr. Taguchi for assisting in coordinating the audit this past year along with Danny and his people up there. You know in the first year audit, it is always a lot of additional work both on their end and, you know, there's been a lot of long weekends and even Thanksgiving Day that I know some of them were putting in working on trying to get this CAFR out. So I really appreciate the effort and, you know, the time that they put into helping us and helping our audit team, you know, get the audit done.

COUNCILMEMBER VICTORINO: Mr. Chair?

CHAIR HOKAMA: Thank you. Yes, Mr. Victorino?

COUNCILMEMBER VICTORINO: One quick comment if I may? I was very impressed with you young men. You guys did an excellent job. Fielded the questions the best you could and I think you did a excellent job. Mr. Chair, and I wanna compliment them on that, also the Department for all their hard work. The other question, I have for you, Mr. Chair. Do we have to return this Water Supply Report?

CHAIR HOKAMA: Yes, I would ask that we do. I think...

COUNCILMEMBER VICTORINO: We have that in our Resource, right, in the Water --

CHAIR HOKAMA: That's correct.

COUNCILMEMBER VICTORINO: --Resources Committee?

CHAIR HOKAMA: Yeah, yeah, yeah. So we thank Ms. Perdido from the Water Department for assisting us this morning.

COUNCILMEMBER COCHRAN: Chair?

CHAIR HOKAMA: Yes, Ms. Cochran?

COUNCILMEMBER COCHRAN: Just real quick. If you don't mind a quick comment to our auditors being they're new, but I love the format. I think it was very understandable. It got straight to point. It was very easy in cross-referencing your findings, to actions,

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

and I think it's an awesome way that you had conducted yourself, but also the way you put together the report. So thank you very much.

MR. ISOBE: Thank you.

CHAIR HOKAMA: Okay, thank you. Anyone else has any comments or questions? I would just say that I appreciate having the new auditors, N&K CPAs. I think it helps to have fresh eyes on behalf of the County. And so I appreciate the work you've done and the report that you have submitted to us. And, again, I appreciate the tone and format that you've submitted your findings to us and your making yourself available to respond to questions for the Committee. So thank you very much, gentlemen, for your good work. Members, with no other business at this time, we will be in recess until 1:30 p.m. to complete the rest of the Committee's agenda. We are in recess. . . . *(gavel)* . . .

RECESS: 11:20 a.m.  
RECONVENE: 1:32 p.m.

CHAIR HOKAMA: . . . *(gavel)* . . . The Budget and Finance Committee shall come back to order. This is the continuation of an earlier recessed meeting from this morning. We have two more items on the agenda, Members, BF-52(1) which is a presentation on Other Post-Employment Benefits, and we also have with the final item for today which is a Request for a Budget Amendment for the Current Fiscal Year, Department of Finance, Regarding Other Post-Employment Obligations Fund, under BF-27.

**ITEM NO. 52(1): PRESENTATIONS ON OTHER POST-EMPLOYMENT  
BENEFITS**

CHAIR HOKAMA: This afternoon we are very fortunate to have Director Machida from the State Department of Budget and Finance. Many of you have known Mr. Machida when he was with the Employee Retirement System. He will give us his comments today on the Post-Employment Fund, Members. And after that, he also has with him Paul George and Emalu-Hima Cleveland, who are both Retirement Claim Examiners with the Maui Office of the Retirement System. So if you have questions for them. We'll take it after the presentation from Director Machida. So with that Members, I'm gonna call a recess. We're gonna lower the screens for the presentation and then we'll come back to order and let Mr. Machida give his presentation. We are in recess. . . . *(gavel)* . . .

RECESS: 1:33 p.m.  
RECONVENE: 1:35 p.m.

CHAIR HOKAMA: . . . *(gavel)* . . . The Budget Committee shall return to order. At this time, we'll have Director Machida from the State Department of Budget and Finance share his presentation with us. Mr. Machida?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. MACHIDA: ...(*PowerPoint Presentation*)... Thank you, Chair Hokama. Thank you, Members of the Committee. It's good to be back except that I have a different role now, and so it's been all of two and a half months in my role as the Director of Finance, but I'm happy to be here to give you a presentation on EUTF as well as ERS. And if there's any questions along the way as we're going through the presentation, you know, please feel free to ask. I want to make sure that we get to answer all your questions. And if there's anything on the slides that you need clarification, too, please feel free to ask for clarification as well, too. So the first presentation involves the EUTF, the Hawaii Employer-Union Health Benefits Trust Fund. And these are the two cover copies of the reports. The valuation itself is done every other year unlike the Employees Retirement System that has an annual valuation every year. So the last valuation report for the EUTF was as of July 1, 2013. Although they do do an annual report, the EUTF does, the valuation itself again, is done every other year. Now this is probably something that you would all be interested in and it's looking at the entire health benefits, liabilities, as well as the assets. So I know it doesn't show this on this table, but when you look at the first column after the description, the Actuarial Summary, the second column over represents the 2013 numbers, and the column to the right of it, the last column represents the 2011 numbers. So the valuation reflects, the second column, 2013, and the third column would be 2011. If you notice on the Discount Rate, it's at 7 percent. So the Discount Rate is really what you probably know from the Retirement System as the Investment Return Rate Assumption, what is supposed to be earned or what is anticipated to be earned every year by the particular funds. So in this particular case, the EUTF has a Discount Rate or an Investment Return Rate of 7 percent. The rate earlier was lower in previous years and the reason for the lower rate was the fact that the Fund wasn't prefunding. In other words, there wasn't a mandate to prefund the obligations of the EUTF. And so with that Act 268 that was enacted last year, that gave the EUTF the ability to change its investment return rate to 7 percent. Now what you have also in terms of the numbers that are being reported, if you look at the...I think the number that you probably would be interested in is the Unfunded Actuarial Accrued Liability which as of 2013 stood at 11.2 billion. And so that didn't change a whole lot from the previous reporting period which was 2011. So if you notice it was 11.184 in 2011, and it's 11.181 in 2013. What did change slightly is the Funded Ratio. So the Funded Ratio represents what you really have in the way of assets to pay off the anticipated liabilities. And so it's essentially what's needed in the pot to pay off those liabilities. So when you look at 2013, it's at 2.6 percent. And the counties or some of the employers have been prefunding even though the mandated requirement came into play last fiscal year. So if you look at the Market Value of Assets for 2013, and it's the fifth line down, as of 2013 there was almost \$300 million of assets to pay off the liabilities. Just to update you, as of a month or two ago, what's currently in the EUTF OPEB Trust Fund is about \$750 million. So between 2013 that's reported here, the 296...296 million and what's in the OPEB Trust Fund as of a month or two ago, it had increased to about another four to five hundred million and that's due to a lot of the contributions from the county employers as well as the State of Hawaii. When you look at what's the requirement, so going back down, further down this slide, when you

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

see the June 30<sup>th</sup>, it says, June 30, 2015 Fiscal Year End, when you look at the Annual Required Contribution of \$952 million. What's currently being paid or will be paid by the end of the year hopefully is the pay-as-you-go benefits, the \$412 million that's being reported plus the minimum OPEB Trust contributions, the 107 million or so. So rather than paying what's required in terms of the ARC, because Act 268 phased-in the required contributions for OPEB or Other Post-Employment Benefits, if you notice, you see the 20 percent phase-in. Twenty-percent of the total OPEB Trust Contribution will be paid for the Fiscal Year 2015. So that represents the 107 million. So the 412 plus the 107 that's about 520, \$520 million or so the 952 will be paid in that fiscal year. When you look at what's anticipated to be paid for June 30, 2016, and this is the entire, this is the entire Trust Fund, this is not only Maui's portion, but every Statewide, everyone's portion. What's required or what was calculated to be required in terms of the ARC is 985 million for 2016. The pay-as-you-go amount, the 454 million plus the minimum requirement of 212 million is likely to be...what's to be paid for 2016 of what's required. And if you look at the Act 268 phase-in, that's 40 percent of what's required. So that's the phase-in until Fiscal Year 2019 when 100 percent of OPEB should be paid into the Fund. So it phases in from 20 percent in 2015 to 40 percent in 2016, 60 percent in 2017, 80 percent in 2018, and finally, 100 percent in 2019. So that's the phase-in period. So let's review some of the assumptions. Again mentioning that as far as the EUTF is concerned, the valuation is required to be done every other year not every year. And the last valuation was done in 2013. Now in terms of the projections and assumptions, again the discount rate is 7 percent. They also have assumptions with respect to life expectancy, and the life expectancy is about 82 to 83 years of age. The payroll growth is the assumption that's being used is about 3 ½ percent or so. And payroll growth really represents not only new positions, not only increase in salaries due to collective bargaining increases, but it also could be because of promotions and other increases in pay that's reflected outside of the collective bargaining agreements. But it's anticipated to grow around 3 ½ percent or so. And then you have the OPEB funding commitments in accordance with the Act 268. Also, the costs due to inflation and growth of the monthly base contribution amounts. And the actuarial valuation and the contributions are based on a 30-year amortization period. I know it might be difficult to see, but I wanna pay particular attention to six, the sixth column over because that's the County of Maui's portion. So this is the results by employer. And so when you look at the County of Maui as an example, the unfunded liability that represents Maui's portion as of 2013 is about \$359 million. When you look across the board, too, in terms of the ARC, and that's the Annual Required Contribution, it's interesting to note that the County of Maui has an ARC that's one of the lower ARCs when you compare it with all of the other employers. So when you see the Board of Water Supply in Honolulu at 26 percent and then you do see a low of HART which is currently, you know, doing the rail project of 7.6 percent, you know Maui falls in between that. But when you look amongst the other employers, it's the lowest of the other employers at 19 percent. And then when you look down in terms of the projections for the Fiscal Year 2015 and 2016, and you look at what the requirements are. When you look the requirements for the OPEB portion for 2015 for the County of Maui, it's about \$3 million, and also for 2016, it's about \$6 million. What had happened, too, was by Maui County paying

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

in I think 97.2 million before the end of the Fiscal Year 2014, what that did was reduce the contribution amounts going forward so to what you see now. Because in fact had the County of Maui not made that contribution payment, their requirement for 2015 and for 2016 would have been much higher. In fact, I think the estimate before that payment was made for 2015, was in the \$4 million range. So you really shaved off about \$1 million off of the 2015 requirement by making that payment. So as you can see though when you look at the County of Maui in terms of what's in the, what's in the fund to pay off the benefits and obligations, the funded ratio is 7 percent. So it represents again, probably either low to middle of all of the funded ratios for the employers. Now this may be really, really difficult to see, but I think what's important to note from this, from this slide is the fact that this represents a 30-year projection, 30-year projection based on the 2013 valuation of what's expected to be paid, what's expected to be incurred in the way of obligations, and what's interesting to note is when you look at...and this is for every single employer consolidated into one, what's interesting to note is that if all of the assumptions hold true, so the payroll growth, the investment returns, the mortality tables, and so forth that the...and the contributions are received as required, that the fund if you notice at the very bottom in 2046, the EUTF when you look at the funded ratio should almost be fully funded. The thing to note though about this schedule is look at the contribution requirements. So look at the column that's the fifth from the right where it says actual contributions, eventually in the next 20 years or so, the total contributions that's gonna be required from all employers gets up into the over \$2 billion range. And what you'll find and what you'll see in the ERS's presentation is that eventually it gets close to that amount as well too. So over the years, over the next 20 years or so, just for the health benefits and the pension benefits contributions that will be required from employers collectively of close to \$4 billion if not over \$ 4 billion. That's quite a sum of monies when you think that, when you look at the State of Hawaii, you look at the General Fund monies now in terms of what's included in the Budget, the General Fund monies that's included in the State of Hawaii's Budget is about \$6 billion. So to think that eventually down the road that just from these two programs the ERS and EUTF someday may come to about \$4 billion collectively for just the two programs not including Education, not including Public Safety, not including Human Services or Social Services and Health. That represents a significant portion and will continue to represent a significant portion of everyone's budget. Here shows graphically what was shown on the previous schedule, and so what it shows is that if everything holds true, all the assumptions hold true that eventually when you look at that solid line, it goes from about \$12 billion on the left side to about almost zero in 2045 or 2046. So this graphically shows how the unfunded liability will be paid down to 2046 if all contributions were received and if all assumptions hold true. So here are Maui's information in terms of retirees and actives and under the medical plan enrollments. So as you can see, in terms of actives, it's been pretty stable at about 2,000 across the board from 2012 to 2014. In terms of retirees, there's been a slight increase from 2012 to 2014 from 1,144 to 1,225. I wanted to make a note of this just from retirees in general. In December 2014, just from the Statewide standpoint, we probably had more retirees in the month of December in 2014 than we've had for probably the past decade measuring it against any December of the previous years. We've had, we had over

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

800 retirements Statewide. We ordinarily would have over maybe 600. So for whatever reason, this past calendar year in the month of December there was an increase in retirements. When you look at what has happened over the last couple of years, the OPEB Trust Fund was established two or three years ago, Act 268 in 2013 established the pre-funding of the OPEB requirements. And then recently, there was a RFP completed for some of the EUTF plans. Now here we talk about again, the establishment of the OPEB Trust Fund. So what's happening now is that the EUTF has hired an investment consultant to help with the returns so remember seeing the 296 million in 2013 that more recently has grown to about 750 million? The investment consultant has...Pension Consulting Alliance. And just for the Council's information that is the same investment consultant that the Retirement System uses, Pension Consulting Alliance. And so with their assistance, investment guidelines and policies were established as well as the ability of the EUTF to invest the monies instead of putting it in the State Treasury that was done many years ago and earning just for your information, the State of Hawaii's Treasury last year had earned .4 percent, not 1 percent, but .4 percent. When you look at what the EUTF as a result of the change in policy as well as the assistance of the investment consultant, when you look at what they earned through 2014, they were able to earn in 2014, 15.3 percent. And the average over the last three years was about 10.1 percent. So whatever monies are being contributed to the EUTF OPEB Trust Fund, any monies that were earned over the last three...I mean, were put in over the last three years, on average, would have earned about 10.1 percent. Now what's working its way through the legislative process, and what's hopeful for the EUTF is to have the ability to invest in a similar way as the Retirement System, because what you'll find in the next presentation is that instead of the 15.3 percent that was earned in 2014, the Retirement System had actually earned almost 18 percent. So what the EUTF is hoping for is to have the same statutory provisions as the ERS in terms of what investment vehicles they are able to invest in. In the fourth bullet that you see here too, shows what allocation the EUTF's investments are targeted for. So again, this covers on this slide Act 268 covers the minimum requirements, OPEB requirements and how it's phased in between 2015 Fiscal Year to 2019 where it becomes 100 percent.

CHAIR HOKAMA: Thank you, Mr. Machida. Do you want to go right into your next presentation or...

MR. MACHIDA: I can do so, unless if you want, if you have any questions. If you wanted to save the questions for the end or if you wanted to ask any questions regarding the health benefits, either way, I'd be happy to do it either way.

CHAIR HOKAMA: We'll take questions all at the end.

MR. MACHIDA: Okay. So we'll continue on then with the Retirement System. And I also have again, I have Paul and Emalu-Hima here in case there are any benefit-related questions with respect to the pension system. So this what I plan to cover in terms of on the ERS, the membership, updated benefits, the dollars contributed, assets,

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

investment update, funded status, unfunded liability, the projection of benefits and liabilities, legislative proposals that are working its through the legislative process. One thing I wanted to mention before I get into the slides in terms of the difference between the EUTF and the ERS just from a reporting standpoint. The EUTF is a multiple plan employer, multiple employer plan which means that you have separate pools of investments and liabilities and benefits that's tracked by each employer. The ERS is a multi-employer plan in that everything is pulled together it's not separated like the EUTF's information is. So it's consolidated into one, into one fund or one pool. However, just for your benefit, we had asked the actuary to break it out in terms of a methodology that would be reasonable even though it didn't have to do that or the Fund doesn't have to do that. And so what you'll see today will be information that pertains to County of Maui, but it's an estimate only. So as far as the Retirement System is concerned, the total membership is 118,000, 67,000 actives, 43,000 pensioners and beneficiaries, and 8,000-plus inactive members. So just for the Council's benefit again, inactive members are those people that have gotten the years of service they needed to get a pension benefit down the road, but they have left State or County government service. So they're no longer working for the State or the Counties. They are actually either working for the Federal Government, private sector or not working at all, but some time down the road, they'll be able to get a pension benefit once they become age eligible. So they got the years of service, they're just waiting to get the age and that's what this number represents. The EUTF should have similar numbers as well too. I would say about between 90 to 95 percent of the members that are in the Retirement System would also be the same members in the EUTF. There are certain benefits that are given, health benefits that are given that would not ordinarily be given by the pension side. So that's where the main difference lies. This shows how the members and retirees have been growing over time. So when you look at it, when you look at it as early as 2001, you know, it's barely over 93,000 or so, and when you look at 2014, it's close to 120,000. So it has grown significantly over the last 13 years or so. Retirees and beneficiaries have grown from 2002 of about 30,000 to about 43,000 in 2014. So it has, it has almost doubled in that time period. When you look at the retirements now--and this is Fiscal Year so it doesn't include the December 14 that had over 800 members retiring Statewide--but if you look at this it's been pretty stable or so over the last four years. But 2015 if the retirements increase like it did in December of 2014, that should well be over 2,000 retirements for the Fiscal Year 2015. Just to let you know, and I might have mentioned this last year, but out of the active 67,000 total members, over 15,000 of the 67,000 are eligible to retire today, so we are a mature system from that standpoint that, again, out of the 67,000 active members statewide, over 15,000 of them can retire today, but for whatever reason choose not to do so. But if the trend continues like in December of 2014, we may see an upward trend of retirements over the next year to three years. Maui County has 2,400 or so of the 67,000 active members and this is as of June 2014. When you look at retirees and beneficiaries, Maui has about 1,200 of the 43,000 retirees, beneficiaries, and that includes not only the regular or service retirements but it also includes the disability retirements, too. So when you look at it, for Maui, it has 61 retirees who retired on disability. Now what's interesting to note is that, on the second bullet, the Retirement System paid \$1.1 billion last fiscal year in the way of

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

pension benefit payments. And when you look at what it's estimated to increase to over \$3 billion in the next 30 years per year, the average annual pension as of the last valuation date is about \$25,000 per year. Now this is, could be somewhat misleading because you have a lot of retirees that are living old...living longer at an older age. So they may have retired a good 30-plus years ago and so their pensions were very small. So this average annual pension blends in all of the retirees, those that retired 30 to 40 years ago and those that have recently retired last year. What's interesting to note, too--and I think I might had mentioned this last year, but I'll give you an update--there are about, the last time we checked, 47 pensioners that are 100 years and older that are collecting benefits from the Retirement System. There are 1,700 pensioners out of the 43,000 that are 90 years and older that are collecting a pension. And this is to reiterate again, the fact this I think there's actually over 15,000 that can retire today not 14. This is what's contributed to the Retirement System by the respective employers. What I want you to note on this, well, you see Maui at about \$28 million. What I want you to note though is this is...this represents the total amount of contributions received by employers and employees for 2014. So look at the total of the two on the last line, \$859 million, but we paid out, the ERS paid out \$1.1 billion in benefit payments last year. So they took in 859, but they paid out 1.1 which means that the difference, the 200 plus million-dollar difference, that came from the corpus or the fund itself so investments had to be liquidated to pay out those benefits. This is just a reminder for Councilmembers this is what is contributed by the employers every year. So last year for 2014, 23 ... by law, it's a percentage of everybody's pay. So for Police and Fire, 23 percent of their pay was paid or contributed by the employer for the Police and Fire, and 16 percent of pay for all of the other employees. This again, breaks if you look at the second bullet, it breaks out the contribution amounts and, as I had said earlier, it's projected to increase to about \$2 billion in the next 30 years or so. I just wanna make note that in 2015, the contribution rates will increase. So the contribution rates increase slightly until 2017, I mean excuse me, 2016 of which then it should be fixed unless it goes through a legislative process to change the rates. So next year, 2015, the contribution rates will be 24 percent for Police and Fire, and 17...16.5 percent for all other employees. The following year would be 25 percent for Police and Fire and 17 percent for all other employees of pay, and that will remain until any statutory changes take place whether it be to lower it or increase it. This shows what was earned on the investments. So the market value in terms of the earnings was 17.8 percent as of 2014. The market value was \$14.2 billion. This is an all-time high for the Retirement System in the way of the investment portfolio. So what's interesting to note is that the market value exceeded the actuarial which means that there's gains to be gotten going forward. The actuarial value represents only one-quarter of the gain of that 17.8 percent. That's why there's a difference between the market value and the actuarial value. So what this means is that if the system were to incur a loss in 2015, there is gains that could offset that loss. So in other words, the funding of the system could still remain about the same because of the gains that are, that are being used going forward. This shows an update to the allocation of the investments for the ERS. Now what's interesting to note though is that the Board of Trustees of the Retirement System, it's not on this slide, but I'll just make mention of it, the Board of Trustees of the Retirement System had approved and

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

adopted a different investment approach, and it's a risk-based approach which would help stem off some of the downsides in the investment markets. So I'm not sure how many of you have been following the market of late, but over the last week in terms of before the last couple of days, maybe three or four days before then, the market had substantially taken a downturn; and it's recovered a little over the last couple of days, but it still hasn't recovered what it lost over the last week or two before then. But the Retirement System is looking to ensure that it can meet any downturns in the marketplace. This shows the unfunded actuarial accrued liabilities which is at about \$8.6 billion. What's interesting to note on this is the funding period, 26 years. What that means is that if everything holds true, the investment return rates hold true, the...all of the other assumptions hold true, contributions are received, the ERS can be fully funded within 26 years, and what's interesting to note is when I came here last year to report on this, the funding period to pay down or pay off the unfunded liability was at 28 years. It has gained another year in terms of paying down the unfunded liability. And what that means is that employers won't have to pay in another \$700 plus million to the fund by gaining that one year. This shows or reports on the definition of what Funded Ratio is. What's of note on the second bullet is that the ERS as of 2014 is 61.4 percent funded. So remember when you saw the EUTF and you saw the difference between the 7 percent funded to I think it was high of one employer was about 30 percent. Obviously, the ERS as a whole is better funded at 61.4 percent and they have been putting in monies over the years to help fund the ERS. However, it's still in the bottom quartile amongst public pension plans. This just shows graphically the ability if everything holds true of the ERS to pay off its unfunded liability over the next 26 years. So if you look at the dotted line versus the solid line, that shows the gain between 2013 and 2014 of one year in paying down its unfunded liability. Now, when you look at the second bullet, the unfunded liability grew because of primarily because of the change that the Board, the ERS Board did to reduce the investment return rate assumption from 8 percent to 7.75 percent. And just to let the Councilmembers know, the Board did adopt another change or decrease to the investment return rate assumption. In the next...and it's a phase-in decrease. Over a three-year period, the investment return rate assumption will decrease from 7.75 percent to 7.5 percent. So the next valuation period will show instead of 7.75 percent, it will show 7.65 percent. The next valuation period after that will show 7...instead of 7.65 percent, it will show 7.55 percent. And finally in the third year, it'll show 7.5 percent. Any change in the investment return rate assumption for valuation purposes will increase the unfunded liability. Any quarter change in fact of the investment return rate increases the unfunded liability to almost about a half a billion dollars. This shows graphically how the unfunded liability has increased over time between 2003 and 2014, some of it due to the recessionary periods. In fact, actually most of it is probably due to the recessionary periods that occurred in 2001 and 2002, and 2008 and 2009. When you look at with GASB 67 and 68 coming up in terms of reporting for each employer, now this is an estimate of what the actuary had projected if they were to use the methodology of, and I think they used the payroll distribution. The County of Maui's Net Pension Liability based on the 2014 numbers is about 313 million. What's interesting, interesting to note on this schedule, this reflects the growth rate or the growth amounts in the contributions, so the employer

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

contributions, the benefit payments, and the liabilities. When you look at the benefit payments and the liabilities, when you look at the growth of those two collectively, that outpaces or individually for that matter, that generally outpaces the growth and the contributions which means that quite possibly down the road if investments and employee contributions don't hold true as well as the other assumptions, there may be more that may be needed because of the liability growth. And the liability growth also reflects the fact that there were pension reforms that were done in 2011 through 2014, even with that, the liability growth rate will also include, will also increase, excuse me. But down the road, beyond 2023, more likely into the 2040s it should even decrease even more because those reforms would likely to be 100 percent effective at that point in time. Now what's happening with the legislative proposals currently in this session, there's one bill that if...and I think this was also introduced last year that if there were any employee that was convicted of a felony that related to their work as an employee with the County of Maui or any other State or County employer that the courts or the judiciary could either reduce or amend any benefits going forward. On the second bill, represents a housekeeping bill to make it consistent with the Hybrid Plan requirements. This third bill I think when you look at it is important especially on the Service Acquisition Contributions side of it. Let me give you an example. We found or the ERS found that it wasn't collecting enough for those employees who were acquiring service. Just as in example, this is a real life example, there was a member that paid in \$2,000 to acquire two years of additional service. That individual got a \$500 per month increase to their lifetime benefit, \$2,000 for a \$500 increase in their pension benefit. When the actuary had calculated what should have been the actuarial cost, it was in the neighborhood of 80,000 or so versus the 2,000 that was actually paid in. And the reason for that is that the methodologies that's used and it's by law, by State Law was enacted more than likely over half a century ago. And so it's been, it's extremely outdated. And so in order to update that methodology to get the better actuarial cost this proposal was introduced. So can you imagine how much that's contributed to the unfunded liability for all of that service acquisitions that have been occurring throughout the years? On the second bill, Employer Reporting and Penalty. We don't get any payroll adjustments by all employers electronically. This will require them to give us all of that adjustments so we can...so the ERS can do its benefit calculations more efficiently and effectively. This will require all employers to give us that information electronically. On the second bullet, ERS Board Executive Sessions, this is just clarifies the fact that there can be executive sessions especially for the investments where there are preliminary investments being proposed that if got into the hands of other investment consultants or managers would give an unfair advantage to those others. So this just clarifies the ability of the ERS Board to go into executive sessions primarily for these investments proposals. And then the last bullet, it's just a housekeeping measure for judges. When the Hybrid Plan was enacted, not all amendments were able to get through with the pension reforms and this was one that needed to get through. Anyway, that's the presentation for the ERS and I'd be happy to answer any questions that you have on both EUTF and ERS. Thank you.

CHAIR HOKAMA: Thank you, Mr. Machida. We'll take a recess and reset the Chambers for general session. Recess. . . . (*gavel*) . . .

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

RECESS: 2:22 p.m.  
RECONVENE: 2:24 p.m.

CHAIR HOKAMA: ... *(gavel)* ... We shall come back to order. We are on BF-52(1) regarding the Presentation of Other Post-Employment Benefits which we just received from Director Machida of the State. So Members, since Mr. Machida started on the EUTF component, why don't we use that document as the first document to go through questions from all of you or any concerns that you may have? Mr. Victorino, any questions for our resource people? We have Director Aagsalag from the County and Director Machida from the State.

COUNCILMEMBER VICTORINO: Thank you, Chair and we'll start with Mr. Machida. Thank you very much for being here. I appreciate it, and congratulations on your new position.

MR. MACHIDA: Thank you.

COUNCILMEMBER VICTORINO: I hope it's congratulations and not something else, but we'll see how it all pans out, right?

MR. MACHIDA: You can ask me questions on too if you like.

COUNCILMEMBER VICTORINO: I think that's not on the agenda, Mr. Chair. So I'll skip that part, yeah. And thank you for your presentation. It's become very apparent how big the Retirement System has grown along with the other part of our funding mandates that we are here in the County of Maui and the rest of the Counties and State are in need of. Do you foresee, and I guess this is a general question, do you foresee any...and I guess the downturn in the economy kinda like really hit my core when you said, oh every time we seem to have had a real challenge it was a downturn in the economy and we know our economy is very cyclical. It will go down again, somewhere along the long. This year, next year, the year after. We hope not too soon, but it's the reality we live in, Mr. Chair. Our economy goes up and down and generally speaking hopefully nothing like the last downturn. You know, it was very long and arduous and it's still in some areas, in some sectors have not recovered. But do you see that causing all of this forecasting to be put to pot for a little while, while somehow the recovery takes place if there's another downturn?

MR. MACHIDA: On this...so the projections if you notice on the 30-year projections, that's based on 7 percent investment return rate or discount rate.

COUNCILMEMBER VICTORINO: Right.

MR. MACHIDA: So that's an average. So I guess the...when I had done an analysis before, years ago, that...and this was on the Retirement System side so I'm speaking to the Retirement System--

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER VICTORINO: Okay.

MR. MACHIDA: --but I think it, it will hold true for anything. When there was a significant downturn, that lowers the asset base tremendously. In order to recover, you need to recover significant amounts going forward. So in other words, if you had a stable 7 percent return every year over the next 30 years, you would be better off having that go that way on average than if you had significant fluctuations, in other words, a significant downturn in one year. Let's say example, you know, 15 to 20 percent, but still averaged that same 7 percent over the long run, you may be...what that analysis had showed is that you may be better off by having that more stable environment than having that significant fluctuation especially if you, especially, and I make note of this, especially if you have significant downturns. Even though at the end of the both, the same periods of time, you average the same investment returns.

COUNCILMEMBER VICTORINO: Okay.

MR. MACHIDA: So that, that could very well be.

COUNCILMEMBER VICTORINO: Okay. Okay, that I think is in my mind very important. I think all of us live with that aspect, and I guess the next question I have for you and I'll ask just a few and then give everybody a chance because I think we all have so many different questions. The inactive group, you know, that you showed us which was quite a large number, those will be based when they get to their age of retirement requirement based on how many years of service and what they've put in, in that years that they were there. Am I correct in saying that or is that a combination of what the Federal, State? 'Cause I've always heard you get credit, okay, I know I heard this from a lot of County workers, I was in the military for five years and I get credit towards that. So can you kinda, so that the public understands and I understand how that credit works as far as if they're inactive working for the Federal Government or where...maybe not even working, what happens when they become age eligible and then how does that, how is that determined?

MR. MACHIDA: Okay, so the calculation would be the same like all of us here. In other words, the highest monthly pension you can get is based on your years of service, the plan that you're in. So the plan that you're in would determine the multiplier. So for most people now it's at 2 percent for the ones that started before 2012. So it's the multiplier times years of service times their three highest salary periods.

COUNCILMEMBER VICTORINO: Okay.

MR. MACHIDA: And so for those of that have left the system to work somewhere else as an example, and let's say they had 10 years of service. They still keep their 10 years intact.

COUNCILMEMBER VICTORINO: Okay.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. MACHIDA: Their salary is based on what over that 10-year period that they worked previously is the same. So whatever they earned over that 10-year period, the three highest periods will be used as the calculation. And whatever plan that they left in would have that same percentage. So effectively what you have is the same calculation, it's just that you cannot get any benefit until you become age eligible and most importantly, you apply for retirement. Because some people think that because they have left service that automatically as an example for the Hybrid members at 62, they're gonna collect their pension. No, they have to actually put in an application for retirement in order to collect their pension. So in answer to your question Councilman, the liability will be on the books already unless they come back to employment which will change their benefit. If they work more years, that will increase their benefit. If they get a higher salary that will increase their benefit as well too. Because of those three components, two of those components will change the salary and the years of service, but for the time being the actuary is estimated based on when they left. So if they never return that should be the liability for those individuals.

COUNCILMEMBER VICTORINO: So if I am hearing correct, Mr. Machida, that liability's already been fixed. You have that as far as what you know you have to pay out based on that at this point in time?

MR. MACHIDA: That is correct. And the only thing that would change in terms of the liability itself if some of the assumptions do change--

COUNCILMEMBER VICTORINO: Right.

MR. MACHIDA: --as an example, if people start to live even longer than what's anticipated and we have to pay out more benefits then that's more liability that will have to be incurred for not only that individual but every single member in the system.

COUNCILMEMBER VICTORINO: That's one of my other questions I have, but I'll let others ask, Mr. Chair, just to be fair. You know, I don't wanna, you know, I think all of us have so many more questions and that was one of them that I will come back if it's not asked about the assumption of a longer life, you know, as the life expectancy changes. Although in the real world, in the insurance world we're seeing the opposite effect. It's starting to start to decrease. We've hit like what we call the plateau and we're looking at maybe even a drop as far as ages is concerned on longevity. But that's another conversation. I don't wanna get into that, Mr. Chair. But thank you very much, Mr. Chair, for allowing me this to ask these questions.

CHAIR HOKAMA: Thank you. Mr. Carroll, any questions for the gentlemen?

COUNCILMEMBER CARROLL: No questions at this time.

CHAIR HOKAMA: Okay, thank you. Ms. Baisa?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER BAISA: No thank you, Chair. But Mr. Machida, thank you very much for the good information. And it's just...it's amazing the statistics you gave us about 47 people in this group being over 100 years old. It's an interesting statistic. Also, I'm interested in the 82-year-olds statistic. You know, I'm getting close to that, right. So I'm beginning to...that was interesting, you know? And listening to Mr. Victorino's comment also because you know they're telling us that some of us will outlive our children because of lifestyle and so it's kind of scary when you think about it. I think that's what Mr. Victorino is alluding to. So we may see a difference but it's been trending upwards for so long. But it's very good that, you know, we have this all worked out and thank you very much for all your hard work. Thank you, Chair.

MR. MACHIDA: You're welcome.

CHAIR HOKAMA: Thank you. Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And thank you, Mr. Machida. It's nice to see you always, and thank you, you bring a lot more clarity to how all this, you know, goes around and how it affects us literally here at home. But I like our numbers as the County of Maui. I know we've been pre...you know, we've been taking care of our bills so to speak. And so, for me, I'm not sure if I'm mistaking this one for the next presentation you gave, but we've been like paying I guess or holding our monies on the side so we made sure that our percentage is definitely were going to our unfunded liabilities and not so much to the pool or the pot as a whole. And I guess maybe taking the risk that it wasn't gonna go towards our, you know, our specific payments. Is that kinda why we're at such a lower, you know what I mean, percentage base or ratio I guess in comparison to other counties?

MR. MACHIDA: That could, that could be because the end of the Fiscal Year '14 there was I think 97.2 million that was put into the EUTF. So the EUTF can show separately in terms of by employers. So when you put the monies in, it will show that it should be...and show and will be credited to your employer account if you will. And so by virtue of the fact that you did put in the 97.2 at the end of the Fiscal Year '14 that did lower your contribution requirement and in up...in the next two years and beyond.

COUNCILMEMBER COCHRAN: Right.

MR. MACHIDA: But in terms of the funded ratio, I think you mentioned the funded ratio that has the 7, 7 percent for the EUTF?

COUNCILMEMBER COCHRAN: Right. I mean, we have a lower.

CHAIR HOKAMA: Some of your concern, Mr. Cochran, we will address and be part of the discussion on the next item of the agenda.

COUNCILMEMBER COCHRAN: Okay, yeah.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: So can take it up further when we bring up the final item?

COUNCILMEMBER COCHRAN: Okay, very good.

CHAIR HOKAMA: Being that Mr. Agsalog has some specific comments he could share when we reach that item.

COUNCILMEMBER COCHRAN: Okay. And it's exciting to see that we'll be leveling off, you know, a lot sooner...well, 26 years versus the 28 years and I'll be around hopefully to live to see that day and it will be quite exciting. I'll be about 80 or so, but you know I'm sure it will be a momentous occasion to finally see that happen.

CHAIR HOKAMA: That's a good number 80. Mr. Couch, questions for our gentlemen?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And thank you and congratulations, Wes, for being here. You know, you talked about we took in about 800 million, 890 million, I forgot exactly...859 million, but paid out over a billion in benefits.

MR. MACHIDA: Yes.

COUNCILMEMBER COUCH: So essentially the contributions from employees and employers hasn't kept up with the payout. So is that...does that ... if we were to hire more people would that make it better or I have a feeling that even if you hire more people that that gap is still gonna be there.

MR. MACHIDA: If you do hire more people that gap could still be there depending on at what level you hire them at as an example because for every additional person that you hire that's an additional liability too--

COUNCILMEMBER COUCH: Right.

MR. MACHIDA: --on the pension side.

COUNCILMEMBER COUCH: Right.

MR. MACHIDA: So even though they may be contributing, there's still an offset from the fact that they may be accruing benefits as well too, and be eligible for a pension benefit down the road. So it just depends on how much they're putting in versus how much of a liability will be incurred on their behalf. So it could be increasing it. It could be decreasing it. It just depends on what the situation is.

COUNCILMEMBER COUCH: And typically as a person, the longer a person stays, the more salary they get so that increases the liability more even though ... and it'll increase their contributions, but not anywhere near as much.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. MACHIDA: That is correct. The only thing I would add to that would be that with the pension reforms though that came about effective for 2012, those that are hired now will not get as, I'm not sure if this is the right word or not, generous a benefit as the previous members. In fact, current members that were hired before 2012, the cost per year for those individuals from a pension liability standpoint is 6 percent of their pay. With the reform, with the 2012 and after hires, it's reduced to 2 percent of pay. So instead of 6 percent that you're putting in for the previous members, you're putting in now 2 percent of pay for the current members, the new members. So that is a significant cost decline going forward. So at some point down the road, you'll see or you will see the reductions, the significant reductions in the liabilities because of that.

COUNCILMEMBER COUCH: Okay. Thank you, Chair.

CHAIR HOKAMA: Okay, thank you. Ms. Crivello?

COUNCILMEMBER CRIVELLO: Thank you. And thank you for being here. Yeah, prior to 2012 quite generous, yeah. I have a question that in regards to pensions and I don't quite understand it. I guess government employees are receiving quite generous pensions. So in the event that if I'm a County employee, I retire but I don't exhaust all of my pension benefits where does that monies go? Does it go to a beneficiary or do we have a pot for it to go in?

MR. MACHIDA: So when you retire, you can designate a beneficiary. And so, if you're collecting pension benefits and something let's say unfortunately happens to you then depending on what option you selected, retirement option because there are continuing benefit options, if you do select a continuing benefit options then that benefit will go to your beneficiary who you designated if the beneficiary is still alive. So it can, depending on what you select.

COUNCILMEMBER CRIVELLO: So is ... well I guess what I'm trying to get to is does it ever revert coming back to government?

MR. MACHIDA: So you mean the benefit itself if something should...

COUNCILMEMBER CRIVELLO: Should happen. Maybe no beneficiary or the selection you know, do we have any way of recouping the balance of the...

MR. MACHIDA: Yeah, actually everything that is not collected by the pensioner would be kept into the fund itself. So you could have, you could have situations in which ... and here's an example, this is probably a farfetched example, but this could be a real life example. We have an option that's called a Joint Survivor Option, Option 2, where if the retiree passes away, the beneficiary gets 100 percent of the retiree's pension payment going forward for the rest of their life, his or her lifetime. If for some reason, let's say they go on a trip together after a couple of years of being retired, if they go on a trip together and both of them unfortunately you know the plane crashes and they pass away and they've only collected let's say 60,000, but they actually had put in

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

100,000 plus of their own monies plus the employer paid in another couple hundred to three-hundred thousand, then that's all that would be collected from the beneficiary and the retiree. So they collected 60,000, but they put in a 100,000 that 40,000 difference would stay in the fund. It normally and very rarely happens. I haven't even heard of a situation in which it happens, but it could happen that way. On the flip side though is that there are a lot of people that actually outlive their age that they're supposed to live so they actually collect more than what they're supposed to. So in other words, instead of the 100,000 that they put in, they may collect two or three hundred thousand. So you do have that. So as a group, it supposed to average itself out. Otherwise, the assumptions that had been used by the actuary will probably have to change. So you could have it...so in answer to your question there could be situations in which that could happen.

COUNCILMEMBER CRIVELLO: And it comes back to the employers?

MR. MACHIDA: And it comes back to the Fund actually which means that there would be less contributions required by the employers.

COUNCILMEMBER CRIVELLO: Okay. Thank you. That's all I had.

CHAIR HOKAMA: Thank you. Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. Thanks again for coming over and sharing all your information with us.

MR. MACHIDA: My pleasure.

VICE-CHAIR WHITE: One of the questions I have was on the EUTF chart, it shows the market value of assets for Maui County, the \$26.8 million and that doesn't include 97.2 million--

MR. MACHIDA: That's correct.

VICE-CHAIR WHITE: --so, what would the ... is there a calculation or do you have a calculation of what the ARC would change to with the receipt of the 97.2 million? Because last, last year we were told that that was gonna dramatically reduce the ARC.

MR. MACHIDA: Yeah, so actually so you if you look at Page 5 of the presentation, that's the change when you look at the \$3 million under 2015 and the 5.9 million for 2016, so when you look at column under the County of Maui, and it's in bold, when it says, minimum OPEB Trust Contribution, and it's under the heading of Fiscal Year ending June 30, 2015, that \$3 million is the revised amount which reflects the 97.2 million paid in at the end of the fiscal year. Previously when that wasn't paid in the actual amount that was required was 4.2 million. So you actually shaved off...

VICE-CHAIR WHITE: That's based on Act 268 though isn't it?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. MACHIDA: Yes.

VICE-CHAIR WHITE: But what I'm, what I'm wondering is does that, does the 28...28,241,000 above that, what is that 28,241,000 based on? How do you get to that calculation? Is that off of the 359?

MR. MACHIDA: Oh the ARC...

VICE-CHAIR WHITE: Three-hundred fifty-nine million?

MR. MACHIDA: Yes, the ARC for the County you mean?

VICE-CHAIR WHITE: Right.

MR. MACHIDA: Yes, that's correct.

VICE-CHAIR WHITE: Okay, so if that's correct then the 28.2 million is roughly 7.8 percent of the 359 million. But if I take the 97 million and add it to the 26 then the 359 is reduced to 262, and the 28 million should be reduced to somewhere in the neighborhood of 20 million. Am I going astray somewhere?

MR. MACHIDA: This schedule reflects the 97...so Page 5 or the Slide 5.

VICE-CHAIR WHITE: Yeah, I'm looking, but where is the 97 million?

MR. MACHIDA: It's already reflected, should be reflected in the numbers. So I believe, so the unfunded accrued, actual accrued liability already reflects the fact that there's or there should be...oh, I see what you're saying. So if there's 26 million of market value of assets --

VICE-CHAIR WHITE: Right.

MR. MACHIDA: --it should be another 97 million added to that --

VICE-CHAIR WHITE: Right.

MR. MACHIDA: --97.2; that is correct. So that should be about 112 million which would reduce, you're right, which would reduce the 359. It's not in...it's not reflected in the schedule, but it's reflected in future contributions.

VICE-CHAIR WHITE: But is it reflected in the future contributions of 28.24 million or is reflected in the...in just the minimum OPEB trust contribution of 3 million?

MR. MACHIDA: It's reflected in the minimum OPEB trust contribution amount.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

VICE-CHAIR WHITE: Okay, is it...how would we calculate what the...if we were gonna make a regular annual payment not taking advantage of Act 268, what would that 28.2 million be adjusted to?

MR. MACHIDA: It would be adjusted to about 15.3 million.

VICE-CHAIR WHITE: Okay, so if that 15.3 million is the number then we take out, they take out of that the pay-as-you-go benefits, right?

MR. MACHIDA: Yeah, actually you know what I...Councilmember, what I'll do is I'll have the EUTF recalculate it and then just with the County of Maui numbers only.

VICE-CHAIR WHITE: Okay.

MR. MACHIDA: So to reflect the before the 97.2, and after the 97.2 so you can see it.

VICE-CHAIR WHITE: Okay.

MR. MACHIDA: I'll do that and we'll submit it if that's okay, Chair, to submit it to you?

CHAIR HOKAMA: Yeah, thank you. Yeah, we'd appreciate it.

VICE-CHAIR WHITE: Okay, thank you. 'Cause I was being a little puzzled by the fact that we're only getting credit for the 26 there in the chart.

MR. MACHIDA: So to make it clearer, we'll do that just to make sure.

VICE-CHAIR WHITE: Great. Thank you. Thank you, Chair.

CHAIR HOKAMA: Thank you. Mr. Guzman?

COUNCILMEMBER GUZMAN: Thank you, Chair. My questions are very simple. It appears on the OPEB Trust on the EUTF when it deals with the assets and primarily investments, they invested in passive mutual funds versus the ERS which is more assets are primarily invested in a risk-based approach. Why the two differences? And number two question is the structure of the OPEB Trust as it deals with the trustees in making these investments, what is the structure of those, and what is the structure of that? So it's two questions.

MR. MACHIDA: So the first question in terms of what the difference between the EUTF and ERS? So both are dictated by statutory requirements, and so the EUTF has its own provisions in terms of what they can invest in under their Chapter 87. The ERS has its own investment provision in terms of what it can invest in under its Chapter 88. And so there's a difference between the two. EUTF's provision in terms of what they can invest in is not as widespread as what the ERS can. And so there's legislation that's trying to work its way through the Legislature currently that if it goes through,

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

and we're not sure if it's gonna go through. But if it goes through, would allow the EUTF to invest in same way as the ERS. So it has to be done...it has to be a statutory change in order for that to happen. So that's why the EUTF has been investing in this passive mutual funds unlike the ERS that has a more diversified and risk-based portfolio in that you can invest in stocks, bonds, real estate and pretty much anything that's out there in terms of what's in the investment community.

COUNCILMEMBER GUZMAN: Yeah, Chair, like in my opinion I would rather see EUTF be more diversified so...I mean there's basically...you can have a portfolio where you have conservative investments, but then other hand have a smaller percentage that is risk. So, do you happen to know what...is that a House Bill or Senate Bill that's making its way through ...(inaudible)...?

MR. MACHIDA: Well, it was originally...it originally been held in a committee before, but it got reinserted into a bill and I wanna say, I'll get that information for you.

COUNCILMEMBER GUZMAN: Yeah, if you could. I'd like to track that.

MR. MACHIDA: Yeah, sure. I'll get the information for you. In fact, I believe it's being heard either sometime this week or next week.

COUNCILMEMBER GUZMAN: If I could get that, that Bill numbers be good.

MR. MACHIDA: In fact after the Q & A, I'll call my office to the get the Bill number, and then I'll provide it to you.

COUNCILMEMBER GUZMAN: Okay, thank you. And then my second question is the structure of the trustees in the OPEB Trust? How is that structured and...

MR. MACHIDA: So you have ten board members, you have five from the employer and five from the employee organizations. So the employee organizations each have a representative on the board; and they actually, each side, has, my understanding is that each side has essentially one vote. So you need three out of five on each side to get a vote. So three of the five members on the employee side and three of the five members on the employer's side. And the employers are appointed by the Governor. And so you have a ten, you have a ten-member board on the EUTF side.

COUNCILMEMBER GUZMAN: Is there any bills or...that you're aware that in terms of that structure?

MR. MACHIDA: I believe there were a couple of proposals, but they were either held in terms of not being heard so I don't believe any of the bills are making its way through the legislative process currently.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

COUNCILMEMBER GUZMAN: So when it comes to the OPEB as the, I believe the Investment Board Committee and the, I guess its investment consultant is Pension Consulting Alliance.

MR. MACHIDA: Yes.

COUNCILMEMBER GUZMAN: Do they go to the trustees to get consent for certain investments or do they just independently make those investments?

MR. MACHIDA: Well, there's investment guidelines that are adopted by the board. And then the so the, the investment...the board may give some discretionary allowance to the consultant or to staff so long as it fits within the investment guidelines.

COUNCILMEMBER GUZMAN: Okay. Thank you, Chair.

CHAIR HOKAMA: Thank you for those questions. When you brought up the 7 percent return or discount rate, Mr. Machida, and I appreciate you making the difference between ERS and EUTF, but in the State's mind a 7 percent return is considered a conservative approach to investment or is considered an aggressive approach to investment? How is the trustees or the board looking at a 7 percent return?

MR. MACHIDA: In terms of the EUTF Board I would say it's a reasonable rate and based on this fact there was an analysis that was done by the ERS's investment consultant who is now the EUTF's investment consultant. And over the next ten years in the report that they made to the board, they said that about 7.2 percent or so is something that should be doable for...now this is based on the market conditions and what they anticipate over the next ten years. The EUTF and the ERS, they investment, they invest for the long haul even beyond a ten-year period. So just looking at the next ten years, they considered 7.2 percent to be reasonable. So the 7 percent is within that range.

CHAIR HOKAMA: So how should we look at that? That would be considered, what, a moderate investment portfolio versus aggressive or conservative?

MR. MACHIDA: I would say it is a moderate portfolio that's balanced.

CHAIR HOKAMA: Okay, okay. Seven percent return. No, I find that too, you know, based on the parameters something reasonable, even at the national level our County investment portfolio brings us about there, 7, 8 percent return. So one of the things that, you know, as you brought up, Mr. Machida, and I appreciate that and how we can maybe from our side tighten up some of the numbers to make this a very, one fully funded program for all employees and beneficiaries. Now this is also based that we get reasonable collective bargaining contracts? Is there gonna make, be an effort from the State to deal with comp time? Because comp time for me is a big boogieman on when we pay and what is the true cost to the County as it calculates to benefits.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. MACHIDA: Yeah, I haven't for myself in the two and a half months that I've been the Director. I haven't looked at that area. But it's something that I probably will take a look at. More than likely, and I'm sorry to say this, but more than likely it would be either at the end of the session or right after the session. There are, I know, collective bargaining issues that are currently, correct.

CHAIR HOKAMA: Does the employer whether it be us or the State as the employer consult with you on how potential contract talks are the way it's leaning one way or the other, what is the impact on your program regarding the retirement and health benefits or is that not even considered till after we sign, get one arbitration award or something?

MR. MACHIDA: They have been in, the negotiators, the chief negotiator for the State has been in discussions with me in terms of what the financial impact would be. So everything that's being put on the table or thought of to be put on the table are running through the numbers with us to see how that affects the financial plan. Because we have to submit or ensure that there's a balanced budget. So we're required by Constitution to do so. And so over that six-year period, we have to ensure that it fits in with the Balanced Budget Financial Plan.

CHAIR HOKAMA: Okay, well pass it on that they need to do a better job representing us as employers. Okay. Questions on the Retirement System? Mr. White, any questions on Retirement System?

VICE-CHAIR WHITE: Not at this time, thank you.

CHAIR HOKAMA: Mr. Guzman, Retirement System?

COUNCILMEMBER GUZMAN: No.

CHAIR HOKAMA: Mr. Victorino?

COUNCILMEMBER VICTORINO: No, just happy to see we're moving in a positive direction. Thank you.

MR. MACHIDA: Yes, we are.

COUNCILMEMBER VICTORINO: Yes, very good.

CHAIR HOKAMA: Mr. Carroll, any questions? Bobby? Ms. Gladys?

COUNCILMEMBER BAISA: No thank you, Chair.

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Not at this time, Chair.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: No, that's all right. I have some questions on some of the calculations that I know Mr. White asked about that are in the next bill, but I would like to ask him on that if he's gonna be here for that?

CHAIR HOKAMA: I'm not sure. Mr. Machida is here for this component of the agenda. So you have any questions for him right now?

COUNCILMEMBER COUCH: Yeah.

CHAIR HOKAMA: Please ask your questions.

COUNCILMEMBER COUCH: Well, Mr. White asked for the calculations with the 97 million in and without it. And that's actually in the bill on Page 3, 2 and 3, but when they're doing the calculations, I don't see \$97 million being taken out. I see \$79 million being taken out and 85 potentially, but I don't know where the \$97 million...

CHAIR HOKAMA: We can address that when we get to that item.

COUNCILMEMBER COUCH: Will he be here? I think that's something he would answer though, isn't...

CHAIR HOKAMA: It's more appropriate, Mr. Agsalog, Director Agsalog, has a written communication addressing the \$97.2 million specifically and the impact of the preferred rate or the discount percent, and then what is the actual booking on the books with the State. We can explain all that on the next item.

COUNCILMEMBER COUCH: Okay.

CHAIR HOKAMA: Yeah.

COUNCILMEMBER COUCH: All right, thank you.

CHAIR HOKAMA: So I would prefer we finish up this report and then let's...we can really get into the next component. One of the things I wanted to ask you, Mr. Machida, if you can tell us, and while we can recognize the movement toward improving our funding of the liabilities, we're still in the bottom percentile of public pension funds. Can you tell us, today, who are some of the better funded public pension funds that you may know of?

MR. MACHIDA: I think Florida comes to mind as one. There are a very few, there are some pension funds that are close to being 100 percent funded.

CHAIR HOKAMA: Yes.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. MACHIDA: And I think Florida is one that comes to my mind. And I'm sorry, I don't have the data for all of the statewide funds, but there's only a few that, that come to my mind, Florida and then on the bottom in terms of not so good funds, Illinois obviously, but I could get that information for you in terms of where we actually or where the ERS actually ranks and listing all of the funds. They do have the information available. I'd be happy to share that with you and then provide it to you.

CHAIR HOKAMA: Yeah, we would. We'll have our Staff work with you, Mr. Machida.

MR. MACHIDA: Okay.

CHAIR HOKAMA: I would really like to know.

MR. MACHIDA: Okay.

CHAIR HOKAMA: Especially, you know, every state deals with counties in a different manner. And many states have more municipalities than Hawaii. They got city, they got water districts, school districts, fire districts, I mean, things we don't deal with in Hawaii. We don't deal with cities as another example, so I'd just be curious how, what type of...I know Ohio, some of the counties are close to 100 percent funded, but they have different responsibilities than our County does so...

MR. MACHIDA: Right.

CHAIR HOKAMA: I just was curious about that. The other thing I wanted to check with you on is this benefit forfeiture due to the related felony. That's, I thought that was existing law? That is not existing law?

MR. MACHIDA: That's right, Chair.

CHAIR HOKAMA: Senate Bill 133? I thought that was existing? That is still a proposal?

MR. MACHIDA: Yes.

CHAIR HOKAMA: I thought if you were convicted already that that was...impacted your retirement already? No, that's not?

MR. MACHIDA: It's not. In fact, I know in the past that we paid pensions to the prison systems because they had individuals that were entitled to a pension. So there's nothing currently in place in the law that would prohibit anyone from getting their pension.

CHAIR HOKAMA: Okay, okay. Any further questions for Mr. Machida? I'm done with my questions and I appreciate his time, but you know, his time very important. He has the Legislature in session currently so things happen when the cat's away. So if there's no further questions for Mr. Machida, we're gonna thank him for his presence

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

and for his assistance to the Committee this afternoon with his two presentations. And with no objection, Members, we're going...the Chair would prefer to defer this item with no objections?

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Thank you. We'll defer this item and take a very short recess till 3:15, then we're gonna wrap up the last item --

**ACTION: DEFER pending further discussion.**

CHAIR HOKAMA: --and then Mr. White has his Special Council meeting. Recess. . . . (*gavel*) . . .

RECESS: 3:05 p.m.  
RECONVENE: 3:16 p.m.

CHAIR HOKAMA: . . . (*gavel*) . . . We shall continue the Budget and Finance Committee meeting. We have one more item, Members, so may I direct you please to BF-27. This is a proposal to amend the Fiscal Year 2015 Budget, Department of Financing, subheading Other Post-Employment Obligation Bonds [*sic*].

**ITEM NO. 27: AMENDING THE FISCAL YEAR 2015 BUDGET:  
DEPARTMENT OF FINANCE (OTHER POST-EMPLOYMENT  
OBLIGATION FUND) (CC 15-57)**

CHAIR HOKAMA: We are in receipt of some proposals, a bill for an ordinance amending Appendix A, as well as amending the Fiscal Year 2015 Budget. And it was very timely when we had the discussion earlier with Mr. Machida regarding ERS and OPEB earlier. So, Members, before we start, we will just say, as part of your documentation under Item 27, you will find as part of a attachment to the bill dated December 23, 2014. There is also a communication dated July 14, 2014, from GRS. They're our consultant and actuary giving Mr. Agsalog, Director of Finance, a comment regarding the \$97.2 million contribution and its impact on the ARC as part of your information. So, at this time, I'll have Mr. Agsalog give the Committee some comments, please?

MR. AGSALOG: Thank you, Mr. Chair. Just a quick background. In April 3, 2014, I have received a memo from the EUTF Administrator notifying the County that the trust funds is now qualified under the GASB 43 and it was now ready to accept our prefunding should we decide to do so. In the same time, Mr. Chair, we were very actively communicating with GRS and I have asked Treasury to liquidate some of our investment to be ready to be transferred. And I have asked them...the negotiation that I had with them, Mr. Chair, because the actuarial was already done as of...with a date

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

of 2013, June 30, 2013, so I was asking them if we make the 97 contribution would they do a revised actuarial based on the 97.2 that we might send to them? They agreed. They asked me to pay 2,500 because Act 268, the requirements has to be adopted by the EUTF for the revised mandatory contribution of 20 percent, okay. So they did that, Mr. Chair. And as it's attached to your...to the request that we have for the bill is the July 14, 2014-letter to me and I have discussed this with the Budget Director and the Mayor that we should try to put the ARC which is 50 million, okay. I know there's budgeted about a 13 million, but as your Chief Financial Officer, Mr. Chair, going through the bond presentation and all that, I have great interest in bragging about how we've been funding, at least prefunding even though we didn't deliver it to or remit it to the EUTF Trust Fund because it wasn't qualified then, but the bond rater loves the idea, the concept, the policymakers here in the County of Maui is willing to prefund that particular unfunded liabilities. So as your Chief Financial Officer Mr. Chair, I will be remiss if I don't give that opportunity to cover the full...close to the ARC that we can continue to brag year after year that we have been committing our resources to prefund this liabilities. So the Budget Director and the Mayor say okay, let's ask the Council so that's why we are here today, Mr. Chair. That's the reason that we're asking for that, but it's true that we have 13 million there and the only required is only 20 percent which is after the revision is 3 million, 3.06 million, Mr. Chair. I want that to be clear so our idea here is to continue our bragging rights that we have always been very close or full fund of our OPEB, Mr. Chair. And I will answer any questions you might have.

CHAIR HOKAMA: Okay, thank you very much, Director. I'm gonna have you ask your question, Members, and the Chair will give you his preferred approach in dealing with this item. So Mr. Carroll, you have any questions for Director Agsalog regarding the OPEB requirements? Okay, Ms. Baisa?

COUNCILMEMBER BAISA: No thank you, Chair. I await your recommendation. I'm sure it will be a good one.

CHAIR HOKAMA: Thank you. Ms. Cochran?

COUNCILMEMBER COCHRAN: No, Chair. I'll wait to see what your call is.

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And thank you, Mr. Agsalog, for giving us that explanation. The question I have is in the letter from GRS on July 14, it talks about it's gonna reflect the \$97.2 million contribution and then goes along and then says, well really not 97.2, we're going to value it as 90.9. I'm a little concerned of where that \$7 million went. And then after that even saying it's gonna be 9.9 million, I don't see it in any of the tables on the next page, on Page 2, where it talks about the amortization and the projected balances. Can you explain where our \$97 million went? 'Cause I don't see it reflected in anything down there.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. AGSALOG: Mr. Chair?

CHAIR HOKAMA: Mr. Director?

MR. AGSALOG: Thank you, Mr. Chair. I think when I asked, when we were working with GRS to do a revised actuarial, we were only concerned about the ARC being paid. However, I had the letter. I have asked your Staff, Mr. Chair, for the Committee to disseminate that number to show you an August report reflecting our 97.2 million contribution to them. It didn't go anywhere but to EUTF Trust Fund that is now GASB 43 qualified. So I apologize that the revised actuarial only deals with what's our liability as far as what is our minimum contributions required and what is the full ARC should be should we decide to give that full ARC.

COUNCILMEMBER COUCH: And Mr. Chair, you know, I'm not a finance wizard, that's what my wife does in our little relationship there, but somebody looking at this who isn't, you know, astute on all these financial things are gonna say, where's our \$97 million? What did we pay it for and where did it go? I mean, the most I can see is something about \$85 million that they're giving us credit for. But I'm still short \$11 million. Would like to know where that goes? And that is an overall kind of a...puts a big question mark on this whole thing that we're talking about, 'cause it's, you know, this is what some group of people are saying that it might cost us in the future. And it seems like, it seems like, and I'm not saying it is, but it seems like it's all smoke and mirrors. I can't point to somebody, one of my constituents and say, oh yeah, here's our \$97 million of your taxpayer dollars that we can account for. But maybe it's just 'cause I don't know how to read the report?

MR. AGSALOG: Mr. Chair?

CHAIR HOKAMA: Mr. Director?

MR. AGSALOG: Thank you, Mr. Chair. And I think it's just the approach that I have asked the actuarial to do. Again, our goal was to have a revised actuarial that is accepted by the trustees of the EUTF. But because according Act 268 we cannot use any actuarial if not accepted by the EUTF Trust Fund. So when I asked them to do so, just plugging the numbers for the 97.2 million contribution as of June 30<sup>th</sup>...before June 30, 2014, it cost us 2,500 to just do that. So if I would have asked for a full actuarial, it might, could have been, a little bit more. So, again, I apologize of the approach because the goal was to reflect the minimum mandatory contribution of 20 percent as the Act 268 requires and also the full ARC contribution should we decide to do it. So those are the only tasks I asked the actuarial to do. And, in fact, the EUTF Task Force accepted the revised actuarial, Mr. Chair.

CHAIR HOKAMA: Okay, thank you. Mr. Couch?

COUNCILMEMBER COUCH: Thank you.

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

CHAIR HOKAMA: Ms. Crivello?

COUNCILMEMBER CRIVELLO: Thank you. No questions at this time. Thank you.

CHAIR HOKAMA: Thank you. Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. I'm similarly a bit confused on...I understand the calculations in the attached actuarial, but on the presentation that we given earlier, not all of the numbers match, so I'm a little uncomfortable with exactly where we stand right now. And based on Act 268, you know, we don't have to make any additional contribution. And I certainly agree that this County has done a very good job of achieving very strong bond ratings, and I'm sure we'll continue to do so whether we take action on this or not today. We got a budget coming up that we're starting tomorrow and we can certainly deal with it at that point. So I'm a little uncomfortable moving ahead with the bill at this time, not knowing fully what the, you know, what the genesis of the numbers are. So thank you.

CHAIR HOKAMA: Okay, thank you. Mr. Guzman?

COUNCILMEMBER GUZMAN: Yeah, thank you, Chair. I'm like my colleague, Mr. Couch and Mr. White, I have a issue in terms of following what the Finance Director was trying to explain. I do see where Mr. Couch was explaining about the last paragraph here on the first page where it says, because the payment was made 11 months after the valuation date, the 97.2 million contribution made in July of 2014, will be treated as receivable assets of 90.9 million as of July 1, 2013. And then I go off to the amortization, after reflecting the 97.2 million, and it looks as though our balance there was 85 mil. So I ... I, too, am having difficulties following the explanation aside, you know, aside from the bragging rights and all that other stuff. But I would like further explanation so that I may make a informed decision. Thank you, Chair.

CHAIR HOKAMA: Okay, thank you. What we have here, Members, is a proposal which I appreciate, but it is asking us to kind of adjust our approach to this type of funding and this type of allocation of County dollars. What I had preferred was...what I had anticipated I should say, Members, was that the Administration would have come in with a request for the authorization to pay the 97.2 million, and that's how I read and it's my interpretation of the ordinance. They are asking us to make a change in whether or not we are gonna actually use the fund. 'Cause one of their proposals now is to zero it out and to take it from I think Countywide, that is not my preference at all. I think it's clear what our policy is and it needs to be followed. And I will not...well, so far cannot help, but in the future I will not take out corrective measures after-the-fact. The Departments are gonna have to learn to live with their mistakes. So couple things for Mr. Ueoka. Since the payment was made prior to June 30 of 2014, Mr. Ueoka, what should the amendment really be as of what date or as of the fiscal year? You have any thoughts on that? And second, if we make these changes, is that appropriate or must we request the Budget Director to resubmit a corrected revised bill?

**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

MR. UEOKA: Thank you, Mr. Chair. As far as the corrected revised bill, I believe for the...I guess there's two, yeah. The first bill is recognizing that the payment to OPEB would be out of Department of Finance Countywide Costs and it's deleting the transfer of the 13 million to the Post-Employment Obligations Fund, so I guess from your prior statement I believe the Council's wish would be for it still to go into...the money still to be transferred into the OPEB fund or the Post-Employment Obligations Fund according to Chapter 3.97. And I believe the Department of Finance would prefer to see an additional 2.3 million so that it would line up with the recommendations of...contained in the report to match the 15,305. But again, my understanding is also from the Council that they'd like further information of how the 15.305 number was achieved. And as far as the second bill, that 97,222,413, the first column of course is an estimated balance as of 6/30/2014. And I was reminded by the Finance Department Staff that at the time that estimate is given out, it's during a...it's May or...I'm sorry, I believe Mayor submits his Budget in March and you folks are working on the Budget, you know, it doesn't take effect till July 1<sup>st</sup>. So again, that's just an estimate. The anticipated revenues for FY 2015 of course, would need to reflect, still need to reflect the 13 million; and if it's the wish of the Council, the additional 2 million, 5 thousand dollars or...\$2,305,000, I'm sorry, and there would be a new total. And I would recommend a line under P which would be similar to the language we use in the Open Space Fund and the other funds that would just note the expenditure out of there, and I believe that would satisfy most of the Council's needs and desires, and I believe the Finance Director is open to that also.

CHAIR HOKAMA: Okay, thank you.

MR. UEOKA: Thank you, Chair.

CHAIR HOKAMA: So is the Committee able to make these revisions or must we request it to the Budget Director?

MR. UEOKA: It would probably be most appropriate to be retransmitted by the Budget Director, Mr. Chair.

CHAIR HOKAMA: Okay, thank you for your comments. Any questions for the Chair or Mr. Ueoka in what I'm asking him...what I had asked him for comments on? And after hearing his comments, I'm gonna...I plan to defer action on this bill to let Mr. Baz resubmit a corrected proposal, and we will work with Mr. Aagsalog on the proposal with Mr. Baz. Questions for the Chair? Having none, the Chair, with no objections will defer this item.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Okay, this item is deferred. Thank you very much, Members. No further business before the Budget Committee this afternoon. Thank you for your presence. This meeting is adjourned. . . . *(gavel)* . . .

**BUDGET AND FINANCE COMMITTEE MINUTES  
Council of the County of Maui**

**March 30, 2015**

---

**ACTION: DEFER pending further discussion.**

**ADJOURN: 3:39 p.m.**

APPROVED:



---

RIKI HOKAMA, Chair  
Budget and Finance Committee

bf:min:150330:ctc

Transcribed by: Carolyn Takayama-Corden

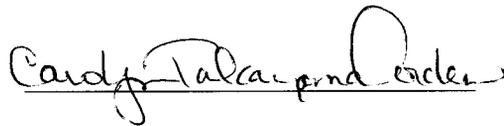
**BUDGET AND FINANCE COMMITTEE MINUTES**  
**Council of the County of Maui**

**March 30, 2015**

---

I, Carolyn Takayama-Corden, 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 21<sup>st</sup> day of April, 2015, in Makawao, Hawaii

A handwritten signature in cursive script that reads "Carolyn Takayama-Corden". The signature is written in black ink and is positioned above the printed name.

Carolyn Takayama-Corden