

BUDGET AND FINANCE COMMITTEE

Council of the County of Maui

MINUTES

July 21, 2015

Council Chamber

CONVENE: 9:03 a.m.

PRESENT: Councilmember Riki Hokama, Chair
Councilmember Mike White, Vice-Chair
Councilmember Gladys C. Baisa, Member (out 9:35 a.m., in 9:45 a.m.)
Councilmember Robert Carroll, Member (out 10:23 a.m.)
Councilmember Elle Cochran, Member
Councilmember Don Couch, Member
Councilmember Stacy Crivello, Member

EXCUSED: VOTING MEMBERS:
Councilmember Don S. Guzman, Member
Councilmember Michael P. Victorino, Member

STAFF: Michele Yoshimura, 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.: Sananda Baz, Budget Director, Office of the Mayor
Danilo F. Agsalog, Director, Department of Finance
John Kulp, Accountant III, Treasury Division, Department of Finance (BF-14(3))
Jeffrey T. Ueoka, Deputy Corporation Counsel, Department of the Corporation Counsel

OTHERS: **Item BF-98(1):** Rosemary Robbins

PRESS: Akaku: Maui Community Television, Inc.

CHAIR HOKAMA: . . .(*gavel*). . . The Council's Committee on Budget and Finance shall come to order. This is our regular meeting of July 21, 2015. Present this morning, we have our Vice-Chairman, Mr. White.

VICE-CHAIR WHITE: Good morning, Chair.

CHAIR HOKAMA: Good morning. And Committee Members, Crivello --

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

COUNCILMEMBER CRIVELLO: Good morning, Chair.

CHAIR HOKAMA: --Couch --

COUNCILMEMBER COUCH: Good morning, Chair.

CHAIR HOKAMA: --Cochran --

COUNCILMEMBER COCHRAN: Aloha.

CHAIR HOKAMA: --Baisa --

COUNCILMEMBER BAISA: Good morning.

CHAIR HOKAMA: --and Carroll.

COUNCILMEMBER CARROLL: Good morning, Chair.

CHAIR HOKAMA: Excused from today's meeting is Mr. Guzman and Mr. Victorino. Members, we have an agenda that has four items. We shall take public testimony at this time. In the Chambers, we'll call Ms. Rosemary Robbins, who will speak on BF-98(1).

. . . BEGIN PUBLIC TESTIMONY . . .

MS. ROBBINS: Good morning, everybody.

CHAIR HOKAMA: Good morning.

MS. ROBBINS: We will keep in our prayers whoever might be involved in an accident out there at that intersection where the water is spewing sky-high in town. I hope they're okay. This item that was just identified is the Auditor's Report for the County of Maui, keeping in mind that we didn't have an auditor up until a couple of years ago, so some of these practices that are identified in here have been going on at an earlier time than the time of the people who are now in those capacities. So and that's not mudslinging at any one particular person. Anyway, audit findings. There were five major findings. I learned a lot going through the materials for this yesterday. The first finding was that funds that are held in the County's Treasury lost out on over \$21 million of interest earnings. Those unfunded liabilities that the money would be paying for had an opportunity to be kept in different pockets of cash, if you would, in different funding sources and the fact that they did not get put into the Employee Union Trust Fund timely over a matter of years meant that the benefits that could have been had from that particular holding, purse of money, was a whole lot less than it would have been had it been put into the Employee United Union Trust Fund. So they have professional financial people in there that keep an eye on all of the markets to be able to know where are the best places to put that money. You have to send the money in to them in order for them to use that money to enhance the money, in some cases over

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

a period of five years. That didn't happen. So we know now that that's a better bet and hopefully that that will be the trend of the future. The second one was finding unfunded liabilities and the origins of the County's other post-employment benefits. We read OPEB in there was concentrated only pretty much in one field, not a diversified account, which is the better way to do that. And then also there were two points in here that we've got one poor soul that is doing all sorts of jobs in the same 168 hours a week that the rest of us have and it's an unrealistic job description that's in there. And so, they're going to be able to distribute the jobs needing to be done in a more equitable deal probably involving other personnel. So, thank you for all of your work in that and for that nice card that came in the mail yesterday showing what had happened. Very informative. As an educator, when I see things like that that are concisely written, color-coded, people will be able to read that and do read it. So thank you.

CHAIR HOKAMA: Thank you, Ms. Robbins. Members, any questions for our testifier this morning? Having none, Ms. Robbins, we thank you for your comments.

MS. ROBBINS: You're welcome.

CHAIR HOKAMA: We'll go to Hana Office and ask if there's anyone wishing to provide testimony in Hana, please?

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

CHAIR HOKAMA: Thank you, Ms. Lono. On Lanai, we're going to ask if there's anyone...

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

CHAIR HOKAMA: Thank you. Molokai, do we have anyone wishing to provide testimony, please?

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 objections, we shall close testimony for today's meeting?

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Thank you, Members. So ordered.

. . .END OF PUBLIC TESTIMONY. . .

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

**ITEM 15: TRANSFERS FROM THE GENERAL FUND AND THE
DEPARTMENT OF WATER SUPPLY REVENUE FUND**
(CC 15-8, CC 15-32, CC 15-122, CC 15-138, CC 15-139, CC 15-188)

CHAIR HOKAMA: May I please direct you to our first item, which is Transfers from the General Fund and the Department of Water Supply Revenue Fund under BF-15. This morning, we have Mr. Agsalog joining us with Mr. Baz and of course our ever faithful Corporation Counsel, Mr. Ueoka. Now this is my understanding, gentlemen, so please bear with us. As of May 31st, our understanding is you have already encumbered \$21,550,392 and you have actual advances of \$11,879,515. Total bonds approved projects for Fiscal Year 2015, including amendments is at \$52,245,308. So, gentlemen, is the Committee accurate in our understanding of what has been advanced and what has been encumbered so far as of that date, gentlemen? Mr. Agsalog, please.

MR. AGSALOG: Good morning, Mr. Chair and Members of the Committee. Yes, it's accurate as for the report that you have received and quote in your agenda. All those items that you have received, I think, as far back as November. This is the accumulation since we sold the bond last. So this is now the commitment that we have on the CIP project on the bond funded. We have, as you mentioned, encumbered part. This is \$21,550,392 and the total invoice actually spent is the \$11 million, Mr. Chair. So yes, you are accurate, Mr. Chair, and I will answer any more questions if you have.

CHAIR HOKAMA: Okay, thank you, Director Agsalog. Mr. Baz, any comments?

MR. BAZ: No, Mr. Chair.

CHAIR HOKAMA: Okay, thank you so much. A few questions we have for you this morning regarding this item for the Committee. Now in the Fiscal Year 2014, as I checked, we still have a request to furnish and deliver of a rescue boat, 294,000 encumbered. Is that something that's holding up payment or is there an issue with payment for this encumbrance, gentlemen?

MR. BAZ: Thank you, Mr. Chair. From my understanding, the rescue boat is either ready for delivery or being delivered now. I believe they went and inspected it recently and they gotta, and then they gotta ship it here.

CHAIR HOKAMA: Uh-huh.

MR. BAZ: The payment should be made on that very shortly.

CHAIR HOKAMA: Okay. You know, when you look at the, Members, at your, one of the last pages in Item 15, we have a list of their, what they're either expending in advance or encumbering so on the Bond Fund, why would we put a South Kihei Road culvert repair at \$98.57 on a bond?

MR. BAZ: Mr. Chair, if I might?

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Mr. Baz?

MR. BAZ: So, okay. When we fund a project, we'll fund it wholly by, we typically fund it wholly by one funding source.

CHAIR HOKAMA: Uh-huh.

MR. BAZ: So, whatever costs of that project will then be bonded. This, I'm assuming is probably an advertisement that went out and so all of those costs of that project get capitalized, whatever those costs might be. So it's not that we're just going to bond \$98.57 for that project, it will eventually be something close to what the total budgeted amount was, and I can look that up in a bit if you'd like.

CHAIR HOKAMA: I don't know if we need more narrative, Director, so that it's clear it's part of a larger project or something. You know, the way we list it, we just say, gosh, you look at it, you got one \$400, you got \$1,000, you got the \$98, and then one thing we wanted to understand, especially through Countywide, the Countywide appropriations, we are wondering if Countywide drainage improvement project is the Department uses it as a catchall and how the small encumbrances amounts qualify for the bond funds? Because again, as you state, we aren't sure when we read the report it's part of a larger project scope. So if I look at Hauoli Street drainage, under Countywide drainage improvements for the bond in Mr. Couch's district, I see \$375.46. I go to Ms. Cochran's district, Honokowai bridge replacement under Countywide, I see one request for \$494.79. So I'm, the Committee's just wondering how this Countywide is being used and what would be the practices of the departments, please?

MR. BAZ: Mr. Chair, for that one specifically, it is one project that is under Countywide drainage improvements as appropriated by Council and then as they go and work on subproject or smaller portions of that one main project, they're indicating, you know, separate index codes for one of those. And so when Finance is producing this report, they're showing it at the most granular level of index code versus at the budgeted appropriation. I just mentioned to Director Aagsalog we might want to add another column to this worksheet here for you to show you how much was the budgeted amount for this project so you can see what the total scope is and when you're reading this report it'll be a little more clear.

CHAIR HOKAMA: Okay. Yeah, we'll be happy to work with both of you gentlemen so thank you so much for making that comment. Mr. White, any questions you may have for our resource people regarding transfers?

VICE-CHAIR WHITE: No questions, Chair. Thank you.

CHAIR HOKAMA: Okay. Thank you. Ms. Crivello?

COUNCILMEMBER CRIVELLO: No questions, thank you.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: No questions.

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And so the monies come from excess monies from General Fund and Department of Water Supply?

CHAIR HOKAMA: Mr. Baz?

COUNCILMEMBER COCHRAN: Is that...and then they'll be reimbursed?

MR. BAZ: Yeah, Mr. Chair and Member Cochran, to reduce interest costs of our borrowing, what we do is take money that is not being currently utilized in the General Fund or in the Water Supply Fund and cover those bonded projects' smaller costs. That's why you see \$98 or \$400. Rather than going and issuing a bond and starting to borrow the money right away, we borrow it from ourselves because it doesn't cost us any money and then we then pay it back once we issue the bond, so later on today we're going to be discussing a future bond issuance. Once we go and issue the bonds, then the proceeds from the bonds, the money we get from the people who are buying our bonds goes to pay back the General Fund and the Water Supply Fund for the loans they made to the Bond Fund. It's kind of just moving pieces back and forth and it's really just on paper at this point until we actually issue the bonds and then get the money to pay the actual expenditures.

COUNCILMEMBER COCHRAN: Okay. And so the second item on the list, the Mokuhinia Ecosystem/Restoration it looks like it's initially given pre-authorization of 199,000, almost like 200,000, I guess, and so far it's been issued 27,000?

MR. BAZ: Yeah. So when those two columns, what that bond project pre-authorization column, encumbrances in parentheses there, that's when we issue a contract or the total of the contracts that we issue. So when we issue a contract, we have to encumber the full amount of the contract. We have to set that money aside and say that we're going to have that \$199,000 set aside specifically for this contract. As the contractor requests payment on the contract, that actuals column, the temporary loan transfer, the actuals in parentheses is the amount that we're actually paying to that contractor. So it then, so that, this is the actual payments that we've made to that contract for the Mokuhinia Ecosystem Restoration and we've encumbered \$199,000 in a contract or multiple contracts and we've paid out \$27,000 so far.

COUNCILMEMBER COCHRAN: Okay. Okay, thank you. Thank you, Chair. I just wanted clarification on these columns.

MR. BAZ: And these numbers will also correspond with the Finance Director's Quarterly Reports, as you get those. It's another report that you get in our binder here and you

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

can see the actual financial status of the project through that Finance Director's Quarterly Report.

COUNCILMEMBER COCHRAN: Okay, thank you. And, another item, Chair, if you don't mind?

CHAIR HOKAMA: Yes.

COUNCILMEMBER COCHRAN: In regards to the Kahana Sunset retaining wall, I know the project and it looks like there's 5,151 encumbered but nothing's been paid out. That's a County project or are we loaning private entities funds to accomplish their work?

CHAIR HOKAMA: Mr. Baz? Mr. Agsalog?

MR. BAZ: Let me look up that project right now. It definitely is a County project. We would not ever be loaning monies to a private entity. They're just probably naming it that because it's the closest --

COUNCILMEMBER COCHRAN: Okay.

MR. BAZ: --building.

COUNCILMEMBER COCHRAN: Uh-huh. Okay, just curious too. Thank you.

MR. AGSALOG: Mr. Chair?

CHAIR HOKAMA: Mr. Agsalog?

MR. AGSALOG: It's just referring to the report that you're receiving now. This is a coordination between the Budget Director and my office to show you the two columns. It used to be your report that we sent to you are only the encumbered, Mr. Chair. And this year, or this year, this Administration, we have looked at it in a way that we want to know how much, and we want to tell you how much we already spent on the encumbered amount of money. But the encumbrance is truly the one that we used to send you years ago but with the way that we want it to be shown to the policymakers is that there are some monies that's not touched yet but it's already obligated because I have certified the money is there based on the appropriation, Mr. Chair.

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

COUNCILMEMBER COCHRAN: Okay. No, thank you. Thank you, that's all.

CHAIR HOKAMA: Thank you. Ms. Baisa?

COUNCILMEMBER BAISA: No, thanks.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Mr. Carroll, any questions? Okay. Now, regarding these advances and encumbrances, gentlemen, do you have an anticipated date for a new bond issuance for these requirements? You know, we have another item coming up later on the agenda but for this component is there an anticipated date you might consider for an issuance, sir?

MR. AGSALOG: Yes, Mr. Chair. In fact, my office and the Budget Director's Office has been talking about issuing, this is going to be the first year that we do the next year because we used to issue bonds every two years, but this one because of some opportunities to refund and including the one that we're going to discuss a little bit later on in the agenda, Mr. Chair. And we're going to let you know the series of those candidates for refunding. We are planning to do a September issue, Mr. Chair, and the column of, the second column of the loan to the capital projects from the General Fund and Department of Water Supply will be new money that we will be borrowing. We will only sell the spent portion of the report that we have sent you and maybe a million or so to be proactive in getting that money, what we can spend. Because sometimes the project don't move so fast and we have the proceeds of the bond sitting in our account and there's a liability involved there for if we get a little bit better interest rate then we have to sell, then there's arbitrage that's involved and that's a lot of work doing the calculation and all of that so this new report that we have been sending you is a part of that big picture that we're trying to make it more efficient for the County to do.

CHAIR HOKAMA: Okay, thank you. Members, any other questions for either gentlemen on BF-15, which is the transfers from General Fund? Okay, at this time, with no objections, we'll defer this item?

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Okay, thank you. This item is deferred.

ACTION: DEFER pending further discussion.

ITEM 44: AUTHORIZING THE ISSUANCE AND SALE OF GENERAL OBLIGATION REFUNDING BONDS (KIHEI POLICE STATION) (CC 15-191)

CHAIR HOKAMA: May I direct you to Item BF-44. This is from our Finance Director, who is requesting the Authorizing the Issuance and Sale of a General Obligation Refunding Bond, basically the Kihei Police Station. Let's see, what has been sent to the Committee is a consideration to refund, and this is part of the USDA Loan for construction of the Kihei Police Station Project, \$7,929,485. And this will be combined with other outstanding General Obligation Bonds totaling between a range of \$22 million to \$45 million. And as you heard the Director, he is anticipating if rates remain in the advantageous situation of a target mid-September for the issuance and

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

so I'll ask Mr. Agsalog if you have any opening comments at this time before we ask Mr. Baz for his comments?

MR. AGSALOG: Thank you, Mr. Chair. Again, as I have mentioned earlier, this is our opportunity to proactively looking at how we can save the County money and in discussion with the Budget Director, we have decided to look into selling of a bond in September, and originally we just looked at 2005 refunding and 2008 advanced refunding. The USDA came also into the discussion because right now the current interest rate for the USDA loan that helped build the Kihei Police Station, which is about 7.9 million, what we have borrowed from them, the current interest rate that we're paying for it is 3.75. So the current rate that we might be able to get, less, a little bit less than 3 percent, so we will have a, some savings with the, I think the last calculation that we have a net present value of almost \$500,000 on that alone. And it's also good when we do a bond sale that it's not only a small amount to sell because it costs money and a lot of work to do so, so consolidating this work at one time selling, Mr. Chair, I think it is beneficial for all of us. So we're requesting that you allow us to change the source of fund on this, converting it to bond instead of a USDA loan at a lower cost, a lower price. Thank you, Mr. Chair.

CHAIR HOKAMA: Okay, thank you. Mr. Baz, any comments you wish to share?

MR. BAZ: No, thank you, Mr. Chair. Just ready for questions if you have.

CHAIR HOKAMA: Thank you. Mr. Ueoka, any comments the Committee needs to be aware of from your perspective?

MR. UEOKA: No, Chair. Thank you.

CHAIR HOKAMA: Okay, thank you. Mr. White, questions for any of our gentlemen here?

VICE-CHAIR WHITE: No. I think the explanation is appropriate and I agree with the move. Thank you.

CHAIR HOKAMA: Okay. Ms. Crivello?

COUNCILMEMBER CRIVELLO: No, no questions.

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: No questions.

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Just a basic, I mean, is this common practice? I mean, it's not a big deal, people do this all the time. If you find, you know, a better option it's all okay to, I mean, you're not penalized for paying down, you know, quickly or in a lump-sum type format or anything of that nature?

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Mr. Agsalog?

MR. AGSALOG: Thank you, Mr. Chair. Our contract with the USDA allows us to be able to pay them without any penalties. You know, thank you for the question. I think that's a very, very important question because you're right, Mr. Chair, that the, some instruments there are some penalties if you pay ahead of time. Some of the bonds are like that. They have a call date. But this particular instrument with the USDA allows us to pay when we have the money. They can lend it out again so that one is authorized but yeah, we do not do this every time. We don't have that much USDA loans. We're going through it, but I think about two or three years ago we came to you to do a new refunding of SRFs also at that time, so again, I appreciate your support in that. We have saved some money, the County some money just refunding those SRF State Revolving Funds and in it we got it to a lower rate, so I think those are the good practice that we should do. We evaluate what's our outstanding loans once in a while and make sure that if we have some savings that we can achieve, I think we should bring it to your attention and if you guys can support us, I think the County will win.

COUNCILMEMBER COCHRAN: Thank you. Thank you, Director, and thank you, Chair.

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

COUNCILMEMBER BAISA: No, thank you.

CHAIR HOKAMA: Mr. Carroll, any questions? I heard it and I know there is so what are we looking at, at the savings to the County on this refinancing, please, gentlemen?

MR. AGSALOG: The last worksheet that I have in our last meeting, Mr. Chair, is I think is for the USDA because of the maturity of September that we're looking at, I think it's 410. But I know I came to you and showed you almost 500,000 at that time. But the longer I wait, the --

CHAIR HOKAMA: Understood.

MR. AGSALOG: --the smaller the net present value savings. So let me just take this opportunity then to say please look at the request that I have for the bond counsel authorization because I really need that to get done, Mr. Chair. Thank you.

CHAIR HOKAMA: Uh-huh. Okay. So under that component, Mr. Ueoka, inform the Committee, who are we being asked to authorize for bond counsel?

MR. UEOKA: Yes, Mr. Chair. We're sending out, or we have sent it up already. We've selected and it's been transmitted to the Council. Thank you.

CHAIR HOKAMA: Is it going to be in a separate --

MR. BAZ: Yeah, Mr. Chair?

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: --consideration? Mr. Baz?

MR. BAZ: Yeah. If you look at this Friday's Council agenda, it's an item for referral to your PIA Committee.

CHAIR HOKAMA: Okay. Okay, I appreciate that. So it's posted. So tell us who is the, who are you recommending to us for bond counsel?

MR. AGSALOG: It's, the selection committee that's composed of the Budget Director, a Corporation Counsel, and the Deputy, Mr. Chair, recommended Hawkins and Delafield and he has worked, they have worked with us before. I think we had two, if I'm not mistaken, that gave a proposal.

CHAIR HOKAMA: Okay. Is that our current bond counsel also? Okay, yeah, we're well aware of that firm and individuals assigned to the County.

MR. AGSALOG: Yes. Yes, Mr. Chair.

CHAIR HOKAMA: So I'm well aware of the people involved representing the County. So thank you for that. So our understanding is if possible we are going to refund and send a new issuance out in a combination, so we should be saving on, we're definitely going to have refinancing advantages and there should also be savings in the issuance since we only going to do one issuance instead of two, correct, gentlemen?

UNIDENTIFIED SPEAKER: Yes.

MR. AGSALOG: Yes, Mr. Chair.

CHAIR HOKAMA: Okay. Okay, are we going to change payments, our schedule of payments on the new bond like how we got into the situation with this current, this last bond we had to pay in advance of the new fiscal year? Are we going back to the old practice, gentlemen? How are we going to approach payments?

MR. AGSALOG: Mr. Chair, in the calculation that I, that we have done for September maturity, September 1 maturity, the current appropriation in our bond ____ should not be affected because of the refunding that we are going to eliminate some of the principle and interest rates. So that's why we're trying to get a September maturity date, Mr. Chair. So the recent calculation that we have done just because we did not anticipate issuing this until we have reviewed all the opportunities to refund, Mr. Chair. It looks like we will not come back and ask for extra debt service.

CHAIR HOKAMA: Okay, so we're going back to the, how we've always approached it then, right? After the July 1st, new budget kicks in?

MR. AGSALOG: Yes, Mr. Chair. And then the new debt service will be included in the next budget cycle.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Okay, very good. Members, further questions for either Mr. Agsalog, Mr. Baz, Mr. Ueoka, or your Chair? If not, the Chair will entertain...you have a question?

VICE-CHAIR WHITE: No.

CHAIR HOKAMA: If not, the Chair is open to a motion to recommend to Council passage of A Bill for an Ordinance--okay, this is going to take time reading this--Authorizing the Issuance and Sale and Specifying Certain Terms of Not to Exceed Seven Million Nine Hundred Twenty-Nine Thousand Four Hundred Eighty-Five Dollars (\$7,929,485) Aggregate Principal Amount of General Obligation Refunding Bonds of the County of Maui for the Purpose of Refunding All or a Part of Certain Outstanding USDA Rural Development Loan of the County; Authorizing the Director of Finance to Determine Certain Terms of Such Bonds; Providing for the Retirement of the USDA Rural Development Loan to be Refunded; and Providing for Other Actions Related to the Issuance, Sale, and Delivery of Such Bonds, and the filing of this communication. Mr. White?

VICE-CHAIR WHITE: So moved.

CHAIR HOKAMA: Thank you.

COUNCILMEMBER COUCH: Seconded.

CHAIR HOKAMA: I have a motion made by Mr. White, seconded by Mr. Couch. We are under discussion. And I will say, Members, with no objections, we'll allow Staff and Mr. Ueoka to make any nonsubstantive changes required to ensure the appropriateness of the ordinance.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Okay, thank you. Any further discussion, Members? If having none, all in favor of the motion, please say "aye"?

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed, say "no"? Motion passes with six ayes and Mr. Victorino, Guzman, and Ms. Baisa is excused at this time.

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

NOES: None.

ABSTAIN: None.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

ABSENT: **None.**

EXC.: **Councilmembers Baisa, Guzman, and Victorino.**

MOTION CARRIED.

ACTION: **FIRST READING of bill; and FILING of communication
by C.R.**

CHAIR HOKAMA: Thank you very much.

ITEM 14(3): SHORT TERM INVESTMENTS (CC 14-266, CC 15-44,
CC 15-123)

CHAIR HOKAMA: Let us move on to 14(3). This is under the heading of Short Term Investments, Fiscal Year 2015, July 1, 2014 to June 30, 2015. So we have three reports that we've highlighted, Members, for the quarter ending September 30, 2014, for the quarter ending December 31, 2014, and for the quarter ending March 31, 2015. I'll ask Mr. Agsalog and Mr. Baz if they have any opening comments they'd like to share at this time?

MR. AGSALOG: Good morning, Mr. Chair, again.

CHAIR HOKAMA: Good morning, sir.

MR. AGSALOG: As we have done in the past, we send you the report every quarter and these communications that you have just discussed, Mr. Chair, are the latest reports that we have sent you and we will be able to answer any questions you might have as far as the work that we have done in the investment side of the Treasury.

CHAIR HOKAMA: Okay. I'll ask the Members if they have questions. Mr. White?

VICE-CHAIR WHITE: Thank you, Mr. Chair. It's kind of hard to compare the reports from one period to another because they're, they come in different order but on the November 7, 2014 report, above five pages in, there's, and the pages are not numbered so it's hard to identify for you but halfway down the page it's entitled Money Market Funds and INV Pools which I assume is investment pools and in the November report it shows \$25.4 million in a money market, Port 3, and it looks like The Bank of New York, and \$4.6 million money market, Port 1, Bank of New York. And then when we get to the May 5th report, the Port 1 number drops from 4.6 million to about \$600,000 and the Port 3 amount of 25.4 million goes away completely. The reason I've marked them on the November 7th report is that there's no earned interest shown so I was just wondering...

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Mr. White we're gonna take a short recess so that our Administrative representatives can be on the right page with you.

VICE-CHAIR WHITE: Oh, okay, that's fine.

CHAIR HOKAMA: Okay, so we'll take a short recess, please. . . .(gavel). . .

RECESS: 9:38 a.m.
RECONVENE: 9:45 a.m.

CHAIR HOKAMA: . . .(gavel). . . Okay, we shall, now that we're all on the same reference point. Thank you very much for that break, Members. We'll continue with Mr. White's request for information, so Mr. White if you would continue, please?

VICE-CHAIR WHITE: Thank you, Chair. My apologies. My Staff had printed stuff out for me to take home last night. And it's not printed the same way the stuff in the binder is printed so mine have no page numbers, but now that I've got the ones in the binder, I'm on the right page and it is on Page 6 of 7.

MR. BAZ: Yeah, mister...

VICE-CHAIR WHITE: Oh, I'm sorry. I'm sorry.

MR. BAZ: Chair White, can you reference the County Communication on the front?

VICE-CHAIR WHITE: County Communication No. 15-123 dated April 22nd.

MR. BAZ: So, Members, that's the third item in that BF-14.

CHAIR HOKAMA: Okay.

VICE-CHAIR WHITE: Yeah, and it's Page No. 5 of 7.

CHAIR HOKAMA: Okay, got it.

VICE-CHAIR WHITE: Yeah. And, Chair, the one that I was referencing having disappeared is actually moved to the top of the next page. So, there are reductions and maybe the Director or his staff can explain what's happening there. I thought these were investments that were moving elsewhere but it turns out that it's connected with our Bond Fund.

CHAIR HOKAMA: Okay, Mr. Agsalog, this is under Finance.

MR. AGSALOG: Thank you, Mr. Chair. I am asking the Investments Officer to explain starting from Page 1 to the 7 so that we're all on the same page. So this is Mr. John Kulp.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Mr. Kulp?

MR. KULP: Good morning, Chair and Council. If you look at this, what you're seeing on Page 1 from the left to the right, the agency numbers there, like the very first one is 3786, that's a position number. So every position has a different index number so we can locate it. As you go across the pertinent, important information, is you have the trade date in the third column. Okay, so that's the date that this was purchased. The ending par value. That's the amount that we'll get back when we close out the position when it matures. The third column, the description column is exactly that. For example, the first one MSSB FHLB 115 means Morgan Stanley, okay, Smith Barney, Federal Home Loan Banks, January 2015. So that's when it would mature. Okay. Then you can see the rate was 0.25 percent. Maturity there is 1/16/2015. And of course that's closed out now and the earned interest was \$520.83. The accretion column at the very end, in the case of something that was bought at a discount, the earned accretion would have a number in it because the instrument is gaining value as it moves towards maturity. If you go back two columns it says earned amortization and there's some numbers down below further down. Those are amortizations of premiums. In other words, as the bond approaches maturity, it's deducting this amount of money from the earned interest because we paid a premium when we purchased it. So that's how that works and at the end is the ending book value, which is the par. In regards to the Councilman's, Councilman White's question, those positions are cash positions and money markets as the money's coming in and out of positions. We have three money market positions. One is for the General Account, one is for the 2012 issuance, and one is for the 2014 issuance. The one on the extra page is for the 2014. The one, it says money market Port 2, that's for the 2012. Money market Port 1 is for the General Account. They're all in The Bank of New York Mellon because we use them as our custodial account.

VICE-CHAIR WHITE: So does that, for example on the top of Page 6, does the amount of \$16.6 million represent the remaining balance of the bond float that we have not yet spent? Or what is that \$16.6 million represent?

MR. KULP: Well, depending on where we're at with it, because we invest this very short term for these bond issuances, it's either the remaining balance or whatever is still liquid in there but the other money will be coming back pretty soon. But I think at this point in time on the 2014, this was the cash balance at the time.

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

CHAIR HOKAMA: Ms. Crivello?

COUNCILMEMBER CRIVELLO: No questions.

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: No questions.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: No questions.

CHAIR HOKAMA: Ms. Baisa?

COUNCILMEMBER BAISA: No question.

CHAIR HOKAMA: Mr. Carroll? Any questions, sir? So, Mr. Kulp, tell us within your scope of parameters, you make the recommendations on which fund it goes, we place our cash into? You do all the analysis and due diligence for the Investment Committee?

MR. KULP: Yes, in combination with the Treasurer.

CHAIR HOKAMA: So what does the Treasurer do then since...

MR. KULP: Well, when we purchase something, I'll choose what it is and she then goes and verifies that that's what we can purchase and then, yeah, she authorizes the purchase.

CHAIR HOKAMA: So she makes the decision on where we eventually put our money in then, Mr. Kulp?

MR. KULP: Well, it initiates with myself and then I bring it to her and she sees that it makes sense within the portfolio.

CHAIR HOKAMA: Whose feet do I hold the fire to, you or the Treasurer?

MR. KULP: To me.

CHAIR HOKAMA: Why? You just told us the Treasurer makes the decision.

MR. KULP: Well, she does. Well there's two levels of decision making. One is the immediate choice and then it's backed up by further authorization. In other words, if I were to buy something that was five years, six years, seven years long, she would say no, you can't buy that.

CHAIR HOKAMA: We'd be disappointed if that was a real situation.

MR. KULP: No, but that's why we have the secondary person checking to make sure that we stay in compliance.

CHAIR HOKAMA: So whose feet do I cut off if somebody screws up?

MR. AGSALOG: Mr. Chair, that would be me. I am responsible for...

CHAIR HOKAMA: At the end of the line, Director, I understand.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

MR. AGSALOG: Yeah.

CHAIR HOKAMA: I need to know who is making the bad call at operations.

MR. AGSALOG: Well, again, Mr. Chair, the Investment Committee gives us guidelines as far as the policy of the investment, the day-to-day operations rest with me. I sign the transfer of the money. There's no transfer that I do not look at, so in the Treasury though, it's the Treasurer that runs the day-to-day operation. The Investment Officer is also the one that's looking at every available opportunities for us to put our money, more specifically it is the cash flow part of our system. The cash flow part of our system, Mr. Chair, is very important because that is the essence of the Investment Officer's job to make sure that we have money to fund those projects that need to be paid. Payment for salaries of the workers, so make sure that the cash flow available to do this is originating from the Office of the Investment Officer and also an approval from the Treasurer, where it's the one that look at the Treasury operation runs properly, Mr. Chair.

CHAIR HOKAMA: Director, who currently has our checking account for employee salaries and wages? Who's our institution of current use?

MR. AGSALOG: First Hawaiian Bank, Mr. Chair.

CHAIR HOKAMA: First Hawaiian Bank. Okay, do they have, would you know what if of any percentages they hold within the short-term investment portfolio?

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

CHAIR HOKAMA: Do they have any percentage of our short-term investment within their institution also? Besides the checking account?

MR. AGSALOG: No, Mr. Chair. We don't have any investments from our short-term investment portfolio with First Hawaiian Bank. They just do our banking, which is specifically the salaries for our staff employees.

CHAIR HOKAMA: Can you tell us this morning what percentage, if any, does Hawaii financial institutions have regarding our short-term investment? And you don't, you know, we're just asking for, you know, a general amount, 10 percent, 50 percent.

MR. KULP: Mr. Chair, we have two sets of CDs, one with Hawaii State Federal Credit Union and one with Maui County Federal Credit Union each for about \$245,000.

CHAIR HOKAMA: So we're not talking a lot of money then, right?

MR. KULP: No, sir.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Okay, and your Committee, our Committee is informed because of State law nothing can be more than five years for an investment under short-term definitions, gentlemen?

MR. KULP: That's correct, sir.

CHAIR HOKAMA: Okay. Currently, what percentage would you say is on just regular investments, not County CDs or money markets, please?

MR. KULP: You want the percentage of the portfolio as it currently is that is invested in agencies and treasuries?

CHAIR HOKAMA: Right, sir.

MR. KULP: I'd say somewhere in the neighborhood of maybe 70-75 percent.

CHAIR HOKAMA: Okay. So we're talking about 30 percent that we go for guaranteed interest, we lock it in on the guaranteed interest, 30 percent, that would be a good simplified way of looking at it, Mr. Kulp? That out of the total investments, 30 cents out of every dollar is in a guaranteed return with one designated interest amount, whatever it be, .25 percent?

MR. KULP: Let me re-speak. I should have said somewhere between 75 and 80 percent is in agencies and in treasuries. We've got somewhere between 15 and 20 percent that's tied up in CDs. Is what I meant to say. I misspoke. I had about 5 percent off there. All of these CDs that we're invested in are FDIC protected so that if they were to, if the institution were to fail, we would get our principal back.

CHAIR HOKAMA: Uh-huh. So at this time, within the committee of the investment group, what is your target return rate that you look for regarding our short-term monies?

MR. KULP: Currently we're using the two-year treasury rate as our benchmark to try to equal or exceed.

CHAIR HOKAMA: And that would be what, please, Mr. Kulp?

MR. KULP: Excuse me, sir?

CHAIR HOKAMA: What would that number be currently?

MR. KULP: Well, this month it's ranged from about 60, about 58 to 71, which it was yesterday in the spot market so I'd say a good number is about 65-67.

CHAIR HOKAMA: Okay. Points?

MR. KULP: Basis points, yes.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Okay, thank you for that. Are we in receipt of the Investment Committee's portfolio, I mean policy, written policy? And does the Committee Members have access to that, please?

MS. YOSHIMURA: Yes, Mr. Chair. It's in the next item on the agenda.

CHAIR HOKAMA: Okay, thank you for that. Mr. Carroll, questions for our people regarding how we invest, the type of returns we're getting, the mix of investment allocations? Any questions you may have?

COUNCILMEMBER CARROLL: No, I'm satisfied.

CHAIR HOKAMA: Okay, thank you. Ms. Baisa, any questions you may have?

COUNCILMEMBER BAISA: Not anything of importance but, you know, I'm just curious if the finance people have any idea of things they might change or might want to change in what they're doing or are they satisfied with what we're doing?

CHAIR HOKAMA: Okay, thank you. Gentlemen, you've heard the question from Ms. Baisa. Any comments?

MR. AGSALOG: Thank you, Mr. Chair, and I appreciate that. And I think we'll need your help also as to have an amendment to our 4650, HRS 4650 that I have been discussing with the Senator from the Central area, Senator Gil Keith-Agaran, and that he will introduce an amendment to allow us to have a better selection in our investment pool, Mr. Chair. And that's the change that I think it's going to be really helpful to our investments so that we are not limited to a very small selection when we are asking for an instrument to buy because that's how our Investment Officer put it. He will put it, I need a two-year CD and they will fill it accordingly and whatever the best rate there and but if the best rate is not allowable for us to invest then we missed out on those. So again, as I've spoken to you informally outside of meeting before, I need your help to make sure that we can mimic the HRS 3621 for the short-term investment of the State money, Mr. Chair. So that's really going to be very helpful for us to have a better selection, Mr. Chair. Thank you.

CHAIR HOKAMA: Thank you. Ms. Baisa?

COUNCILMEMBER BAISA: Thank you very much. I think that's important. Thank you.

CHAIR HOKAMA: Thank you. Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And just trying to figure out the meaning of some of these negatives in here.

CHAIR HOKAMA: Okay.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

COUNCILMEMBER COCHRAN: And there's, maybe I'll just pull one of the pages, such as, I'm in the same communication, 15-123, Page 24 of 40. And at the top of the page it says investment earnings and interest booked for period 1/1/15 through 3/31/15. And then just at the very bottom right-hand corner, a negative 85,000. It's, above it says 195,000 interest earned and then net discount premium minus 85,000. Just, what is that, what does that mean? Is that a good negative for us or is that not good?

CHAIR HOKAMA: Gentlemen?

MR. KULP: That's a very good question. What you're looking at there, I had mentioned it earlier about the discounts in the premiums. The premiums as we amortize a premium, we must reduce the amount of interest that the coupon is paying because what we buy is on yield. Yield isn't the coupon rate. The coupon rate is the instrument's interest rate times its face amount. What we buy on though is the market and what happens is if the interest rate is, on the bond itself, is higher than the market interest rate, we have to pay a premium when we buy it. And this is the discounting of that premium down over time as the bond runs through its cycle to maturity.

COUNCILMEMBER COCHRAN: Okay.

MR. KULP: If it were, if it was a positive it would indicate that it was bought at a discount and it was raised, it would be adding interest to it but ultimately it's still the yield that the market had in place either way.

COUNCILMEMBER COCHRAN: Oh, okay. So it's a good negative?

MR. KULP: Well it's the correct thing.

COUNCILMEMBER COCHRAN: Right. Right, okay. Thank you.

MR. KULP: I wish it was positive.

COUNCILMEMBER COCHRAN: Thank you, Chair.

CHAIR HOKAMA: Thank you for that question. Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. While all these reports are interesting, is there one report somewhere in here that says, hey, we have this much money, we earn this much interest, and this is our new balance?

MR. KULP: Okay.

COUNCILMEMBER COUCH: Yeah, I would think it looks like it's on that same communication, 15-123, the one that says portfolio market value and accrued interest of all funds combined. Is that...

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

MR. KULP: Well, if you take the one that --

VICE-CHAIR WHITE: What page number?

COUNCILMEMBER COUCH: Page 7 of 8.

MR. KULP: --Councilwoman Cochran was referring to and go to Page 39, and you look on the back there, you'll see earned yield of 57, so that's 57 basis points so it tells you for that period that was the average basis points that we earned during this period. And if you come back, usually these are all on the same page, if you come back one page to Page 38, you'll see on the left-hand side the par and the book values. So that is the size of the portfolio at that point.

COUNCILMEMBER COUCH: So the interest earned on that one is 326,000?

MR. KULP: Three hundred and ninety-one thousand, seven hundred and seventy-seven on Page 39.

COUNCILMEMBER COUCH: Okay. So for essentially a par value of 277 million?

MR. KULP: That's correct, yes.

COUNCILMEMBER COUCH: Okay. And that turns out to be, so that's a half a percent interest then?

MR. KULP: Yeah, 57 basis points.

COUNCILMEMBER COUCH: Okay. That's on everything we have? Because what's this one, the following, just the following report, which is the portfolio market value and accrued interest, Page 7 of 8 on that has a total, looks like accrued interest of 643,826 for that 277 million?

MR. KULP: Okay, in that regards, that's accrued interest but we have to go ahead and take out the discounts. Okay?

COUNCILMEMBER COUCH: Okay, so...

MR. KULP: And the amortization.

COUNCILMEMBER COUCH: So the 390, so they took out almost...

MR. KULP: Actually, also that's the book value as opposed to the par value.

COUNCILMEMBER COUCH: Alright. So for a layman who wants to look at, I have \$100 in the bank.

MR. KULP: Right.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

COUNCILMEMBER COUCH: I earned 10 cents interest, so I now have \$100.10.

MR. KULP: Right.

COUNCILMEMBER COUCH: Where would I find those numbers?

MR. KULP: That's the first one we were talking about in that, yeah, that's the better one --

COUNCILMEMBER COUCH: Okay.

MR. KULP: --is the earlier one where it's on Page 39 of 40 and 38 of 40.

COUNCILMEMBER COUCH: Okay.

MR. KULP: That's the records that I actually use whenever I'm determining anything.

COUNCILMEMBER COUCH: And those numbers are, well, it's actually six-tenths of interest?

MR. KULP: Yeah.

COUNCILMEMBER COUCH: Six-tenths of a percent.

MR. KULP: That's correct.

COUNCILMEMBER COUCH: That's a good number?

MR. KULP: That's the number I would use, yes.

COUNCILMEMBER COUCH: No, I mean, usually I would think 2 percent interest or something like that on savings and stuff is good.

MR. KULP: No, okay. That's something that I'd like to address. I think it's real important. Because of our limitation to five years and the type of instruments that we do invest in, it's not the equivalent of the ERS or the EUTF's investments, which are pretty much unlimited in time and in any type of thing they want to invest in. Let me give you a comparison of our return versus the other counties in the State of Hawaii. Kauai makes right now 96 basis points. The Big Island makes 32 basis points. The State of Hawaii makes 50 basis points, and the City and County makes between 8 and 12 basis points. So we're doing quite well and we're closing in on those guys from Kauai every month that we can.

COUNCILMEMBER COUCH: Are you discussing with them? I mean...

MR. KULP: I spoke with Dave Spanski just this last week.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

COUNCILMEMBER COUCH: Okay.

MR. KULP: That's why I know he's at 96. Because he's the only one ahead of us.

COUNCILMEMBER COUCH: Well, that's what I'm saying is that, I mean, I would think that you guys can get together and do similar trading.

MR. KULP: Well, we're all limited to the same stuff.

COUNCILMEMBER COUCH: Right.

MR. KULP: So it's, with the exception of the State, which has a little bit more flexibility than we do.

COUNCILMEMBER COUCH: Okay.

MR. KULP: With the change in the 3621, which we're asking you to help us with 4650 to be modified to it.

COUNCILMEMBER COUCH: Okay. Thank you. I know, it's unfortunate because we've got a lot of money to invest and, you know, to make \$400,000 off of \$280 million is...

MR. KULP: Well, let me give you, you know, a comparison.

COUNCILMEMBER COUCH: I'm sorry. Before you go, is that \$400,000, is that for that quarter?

MR. KULP: That's just a quarter.

COUNCILMEMBER COUCH: Oh, okay. That's a little bit better.

MR. KULP: No, it's one, four times better.

COUNCILMEMBER COUCH: Yes. Alright, thank you, Chair.

CHAIR HOKAMA: Thank you. Ms. Crivello?

COUNCILMEMBER CRIVELLO: No questions, thank you.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: Yeah, just follow up on Mr. Couch's, I had highlighted the same item. So what you're saying is of the \$643,000 on Page 7 of 8, that's shown on Page 38 of 40 just below the double lines. So what you're suggesting is that this County reduces that to the 39, I'm sorry, the 391,777?

MR. KULP: Yeah, that's the sequence of additions and subtractions there.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

VICE-CHAIR WHITE: Okay, and...

MR. KULP: So it gets there from 544 to minus 155.

VICE-CHAIR WHITE: And what is the number, what is the total of investments? Because it doesn't appear that it's the 200, that we have the entire 277 million invested, is that correct?

MR. KULP: What do you mean? It's right there. You can see it in the...the total amount in all the portfolios adds up to that amount.

VICE-CHAIR WHITE: You know but in some of the earlier reports it shows that the total invested is like 213 million.

MR. KULP: Right, but you also have the money markets, you have to include those too.

VICE-CHAIR WHITE: Okay. The reason I ask is if I, and I'm just doing my own math here, but if I take the 391,000, now you're suggesting that that is just for this one quarter?

MR. KULP: That's correct, sir.

VICE-CHAIR WHITE: Okay.

MR. KULP: These are quarterly reports.

VICE-CHAIR WHITE: Okay, so do you produce a report that shows how we're doing at the end of the year, at the end of the fiscal year?

MR. KULP: In fact, I actually have it up here. We haven't produced it to the Mayor yet and once we've completed it, we'll send it to him and he'll transmit it down to you.

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

CHAIR HOKAMA: Thank you. Further...Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And I hear that, I mean it's actually the amount of money that we're investing and the return doesn't seem that huge but I understand we have restriction as to how we can invest and how, when, where and all that. And why is that? Is it so government won't flood markets and just skew all the numbers?

MR. KULP: For, it's State law and I believe the reason for the State law is to ensure that the taxpayers' dollars don't get lost or invested in a manner that ends up with losses. But the things that we invest in, for example the CDs are FDIC guaranteed, so we'll, no matter what happens, we get our money back. The agencies, they're all basically AA plus as far as SNP and AAA with Fitch and Moody's. So they're top notch stuff and of

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

course they're very short term and the treasuries have the full faith and credit of the United States government behind them.

COUNCILMEMBER COCHRAN: Okay, so safe? Safe and not high risk, basically?

MR. KULP: Extremely safe.

COUNCILMEMBER COCHRAN: Okay, thank you.

CHAIR HOKAMA: You balance risk with percent of earnings so the greater the earning risk, the, you know --

COUNCILMEMBER COCHRAN: The higher.

CHAIR HOKAMA: --the more money you can make but you can lose it easier too. That's the flip side, yeah.

COUNCILMEMBER COCHRAN: Yeah. Thank you, Chair.

CHAIR HOKAMA: Yeah. That is controlled basically by the State Constitution, the overall general policy about how we approach that and everything else and then the counties through the charters and ordinances, you know, tighten it up. But I think what Mr. Agsalog is asking for is a fair request. This County needs to have more reasonable investment options that can make us a reasonable return, and the risk, you know, that should be part of our decision after the Investment Committee makes their recommendations through policies that we are very clear on and supportive of. Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Just, I'm trying to put the numbers together.

CHAIR HOKAMA: Uh-huh.

COUNCILMEMBER COUCH: So, total interest earned after all the discounts and everything is the 391,777? Is that correct?

MR. KULP: That's correct.

COUNCILMEMBER COUCH: And that is on?

MR. KULP: That's the interest that we can book that we earned. We earned more interest but we have to deduct the premiums from it.

COUNCILMEMBER COUCH: Sure.

MR. KULP: So the earned interest is 391.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

COUNCILMEMBER COUCH: Okay. So then that's taken against, well, I'm guessing either the average or the total beginning or ending par value or book value?

MR. KULP: Oh, that thing. Yeah. It's quite confusing the way this particular thing is made. If you look at the very top line, you can see that's generally the line that we're dealing with so what we work with is the difference between the ending par value and the book value when we do our calculations for reconciliation. So I would use the ending par value, or in the case if you wanted to look at book, use the ending book value.

COUNCILMEMBER COUCH: Okay, so you put that number against that and I get 14 basis points.

MR. KULP: Right.

COUNCILMEMBER COUCH: How do you get 57 out of that?

VICE-CHAIR WHITE: Multiply it times four?

MR. KULP: Okay, well, you gotta multiple it.

VICE-CHAIR WHITE: For the year.

MR. KULP: By four.

COUNCILMEMBER COUCH: Oh, okay so it's an annual deal. It's not...okay.

MR. KULP: That's one of the confusing things about when you read this. This is a very difficult...

COUNCILMEMBER COUCH: So it's an annual yield but it's the, the total is not an annual, it's a quarterly amount?

MR. KULP: That's correct. It's an annualized number that we're looking at there.

COUNCILMEMBER COUCH: Okay. Trying to, I'm just trying to get it so that next time I look at this I can figure out exactly what's going on.

CHAIR HOKAMA: I am a very happy Chairman today. I think you folks have asked some very good questions and that's what was my intent because we will continue the review of the short-term investment reports. And this is step one. So you guys did a great job. I am very pleased with the Committee's efforts. Further questions, Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. Can you explain to us the back of the, the back of this, the last section is reports called collateral sufficiency analysis. Can you explain what that is for?

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

MR. KULP: Okay.

VICE-CHAIR WHITE: What the significance of that is?

CHAIR HOKAMA: Gentlemen, proceed please.

MR. KULP: Mr. Chair, what the collateral tells us is whether or not First Hawaiian Bank or Bank of Hawaii has sufficient, or Central Pacific Bank, has sufficient reserves in place for the money that they're holding for us. They have to have at least 110 percent of what we are depositing with them. In the event, in these other instruments, that becomes ours if their business goes insolvent. So it collateralizes our cash position with them.

VICE-CHAIR WHITE: And so this first report, is that just First Hawaiian Bank?

MR. KULP: No, if you look through it, you should have all of them in there.

VICE-CHAIR WHITE: No, I know. But the first, there's a, there's several sections to this.

MR. KULP: Oh, okay. Yeah, each section would be a different bank.

UNIDENTIFIED SPEAKER: The first one is Bank of Hawaii.

VICE-CHAIR WHITE: But the actual protection that we have from FDIC is just 250,000?

MR. KULP: Yes, that's on the CDs.

VICE-CHAIR WHITE: That's not...

MR. KULP: When we buy CDs from the different banks around the country, we only buy the 250,000 because it's a naturally protected by the FDIC. So there's no, we don't need an agreement with them. It's part of their membership in the FDIC. They have a specific FDIC number per institution. Now when we buy a position, we have a CUSIP associated with the instrument we buy but each institution has an individual FDIC number. We never buy two positions from any one bank. It's always only one. And we know that because we verify against the FDIC number that each institution has.

VICE-CHAIR WHITE: Okay. So the purpose of these reports is to show what securities you have in relationship to their deposits?

MR. KULP: No, only in regards to First Hawaiian Bank, Bank of Hawaii, and Central Pacific Bank. None of the other ones. Because the other ones are...

VICE-CHAIR WHITE: No, I understand. The other ones you have the --

MR. KULP: FDIC.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

VICE-CHAIR WHITE: --FDIC protection.

MR. KULP: Right.

VICE-CHAIR WHITE: But the protection here, could you explain again what the 110 percent is?

MR. KULP: Okay, they estimate over a period of time, in fact they'll buy securities and they'll withdraw securities every month depending on our levels of deposits within their bank. And they're constantly increasing when we're going through the RPT period and then as the rest of the cycle goes, they'll cut down on their positions because it costs them money, but they'll always maintain over 110 percent of our liquid position with them.

VICE-CHAIR WHITE: Okay.

MR. KULP: And that's what this report is showing you.

VICE-CHAIR WHITE: Okay. Thank you very much. Thank you, Chair.

CHAIR HOKAMA: Thank you, Mr. White. Members, other questions for our Finance Director or Mr. Kulp in the investment area? Okay, I think we had a very good discussion this morning. We shall continue. We'll ask Mr. Agsalog and Mr. Kulp to continue to join us, and maybe you can work with our Staff, Director. You're right, Mr. Kulp, the, deals with a lot of abbreviated entities and so maybe to help follow the report our Staff and Mr. Kulp can maybe work out a short dictionary or whatever it would be of all those acronyms?

MR. KULP: Absolutely. I use those because I'm limited to space in the fields that we have.

CHAIR HOKAMA: Yeah, we understand that, Mr. Kulp. And I know you deal with it on a daily basis so everything makes sense on all those letters but maybe we can have a better understanding if you can work, share that with us, please. Any other questions regarding the short-term investment at this time? Again, we'll defer this item with no objections and continue the discussion as we learn how our monies are invested and what we can do to increase that ability of a better return.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Thank you so much. We'll defer this item.

ACTION: DEFER pending further discussion.

CHAIR HOKAMA: Thank you, Mr. Kulp. Alright, we'll take a recess until 10:30 and take up the last item, which is Plan of Audits, Fiscal Year 2014.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

COUNCILMEMBER COUCH: Mr. Chair?

CHAIR HOKAMA: Yes, sir?

COUNCILMEMBER COUCH: On behalf...

CHAIR HOKAMA: Oh, thank you.

COUNCILMEMBER COUCH: Go ahead.

CHAIR HOKAMA: I need to make an announcement. I appreciate that. For all those that can, are around this area, there has been a water hydrant incident, so water pressure is down around this building. Water pressure should be back to normal by 1:00 p.m. therefore restrooms are unavailable in this building. So plan your adjustments accordingly please. We are...

COUNCILMEMBER COUCH: And my comment, Mr. Chair --

CHAIR HOKAMA: Yes?

COUNCILMEMBER COUCH: --was I just wanted to, on behalf of all the insomniacs who will be watching this on replay, thank you for giving them a chance to get to sleep. While it was information for us, very good information, I would imagine it's kind of dry. But it was good information for us. Thank you.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: I would ask Mr. Couch to speak only for himself.

COUNCILMEMBERS: . . .*(Laughter)*. . .

CHAIR HOKAMA: With that, we are in recess. . . .*(gavel)*. . .

RECESS: 10:23 a.m.
RECONVENE: 10:36 a.m.

CHAIR HOKAMA: . . .*(gavel)*. . . We shall bring this meeting back to order.

**ITEM 98(1): PLAN OF AUDITS (FISCAL YEAR 2014) (TREASURY DIVISION,
DEPARTMENT OF FINANCE) (CC 14-17 and CC 15-114)**

CHAIR HOKAMA: We're on our final item for today's agenda that is Item 98(1) under title of Plan of Audits. Your Chair brought this up partly in tandem with the previous item, the short-term investments. So as you can see in your folder, Members, towards the end under April 24, 2015, the Mayor did transmit on behalf of Director Aagsalog, a communication in which he shares with us who makes up the Investment Committee.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

We have the Finance Director, Deputy Finance Director, you have the Managing Director, Budget Director, and Accounting Systems Administrator. Which that has changed since Mr. Fujita is not with the County any more. You have a listing of their meetings over the last five years as well as some exhibits that they have shared with us regarding the County's investment policy. That is part of Exhibit 2-1 in which under the date of July 25, 2012. You have their policy attachment, and in this one we had Mr. Regan, Managing Director, Mr. Agsalog, Director of Finance, the Deputy Director of Finance at that time, Mr. Savage, Mr. Baz as Budget Director and Ms. Zielinski as the Accounting Systems Administrator. And the report came from the Treasurer, Ms. De La Pena and Mr. Kulp. Then also an attachment on the exhibit, Members, we have the following, which is their overall policy document they have shared with us. So on Page 3 of the attachment, we had earlier comments from the Director but as you can see that is the general parameters of what the statute allows the County currently to invest in. And then I just bring you highlights that on the bottom of Page 4, the policy states that the County will diversify its investments by security type, institution and maturity with the exception of US Treasury securities no more than 30 percent of the County's investment portfolio will be invested in a single security type or with a single issuer or financial institution. Gentlemen, any comments, either Mr. Baz or Mr. Agsalog, you have at this time regarding the area that we have just covered, sir? And maybe you can share what type of potential investment instruments would you wish to be considered that we may be able to be supportive of, Director?

MR. AGSALOG: Mr. Chair, thank you very much. In the, with regards to the audit, I have already registered my concern before but let's look at what we can do as far as the request that I have for support for the HRS amendment that we're requesting with the Honorable Senator Gil Keith-Agaran and he has assured me that he will work with us in getting that done. I will look at the HRS 3621, Mr. Chair, and the additional instrument that we want to mimic from them is their number eight Tennessee Valley Authority notes and bonds. That's already authorized in the HRS 3621, and the Federal Farm Credit System notes and bonds, that's their number two, and the Federal Agriculture and Mortgage Corporation notes and bonds. I can tell you right now, Mr. Chair, that the composition of our investment still, we'll still holding some positions but we haven't purchased any new ones. As they mature, we are going somewhere else to buy it instead of those that was indicated in the audit, Mr. Chair. So that's the result of the audit that we're trying to do until we have our HRS 4650 amended to reflect those, we will not purchase new ones, Mr. Chair. So I will answer any other questions you might have, Mr. Chair.

CHAIR HOKAMA: Okay. Do we still have any outstanding student loan notes within our investment portfolio, Director?

MR. AGSALOG: No, Mr. Chair. We, once that was settled, we have not even considered into that so yes, we don't have.

CHAIR HOKAMA: Yeah, thank you. Yeah, we went through an experience with that so thank you. I'll ask...Ms. Baisa?

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

COUNCILMEMBER BAISA: Thank you very much, Chair. Quite serendipitously we just got a request this morning from . . .(inaudible). . .on behalf of HSAC and they would like to have our proposals in to HSAC in short order for what we want included in the package and the first deadline is September 11. So I was wondering, would this kind of measure that Mr. Agsalog is asking for a change at the Legislature that maybe HSAC could get behind it?

CHAIR HOKAMA: I think that's a great idea, Ms. Baisa, and I'm happy to support that, and maybe at the end of this item we'll recommend action for Council to support and send to HSAC as our Council's position.

COUNCILMEMBER BAISA: Right. I think it would be very good and also something that we could easily track and with senator's help we might be able to get it through successfully.

CHAIR HOKAMA: Yes, thank you.

COUNCILMEMBER BAISA: Thank you.

CHAIR HOKAMA: No, thank you for that. Ms. Cochran, any questions so far within this area?

COUNCILMEMBER COCHRAN: Thank you, Chair. So I guess the parameters of what we need to follow with HRS Chapter 46 is it? And it has the whole list of all the different ways short-term investments of County monies can be used for and this is the, I guess there's 14 or so different items. And that's it, whatever is on this list is the only types of entities we as a County can invest in short term?

CHAIR HOKAMA: Yes, that's my understanding, Ms. Cochran.

COUNCILMEMBER COCHRAN: And so, Mr. Agsalog, you're looking to incorporate more, diversify this list and I guess and Ms. Baisa's bringing up the fact that we can hopefully push it through HSAC to help support recommendations of Mr. Agsalog. Mr. Agsalog, are you looking at other municipalities, how other municipalities are doing this or how are you coming up with a way to diversify it? In which way would you like to diversify this list here? Do you, have you thought about that?

MR. AGSALOG: Thank you, Mr. Chair. And yeah, that's a very good question. The HRS 3521, it's the authorization, Hawaii Revised Statutes that authorizes the B&F Department, State, to invest their short-term investment. For the authorization as for the HRS for us is 4650. In the past, they were mimicking each other as to the availability or the pool of investments that we can purchase. The 3621 was amended way back, I think it was in 2009. There is another, 2015 but I'm not sure of which the 2015 is, but 2009 was amended to incorporate the Tennessee Valley Authorized notes and the Federal Credit Farm Credit System notes and bonds and Federal Agricultural Mortgage Corporation notes and bonds, but us as the County we have never gone and

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

asked the Legislature to also follow the lead of the State. So there are two governing statutes that we work by. There's the investment of County monies and the investment of short-term investment of the State's money. So those are the two things that I have asked or started to discuss with the Honorable Senator Gil Keith-Agaran to can we put it back the way it was that they used to mimic each other. So I have done some communication with my colleagues, the Director of Finance in the other counties and they are in support of it. With your, the HSAC support, I think it's easier to get it through the Legislature and I think Mr. Agaran sees the benefit of it so he is willing to help us. I don't know if that answers your question.

COUNCILMEMBER COCHRAN: Very good.

MR. AGSALOG: Only those three.

COUNCILMEMBER COCHRAN: Well it's a work in progress.

MR. AGSALOG: Yeah, those three is the one that we want to add because those are the ones that can give us a little bit more flexibility so that we have some diversity.

COUNCILMEMBER COCHRAN: Uh-huh. Okay, very good. Yeah, thank you for your efforts, Director. Thank you, Chair.

CHAIR HOKAMA: Yeah. You know, with that, Director, that Ms. Cochran brings up, I would ask that you take a look also at, besides what the State agencies are doing but I would like us to also look at what ERS and EUTF is able to do. They represent State entities, they represent the County and yet they have the ability to invest our assets, it is our assets, that's our money, into, within the parameters that the Legislature has set. And so my thing is if it's good enough for them --

COUNCILMEMBER COCHRAN: True, yeah.

CHAIR HOKAMA: --why shouldn't we be considered under certain parameters to also have that same ability to look at those investment options? And, you know, with appropriate safeguards of course, Director, but I would rather us be more comprehensive as we look at what makes sense in the future for the County. Because one of the things that we are by constitutionally bound is of course the total indebtedness, which is based on real property value, and as all of us know, we sit in annual budget reviews, no way will the County of Maui ever come close to the amount of indebtedness that we can legally take on. I mean, if we do that is ridiculous, okay. Even the State, I cannot see when we amended the Constitution in '78, I never thought we'd come close to that legal, that limit because as you noticed we've also put in after the State receives so much positive cash over a certain years, two or three years, there's an automatic rebate clause kicks in that it goes back to the tax base. So I think financially we have a very good basics of fundamental direction from constitution. Our Charter is well prepared, arming the Council to make those policy decisions. But I think we should look at more than just for the current needs, Director. I mean, who knows what we may need and I think up to 5 percent is not

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

unreasonable. I'm even open to 7 percent returns within certain guidelines. So that's something I would ask you to think about, Director, as you talk with the Senator and get his thoughts and we can also check with Speaker Souki and Mr. Yamashita from the House who sits on Finance for their thoughts too. Anything else on this area, Members, on the investment? Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. I would agree with you to a certain extent. There is a different cash flow window for EUTF and ERS and if we were heavily invested in securities that were affected by a significant drop in the market, we could find ourselves a little short of cash in the short term. So but I think it does make sense for us to be able to invest a portion of our cash in things that can generate a little bit more. But, and, Mr. Agsalog, you may have answered this when I was reading something else but the audit mentions that we've, we're holding investments in Federal Agricultural Mortgage Corporation and the Federal Farm Credit Bank, which are not listed in the HRS. How much money do we still have in those two holdings? Do you have that?

MR. AGSALOG: A combination of 57 million at the moment, Mr. Chair.

VICE-CHAIR WHITE: So a total of?

MR. AGSALOG: Yes. We, when that, when the audit was being done, I think we had about 70 million together but it has, since it matured, we have not invested into that. So because our module, our cash flow module is now, we have it operating that at a certain time of the month or the year, we have some maturity that comes. If I have liquidated or divested them, it's very difficult for me to plug those areas to achieve very similar returns from them, so it's just a cash flow decision that if we keep it there and it'll mature but we're not going to buy any more until we have it fixed since not only us have these instruments. Big Island has the instrument also so we are confident that these instruments are safe and that's our main thing. My main concern in our short-term investments is safety, of course, the liquidity and interest rate. So yes, it has come down since the first that was brought to your attention, Mr. Chair.

VICE-CHAIR WHITE: Okay, so and also the audit recommended that the Treasurer obtain a clarification from legal counsel, so I'm assuming that your hesitancy to continue investing in that sector is as a result of the Corp. Counsel suggesting that you need to stop doing that or hold back on doing it?

MR. AGSALOG: It was just a decision on my part, Mr. Chair, because I can, everyone can see that it's not listed in our 4650. Okay, so if the question is did I go to our Corporation Counsel, he will tell me Danny, it's not listed. I know that already. So I know they have a lot of work to do and it's a cautionary measure for me to instruct Treasury not to purchase any of those until we can work with the Legislature and the Governor to get the support to change it. So let's say that we didn't get the support, I think our last one I think is two years from now. It will be all divested by then. That's the worst scenario. But if we get the authorization or amendments, then we can start looking at those instruments again to add in our portfolio.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

VICE-CHAIR WHITE: Okay, thank you. And the other finding was that on average 92 percent of the County's investment portfolio was in the securities of a single business sector, that being the mortgage sector. Have you taken steps to reduce the dominance of that sector in the investment portfolio?

MR. AGSALOG: Mr. Chair?

CHAIR HOKAMA: Mr. Agsalog, go ahead.

MR. AGSALOG: I think that's one of the areas where I know the audit seen that and it's a fact but I think because they are secure, we, there's diversify for security and of course for interest rate and I think we are, the interest rate is the best we can get with the limitation that we have and the security. I think that 90 percent that was invested in that area I feel more comfortable that the County will not lose any of this money and if we diversify so much, and we don't have that much pool of instruments available, Mr. Chair. I think I have registered my concern with the Auditor that that should not be a part of the diversification in that way because of, safety dictates that. Okay, so if the diversification is doing for safety, then I probably would have looked into another lower interest rate to diversify just for the sake of diversification but there should be a latitude that we can do. If we know it's a safe investment and we can get a better return, I think we should have that flexibility to do so.

VICE-CHAIR WHITE: My only concern, Chair, is that the mortgage market has not exactly been a safe and secure place over the last, you know, six or seven years and so I'm a little concerned but I'll leave it to the Director to evaluate that. And would it be possible for you to provide us with a list of the various options, the investment options and roughly what range of returns there are for those options that are maybe a little safer than mortgage?

MR. AGSALOG: I can look into that, Mr. Chair, and definitely we can get reports for you. And again, it's very similar to the Chair's thinking of looking at other investments where ERS are investing. The only thing is that ERS is unlimited of the things that they can invest. They can own equities. They can buy real properties that can stay there for a long time. They can afford to do that. In our case though, where the -year term is the maximum that we can go and also the money that we're investing is not free money. It's already tied to something, like your Emergency Fund. Like your Affordable Housing Funds. They are all spoken for for some funds that we have, so just in case the public is thinking oh yeah, County of Maui has 277 money that's not appropriated, that's not so. These are monies that you guys already appropriated and allowed to stay on the funds for the purposes it was spoken for. Okay, so that is the difference between us and the ERS. The ERS can project to actuarial what is the expenses they will have and they can also do their module to say okay, in 30 years, I need x amount of dollars so I need to maximize my investments so I might be able to buy Coca-Cola and do it, sell it later on for a profit or buy a mall or something like that so they have a very big wide range of opportunities to do so. But I think the Chair to say a percent, maybe a 5 percent of that, I think it's something that we can look

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

into that, you know, I mean 5 percent of 277 million, and you can spend what 14 million or invest it in a little bit better return so it's evened out with the stable instruments that we can get. But again, I'd be more than happy to research that as your Chief Financial Officer, Mr. Chair.

CHAIR HOKAMA: Thank you.

VICE-CHAIR WHITE: Thank you.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: Thank you, Chair.

CHAIR HOKAMA: Mr. Ueoka?

MR. UEOKA: Thank you, Chair. Just a clarification on Director Agsalog's statement regarding the short-term investments noted in the Auditor's Report. We were not consulted, as he mentioned, but in discussions with him while they are not directly listed in HRS 4650 when purchased, it was under the assumption that they were allowed in other, due to other areas of 4650, that's why they were purchased. So they weren't just completely wrong. It was an assumption that it was allowed and now in an abundance of caution, they have not been re-upping those types of investments just for clarification. Thank you.

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

CHAIR HOKAMA: Good job, Counselor. In saying, you know, in what you just shared, what is very accurate, Mr. Ueoka, so thank you for that. I would say though regarding the ERS and EUTF and what, other things, it's interesting how you want to look at investments because the Constitution allows us to land bank. Is that short-term investment? I don't think so. But we can land bank legally by State Constitution. County Charter allows Council to accept lands. We can have the equity grow, the valuation grow, and we can dispose of it. Council already has that power and ability to do so. So we can address financing in many unique ways but I look forward to see how we can expand our investment opportunities, Director. I want to bring up one other area. We hardly touch upon it but it's in your investment portfolio and it's on Page 5 under No. 6. Tell us the experience of honoraria, gifts, and gratuities since it is part of your policy. So does this mean annually the Investment Committee members file a Board of Ethics component, a report like all Councilors do? We're required to and we submit our financial statements regarding gifts and whatnot so what has been the experience that you could share with us, Director? It works very well, not an issue? Not necessarily needed anymore? You know anything you can give us comments on this area, please?

MR. AGSALOG: Thank you, Mr. Chair. The Managing Director, myself, and our Deputy Director file also those financial reports with the Board of Ethics. The Budget Director and the Accounting System Administrator do not, are not required to do so. We put

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

that as a part of our investment policy. I think it's the right thing to do, especially for when we are met almost constantly by the bond counsel, the brokers and all that so we really try to make sure that we follow the discipline of the investment policy, Mr. Chair.

CHAIR HOKAMA: Okay, thank you. Members, any questions on this policy area for either Mr. Baz, Mr. Agsalog, or Mr. Ueoka? I want to bring up, last one is, starts on Page 7 under No. 10, Internal Controls and it goes on to Page 8. It starts on Page 7 and it goes to Page 8. You have eight, I believe eight points of controls that you in your policy states you will address. Control of collusion, separation of functions, separation of transaction authority from accounting and record keeping, custodial safekeeping, a voidance of physical delivery bearer form securities, clear delegation of authority to subordinate staff members, written confirmation of transactions for investments and wire transfers, also includes supervisory control of employee actions, and finally the minimizing the number of authorized investment officials. Documentation of transaction and strategies. Directors, can you give us some comment about how these controls are working and whether there's any adjustments that has been made since 2012?

MR. AGSALOG: Thank you, Mr. Chair, and I can attest to this that I think that the Auditor has looked into it and I think we have put a good system in place. The Investment Officer, he goes out there and makes sure that the available instruments that we can invest through his _____ process looking at what the best rates at this span of time that we need to do, because we have developed a science to do it so that we know how much money we need to have at a certain month of the year because of the debt service, the EUTF that we have to pay, the salary that we have to pay so we have to slot them to specific timeframe. So he asks those brokers to say okay, I have \$5 million for two years, what rate you can get me? So they will give the options, Treasury or the mortgage back so they show that so he looks at that . Once he makes some determination of what fits where we're at at the best rates, the Treasury looks at the recommendation and once the recommendation is transacted, being transacted, I sign the transfer of those monies. So that's the day-to-day activity for that, Mr. Chair. The reports that we discussed during Investment Committee meeting also look at are we following our policy as written for us. So that's the simplest way to explain that, Mr. Chair.

CHAIR HOKAMA: Okay. So, Director, do you do your, I guess, non-planned testing of your system? What quarterly? Once a year?

MR. AGSALOG: Thank you very much, Mr. Chair. And because we have just been able to fill our internal control in my office, now we have someone there now. We have, we are planning to do all that but again in the past we have not done it because we didn't have the personnel to do it. I am in the process of getting a specialist to work with them so that we can check all internal controls, not only this particular area in Treasury but since it's where the money is, it's going to be the one that we're going to work . . . *(inaudible)* . . . I have assigned them though to do our salaries first, the ADP testing and we are seeing some progress there to be checked but again, I think it's a

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

great component of the Finance Department to have this Internal Control Officer go through what you just mentioned of unannounced, unscheduled checks so that we can be assured that the work that we are doing is within the parameters of the policies that we have established, or you have established. We are very happy that in the testing of the County Auditor yield to some findings but it's something that we are able to explain because of the maybe not enough resources but which you have given us this, the extra position that you have approved for us. That's going to work with the findings that they found and I'm very happy. I know it's hard hitting audit but again, it didn't show any money lost or anything like that because I think it's a very tight operation that we have checks and balances in our daily operation, Mr. Chair.

CHAIR HOKAMA: Thank you. Questions, Members ? Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. I note on Page 7, under Internal Controls, the last sentence it says internal controls are documented in the Treasury's investment procedures. Do we have a copy of that?

CHAIR HOKAMA: Staff?

MS. YOSHIMURA: Mr. Chair, no we don't.

VICE-CHAIR WHITE: Okay.

MS. YOSHIMURA: Staff can request the document.

VICE-CHAIR WHITE: If it's okay with you, I'd like to request that of the...

CHAIR HOKAMA: We'll put in a request from the Committee to Director Agsalog and await their transmittal.

VICE-CHAIR WHITE: Okay.

CHAIR HOKAMA: And then we'll forward it to all Members.

VICE-CHAIR WHITE: Okay, thank you.

CHAIR HOKAMA: Okay.

VICE-CHAIR WHITE: That's all, Chair. Thank you.

CHAIR HOKAMA: Thank you. Ms. Crivello, any questions?

COUNCILMEMBER CRIVELLO: No.

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: No.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: No, Chair.

CHAIR HOKAMA: Ms. Baisa?

COUNCILMEMBER BAISA: No, thanks.

CHAIR HOKAMA: Great. Well, I feel we did a good job today, Members. There's things that we need to do as part as the finance component of Budget and Finance. So I thank the Director and Mr. Kulp, Mr. Walker, Mr. Baz for their presence. Unfortunately Mr. Ueoka has to be here with us, regardless. Gentlemen, anything else you wish to share before we end the item, Mr. Director?

MR. AGSALOG: Mr. Chair, I was just shown that exhibit.

CHAIR HOKAMA: Yes, sir.

MR. AGSALOG: The transmittal on 4/25, 28, '15.

CHAIR HOKAMA: Okay.

MR. AGSALOG: I think that's April 24, 2015 letter and attached to that Exhibit No. 3 is the Treasury Policy and Procedures of the County of Maui.

CHAIR HOKAMA: Okay.

MR. AGSALOG: So that I don't have to, you guys don't have to wait for another transmittal. But that's the current Treasury Policy and Procedures. And it should be revised December 2006. Again, Exhibit 3 on that communication, I mean transmittal, Mr. Chair.

CHAIR HOKAMA: Okay. Well, we'll follow up. Thank you for that information, Director. We will follow up on that for the Committee Members' requirements. Anything else, Members? Any other requests you may have? Again, we thank the directors for being here this morning. With no objections, Members, the Chair will defer this item?

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Item is deferred.

ACTION: DEFER pending further discussion.

CHAIR HOKAMA: There being no further business before the Committee, this meeting is adjourned. . . *(gavel)* . . .

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

ADJOURN: 11:13 a.m.

APPROVED:

A handwritten signature in cursive script, appearing to read "Riki Hokama", is written over a horizontal line.

RIKI HOKAMA, Chair
Budget and Finance Committee

bf:min:150721:krr

Transcribed by: K. R. Robinson

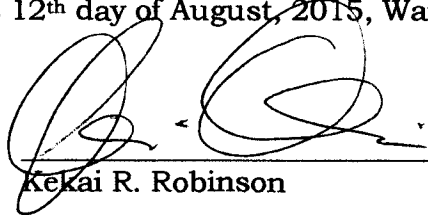
BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

July 21, 2015

CERTIFICATE

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

DATED this 12th day of August, 2015, Wailuku, Maui, Hawaii.



Kekai R. Robinson