BUDGET AND FINANCE COMMITTEE

Council of the County of Maui

MINUTES

March 28, 2016

Council Chamber

CONVENE: 9:01 a.m.

PRESENT:
Councilmember Riki Hokama, Chair
Councilmember Mike White, Vice-Chair
Councilmember Gladys C. Baisa, Member (out 4:03 p.m.)
Councilmember Robert Carroll, Member
Councilmember Elle Cochran, Member (out 12:19 p.m.)
Councilmember Don Couch, Member
Councilmember Stacy Crivello, Member
Councilmember Michael P. Victorino, Member (out 3:58 p.m.)

EXCUSED:
VOTING MEMBERS:
Councilmember Don S. Guzman, Member

STAFF:
Michele Yoshimura, Legislative Analyst
Steve Selee, Legislative Analyst
Shelly Espeleta, 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 (BF-3(2), BF-8(1), BF-9(2))
Danilo F. Agsalog, Director, Department of Finance (BF-3(2), BF-8(1), BF-9(2), BF-52(1), BF-115)
Sananda Baz, Budget Director, Office of the Mayor
Teena Rasmussen, Economic Development Director, Office of the Mayor (BF-38(26))
Anthony Earles, Police Evidence Specialist III, Investigative Services Bureau, Department of Police (BF-38(46))
Paul Meyer, Deputy Director, Department of Water Supply (BF-38(48))
Holly Ho, Waterworks Fiscal Officer, Fiscal/Customer Service Division, Department of Water Supply (BF-8(1))
Eva Blumenstein, Planning Program Manager, Water Resources Planning, Department of Water Supply (BF-38(48))

Janice Yukiko Shishido, Deputy Director, Department of Housing and Human Concerns (BF-38(49))
Jeffrey T. Ueoka, Deputy Corporation Counsel, Department of the Corporation Counsel

Seated in the audience:
Dawn Winter, Internal Control Analyst I, Department of Finance (BF-8(1))
John Kulp, Accountant III, Treasury Division, Department of Finance (BF-8(1))
Mark R. Walker, Deputy Director, Department of Finance (BF-8(1))
Ortaine Acidera, Payroll, Claims and Inventory, Accounts Division, Department of Finance (BF-8(1))
Greg King, Central Purchasing Agent, Department of Finance (BF-8(1))
May Anne Alibin, Accounting Systems Assistant Administrator, Accounts Division, Department of Finance (BF-8(1))

OTHERS: George Kahoohanohano (BF-38(36))
Kaui Kahaialii (BF-38(36))
Rosemary Robbins (BF-8(1), 38(48))
Others (10)

Blake Isobe, CPA, Principal, Assurance Services Division, N&K CPAs, Inc. (BF-3(2), BF-8(1), BF-9(2))
John Bautista, CPA, Senior Manager, Assurance Services Division, N&K CPAs, Inc. (BF-3(2), BF-8(1), BF-9(2))
Thomas Williams, Executive Director, State of Hawaii Employees Retirement System (BF-52(1))
Wes Machida, State Director of Budget and Finance (BF-52(1))
Emalu-Hina, Retirement Claims Examiner, Maui District Office, State of Hawaii Employees Retirement System (BF-52(1)

PRESS: Akaku: Maui Community Television, Inc.

CHAIR HOKAMA: . . .*(gavel)*. . . The Council's Committee on Budget and Finance shall come to order. This is the 28th of March, 2016. Good morning, Members.

COUNCILMEMBER COUCH: Good morning.

VICE-CHAIR WHITE: Good morning.

CHAIR HOKAMA: Present at the Committee meeting this morning, we have our Vice-Chairman, Mr. White.

VICE-CHAIR WHITE: Good morning, Chair.

CHAIR HOKAMA: Good morning. And our Committee members, Mr. Carroll.

COUNCILMEMBER CARROLL: Good morning, Chair.

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

COUNCILMEMBER BAISA: Good morning, Chair.

CHAIR HOKAMA: Ms. Cochran.

COUNCILMEMBER COCHRAN: Aloha, good morning, Chair.

CHAIR HOKAMA: Mr. Couch.

COUNCILMEMBER COUCH: Aloha, good morning, Chair.

CHAIR HOKAMA: Ms. Crivello.

COUNCILMEMBER CRIVELLO: Aloha and good morning, Chair.

CHAIR HOKAMA: And Mr. Victorino.

COUNCILMEMBER VICTORINO: Chair, good morning.

CHAIR HOKAMA: Mr. Guzman shall be in attendance later. Before we start our review, we have a very heavy agenda today, Members, and it'll be heavy for the remainder of the Budget season. So we shall start off with testimony for today's meeting. Anyone who wishes to give testimony will be presented an opportunity, up to three minutes only to speak on your item of interest. State your name, if you represent an organization, the Committee requests that you share that with us. We shall assist you with your timing with lights on the podium. Green means to keep speaking, yellow means you have 30 seconds and red means you're done. We shall also request testimony from our District Offices. So this morning ...

COUNCILMEMBER VICTORINO: Chair?

CHAIR HOKAMA: Yes, Mr. Victorino?

COUNCILMEMBER VICTORINO: Point of personal privilege, if I may?

CHAIR HOKAMA: State your point.

COUNCILMEMBER VICTORINO: And it's nothing to do with Budget, but I think most of read or heard that this morning a very well-known and distinguished citizen of our community has passed, a man who brought a lot of notoriety to Maui County, and I'm talking about Gary Planos from Kapalua. His passing was sudden and unexpected, and that gentleman had done...I've had the honor and pleasure of working with him for the past 25 years as a volunteer out at Kapalua and that man was Mr. Aloha when it came to the golfing community. And if you read some of the tweets and the blogs that are on his, on the web page, you will see people like Nick Fowler and others, big name golfers that had a lot of respect and the loss of Gary is been taken very hard in the golfing community. So, Mr. Chair, I just wanted to note that because, to me, he was an outstanding man who started as a bag boy at $3 an hour of the Kaanapali Golf Course in 1975 and worked his way up to being Vice-President of Kapalua Golf Course operations until he was, his position was eliminated in 2011. The gentleman had done a lot for Maui County, especially many of our nonprofits who have been direct benefactors, Lahainaluna High School, Boy Scouts and many others, Junior Golf, that had benefited from the Kapalua Golf Tournament, not only the economic benefit for this community but the nonprofits who have been a big, integral part of that golf tournament. So, Mr. Chair, I just wanted to bring that up and in your own ways and in your own thoughts if you can say a prayer for his family in this time of need and loss, it would be greatly appreciated. Thank you, Mr. Chair, for giving me that opportunity.

CHAIR HOKAMA: Thank you, Mr. Victorino. The Chair is happy to acknowledge the passing of a very special Maui resident so we'll have a few moment of silence in respect for Mr. Gary Planos.

. . .*(moment of silence)*. . .

CHAIR HOKAMA: Okay, thank you very much, Mr. Victorino.

COUNCILMEMBER VICTORINO: Thank you, Chair.

CHAIR HOKAMA: I've noticed our Christmas fund is low so the Chair will impose throughout the Budget session, your toys, your equipment, your phones goes off in the meeting, you will be assessed $5 penalties, including the gallery. Everybody in this room shall follow decorum. So everyone, keep your phones either off or silent and that includes Department heads, anyone in this Chamber. This morning we shall start off with testimony and we shall start off with Mr. George Kahoohanohano, who is with us, so if Mr. Kahoohanohano will join us at the podium, we will be happy to hear his thoughts.

. . .BEGIN PUBLIC TESTIMONY. . .

MR. KAHOOHANOHANO: Good morning and aloha.

CHAIR HOKAMA: Aloha.

MR. KAHOOHANOHANO: My name is George Kahoohanohano and this morning I am speaking to you on the behalf of the Royal Order of Kamehameha. The Royal Order of Kamehameha is celebrating the closing of its 150-year anniversary of being in existence in the Kingdom and Kahekili Chapter has decided to present this celebration or this jubilee in a most distinct fashion. From the week of April 3rd through April 8th, we will have a multitude of events that will take place at Hale Nanea and Kamehameha Ike Park in Lahaina. Sunday, on April 3rd, we have a presentation of the history of the Royal Order being done by the men and women of the Royal Order at Hale Nanea starting from about 8:00-8:30 in the morning. Monday, we have a presentation of kalo, from the field, to the production, to the consumption, done by one of our members of the Royal Order, Alii Sir Kyle Nakanelua and his company *. . .(inaudible). . .* Tuesday, we're doing crafting, we're doing wood and stone carving. The stone will be done by MAMo Hawaii, Hoaka Reyes, who is a well-known stone carver in the Maui County community. Wednesday is our health day. We all hear that the Hawaiians are not one of the healthiest lots so we're having blood pressure, everything, coming down to Hale Nanea to do a reading for us. Thursday, we move down to Kamehameha Ike Park where we do the wa`a, celestial navigation. That starts at 5:00 in the evening and goes until 10:00 at night. Friday, we move back to Hale Nanea and at Hale Nanea we do, those that want to learn how to dance hula, three songs, those who want to learn to play music, three songs. And at the end of the day, those who were taught the hula and were taught how to play will combine and make a small performance. Our objective is to have people who come to these events leave with something in return. And this is all done at Hale Nanea and Kamehameha Ike Park. And we close off this wondrous 150-year jubilee celebration with a 150-year jubilee ball at the Grand Wailea Hotel at the Haleakala Ballroom, with headline entertainments of Mr. Willie K. and Amy Hanaialii, then we have dance music after that. So we are really looking forward to having this type of information to be presented, and that's why we came to the Council for us to have some help and assistance in moving forward with this project. Thank you, sir. Questions?

CHAIR HOKAMA: Thank you. Any questions for the gentleman on his testimony, Members? Having none, Mr. Kahoohanohano, thank you very much. We shall ask Kaui Kahaialii if you would come forward and share his testimony with us please?

MR. KAHAIALII: Aloha kaua.

CHAIR HOKAMA: Aloha.

MR. KAHAIALII: Aloha kakahiaka to you all --

COUNCILMEMBER VICTORINO: Aloha.

MR. KAHAIALII: --Chair, Councilmembers. Aloha, my name is Kauilani Kahaialii. I am of the clan of the Kahaialii's from Lahaina. We have many, many of you know our family. I will not go into the issues that Uncle George was talking about, it is the celebration, but what I will talk about is the huaka`i or the journey that has taken to get us to this point where we are today. It was never a question of the Royal Order to ask of our County for any kind of monies to help them in any event. I took it amongst myself to go ahead and pursue that road only because the event that is unfolding before us today, the 150th year of the Royal Order of Kamehameha, 1865 'til today, ladies and gentlemen, still exist. As practitioners and culture advisors of our lahui, we are still here and we will never go away. We don't choose to. How we step up to that plate to celebrate this time that we are privileged to be in and blessed to be a part of to acknowledge those who laid the very fabric, foundation of this lahui, I choose to recognize them in the highest of my abilities, whether it is with the help of the County or not. I mahalo you folks, I mahalo you, Chair, for even considering us and considering the value that we may bring to the community or to the State of Hawaii. The Royal Order will always stand as a beacon to our people…that buggah threw me off. But to give honor to our mo`is and those who have gone before us is what it's about. It's not about the Royal Order of Kamehameha. We are just one iliili, one stone, in this big Pacific Ocean that is laid before us and there are many, many, many. And we are seeing them unfold today. You know it, I know it. If you makaala and watch what's happening in front of us today, you can see it, the rising of Moku`ula, Kalaniopuu's return of his ahu and his mahiole. These are yet just little stones that one day will show us the path straight to where we should be, as kanakas, maka`ainana, people of this lahui. Mahalo.

CHAIR HOKAMA: Thank you, Mr. Kahaialii. Any questions for the gentleman? Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair, and thank you for your comments, very heartfelt. I just wanted to know how much you guys were asking for.

MR. KAHAIALII: At the beginning, it was 200,000. And as anyone who has put on a festival, whether it be a day or two, to understand how the word of jubilee came to existence was not something that we celebrated as just the commoners in the past, but it was something that celebrated by our mo`is, of those of the higher class. And when they celebrated, they did not celebrate a day. It was not a birthday, a wedding, it was a jovial time to celebrate the reasons why. So with this title, we chose to celebrate the week and a lot of people are like, wow, bruddah, that's like, you know, pretty heavy. I said, eh, well, you know, it's about time we don't just think about it but we do it, celebrate it full-heartedly and with that, it came with a heavy burden, of course. And one of that is the cost. For that 200,000 there was a lot of could be, should be, and would've been. But at that point in time, it was said it was available through my huakai. This has been, I mean, a journey for me and I tell you what, it was a learning curve for me and I'm, I feel privileged and blessed to have even participated in it and I guarantee you, I will be part of this whole thing now. It won't be last time you going see Kaui Kahaialii up here. I don't know if that answers your question, Mr. Couch.

COUNCILMEMBER COUCH: So it was 200,000, is that what you're …

MR. KAHAIALII: That was the beginning, yes.

COUNCILMEMBER COUCH: Okay.

MR. KAHAIALII: As we sit today, it's 60,000.

COUNCILMEMBER COUCH: Okay. 'Cause I saw the 2 numbers in the --

MR. KAHAIALII: Yeah.

COUNCILMEMBER COUCH: --binder. So 60,000 is your …

MR. KAHAIALII: I mean, it's what the County offered us and I'm not going to stand here and beat ourselves over it. It's something that we will graciously accept if that's it and do the best we can with that.

COUNCILMEMBER COUCH: Okay. And this is, event is coming up really soon --

MR. KAHAIALII: In about a week.

COUNCILMEMBER COUCH: --next week, yeah, a week from today?

MR. KAHAIALII: Next week, yes, yes.

COUNCILMEMBER COUCH: How long have you been planning it?

MR. KAHAIALII: Well, you know, that's the kuleana and a burden that I carry.

CHAIR HOKAMA: Mr. Couch?

MR. KAHAIALII: When I got it from my ...

CHAIR HOKAMA: Mr. Couch, let me interrupt please --

MR. KAHAIALII: Yeah.

CHAIR HOKAMA: --Mr. Kahaialii. This is something I prefer done when the item is discussed. This is testimony time. I prefer you bring up those questions ...

COUNCILMEMBER COUCH: So we can bring him up for resource? Oh, okay, great.

CHAIR HOKAMA: The item will be discussed and we can ask Mr. Kahaialii, Mr. Kahoohanohano, to respond to questions --

COUNCILMEMBER COUCH: Perfect.

CHAIR HOKAMA: --but this is clarification of testimony presented. This is not the review of the item itself.

COUNCILMEMBER COUCH: Okay. Thank you, Chair.

CHAIR HOKAMA: Okay. Ms. Cochran, you had a question?

COUNCILMEMBER COCHRAN: Actually, Chair, Mr. Couch asked the question. It was just clarification on the amount that was being sought for this event. And so no further questions but if they can stay for when the item comes up for further discussion, that would be great.

CHAIR HOKAMA: We can request that of the individuals.

COUNCILMEMBER COCHRAN: Thank you. Thank you, Chair. Thank you, Mr. Kahaialii, for being here.

CHAIR HOKAMA: Any questions for Mr. Kahaialii on his testimony? Having none, Mr. Kahaialii, we thank you for sharing words.

MR. KAHAIALII: Mahalo.

CHAIR HOKAMA: Rosemary Robbins?

MS. ROBBINS: Good morning, everybody.

CHAIR HOKAMA: Good morning.

MS. ROBBINS: Happy Easter time. I don't have my usual collection of documents with me this morning because of the celebrating this weekend, which was wonderful, with family here on Maui this year. But I did get a chance to go over some of the materials that were going to be presented this morning. And when I took a look at this agenda, I would probably be in good standing to be able to say that this is the agenda of mobile money within departments, between departments, additions later than the original timing for them, so any of us who really got involved in some of those issues before need to be caught up with where they're at today. The first item that I would like to bring up is Budget and Finance 8(1) on Page 1 of our agenda today. I got a number of questions over the weekend. If water is a public trust, why is there a proprietary fund in the Department of Water? I don't know that answer but I heard it as a question often enough that I think it would be wonderful if that could be explained when that's brought up today, what is a proprietary fund of the County of Maui for the Department of Water? Thank you. And then over on Page 3…we okay with that clock? Thank you. Item, Budget and Finance 38(48). When we see this as being a request, a Budget request, for a new fund for the Department of Water Supply, there were groans all over the place in the public, at large. What do you mean, more money? I said, I don't know, added on to what, because there have been a number of layers and requests for money but it does look, when it states in here, the purpose of this proposal is to amend Appendix A of Fiscal Year 2013 [*sic*] Budget, that's the one we're ending, by adding a new grant for the Department of Water Supply to enable the County to receive a grant from the State of Hawaii Wellhead Protection Program, and that amount would be $46,000, sounds like matching funds that the State is requesting of us. And I know those of us who served on the Upcountry Oversight and Advisory Committee back in the beginning of the millennium, that we had information on the 1984 Wellhead Protection setup. We worked with that and then we didn't hear particularly what happened to that. Just so that people know, when you have a wellhead protection, you've got a well, in the immediate circumference around that, closest to it, is most highly looked upon because of potential negative stuff that could be coming out of what is in that well, and then there's the second around it and then a third around it. So there are three different circumferences that talk about the water safety coming from wellheads and we knew, way back when, that there were difficulties because of what was happening in the agricultural industry. So agriculture, we're all in favor of, no question about that, it needs to be healthy soil, healthy water. On my way down today, when I was driving in, they were talking about what was going to happen with HC&S land and the fact that there would have to be remediation done for the soil because of the stuff that has been put in by way of water and soil additions over the years. So it's been an issue for a long time. It continues to be an issue. Some of it was addressed way back when. So hopefully we don't get rid of all the records and we will be able to go back and build on sound thinking for that. So thank you.

CHAIR HOKAMA: Are you done, Ms. Robbins?

MS. ROBBINS: I am. Thank you.

CHAIR HOKAMA: Thank you. Is there any questions for the lady on her testimony, Members? Having none, thank you very much for your testimony --

MS. ROBBINS: You're welcome.

CHAIR HOKAMA: --this morning. We will check with our District Offices and ask the Hana District, Ms. Lono, is there anyone wishing to provide testimony?

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

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

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

CHAIR HOKAMA: Thank you. Ms. Alcon, anyone on Molokai wishing to testify?

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

CHAIR HOKAMA: Thank you, ladies. Anyone else in this Chamber would like to give testimony this morning? Having none, with no objection, testimony shall be closed for today's meeting.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Testimony is closed.

. . .END OF PUBLIC TESTIMONY. . .

CHAIR HOKAMA: May I direct you to Budget and Finance 9(2). Steve, let's terminate this, please. Thank you. BF-9(2) is the Single Audit Report for the Fiscal Year 2015. We have a communication, 16-49, from the County Auditor, Mr. Taguchi. That also includes a transmittal from our independent auditor, N&K, CPAs, Inc. We have a report for the County under the Single Audit Report. We also have a Management Advisory Report for the fiscal year, as well as required communications letter for the

Fiscal Year ending June 30, 2015. So at this time, let's see, is it Mr. Isobe, going to start off? Mr. Isobe is the Principal for N&K, CPAs. And with him is John Paul Bautista, Senior Manager under the Assurance Services Division for N&K, CPAs. And so I'll turn it over to the auditors at this time.

MR. ISOBE: Good morning. And thank you for giving us the opportunity to go over the audit. As Chair mentioned, I'm Blake Isobe. I'm the Principal on the audit and this is John Bautista, he's Senior Manager on the audit. I guess this morning, we'll be covering, I guess, four different reports that we've issued in connection with the audit. The first one is the Comprehensive Annual Financial Report, or the CAFR. The second one is the Department of Water Supply Audit Report. The third is the Single Audit Report, or the Report on the Federal Expenditures, and the last one is this Management Advisory Report, which is a byproduct of the audit.

CHAIR HOKAMA: Okay, so which one you want to start on first?

MR. ISOBE: We'll start off with the CAFR, the Comprehensive Annual Financial Report.

ITEM 3(2): COMPREHENSIVE ANNUAL FINANCIAL REPORT ("CAFR") (FISCAL YEAR 2015) (CC 16-20)

CHAIR HOKAMA: Okay, Members, that's under 3(2).

MR. ISOBE: Okay. I guess, this year I just wanted to mention that there was a slight delay in the issuance of the CAFR this year mainly due to the implementation of the accounting for pensions. It wasn't anything on Finance's side, it was just that the information was needed from the State of Hawaii's ERS to get the information and get that information audited by their auditors so that we could, or Department of Finance could get those numbers into the County's CAFR. So starting on Page 19 to Page 21, this is our Independent Auditor's Report. The main thing here on Page 20 is our opinions on the Financial Statements. Here we state that the Financial Statements are fairly presented or a clean opinion. Moving on to Page 39, this is where the County's Financial Statements begin. The main thing I wanted to touch on in the current year's CAFR is, I guess, the implementation of a new accounting standard, which is Accounting for Pensions. If you look on Page 39, there are three new things that got presented here. The first is a Deferred Outflow Related to Pensions and then the last two are in the Liabilities and Deferred Inflow section, which is Net Pension Liability and the Deferred Inflows Related to Pensions. So as you see here, the Net Pension Liability that is reflected in the Financial Statements is about $337.7 million. To get this recorded in the current year and reflect this new accounting for the pensions, the Unrestricted Net Position of the County was adjusted for, to, by $348.6 million, thus showing this negative Unrestricted Net Position of $273 million. Let's see…moving on to Page 76. Along with the implementation of the new Pension Accounting, there was some modified disclosures that needed to be done. On Page 80, the disclosure here discloses the actual Pension Expense for the year. So this was a change in the Accounting for Pensions. In the past, the County would just recognize the contributions made to the ERS as the Expenditures to the Pension Plan. In, for the Fiscal Year ended June 30, 2015, the County recognized Pension Expense of about $37.7 million, in comparison to the actual contributions made to the Pension Plan that year of 30.2 million. I also want to point out on Page 92 to 93, this is actual disclosure of the implementation of that new accounting principle and how that affected the Net Position of both the government activities and business-type activities. That was the main changes made on the County's CAFR this year. I guess I can take any questions on the CAFR at this point.

CHAIR HOKAMA: Okay, thank you for that, Mr. Isobe. Mr. Victorino, questions?

COUNCILMEMBER VICTORINO: Not at this time. I'll allow others to ask first. I'm a little behind in this one. Thank you.

CHAIR HOKAMA: Mr. Carroll, questions? Ms. Baisa?

COUNCILMEMBER BAISA: Not at this time. Thank you.

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Not at this time, Chair.

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Thank you, Mr. Isobe, for your comments. So this was, this was all being done because of the new GASB requirement, number 68, right?

MR. ISOBE: Correct.

COUNCILMEMBER COUCH: Is that right? When you say, net position at the beginning of fiscal year, the year as restated, is that the amount of actual cash we have or, I'm not quite sure what, you know, you have the as previously reported and then restated. What's…

MR. ISOBE: Okay, so the net position at the beginning of the fiscal year was, I guess, what was reported in the prior year CAFR. Along with the adjustment for the Net Pension Liability, I guess, recording that new GASB, was also a little prior, another prior period adjustment for the recognition of some revenue. So there is another adjustment that was made in there. But if you look on, back on Page 39, we have adjustments, well, it has the breakdown of your Net Position at yearend. So when you look at your total Net Position of $560 million, you have $760 million of that invested in Capital Assets or your infrastructure and your buildings. And you also have some other Restricted Funds that are restricted for different purposes, whether it be Capital Projects, Highways and Streets, and what's remaining there is, I guess, what's left. And at this point, by having to record this liability, you have a deficit in Unrestricted Net Position, or what's left.

COUNCILMEMBER COUCH: Okay. Sort of think I got it. Thank you, Chair.

CHAIR HOKAMA: Well, if you need more questions, Mr. Couch, that's why we have the auditors here. Ms. Crivello?

COUNCILMEMBER CRIVELLO: Not right now, thank you.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. The Net Pension Liability is clear. Can you point me to where we are reflecting the EUTF liability for the Post-Employment Healthcare?

MR. ISOBE: So the current accounting for the, your EUTF funding is under a different standard and, currently, I think you guys reflect that as the Annual Required Contribution or what you guys are required to contribute to EUTF on an annual basis. That liability isn't reflected in your balance sheet yet. There's a new standard that's coming out, well, it has come out, and it's not yet effective for reporting purposes. Currently, the County reflects, actually, a prepaid amount into EUTF at this point at yearend. It's at Page 83. You have your computation of what your annual required contribution or your ARC is, and it computes out your annual OPEB cost of 28.2 million and it reflects the contributions made of 28 million and what you had already prepaid at the end of Fiscal Year '14 or 3.44 million. So you end the year with a actual net OPEB asset of 3.3 million.

VICE-CHAIR WHITE: Okay, so when will we have to reflect those in our balance sheet, the total EUTF liability?

MR. ISOBE: I believe it's Fiscal Year '18, it will be reflected.

VICE-CHAIR WHITE: Okay, thank you. I had thought we were having to report both of them but it's nice to know we have a little more time. Okay, thank you. Thank you, Chair.

CHAIR HOKAMA: Okay, thank you. Gentlemen, on Page 22--and thank you for bringing, highlighting that page out, under your financial highlights--under your last bullet point, number 5, I find it interesting, this 5.3 million increase in Accrued Pollution Remediation Offset by a decrease of 4.8 million in Landfill Closure and Post-Closure costs. You know, a few weeks ago, in our Committee meeting chaired by Ms. Cochran, if I recall correctly on information given by our brand new Director of the Department, your data seems, that 2015-'14 was very insignificant as we're told and yet your CAFR report to us states about an average of 700,000 plus per year for violations and penalties. I'm just trying to figure out what is the accurate situation of our Department because that is not what we understood at, I believe, the middle of March meeting that Ms. Cochran held with the Director. Can you give us some comments on that, Mr. Isobe?

MR. ISOBE: Okay. So, actually, Page 20 through 37 is actually managements, management prepares and response, I guess, gives highlights as it relates to the financial highlights of the County. Within the CAFR itself, on Page 74, this is a breakdown of your long-term obligations here and within this note it was something that was recorded during the current year of the accrued Pollution Remediation of $5.27 million. This was based on information given to us based on a study done to remediate the Hana Landfill.

CHAIR HOKAMA: Okay, well, we definitely will follow this up when we bring the Department forward. We need, we want, I want answers on this. Mr. Victorino, questions, sir, for the auditor, auditors --

COUNCILMEMBER VICTORINO: No. Nothing at this point.

CHAIR HOKAMA: --or Mr. Agsalog as our Director?

COUNCILMEMBER VICTORINO: Well, no, thank you. And I think your questions, along with those that were asked by others, have covered some of the points that I were…there's a lot in this document and even reading over it was kind of…you almost have to have an accounting background to really get the gist of this, yeah. And, unfortunately, that makes it so difficult for the public to understand but I think if I read, overall, I see some improvements and, where, seems to be moving in the right direction, especially in our retirement system and pension plans so, but I want to thank you for this great report. I just, I beg to differ, after ten years, I still have a difficult time following every issue but I think I got the picture. Thank you very much. Thank you, Chair.

CHAIR HOKAMA: Thank you. Mr. Carroll, questions? Ms. Baisa?

COUNCILMEMBER BAISA: Chair, the part of the audit report, of course, that always intrigues me and that I like to spend by time on, is looking at the findings, if there's anything significant and looking at the corrective action that is being done or is being planned and I think that's pointed out fairly well in here so I'm okay.

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

COUNCILMEMBER COCHRAN: Chair, thank you for noticing the discrepancy maybe in the numbers and what, you know, we were told during my Committee and then what's written here so looking forward to the follow-up. I guess, we'll be getting more, a detailed look into that. So thank you for bringing that point up but nothing at this time, Chair. Thank you.

CHAIR HOKAMA: Okay. Mr. Couch? Ms. Crivello? Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. On Page 62, note number 3 regarding receivables, we have Real Property Taxes that remain a receivable of 7.8 million, we have Sewer charges of 2.3 and Landfill charges outstanding of 3.8. Are those as a percentage of the revenues collected in those three funds, are those reasonable amounts that you feel are reasonable percentage of revenues or should we be concerned about any one of those accounts being lackadaisical in collections?

MR. ISOBE: I mean, we do work on the receivable balances and reviewing the collectability of those receivables. Now, whether it is a allowable percentage of, your receivables outstanding is a percentage of revenues, I guess that's a management call, whether or not that's something you guys are going to push on to collect on the receivables. Let's say, like your Real Property Taxes outstanding, that kind of stuff, you guys have ability to put liens on properties in order to collect these Real Property Taxes. So the collectability there is not a major issue when we looking at those receivables. On your Intergovernmental or your larger receivables of 13.2, a lot of that monies are all either due from the Feds or due from the State on your grants there. So a lot of that we know is pretty collectible. Now on your Landfill charges and your other major funds that are sitting there, there is an allowance that management has set up to allow for the un-collectability of some of that amount of $451,000. So, I mean, I'm not sure that answers your question.

VICE-CHAIR WHITE: No, I was really looking more for your sense of whether this is what you see in other organizations or whether, you know, from a benchmarking perspective, are these percentages reasonable? I wasn't really looking for a evaluation of whether they're actually collectible.

MR. ISOBE: Okay. Sorry, I mean, I would have to get back to you that.

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

CHAIR HOKAMA: On those receivables, Mr. Isobe, do we follow the policy of repayment within one year of the cash advances? We use General Fund cash in advance of floatation of the bond and they're supposed to be repaid within one year of the advance, you stated on Page 63. So out of that 27 million, more or less, of receivables, are we replenishing our cash pot within the appropriate time or am I losing out on interest I supposed to be earning on my short-term portfolio? Mr. Agsalog, if you…please?

MR. AGSALOG: Good morning, Mr. Chair and Members. I think your question is our ability to loan General Funds and Water Funds to the General Obligation Bond. That's our internal one and it's not the one uncollectible or receivable. We do replenish it as soon as we float the bond, Mr. Chair. Those, as our ordinance requires, we are, as soon as we sell the bond, we return the General Funds or the Water Fund Bond, funds into those funds.

CHAIR HOKAMA: What happens on the years we don't go out and float?

MR. AGSALOG: I think the provision in the ordinance, Mr. Chair, I cannot do it verbatim, but I think it's one year after the project went to service or 24 months of we borrowing the money to the General Fund. I could review that provision again, Mr. Chair, and I'll get back to you.

CHAIR HOKAMA: Okay.

MR. AGSALOG: But I think I can almost assure you that we are following that provision of our Budget ordinance.

CHAIR HOKAMA: Thank you, Mr. Director. Gentlemen, Ms. Baisa brought up a very good point. One of the things that we also take seriously is the management letter, your recommendations, your findings, your comments on how to address those potential areas that we would need to one, I think we should be at least recognizing the areas that our Department does good work in because there's many areas our Department and our people do good work. But for this Committee, we're interested in also some of the areas of weakness and how we can support the Department in addressing those weaknesses and getting it off a management consideration. So can you give us some comment, Mr. Isobe, regarding those management concerns or issues that we should be aware of?

MR. ISOBE: The Single Audit findings and the Management Advisory findings *. . .(inaudible). . .*

CHAIR HOKAMA: Yeah, I mean, I know it's more of the Single Audit but is there anything in the CAFR component you guys want discussed from an auditor's standpoint? 'Cause if not, we're going to move on. I'm not going to file this, so this is going to be kept in Committee in case we need additional discussions --

COUNCILMEMBER BAISA: Good.

CHAIR HOKAMA: --later. So are your folks done? Any other questions you would like to present regarding the CAFR?

COUNCILMEMBER BAISA: No.

COUNCILMEMBER COCHRAN: Chair?

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Chair, one of the testifiers brought up, and I do have highlights in my version, in regards to proprietary funds and the meaning and how that's applied. I believe it was the same question that was brought up last year, and for some reason, I guess, it hasn't sunken in to be clear of exactly what that is and I'm on the page trying to decipher it also.

CHAIR HOKAMA: Can you give the auditors a page reference?

COUNCILMEMBER COCHRAN: Fifty-one.

CHAIR HOKAMA: Fifty-one, thank you. Mr. Isobe, if you could try and address Ms. Cochran's …

COUNCILMEMBER COCHRAN: Note one and it goes down into proprietary fund and it sort of breaks down, and, I guess, in regards to the Department of Water Supply in particular. And that was the question on the floor, that public trust, so how does this fit in to something that's considered a public trust? And I'm seeing that perhaps it's in regards to the services that we provide through the Department to, the service to the community, that collection we take for the service is what, basically, this fund is, or if you can clarify, please?

MR. ISOBE: Correct. So a proprietary fund is just a accounting term for how these funds are accounted for and reported within the financial statements. So, mainly, the proprietary funds are business-like activities. I mean, they sell services or they're collecting revenues for services provided and they have operational costs so the treatment of the proprietary fund and the revenues and expenditures are, I mean, just for accounting purposes, that's how they're treated.

COUNCILMEMBER COCHRAN: Okay. Yeah, okay, it's kind of like what I explained a little bit in my own layman's --

MR. ISOBE: Yes, correct, correct.

COUNCILMEMBER COCHRAN: --non-accounting terms.

MR. ISOBE: Correct.

COUNCILMEMBER COCHRAN: Okay, well, very good. And, I guess, there needs to be a way to categorize that type of funds that we take into that Department, so.

MR. ISOBE: Correct.

COUNCILMEMBER COCHRAN: Okay. Well, very good, thank you. Hopefully that explains concerns, I guess, that been heard in the community too, Chair. So I just wanted to clarify that for not only myself, but for the testifier and public. Thank you, Chair.

CHAIR HOKAMA: And, again, when we take it up, we take it up as special funds, those three components, Water, Golf Course, the Housing component, yeah, we put it under a special funds category, so. Some guys use proprietary but it's separate pots with dedicated purposes. Additional questions, Mr. White?

MR. AGSALOG: Mr. Chair?

VICE-CHAIR WHITE: Yeah, just one other.

CHAIR HOKAMA: One second, please, Mr. White. Yes, Director?

MR. AGSALOG: Just to be clear on this proprietary funds --

CHAIR HOKAMA: Yes.

MR. AGSALOG: --all the type of funds are also described as in the book. So this particular Comprehensive Annual Report has to be read in entirety for one to understand. If they just take a portion of it, it would be very, very difficult for them to understand. So it has to be read from the letter of the auditors until the end so that you can see, because on Page 25 of your book, it describes what a proprietary funds and all the funds that we have described in this book. So I really appreciate the N&K because they put a very good book together for us. But, again, it has to be read in entirety. You cannot just do it like a bible that go to a certain area and it explains. It has to be in entirety.

CHAIR HOKAMA: Thank you, Director. Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. Yeah, I think it's clear that the term "proprietary" applies to the funds, not the water. So the question, other question that I had, was on Page 40, it lists the expenses and how they're, whether they're covered by Charges for Services or Grants, Operating Grants or Capital Grants, and Mr. Isobe may not have an answer to this question, but of the 423 million that we are showing as being utilized during that year, 153 million, or about 36 percent of that, is for charges, or is funded by Charges for Services or Operating or Capital Grants. And I'm just wondering if that 36 percent ratio is something that we should be comfortable with or whether there's any perspective that they could share with us whether that's a low amount compared to other governmental entities or whether that's a reasonably high amount?

CHAIR HOKAMA: Mr. Isobe?

MR. ISOBE: On these kinds of items, it's not something where, I mean, we can provide insight. I mean, we're historians and we can tell you what, I guess, what has happened. And it really depends on, I guess, the type of services and the county itself. All of 'em will differ, I mean, if you're looking at Big Island or Kauai or Oahu, I mean, Honolulu County, I mean, the types of services and what needs to be provided to the citizens or, the mix is going to be different. So it'd be a lot harder to compare, like Honolulu or Big Island to Maui County.

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

CHAIR HOKAMA: Okay, any other questions for either Mr. Isobe, Mr. Bautista, or even Mr. Taguchi?

COUNCILMEMBER VICTORINO: Mr. Chair?

CHAIR HOKAMA: Mr. Victorino?

COUNCILMEMBER VICTORINO: Yeah, one, and a, hopefully, simple question. And sometime simple questions can be real difficult. When I, when you look at this report versus the previous year and the previous year--I have '13, '14, '15--I see progression but my idea of progression may not be, what I asking you is, do you find us, the way we're doing most of this--and I read the report, your report, so I see the weakness but they're not that glaring like it used to be. Do you feel we're in a very strong financial position in what and how we do it? I told you was not going be one easy question, no jump back two feet. Mr. Isobe, please, you're an independent, so that's why I ask you this question.

MR. ISOBE: I mean, as it relates to your Department of Finance and, I guess, what they put together as it relates to the financial schedules and the information that they provide to us and, you know, our ability to conduct the audit, I mean, for us, it's been good. I mean, we've had good relationships with them and I think they provide us the right information. When we need to meet with whoever throughout the County, the different departments, they're very open and they provide us everything we need. I believe we have access to everything that we actually need to to conduct the audit efficiently and timely.

COUNCILMEMBER VICTORINO: Well, thank you. And I think, Mr. Chair, that the public should understand that, the transparency when it comes to our financial position with an independent auditor is there. Now, we always can make improvements, you and I both know that, but I believe the Department, from looking back '13, '14, '15, I see the right direction, improvement. So thank you for that clarification and thank you, Mr. Chair, for allowing me to ask that question.

CHAIR HOKAMA: Yes, thank you, Mr. Victorino. The Director and I have had discussions about the overtime and whatnot for this annual required report. So, yeah, I am looking forward to the Director making appropriate internal adjustments for the preceding reports. I'm going to also ask Mr. Taguchi, maybe, if he would come up and say a few words more about the role the County Auditor plays in the securing of the independent auditor and the responsibilities of the CAFR because the County Auditor still has some responsibilities as part of this process. So, Mr. Taguchi, why don't you just give us some comment about your specific role? I know it's not as much as the independent auditors but you still have a responsibility as part of the CAFR.

MR. TAGUCHI: Thank you, Chair Hokama. The Office of the Auditor's role regarding the annual audit is to provide for the procurement. So we procure a third-party auditor over, on a contract, to perform this audit. One thing to note is that the financial statements are the County's financial statements. They're not the auditor's financial statement. Basically, the auditor is here to audit the work and come up with an opinion and that opinion is that, whether the financial statements appear fairly or not. In this case, they have opined that it is a clear, there is, it does reflect fairly for the County of Maui. In terms of the financial statement, I think Member Victorino is correct, it's very difficult to understand because of the all the complexities that's required because of the different types of government pronouncements. If I were to sum up this particular CAFR, I would say that the major change in this CAFR is the requiring the, that we recognize the unfunded liabilities for pensions. So, basically, the liability existed but it's the first time we have to put it on the face of the financial. So what happened? If you look at the financial statements, we accrued over a $300 million unfunded liability. What does that mean? That means our long-term liabilities had a significance [*sic*] increase, so much so that it took away all of our unrestrictive earnings. In other words, if we took all our assets and subtracted the liabilities, the remaining amount became far less. Once again, these liabilities existed for a long time because we weren't fully funding the pension and the health benefits.

So as Mr. Isobe said, in 2018, we're going to have to accrue the unfunded Health Fund liability. Currently, I think at the last actuary report, for County of Maui that's about 300 million. So when 2018 comes, we're going to accrue 300 million. That will turn our equity negative. In other words, we would, at that time, have more liabilities or more debt than assets. Yes, it is something that many, many governments face. There are some municipalities in better position than us. There are some municipalities that are in worse position than us. But the fact of the matter is that these are real notes. These are real liabilities that will need to be addressed at some form, some form or fashion moving forward. I think the biggest thing about this CAFR is the recognition to see how it looked on the financial statements and the impact is quite large. But I think that's my major comment on the CAFR, you know, 'cause there's a lot of other things in here but the biggest change to me was the accrual of the Pension Liabilities.

CHAIR HOKAMA: Thank you, Mr. Taguchi, for those comments. And, again, this is part of the requirements of GASB 68 and the auditors know it, we know it, the Feds know it, the bond rating companies know it. Okay, so this is not going to shock anybody in the financial world. They are aware of financial statements and how it was booked and how we are going to book in the future. But for your Chair, it is still a structural imbalance I don't like, showing a negative number. So having saying that, it's going to be a long journey this session because your Chair is going to propose steps to eliminate that negative number. So, how we're going to approach borrowing --

COUNCILMEMBER BAISA: Chair?

CHAIR HOKAMA: --and everything is all …

COUNCILMEMBER BAISA: Can you use your mic?

CHAIR HOKAMA: Oh, I'm sorry, thank you --

COUNCILMEMBER BAISA: Thank you.

CHAIR HOKAMA: --Ms. Baisa. So saying that, my unhappiness with the deficient structure, borrowing is going to be a big topic for your Chair, how much we will consider to borrow. But that'll be when we hit that point in time, but I appreciate the auditor and Mr. Taguchi, our auditor, bringing up this big point because it's a number that we didn't have to show before but we're going to show and it's not a good number for me, okay, that minus $250 million. Further questions for the auditors on the CAFR? If not, we are then going to move on to the Single Audit Report. So, Members, one last time, any further questions on the CAFR? Or, Mr. Agsalog, do you have any additional comments you'd like to share, sir? We're happy to allow you to share some comment on the CAFR if you wish.

MR. AGSALOG: Mr. Chair, I didn't have the opportunity to thank the Principal of N&K, Mr. Blake Isobe and John Bautista here. Of course, the County Auditor and I really appreciate them too because they were our liaison with our staff. Their staff are very professional. A lot of people don't know that but they camp in our department for the six-months period and I also would like to recognize our staff, Mr. Chair, because --

CHAIR HOKAMA: Thank you.

MR. AGSALOG: --you know, without the N&K staff and our staff, this book doesn't exist today and what I really appreciate is their working relationship between their staff and my staff and I want to introduce them, if you don't mind, Mr. --

CHAIR HOKAMA: Please.

MR. AGSALOG: --Chair?

CHAIR HOKAMA: Please.

MR. AGSALOG: I have Ms. Dawn Winter over there, our Internal Control Specialist. Please raise your hand, Dawn. There you go. Mr. Jack Kulp, our Investment Officer. They have hands in putting all of this thing together. I really appreciate that. Ms. Holly Ho--she's not our, my staff, but she really work with JP at the Water--so Ms. Holly Ho, our Fiscal Administrator at Water, Mr. Chair. Of course, our Deputy Director there, he have so much put into this book, going back and forth with Mr. Isobe on the review time so, again, my Deputy Director, our Deputy Director, I really appreciate him, a lot of sleepless night to do, put this thing together. We have Ms. Ortaine Acidera there in the blue, raise your hand. She is our Ledger Supervisor, Mr. Chair. Her staff work lots of overtime to work with Mr. Isobe's staff, that stay here until about 9-10 o'clock at night during those crunch time. And, of course, we have Mr. Greg King, our Purchasing Administrator. He also bring a lot of documents for the auditors to review and I really appreciate it. And, of course, our able Assistant Administrator at the Accounts, Mr. Chair, Ms. May Anne Alibin. She came today--she's under the weather--but she came today just for this so I really appreciate her. So thank you, Mr. Chair. And, again, my big mahalo to the County Auditor's Office for bringing us all together. They are our referee, by the way. So thank you.

CHAIR HOKAMA: Thank you, Mr. Director. Okay, if we have no further questions on the CAFR at this time, may I direct you then to BF-9(2), which is the Single Audit Report. And I'll ask Mr. Isobe for his opening comments on the Single Audit Report.

ITEM 9(2): SINGLE AUDIT REPORT (FISCAL YEAR 2015) (CC 16-49)

MR. ISOBE: Okay, so the Single Audit Report, actually we issued two reports within the Single Audit Report. The first report appears on Pages 5 to 6. This is our report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards. So on Page 6, we actually note here that we did note some significant deficiencies in internal controls that we have findings on and this is similar to the prior year where we did note some findings. And so we can touch on those in a little bit. The second report we issue is on Pages 8 through 11. Here we're reporting on compliance for each Federal major program and on internal control over compliance. We also report on the Schedule of Expenditures of Federal Awards. On Page 9, here's, this is our opinion on each of the Federal major programs and, I guess, the one change here this year is that we actually issued a qualified opinion on the Section 8 Housing Choice Vouchers Program. There is one compliance requirement within the program that we felt that, I guess, Finding No. 2015-012, on the reporting compliance requirement, in which we felt that the County did not materially comply with this requirement. Further down this page, we did issue unmodified opinion on the remaining two programs. And on Page 11, this is our report on the Schedule of Expenditures of Federal Awards. Here we state, at the last sentence, that in our opinion, the Schedule of Expenditures is fairly stated in all material respects. Pages 12 through 17 of this report is that Schedule of Expenditures of Federal Awards. And on Page 17, the County expended approximately $46.9 million in Federal Awards, this is down from 61.3 million in Fiscal Year 2014. A main change here is the decrease in the expenditure of EPA funds. I guess just the classification that Department of Health, from the State of Hawaii, classified the funds that were being received as State funds versus Federal funds and, therefore, not included in the Schedule of Expenditures of Federal Awards but that was the main decrease. In 2014, the Federal Expenditures for your EPA funds was 16.7 million and in the current year it's only 4.7 million so that's, majority, that's the decrease in your Federal Expenditures. On Page 23 of the Single Audit Report is the Summary of the Auditor's Results. Here is a summary of the audit, both on the financial statements and on the Federal Awards. As noted on the top of the page, we did issue a unmodified opinion on the financial statements. We did not note any material weaknesses but we did note significant deficiencies in internal control. We also, going down to the Federal Awards, we did note a material weakness and significant deficiency for your Federal Awards. I guess, toward the bottom, you note, we note that there is, the three Federal programs that were audited as major programs this year, is that Section 8 Housing Choice Vouchers, Highway Planning and Construction, and then the Capital Grants for Drinking Water, State Revolving Funds. Those are the three major programs. Before I go into the findings, I guess, were there any questions?

CHAIR HOKAMA: Members, questions? Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. At the bottom of Page 23, there's a question, auditee qualified as a low-risk auditee and the answer is no. My recollection is that last year, the answer was yes. Is that correct?

MR. ISOBE: I believe it was no last year too. So the qualification for low-risk auditee is based on findings noted in the prior year. So if there is findings on major programs and whatnot, then the auditee does not qualify. So right now, I believe the 2014, 2013, there were significant deficiencies noted on the Federal Awards side; therefore, the low-risk qualification isn't met.

VICE-CHAIR WHITE: Okay. And for the Director, do you recall when it was the last time that we were qualified as a low-risk auditee?

MR. AGSALOG: Mr. Chair, I think as soon as I came here, we weren't low-risk. We are already, have some findings on our --

VICE-CHAIR WHITE: Okay.

MR. AGSALOG: --significant findings in our grants.

VICE-CHAIR WHITE: Okay, thank you.

COUNCILMEMBER VICTORINO: Chair?

VICE-CHAIR WHITE: And I'll let the others ask. I've got a couple more questions.

CHAIR HOKAMA: Okay, thank you. Mr. Victorino, questions --

COUNCILMEMBER VICTORINO: Thank you.

CHAIR HOKAMA: --for…and you can ask questions for any resource person.

COUNCILMEMBER VICTORINO: Anybody, okay, thank you. And I do have the 2014 in front of me and it did say no, auditee qualified as a low-risk, so you're absolutely correct in that respect. I was curious on the State Department of Health changing of what they considered EPA money that is now, not Federal, but State. Are they changing it because of the requirements for pass through or was it just changed because they felt it was more appropriate? Because, really, it's still EPA money going to the State then coming to us through the Department of Health ‘cause the Department of Health manages everything for District 9 for the EPA here in Hawaii. So with that being said, I'm curious why that changed and did we lose or did we retain the same amount of money because where then would I look for that portion? Because now it's a substantial drop in what we received from the prior year of 61 versus 49 or whatever it was. So would you explain to me if you know why that was changed and how that affects us here in the County of Maui?

MR. ISOBE: So the Department of Health maintains this big pool of money, the State Revolving Funds money, that, I believe, I mean, you guys must be familiar, you guys do make loan repayments on these Drinking Water and Clean Water funds. So there is, there has been loan repayments to the State and this fund continues to grow. The Feds continue to fund different amounts of monies to the State to do these different projects. Now, what and how the Department of Health is managing that fund and what they continue to, I guess, divvy out, whether it be their Federal portion or the State funds, it still maintains its compliance requirements. It needs to be used for qualified projects and it still carries the, I guess, different, I guess, a lower interest rate and there's a servicing fee, but it's just how the Department of Health itself is managing those funds.

COUNCILMEMBER VICTORINO: So if I'm correct in hearing what you just said, the Feds put in money, the State loans this money out. When the State gets repaid, then the State takes the credit if they use that money again as State money, not Federal money. Is that what I heard you say?

MR. ISOBE: Correct. So that monies must --

COUNCILMEMBER VICTORINO: Stay in the fund.

MR. ISOBE: --stay in this revolving fund.

COUNCILMEMBER VICTORINO: Yeah, right, got it.

MR. ISOBE: So it continues to go in and out, in and out. And, I guess, only a few years back when ARRA came out that they were actually granting out more and more of the funds because the fund had built up.

COUNCILMEMBER VICTORINO: Right. So, okay, so that's, was the cause of this substantial drop in what we consider Federal funding versus State funding. We may get the same amount or maybe more but because it's revolving fund money that has been paid back, the State now takes the credit, oh, this is our money and we're lending you our money, not Federal money, but, in essence, it was Federal money that started this all and they're paying back, buy anyhow, let's not get confusing, I don't think the public wants to hear that. But in other words, we still are able to tap this fund for as much money as available and we could get the same amounts or more, depending on what's in that fund?

MR. ISOBE: Correct.

COUNCILMEMBER VICTORINO: Okay, thank you. Thank you, Chair, for letting me get clarification on that matter.

CHAIR HOKAMA: Okay, thank you. Mr. Carroll, questions? Ms. Baisa?

COUNCILMEMBER BAISA: Thank you very much, Chair. And, of course, I'm interested in the qualified opinion. It always is something that, you know, we want to take a good look at. I'm, like to hear a little bit more about the concern about the Section 8 Vouchers.

CHAIR HOKAMA: Mr. Isobe?

MR. ISOBE: Okay. When we get--I guess we could go over that finding, it's 2015-012. So that begins on ...

CHAIR HOKAMA: You know what, Mr. Isobe, why don't, before you respond to Ms. Baisa's question--and we will get to your question because we're going to get more into the findings now when more specific questions, I want to give Director Agsalog a opportunity, if you wish, Director, any comments on the Single Audit Report that you'd like to share at this time? I'm happy to give you an opportunity to share your thoughts if you wish to.

MR. AGSALOG: Again, Mr. Chair, it's a very similar comment that I have with the CAFR. I really appreciate the working relationship that we have put together with N&K staff. The findings reflects some of our lack of resources, as you would see a little bit later on, and I think the Principal of N&K will be able to make us understand where we can improve and we are willing to work with you in getting all this findings taken care of. There are some that are easier to do then there are some that's a little bit more difficult and it takes a little bit more resources to do, but my team, my staff, are willing to do this with you. So, again, we going to go through it and if you guys have any suggestions as a Committee for us to do, we are willing to work with you, Mr. Chair.

CHAIR HOKAMA: Thank you very much, Mr. Director. Mr. Taguchi, as our County Auditor, you have anything you want to share at this time on the Single Audit Report? We give you your opportunity to share your thoughts with the Committee.

MR. TAGUCHI: Thank you, Chair Hokama. Basically, the, I guess, the most major finding of the Single Audit Report is the qualified opinion on Section 8 Housing. It's not too often that you will see a qualified opinion on this type of audit so I'm sure that Blake Isobe will clearly explain why the opinion was qualified. Just to be clear, the opinion is the opinion of the auditor in terms of when they audit these grants. So it is his professional opinion that it was significant enough to qualify the opinion. So I'm not exactly sure the ramifications of the qualified opinion in terms of what it's going to mean to Section 8 Housing. I think the Department probably has a better handle on that but it is what it is, it is a qualified opinion. I think that is probably the most major finding in this Single Audit Report. There are various other findings, some of which are repeat and some, I think there's a couple new ones, but, to me, the most significant finding is the qualified opinion on Section 8.

CHAIR HOKAMA: Okay, so why don't you or Mr. Isobe, so there's good understanding, tell us the difference between a qualified and an unqualified opinion so we know what Mr. Isobe will be responding to Ms. Baisa's question. So can you explain the difference between those two?

MR. ISOBE: Okay, so an unmodified opinion on the compliance means that the directed material compliance requirements of the Federal program, we feel that the County would, has materially complied with those requirements. This qualified opinion, and it relates to a specific compliance requirement that we feel that the County didn't comply, materially comply with, and that's the basis for the qualification. And so within that qualified opinion paragraph, we state that…sorry, let me get to that…the Section 8 Housing Choice Vouchers Program as described in Finding 2015-012 for reporting. The reporting compliance requirement that we, when we were looking at it, we didn't feel that the County complied with that requirement and, therefore, we qualified our opinion on it. And, you know, we have issued qualified opinions on different Federal programs for, you know, when we've done work for the State and I think it's not that uncommon. There is instances where, you know, a qualified opinion will come out once, you know, the auditor's judgment and what they feel is non-compliance, could qualify that opinion. Things such as material question costs in cases where there is amounts that were spent in, not in compliance with the program requirements, that could qualify a program, qualify the opinion on a Federal program, so.

CHAIR HOKAMA: Okay, thank you. So, for Ms. Baisa's question then, do you need something more specific, Ms. Baisa?

COUNCILMEMBER BAISA: I would like to know a little bit more about the details and I'd certainly like to hear what our staff's reply is to it.

CHAIR HOKAMA: Mr. Taguchi? Mr. Isobe?

MR. TAGUCHI: Chair Hokama, I just wanted to mention that within the finding that will be transmitted, there is the management response section. In that instance, the department has taken some proactive action, you know, just to be clear. They've, and you'll see that in their response.

CHAIR HOKAMA: So, Mr. Taguchi, you know, when, I mean, you have it so clear in your mind, yeah. When you say, department, for us, we're not sure whether you talking about Finance Department or Housing and Human Concerns Department. So if you can help us, be real clear?

MR. TAGUCHI: I'm sorry. It's the Department of Housing/Human Concern, Housing Division. They have taken some proactive action on it and it's in the report itself. So I don't want to give you the impression that it's like dire. It's just something that I personally haven't seen very much of. Like Blake said, you know, he's seen it before. But I'm just responding from my perspective when I looked at the Single Audits that I've been associated with.

COUNCILMEMBER BAISA: Chair?

CHAIR HOKAMA: Ms. Baisa?

COUNCILMEMBER BAISA: Chair, the reason I asked the question is because they started this review of the Single Audit off mentioning that it was a qualified report and particularly pointing out this finding. So I thought it was because, although it's in the book, the public is not looking at this book. What they hear is what they hear so they're saying, oh, there's something really wrong. I want us to give the opportunity to talk about exactly what this is and how it's being fixed and that's where I'm going.

CHAIR HOKAMA: Okay. That's very fair. So, Mr. Isobe, please?

MR. ISOBE: Okay. So Finding 2015-012, that's on Pages, on Page 39 to Page 40, describe the finding. The Section 8 Housing Vouchers is a program run by the U.S. Department of Housing and Urban Development and they have a lot of reporting requirements. They have this Voucher Management System, or VMS, and what they require us to do is submit through this Real Estate Assessment Center, or REAC, is a financial snapshot of their, the Section 8 Housing Program. They actually also submit for the HOME Program, too, and in that case, that didn't fall under this finding but for the Section 8 Housing Choice Vouchers Program, they're required to submit this data and this data needs to reconcile and tie back to the financial information of the County. Now when we were trying to get the information and look at how they were supporting that information that was being submitted to HUD, we found a lot of errors and we found instances where we were unable to get support for some of the reconciling items that were going from the County's General Ledger to what was submitted within the Section 8 REAC Report. I know there was some turnover. We worked with different people in the prior year and, I guess, during the current year, when we were trying to get the information, I know they were trying to get new people in, but we were having a lot of difficulty getting that support. I know subsequently to, I guess, trying to get this done, there is a 60-day transmittal requirement that they needed to get the information in, so I'm not sure if that was due to rushing or whatnot, but that information was then revised and I can say that by March 31st, which is the ultimate deadline to HUD, they have corrected the information and have submitted and we've worked with Department of Housing and Human Concerns to, I guess, rectify this issue. But, I guess, during the audit and, I mean, when we looked at the data that they initially submitted and what HUD had gotten as initially submitted, I mean, we were lacking reconciliation, we were lacking support, so in that case, that's the basis for our finding.

COUNCILMEMBER BAISA: Thank you. Chair, for me, that's the important part. You know, we do audits for a reason. We do audits because we know mistakes occur and we know that things sometimes are not the way they are but it's important when we audit and we find something, what I'm really wanting to know to is okay, we found something, did we fix it? And I'm satisfied. So thank you very much. I thought it was important.

CHAIR HOKAMA: Thank you. Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And I appreciate Ms. Baisa bringing this section up. It was my tabs and highlights also. And so hearing that there's the audit, it's discussed with the Department, so as what Mr. Taguchi was mentioning, the controls have been put in place. If I recall looking through the, that vast 920 pages of this current Budget, in this particular Department, I think one of their goals is to hone in on Section 8. And so my question to--I'm not sure who here 'cause I don't think Department of Housing is here in the gallery--what that entails 'cause I didn't get from that goal how it was going to address this per se. This almost seems like more internally, within the Department. I think the goals in the Budget is to reach out and educate people in regards to what the program is, how do you properly apply, how do you get qualified, what are, you know, things of that nature, I thought? But I'm not sure if Mr. Agsalog or whoever has been working in conjunction with Department knows a little bit more in regards to the Budget and what they're looking to do to address this finding. Thank you, Chair.

CHAIR HOKAMA: Director?

MR. AGSALOG: Mr. Chair? Thank you for the question. That's a very good question because our staff have been very, very active in reaching out to the Department. In fact, thank you for lending your Chamber last week for an IFAS training and it's my understanding that they had about almost 50 people attended from various departments. In this particular case, Mr. Chair, and I will just say this because I wanna thank Ms. Ortaine Acidera in the gallery there. For prior years, we have worked on this particular ones, working overtime to get it done in the manner that is acceptable to the program, the grant program, but, again, as Mr. Isobe mentioned earlier, there had some turnovers at the Department--when I say Department, it's Housing and Human Concern--and they have new people and the training part of it, as the training and the audit coming together, it was kind of burdensome for new people to at least provide those report that they need. We had tried earlier last year, Mr. Chair, to have an accountant housed in Finance for them to pay but that one has changed now. But they, I was told that they hired an accountant to be housed there and it's my understanding that this particular accountant that has been hired, has been trained with all the programs that they need to get this particular grant in order. And I wanna see how it will work out a little bit later on but our Department, the Department of Finance, is still willing to work with any department as far as the reporting is concerned, to our financial system because that's where we missing the reconciliation because our system, the IFAS system, is the reporting system that we have, not whatever the departments are using, so we need to use our IFAS system. So with that, Mr. Chair, I will ensure that our staff at Accounts will work with them and I see their response, the department response, Human Concern's response, to say that they are working on this particular one and they have even hired a consultant, Mr. Chair, and I think that is a great factor or component of complying on this. The consultants that have experience in this particular grant, I think will help us comply with the requirements of the grant, Mr. Chair.

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

MR. ISOBE: Yeah, I'll add to that, yes, the Department of Housing and Human Concerns brought in an outside consultant in February to--and they specialize in knowing exactly how this HUD reporting needs to go--they brought 'em in to help them, I guess, educate them on exactly what they needed to do and how to get this reconciliation process done. I spoke to the Director there and requested that, recommended that maybe they should bring this person in, or this company in to kind of help 'em again at this coming yearend so that, you know, we don't come up with this issue again and she agreed, so looking forward to it.

CHAIR HOKAMA: Thank you. Further ...

COUNCILMEMBER COCHRAN: Yeah, and thank you, again. Thank you, again, for the audit and Mr. Agsalog's information because it helps, you know, shed more light that yes, actions are being taken and controls are being put in place in order to address this 'cause this is a big one as has been shared this morning. So thank you for that time, Chair.

CHAIR HOKAMA: Thank you. Well, I would say, the auditor has been very open in his communication, as I understand it, to the various individuals in a department that they need to work with so I appreciate what our independent auditors have done from their side, reaching out and trying to find improvements sooner than later. So, yes, Ms. Cochran?

COUNCILMEMBER COCHRAN: One last thing. I noticed that in the first paragraph, that the audit does mention they are not a "legal" determination. So I guess, it's just like Mr. Agsalog and Mr. Taguchi said, it's opinions so not legal, so thereby Federal people can't go, hey, they said so and you're cut, you know, 'cause their opinion says blah, blah, blah but ...

CHAIR HOKAMA: Yeah, they're stating an official financial opinion --

COUNCILMEMBER COCHRAN: Right.

CHAIR HOKAMA: --on what is presented on our books as, is it fair and within the parameters of accurate is what their, that's what we've hired them to do. They're not giving us a legal opinion, that is Mr. Ueoka and Mr. Wong's job.

COUNCILMEMBER COCHRAN: Right, very good. And they're tools, right, as Ms. Baisa said.

CHAIR HOKAMA: Yes.

COUNCILMEMBER COCHRAN: We're looking within to see how we can improve upon what we're doing and so here --

CHAIR HOKAMA: Yes.

COUNCILMEMBER COCHRAN: --we have our professional people to, you know, put an eye to everything we do to give us, yeah, tools. So, thank you.

CHAIR HOKAMA: Thank you.

COUNCILMEMBER COCHRAN: Thank you for your detailed work.

CHAIR HOKAMA: Thank you. Mr. Couch, you have a question at this time?

COUNCILMEMBER COUCH: Just more on procedure for you.

CHAIR HOKAMA: Yes, sir?

COUNCILMEMBER COUCH: Are we skipping through on these?

CHAIR HOKAMA: I'm going to have, you know, Ms. Baisa brought up what I thought was one of the more priority issues from the Single Audit but I will ask the auditors to go through each of the various --

COUNCILMEMBER COUCH: Okay.

CHAIR HOKAMA: --findings. So we'll go through those.

COUNCILMEMBER COUCH: Okay.

CHAIR HOKAMA: Yeah. Ms. Crivello?

COUNCILMEMBER CRIVELLO: So, we're going to move into each section?

CHAIR HOKAMA: Yes.

COUNCILMEMBER CRIVELLO: Okay, okay. So just a little bit more clarification when we talk about noncompliance and what-have-you, but you also identified certain deficiencies in internal control that you consider to be material weakness and a significant deficiency. Can you kinda elaborate on that for us, please?

MR. ISOBE: Okay, so the one material weakness that we identified would be on the compliance side where we just went over this finding, yeah, and that's where, you know, a deficiency in internal controls is, let's say on the financial side, the people doing their work in their normal course of work will not, I guess, prevent or detect a misstatement from occurring in the financial statements and on the compliance side, will not prevent or detect noncompliance with compliance requirements. So, material weakness is where it's probable that it wouldn't detect a material misstatement. Now a significant deficiency is just deficiencies or a deficiency that, you know, how do you say it, it's important enough to merit the, those charged with governance and, therefore, we bring up those significant deficiencies to you. In the Management Advisory Report, there is findings that we just came across during the audit that we just felt that we would just communicate to you guys but didn't merit a significant deficiency within the Single Audit Report.

COUNCILMEMBER CRIVELLO: Okay, thank you.

CHAIR HOKAMA: Thank you. Mr. White, do you have a question you want to follow up on?

VICE-CHAIR WHITE: No, I'm ready to move into the --

CHAIR HOKAMA: Okay.

VICE-CHAIR WHITE: --other findings. Thank you.

CHAIR HOKAMA: May I direct you, then, Members, to Page 24 of the Audit Report. You will find reference number 015-001. This is under heading of the Internal Controls or Vacation and Sick Leave Records and this was placed under a significant deficiency. And part one of the issues that was brought up is Payroll Policies and Procedures Manual needs to be better applied throughout the County and the Department of Water Supply. So I'll ask Mr. Isobe if he has additional comments for the Members on this finding?

MR. ISOBE: Yeah, so during our testing of Accrued Vacation and Sick Leave, you know, there were instances where the application for leave forms, or, could not be located or was not signed by the employee. And, I guess, just to give you perspective, accrued vacation is a $32.7 million liability on the books of the County. So, you know, having proper support for these, the leave taken, you know, was something that we felt should be brought up.

CHAIR HOKAMA: Okay, thank you very much. Do you feel this is maybe a structural one, you know, something because of our current structure, that the structure is inhibitive of the application? You know, because for us, we also found issues with how each department does hiring practices and there's no standard practice, per se. Every department pretty much wings it on their own, whether it be on the makeup of a interview committee or selection criteria and whatnot. Is this something that we need be more aware of regarding a structure or a policy that we should house within a, let's say, Department of Management and make the MD responsible for application throughout all departments?

MR. ISOBE: That I'm not sure. I think, you know, the County does use these standard forms, this DF-1 and DF-2 for applications of leave. So there is a standard process that's in place. I think some of this stuff, it's maybe clerical where, you know, I guess, the importance of getting these things signed and, you know, maintaining the records properly is the case here, so.

CHAIR HOKAMA: For me, you know, it ends up being one potential financial burden, especially in certifying exactly what we have to pay out during a, either a death or retirement on benefits and everything else. So for me it's a cost item and it's a problem if I don't know what is my cost. So that's what I bring up. Mr. Victorino, questions under the Sick Leave/Vacation Leave findings?

COUNCILMEMBER VICTORINO: Yeah, thank you, Mr. Chair. And you bring up, you know, some very important points here. My question to you is, how many overall reports did you look in? A hundred, 200, 25? Because, again, 1 instance and 3 instance, but if looked at 1,000, I not saying that's good but, I mean, ratio-wise, works out very small. But if you only looked at ten and three were deficient, then that's a large number, Mr. Chair, percentage-wise. So, and that's what my question to you is. How many actual reviews did you, and obtained these numbers...I guess I'll wait until they discuss it between them. Go ahead.

MR. ISOBE: For the County's side, we looked at 40 employee records.

COUNCILMEMBER VICTORINO: Okay.

MR. ISOBE: And for the Department's side, of Water, we looked at 40.

COUNCILMEMBER VICTORINO: So each one was just 40?

MR. ISOBE: Correct.

COUNCILMEMBER VICTORINO: And so, out of 40, 1, and then the other side was 3? That's how you came with these instances of noncompliance?

MR. ISOBE: For the County side, there is that four, yeah. One instance where the form wasn't signed and three instances where the form couldn't be located.

COUNCILMEMBER VICTORINO: Okay.

MR. ISOBE: And then on the Department side, three instances, yeah.

COUNCILMEMBER VICTORINO: Okay, so if you did 40, that's 10 percent. That's quite a large number, Mr. Chair, you know, wasn't…okay, I'm glad you…so that the public understands that what you're looking at and from the Department's side, 10 percent from the County side and 9., almost 9 percent when you're looking at the Department of Water Supply, as far as deficiencies, right?

MR. ISOBE: Correct. But when we're doing our testing, we're looking at a period of time too. So when we're looking at their leave records, we're requesting their documents for, to support the leave taken and --

COUNCILMEMBER VICTORINO: Okay.

MR. ISOBE: --you know, they could have 20 leave requests --

COUNCILMEMBER VICTORINO: Right.

MR. ISOBE: --and in the instances where we can't support 'em, I mean, that's the findings that's noted.

COUNCILMEMBER VICTORINO: And so your period is what, for the year, for the fiscal year, for …

MR. ISOBE: We select pay periods out of the year --

COUNCILMEMBER VICTORINO: Okay.

MR. ISOBE: --and we try and get the support within that pay period. So in the cases that they have time off leave, whether it be sick or vacation, we ask for any supporting requesting documents.

COUNCILMEMBER VICTORINO: Okay, Mr. Chair. I just wanted to get, you know, a better handle on what these specifically means, you know, if it's really that bad or it's just, you know, you've done this random checks and here's what you found. Maybe we need to do more random checks or more, you know, specific checks to see how severe, if it is a severe problem, you know, I think that's another issue that we can discuss at a later moment but I just, you know, I just wanted to get a handle on this because it's important. If it's 10 percent of a random, then I'd like to go more specific, Mr. Chair, and see if that 10 percent continues to grow or diminishes because of maybe the time period that was requested by the auditor at that time. So that's all I was trying ascertain. So, thank you very much, Mr. Auditor, and thank you, Chair, for allowing me to ask the question.

CHAIR HOKAMA: I would allow Director Agsalog to work with the auditors to do what they can internally first under his management authority first before I would consider doing something more from a Council side. That I would allow the Director his opportunity to deal with his Department first. Mr. Carroll, questions on this item? Ms. Baisa?

COUNCILMEMBER BAISA: No, thank you.

CHAIR HOKAMA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And so on these instances, the people had actually taken the leave and you were backtracking to see if there was correlating paperwork to show they were properly signed off to take those leaves. So that means we did expend money for their paid vacation or sick leaves. As you stated, we have a 32.7 million liability and that, obviously, contributed to that dollar, that total, and now we don't really have backup, I guess, paper to verify, I guess, in a sense, but so in these instances, was there, could you figure out like a dollar amount that this would have added up to at all? Just a roundabout figure, I guess?

MR. ISOBE: That we don't have with us right now. But, you're correct, I mean, you, the payroll records reflect that they took time off but, I guess, the supporting request off saying that they did take that time off, was missing. So, I guess, if they were ever to question, I got paid vacation but I didn't take off and they wouldn't have that form to say, yes, I, you know, I took off. In the cases that the forms are missing, only the payroll record would reflect the fact that they have vacation taken and paid.

COUNCILMEMBER COCHRAN: Right. Okay. I mean, I see Mr. Victorino's point, too, in trying to determine the scope of this but I think one is too many. It's not a good practice. And I see there, we do have a, I guess, sorta operate Payroll Policies and Procedures Manual and in that particular manual, steps were not followed, obviously, signatures weren't gotten in order for these. So I think there's some type of standard that all departments should be paying attention to and following verbatim, really. But in this, in these instances, they were not so for this one, as in rectifying the issue, Department has been spoken to and worked something out to better address this so it does not reoccur?

CHAIR HOKAMA: Director?

MR. AGSALOG: Mr. Chair, thank you. Again, as I have mentioned earlier, we are always working with the Department and in this particular instance, we have our super meeting, a super user meetings for ADP that we conducted every three months, Mr. Chair, because our payroll system right now is kinda centralized and has the responsibility of the department, department heads. They are the one that know when their staff are taking vacation or taking off so we want them to take that responsibility and also, we have to have that opportunity to make sure that we can also look and audit their particular process. The policies and procedure, Mr. Chair, is, it's pretty new. We are getting it to them. We had rolled it out and as soon as everybody get a handle of this, every single one should be inputting their time if they have the ability to input their time, if they have their computers, and to have their supervisors approve it and I think that's what the auditor have seen. As far as the vacation that we were asking, we did not, in this particular four, we did not pay extra, it's the other way around that we, they do not have the supporting document that they are on vacation and as Mr. Isobe said, that they can come back and say, well, I did not take vacation but we paid them vacation, okay, so we expended their vacation without the DF-2 form to request for the vacation. So it's not that we lost money in it, okay. We took vacation from your earned vacation without you approving it, that's how that was.

COUNCILMEMBER COCHRAN: Okay. So, yeah, I wish when I worked in a hotel I could get away with that.

CHAIR HOKAMA: No, I understand what you're saying, Ms. Cochran, and it is an issue. Even if it happens just once, it's an issue. Banks don't close at the end of the day with their books not balancing. They have to balance, just like we gotta balance.

COUNCILMEMBER COCHRAN: Thank you, Chair.

CHAIR HOKAMA: So, again, I am going to allow the Director to do his internal adjustments first and if he needs assistance from the Committee and the Council, we can consider his request but I would like to allow the Director to utilize his authority to see if he can make his adjustments internally first. Mr. Couch, any questions? Ms. Crivello?

COUNCILMEMBER CRIVELLO: No, just a comment. In regards to this, I hope too, Mr. Director, that you will look forward into the neighbor islands or the outlying districts also as how this is handled. I've had several complaints likewise, you know, no employee signature or employee signature which is not the employee's signature. So I think those are some of the things that the internal controls have to improve on. Thank you.

CHAIR HOKAMA: Thank you. Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. Mr. Director, with this finding, have you taken any steps to look further into the records? I know they, the auditors, looked 40 NWDS or DWS and the County, you know, it doesn't mention which departments, but I agree with Mr. Victorino that 10 percent is a pretty high number. Have you done any further checking to see if there is a higher or lower percentage in a larger grouping?

CHAIR HOKAMA: Director?

MR. AGSALOG: Mr. Chair? I know my staff have run a report for the individual departments and whatever the result was discussed with the department. This was a internal check that we have done. I think it was shared with them about two months ago. As far as the percentage, Mr. Chair, I don't have that number right now. But we did run a report that my Assistant Administrator of Accounts have performed to make sure that we are working with the department and the result of that report was reviewed with the departments.

VICE-CHAIR WHITE: And was that report able to match, match up when there was a payment, whether the form had been filled out and signed?

MR. AGSALOG: I don't think it was the similar transaction of report that they have looked at. It's more of a, I think it was looking at whatever we have on a certain pay period that they run. And as far as the percentage is concerned, I won't be able to tell you, Mr. Chair, but I can ask them, that last report that we have reviewed with the department.

VICE-CHAIR WHITE: Okay.

MR. AGSALOG: It was just internal. That's why I couldn't get the documentation.

VICE-CHAIR WHITE: No, that's fine, thank you.

MR. AGSALOG: But we are very proactive in looking at this. We are very cognizance to the fact that right around 70 percent of our operation is payroll and we know that if there's any leakage anywhere, we need to detect it. And, again, this is a very important part of our Accounts Division.

VICE-CHAIR WHITE: Okay, thank you. If you could share the results of that review, I would appreciate it, Chair.

CHAIR HOKAMA: Okay. We'll help follow up on that request --

VICE-CHAIR WHITE: Okay.

CHAIR HOKAMA: --Mr. White.

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

CHAIR HOKAMA: We're going to take a short recess now. When we do come back, we'll finish up the findings and then go through the Water Supply's Financial Audit with our auditors and I want this all done before we do our lunch break. So please return at 11 o'clock for us to continue the review of the audits. . . .*(gavel)*. . .

RECESS: 10:51 a.m.
RECONVENE: 11:03 a.m.

CHAIR HOKAMA: . . .*(gavel)*. . . We shall bring this Committee meeting back to order. We are under the review of the Single Audit Report as presented by our auditors, N&K CPAs. Members, as you notice in the report of the auditors, he has presented us, I believe, with 12 findings of various standings, material weakness or significant deficiency. And so, as you have reviewed and may have read comments from the auditors, there are those that have been stated before. This is not the first time that we have seen some of the findings. And so for those that are repeats, it's something we'll work on during the Budget process with the specific departments or divisions that are part of the findings. But one that I would like to bring up next is this Accounting for Construction in Progress, this significant deficiency that was brought up by the auditors, it is Finding 002. And so I would ask the auditor, Mr. Isobe, if he would please give us some comment on this finding.

MR. ISOBE: Okay. So the Accounting for Construction in Progress, it's a very manual process that Finance needs to go through to account for, I guess, the costs that are being incurred on the projects and then, once completed, move these construction projects from Construction in Progress to the respective capital asset account, whether it be Building or Infrastructure or whatnot. And because it's such a manual process and it actually takes the information and communication from the project managers to say, okay, this is complete, there is instances where there is a lot of projects that are actually completed in the prior year that haven't been timely moved from Construction in Progress to the respective capital asset account. It's just a classification issue within the capital asset presentation and I believe Department of Finance has been, you know, working on it a lot to get this improved. I believe in the past, it was just an annual process but, you know, I believe May Anne has worked on it more than just at yearend now. So, you know, they are improving the process, it's just that because it's very manual, it does take a lot of time.

CHAIR HOKAMA: Okay, thank you for that. So this would be one of the factors that can make a difference on that balance sheet where you notice as far as the impact of GASB 68 and our, I would say, what, our assets less than our indebtedness and everything else, would be a difference?

MR. ISOBE: No. It's just within that Capital Asset section on the balance sheet or that statement on that position, there is, the classification of Construction in Progress amount and it's moving those completed projects out of that number and putting it into the respective account, whether it be Building or Infrastructure.

CHAIR HOKAMA: What was the reason, in your opinion, why this construction work was overstated?

MR. ISOBE: Primarily it's the communication from the project engineers to communicate to Finance that these projects are completed and need to be closed off and moved from Construction in Progress to the respective account.

CHAIR HOKAMA: Is there, this is from project engineers in a specific department or in general, all departments, that do capital improvements?

MR. ISOBE: Just in general. And then we also noted that within Water, too, there was some instances that items need to be closed off and moved.

CHAIR HOKAMA: Okay. And so at this point, you recommend to us establishing procedures to maintain and reconcile. So currently that, this is something that is absent of?

MR. ISOBE: It is performed and, I mean, May Anne has been working on getting the information, you know, put together timely. It's the communication and the timely communication from the project engineers. If they don't notify her that the project is done, she's not going to be able to know and close it off and have it transferred.

CHAIR HOKAMA: Okay. So the IFAS report, what is the role of that report? I mean, you know, is Mr. Agsalog's employee able to get that information straight from the IFAS report or does that need to come from the actual project engineer? It's the individual --

MR. ISOBE: Yeah, I believe …

CHAIR HOKAMA: --himself or herself?

MR. ISOBE: Yeah, I believe it needs to come from the department letting them know that the project is complete and closed off.

CHAIR HOKAMA: Okay. Director, do you, would you like to share anything about how we're doing this process currently on the construction management side?

MR. AGSALOG: Yeah, Mr. Chair, the IFAS system that we have, a lack of communication from departments, we will be very limited in finding out which project has closed. In, sometimes we can see it because we do the last payment of that but that's not necessarily the case all the time. If we do the last and final payment of the project, then we ask the department to see if that project can be moved to our capital asset instead of in the Construction in Progress books. So, again, what the audit found is that we might be overstating our Construction in Progress and understanding our assets as completed work, Mr. Chair. But to get this into the proper booking, we need the cooperation of the departments, Mr. Chair.

CHAIR HOKAMA: Thank you, Director. Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. Director, my understanding is that this transfer from the--what do you call it--Construction in Progress, to assets, the only real effect it is it's, we're understating our depreciation, right?

CHAIR HOKAMA: Director?

MR. AGSALOG: That is correct, Mr. Chair. Again, but we need to be a little bit more accurate in booking the particular asset as we have, especially we have some funds that is business-like type that we need to depreciate. And if we are booking them properly, our books is cleaner. The way it is right now, that's why it's a part of the significant deficiency, it's just because we are behind in moving this particular assets to the proper booking in it. So, again, I think, if I'm not mistaken, I have asked for a resource to do this last time but we weren't successful in getting it, so we just trying to do as much as we can to communicate with the departments, see if we can get a better handle of it. But, yes, it is a matter of where we are stating this particular assets, either be in Construction in Progress or is it in the capital assets that we already had that we can depreciate accordingly.

VICE-CHAIR WHITE: Yeah, I understand that we need to work on this because it provides accuracy but there's not really a cost incurred by the County because we're not a private company that reduces its taxes by recognizing depreciation or loses the ability to reduce your taxes by reporting it, by not transferring it into the assets. So I, this is one of those things, yes, we have to be accurate but it's not really costing us money. It's just costing us accuracy. Would that be correct?

MR. AGSALOG: That's my understanding of this, Mr. Chair, but I would really love this particular significant deficiencies get off the books if I can clean it up because it has been lingering us, my, one of those occurring quite a bit and I have worked very hard in my Department to get the staff, work overtime to do it. It doesn't cost us as far as a, yeah, you have a significant deficiency because you overstate your Construction in Progress so we going to penalize you, that's not how that is.

VICE-CHAIR WHITE: Right.

MR. AGSALOG: But, again, I ask the Accounts Division, wanna see that we booked them properly. We try to work as hard as we can to the best of our resources to get it right, Mr. Chair. Again, it's a findings from our auditors, that's why it's important to me also. As you have mentioned earlier in this Committee, that this is a tool and I'm using this tool to improve our operation. And if I can do it, then it'll be better for everyone because if we keep visiting the same thing all the time, it's just like the audit is not being used as the tool as we have acknowledged way back when I first got here.

VICE-CHAIR WHITE: Yeah, and Chair, I mean, it's important to point out that the Department of Water Supply percentage of Construction in Progress, it should've been reclassed as pretty, you know, pretty small compared to the other. So, thank you.

CHAIR HOKAMA: Thank you. Any other questions on Finding 002? Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair, and I agree with Mr. White. I'm just curious why that would be called a significant deficiency when it's not, it doesn't appear to be significant?

CHAIR HOKAMA: Mr. Isobe?

MR. ISOBE: The materiality of the classification and presentation on the statement on that position itself is, it's a significant amount. The actual classification it's, I guess, showing it as Construction in Progress when it really isn't Construction in Progress. That is a misstatement of that line item.

COUNCILMEMBER COUCH: Gotcha, okay, thank you.

CHAIR HOKAMA: Okay. Other questions on this finding? Okay.

COUNCILMEMBER COCHRAN: Chair?

CHAIR HOKAMA: Yes, ma'am?

COUNCILMEMBER COCHRAN: So on the first bullet point though, 69 mil and auditor saying 25 million of that should have been capitalized in prior years. So that 69 million is overstating by 20…plus $25 million, I don't think that's some chump change there.

CHAIR HOKAMA: Mr. Isobe?

COUNCILMEMBER COCHRAN: Is that what that first bullet point is stating?

MR. ISOBE: Correct. It's saying the County had $69 million of capital asset additions of which 25 million of those additions had dates and services that should've been transferred in the prior year.

COUNCILMEMBER COCHRAN: So they were closed there, should've been closed out?

MR. ISOBE: Correct.

COUNCILMEMBER COCHRAN: Okay, and showed expended or what-have-you prior, but they're showing now, that they're still there, not outstanding, but work-in-progress, I guess --

MR. ISOBE: Correct.

COUNCILMEMBER COCHRAN: --Construction in Progress.

MR. ISOBE: Correct. It was shown as Construction in Progress in the prior year where it was, should've been closed off and transferred into the correct capital asset during the prior years.

COUNCILMEMBER COCHRAN: Right, okay. Yeah, I, seems kind of significant to me, Chair. But, again, I mean, we're not losing or, but it's just not accurately, as you stated, being stated in the proper category or what-have-you, so. And I hear Mr. Agsalog cleaning it up and making it --

CHAIR HOKAMA: The Director is --

COUNCILMEMBER COCHRAN: --correct--

CHAIR HOKAMA: --working on it.

COUNCILMEMBER COCHRAN: --is where we want to go. So, thank you.

CHAIR HOKAMA: Is one of the problems, Mr. Isobe, so we can understand it, is the problem during the construction and, let's say, right after the construction, whether or not to place it under capital or maintenance, is that one of the issues on what column or what account it should be placed under?

MR. ISOBE: No, the main issue is the communication once the project is done. So when the project is done, they need to notify Finance to close off that project and then transfer it out of the Construction in Progress account so that the different project codes that hold that project can then be closed off and transferred up into, whether it be Building or Infrastructure or whatnot.

CHAIR HOKAMA: 'Cause I just was reading on your Page 27, you list cause, and under cause, you state that the process to transfer the project to either expense, the normal maintenance and repairs, which would transfer the project to capital assets, it's a manual process. So I'm just asking whether or not that is part of the issue of whether or not it's normal Maintenance and Repairs or a capital asset.

MR. ISOBE: There is that issue within the Construction in Progress itself to determine whether or not it's going to be just a normal Repair and Maintenance or transfer out to capital assets. But the main issue right now is closing off the Construction in Progress and moving it up to the capital assets accounts.

CHAIR HOKAMA: Right. But wouldn't we know, prior to even going to construction, what it is? Because Council makes the determination on what we funding, whether it's a capital improvement project or it's an O&M request. So I'm trying to understand why is there a problem on where to place the project when we know what we funding and why is there a question after we fund?

MR. ISOBE: Some of it, I guess, would be the determination of viable projects. Some of the items that aren't for reporting purposes, a capital asset would get expensed out.

CHAIR HOKAMA: Okay. Well, to me it's very clear what we do in Committee. So I don't see why there's a problem later on on whether it's a capital or a maintenance request. Further questions, Mr. White?

VICE-CHAIR WHITE: Mr. Isobe, with respect to the potential reclassification for, as Maintenance and Repair, what dollar number of the 69 million would you say falls into the category that is questionable as to whether it should be in CIP or not?

MR. ISOBE: That I would need to look into, I mean, I don't have that right in front of me right now. Yeah, the main ...

VICE-CHAIR WHITE: But I don't need a precise number but, in a ...

MR. ISOBE: Yeah, the main, yeah, sorry, the main point I think we were trying to is the transferring of the capital assets and similar to the prior year, you know, we had noted this along with the Repairs and Maintenances issues, so. I would have to get back to you on that.

VICE-CHAIR WHITE: Okay. If you wouldn't mind getting back to the Committee, I would appreciate that.

CHAIR HOKAMA: Okay, we'll work with the auditor to get that response, Mr. White. You have another question? Members, other questions on this, findings 002? Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. So the typical, I guess, chain-of-command, so to speak, from a project, would a CIP coordinator, overall person, be kinda overseeing this? So from that particular project, regardless of what department we're talking about, project engineer, some sort, that you mentioned, then they're done with the project, they record it, they say, hey, miss, mister CIP coordinator, we're done. So then that person, or whoever, that person will now notify Finance, as you mentioned, then Finance will put it into the category of, you know, out of the Construction in Progress section to closed out, whatever, under Infrastructure, Water Department, whoever. So is that, like, I guess, what is the chain-of-command and where is the disconnect, I guess, in a sense? From a, you know, we fund it, as Mr. Hokama says, they, the department takes the money, starts a project. When it's completed, now paperwork goes to your Department, Mr. Agsalog?

CHAIR HOKAMA: Director?

MR. AGSALOG: Yeah, Mr. Chair, again, the Accounting Division of the finances, we just doing the journal entries as far as where this project is. Again, the project managers, they are the one that's really close to the projects and they know what percentage of the project is and when it's completed. Like I have mentioned earlier, sometimes we are able to determine that the project could be done because of the last and final payment request and we ask them to say, hey, can you guys tell us if this project is really done and we can do that. Our challenge, Mr. Chair, is that we have some turnover challenges as far as with the project manager, is also, so by the time the project is done, maybe it's a different engineer has that particular project already and the communication is not as well transmitted to us. And, again, you mentioned a capital coordinator, a CIP coordinator, it will be nice, we don't have it at the moment so it's only our staff at Accounts that trying to manage this. And sometimes coordination is really challenging for all of us okay. So we try our best to do this, getting this into the proper classification as much as we can and oftentimes, and I see it, that I have to ask staff at the Accounts to work overtime to kinda look at this again and it's usually almost, by the time that the auditors are with us. So, again, it's a challenging situation.

COUNCILMEMBER COCHRAN: Thank you, Mr. Agsalog. Chair, I thought we did appropriate for a CIP Coordinator, I thought up in management, or did we not?

CHAIR HOKAMA: There's this team in the Managing Director's Department. I think there's five right now. But depending on, reading the audit and whatnot, I'm thinking of redoing that five positions in the MD's office.

COUNCILMEMBER COCHRAN: Okay. And so, and I heard your point, Chair, in regards to we appropriate money to certain projects so we know what that capital asset is from the start and that would be up to management to follow through with the project, end the project, close the project, what-have-you, but that dollar amount, we have that figure. But I'm looking at something such as an exploratory well in West Maui, which we gave 10 mil, now it didn't pan out, something happened, geological hardships occurred, now we didn't, they didn't expend all that but the project closed. So I guess that dollar amount now turns into carryover, is that where that would go? But, see, so that kinda came to my mind where, yeah, we gave money to something but no, it never got fully expended, but yet project closed. So there's that fund that was given for a particular item that never really got expended so I'm thinking it should show project closed but capital, monies still, you know, encumbered and sort of sitting and, I guess, carryover?

CHAIR HOKAMA: It depends how they fund it, Ms. Cochran --

COUNCILMEMBER COCHRAN: Okay.

CHAIR HOKAMA: --you know, if they went bond, they used their restricted or unrestricted special funds within a Department of Water Supply, because there's times when the, Mr. Baz will come back for lapse, bond/lapse bond refinancing for different projects. So --

COUNCILMEMBER COCHRAN: Right.

CHAIR HOKAMA: --there's a lot of things that can happen to that money besides being returned to the pot.

COUNCILMEMBER COCHRAN: Okay.

CHAIR HOKAMA: Again, depending upon the department's requirements and priorities and what they convince Mr. Baz to send as an amendment to us. But you ask good questions on the status of a project and what happens to those encumbered and unencumbered fund balances.

COUNCILMEMBER COCHRAN: Yeah, directly relates to my Committee, lots of infrastructure stuff.

CHAIR HOKAMA: And that is why it is critical that when we do the CIP quarterly report review, that we do a good job in reviewing that and ask the appropriate departments those important questions like you presenting now, Ms. Cochran.

COUNCILMEMBER COCHRAN: Thank you, Chair.

CHAIR HOKAMA: Okay. Anything else on this finding at this time, Members? If not, we'll move on. Is there anyone that wants to go over number 003? Again, this is regarding our payroll processing system. It's been my, pain in my butt for 15 years. So I ain't happy with this and ADP but, again, interesting, we never had problem when we did manual timesheets as much as we do now. Any questions in this area? Again ...

COUNCILMEMBER COUCH: Chair?

CHAIR HOKAMA: Yes, Mr. Couch?

COUNCILMEMBER COUCH: Thank you. I guess this is for Mr. Agsalog. Where it says 2 instances out of 40 samples where an automated timecard did not have an approval by the employee or supervisor department head, I would think that, especially if it was online, that they wouldn't get a paycheck then. You should have that control there saying if it's not signed or authorized, no paycheck, then that won't happen again.

MR. AGSALOG: Mr. Chair?

CHAIR HOKAMA: Mr. Director?

MR. AGSALOG: Thank you. It's a good question but, again, our payroll system is by exemption basis, meaning that if there's no exemption, you get paid your regular paycheck. So if you did not sign for an application for leave, you will get your basic pay, okay. So that's how we are getting paid. Okay. So all 2,500 employees, you have your ePersonality, your pay, your rate and all that. So unless there is an exemption recorded to that particular pay period, you will get paid your standard salaries. If you have overtime, those are exemption, so we will enter them accordingly. That is why Mr. Isobe's finding today to say that it wasn't signed and all of that, they can come back to us and say look, I did not take that vacation. Okay, so documentation is very, very important. So we pay every single one of our employees if there is no exemption entered in their record.

CHAIR HOKAMA: Mr. Couch? Again, my discussions with the Director, he's very aware of his challenge regarding this payroll comment and I can tell you that I am supportive of allowing the Director to do his, again, utilize his authority and do what he can internally first to address this issues. But he is aware of our concerns regarding the system so the Director is moving forward. Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. Director, your response would indicate that the two instances where the automated timecard did not have an approval, that those two instances would not have involved overtime, is that correct? Because if there was overtime, I'm assuming that if there was an overtime worked and it wasn't signed off, would the overtime be paid or would they just receive their normal paycheck?

MR. AGSALOG: I have to look at the specific findings on that, on the specific employer and the time, Mr. Chair, to be able to answer that accurately. If they, because it's a exemption basis, if they had some exemption there and there's no signature of the supervisors, then we probably just pay that. I'm not really sure. We have to have the supporting document as far as the exemption is concerned. That's, again, we are always, our system, we always adjusting. When we find out, let's say, next pay period that this was not taken properly, we make adjustment of their pay accordingly and that's our payroll section. Sometimes we, the communication between the department and payroll, the document doesn't get to us early enough and we make adjustment to the next pay period. So that's how we do it. It's not like, that we cannot make adjustment as soon as we find out the proper treatment of a leave that was put into the timesheets. So that's what we do.

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

CHAIR HOKAMA: I think you brought up a good point, Mr. White, because, for me, the interesting scenario is an employee on leave without pay but doesn't have the appropriate paperwork filed in the system, they gonna get that paycheck under the automatic generation, as I understand the Director.

MR. AGSALOG: You are correct, Mr. Chair. And we have some of those that I have been working on to make sure that those documents has to get to us in timely basis. Again, as I mentioned, we make correction as soon as we make aware that yes, they have, they're a leave without pay. So it's a constant work that we do there and our staff, I really commend them because when we get the communication from the department, by the way, this person was leave of absence without pay and now we have to make an adjustment and we have to take some money, some back pay from their salary. So we have, that's a continuously challenging effort that we do there, Mr. Chair.

CHAIR HOKAMA: Thank you, Director. Any further questions in this area? Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And so is this a recurring finding? Did we have this last session? I'm thinking not.

CHAIR HOKAMA: I believe --

COUNCILMEMBER COCHRAN: Oh, it is?

CHAIR HOKAMA: --we did.

COUNCILMEMBER COCHRAN: Okay.

CHAIR HOKAMA: Yeah, this issue with payroll has been around.

COUNCILMEMBER COCHRAN: And we, at the time, I guess, was in the process of the conversion to this automated payroll processing system. So now it's complete, the conversion is done. Is that correct, Mr. Agsalog? Okay, very good. And so, yet you're stating or auditors are stating that certain departments or agencies may not ever be able to convert, so the manual type of system will have to continue to be in place for those areas. But I'm taking, it's very minimal, as in which departments or agencies that cannot due to some logistics you were mentioning?

CHAIR HOKAMA: Mr. Director?

MR. AGSALOG: Yes, Mr. Chair, that is correct. Again, we have some staff, employees, that do not have computer on their desk to be able to enter their timesheets in their computer and we do work with them in a way that we can help them, the department can have a timekeeper for them to get it into our system. And, yeah, those are the, some of the manual things. We also have staff or seasonal workers in Parks that do not have that ability to do their timesheets in the computer. So, again, it's a work-in-progress for all of us, yeah.

COUNCILMEMBER COCHRAN: Right. Thank you very much. And you mentioned the Payroll Policies and Procedures Manual is new. So this is something that just got written or revised and now disbursed through the County?

MR. AGSALOG: Yes, it, as it pertains to the ADP system, that's what our Assistant Administrator have been working on and they review it with the super users, the one that assigned to the departments to ensure that their employees are able to conduct their transactions as far as putting their time properly so that it's not so daunting for the administrative or personnel officer, so we working with them. Again, it's taking some time of our staff but that's our job.

COUNCILMEMBER COCHRAN: Okay. Well, thank you. I was just trying to correlate if this is a recurring thing and, yes, it is, but yet we're converting into a new system but yet it's still reoccurring. So hopefully it's just the working out the kinks thing right now and next year we will not have this present. But thank you for your efforts.

MR. AGSALOG: Yeah, Mr. Chair. And as the Chair mentioned to you, I have endeared this to him in my meetings with him, that the challenges that we have with the system that we have but, again, we have to make do of what we have and our staff are not giving up in trying to get it done properly. So that effort, I think, I want to thank my staff for doing so because they're not giving up.

CHAIR HOKAMA: Thank you, Director. We appreciate that.

COUNCILMEMBER COCHRAN: Thank you.

CHAIR HOKAMA: Other questions on this item? Okay, let's move forward. The next one is the findings over the pCard purchases. Again, the auditors placed it under a significant deficiency but your Chair is quite satisfied with the already Committee discussions that was held by Council Standing Committees and as well as talking with the Director of Finance. He is aware of the issues and working on better controls and taking up the approval process. So, Mr. Isobe, anything you wish to add regarding this? Again, your recommendation is I think very appropriate. We have to have adequate controls maintained at all times. Any questions on this item, Members? Okay. Questions over the procurement process, Members? Again, auditors reviewed this, did note that one instance on the pre-bid conference. But other than that, again, maintaining all adequate internal controls, we need to be consistent in our procedures and we need to make sure everybody adheres to it. Questions on this area, Members? Mr. White?

VICE-CHAIR WHITE: What type of contract was this for?

MR. ISOBE: This is for a construction contract. So under HRS 103D, if it's estimated that the project budget, or contract value is over $500,000, the offering of a pre-bid conference should be done.

VICE-CHAIR WHITE: And what department was this in?

MR. ISOBE: Transportation.

VICE-CHAIR WHITE: And did you find any indication that they had had the same level of contract before and had done pre-bid or had this been something that they weren't aware of?

MR. ISOBE: Correct. Other contracts that we've looked at for procurement, we've noted that, you know, the pre-bid conference has, you know, was offered. Whether it's attended or not, I mean, it was offered so I believe this was just an oversight on this one, so.

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

CHAIR HOKAMA: Was there any protest on this project because there was no pre-bid conference held?

MR. ISOBE: I don't believe so, I mean, no.

CHAIR HOKAMA: Okay. Members, questions on this finding? Any questions for our auditors or the Director? If not, number 006, Internal Controls Over Miscellaneous Cash Receipts. Again, we deal with this issue. Mr. Director, any comments you wish to share --

MR. AGSALOG: Mr. Chair?

CHAIR HOKAMA: --on the Cash Receipts?

MR. AGSALOG: Thank you again. This one is just going to be, I know we have extra personnel at Treasury but this particular findings, it's my understanding that it's the departments that's collecting the money and sometimes we just have one person bringing it to us for the deposit. There is another thing that we have done, though, and we are incorporating it and I'm really happy that Water Department have worked with us with this, is the depositing of checks directly. And that one can detect any error on the checks but the cash part of it, that's still a challenge for me to work on and I really appreciate the Treasury Department heading this. We have been using it for the past five weeks in Treasury and I think it has improved the handling of the checks. As far as the segregation of duties on particular departments, that's probably more challenging for me to implement since I don't control departments. So, again, I will work with them, see what we can do, and I will ask Treasury again to look into that cash receipt on the department. And I think this is something that we can always improve.

CHAIR HOKAMA: Thank you, Director. I appreciate your comments. Something you might want to think about, Mr. Taguchi. Members, questions on this area? Ms. Crivello?

COUNCILMEMBER CRIVELLO: Thank you, Chair. Thank you, Director. Would you know about, say on a average, per deposit within a month or two, how much cash is actually received, say from Parks or Building? What's the average dollar amounts that are being deposited, or collected?

CHAIR HOKAMA: Gentlemen?

MR. AGSALOG: Daily basis?

COUNCILMEMBER CRIVELLO: Well, per your deposits in a month's time. Do you deposit daily?

MR. AGSALOG: Yes, we deposit daily. DMV, we deposited, we get picked up by the armored car and, for the cash deposits. We have, since we instituted the credit card, the deposit is a little bit smaller now. We get about 59,000 of credit card a week. The DMV, though, as far as cash and checks is concerned, I do not have an amount daily but we do deposit daily.

COUNCILMEMBER CRIVELLO: So at Parks and Recreation, as far as receiving cash from the public, is that for reservations? Is that for some kind of fees they have to pay for? Or what are they?

MR. AGSALOG: Mostly _____.

COUNCILMEMBER CRIVELLO: I'm guessing because why are we still dealing with cash?

MR. AGSALOG: Mostly reservation and, again, we are working with Parks Department to use our credit card point-and-pay. Again, the challenge in the credit card at that moment, we are not able to absorb the pay, the convenient fees that we charge the users of the credit card, it's passed on to the users. So we are still, the best way is still getting checks and cash because that one doesn't have any extra cost to the person that doing the reservation. Again, our point-and-pay, whatever the convenient fee for those credit cards is passed on to the users.

COUNCILMEMBER CRIVELLO: So, Mr. Director, is this something you're looking into to have more of the receipts handled via credit card or checks and less with cash?

MR. AGSALOG: Yes, we are very actively discussing all our options with the department. In fact, the Deputy Director sitting in the gallery, that's his, the track that he had put on, and he have gone though. He was asking Liquor to do the same so we are actively working on this, Mr. Chair, yes.

COUNCILMEMBER CRIVELLO: Thank you. Thank you, Chair.

CHAIR HOKAMA: Thank you. The golf course has a lot of cash transactions, Ms. Crivello. So that's one area that I can tell you, the Department of Parks and Recs will be dealing on a daily basis with cash. It's just what golfers do and golfers can buy a $500 club but they gonna be tight on their credit card transaction fee. It's just the nature of the golfer.

COUNCILMEMBER BAISA: Chair?

CHAIR HOKAMA: Yes, Ms. Baisa?

COUNCILMEMBER BAISA: Thank you very much. I'm curious. What is the average fee that the credit card charges us for using that?

CHAIR HOKAMA: Mr. Director?

MR. AGSALOG: Two and a half, according to the signal that I have gotten from the gallery.

UNIDENTIFIED SPEAKER (from the audience): Two point three five percent.

MR. AGSALOG: Two point three five.

COUNCILMEMBER BAISA: So that, we'd have to set aside a fund to fund that if we wanted to use the credit cards more? And we have any idea what that costs?

CHAIR HOKAMA: Mr. Director?

MR. AGSALOG: Mr. Chair? The study that was done before I got in, where, I think it was Kauai that instituted to absorb the convenient fee for credit card, and they did away with it. It's just because it was too much for the people that don't want to use credit card because once we do that, the people that pay cash will share in the burden of having that. And a lot of credit card users, they get benefits from it, as far, mileage and all of that, so that's the reason that we are passing it along to the users because they get benefits from using their credit card.

COUNCILMEMBER BAISA: So they can use it but they have to pay the fee?

MR. AGSALOG: Yes.

COUNCILMEMBER BAISA: So it's added to whatever fee it is?

MR. AGSALOG: Yes.

COUNCILMEMBER BAISA: Okay.

MR. AGSALOG: Yeah.

CHAIR HOKAMA: And I believe we make that aware to the resident that is paying the fee upfront. If you choose to pay by credit card, there is a transaction fee or convenience fee, Director, is that correct?

MR. AGSALOG: That's correct, Mr. Chair.

CHAIR HOKAMA: Yeah, we make it aware to the public.

COUNCILMEMBER BAISA: No, that's fine, but, you know, in this day of credit card, it should be available.

MR. AGSALOG: Yeah.

COUNCILMEMBER BAISA: Thank you.

CHAIR HOKAMA: Okay, any other questions in this area, Members? Mr. Couch?

COUNCILMEMBER COUCH: Maybe we can deal with that at, when we go through the department but it's one of those things of how much money do we save when somebody uses a credit card? Do we save the 2½ percent, you know what I'm, or 2.35 percent of productivity? If somebody uses a credit card, they don't have to handle the cash and it kinda is all automatic. Has anybody done that study?

MR. AGSALOG: Mr. Chair? No, I haven't. It's just my looking at the operational transaction of our staff. I don't think I will save any money. But, again, this is, if this body tells me we're going to absorb the 2.3 percent, 2., 2¼ percent ...

CHAIR HOKAMA: We're not in that financial position to give away money right now, Director. We have a problem of too much bills and not enough money right now.

COUNCILMEMBER COUCH: Yeah.

CHAIR HOKAMA: Okay.

COUNCILMEMBER COUCH: Thank you.

CHAIR HOKAMA: Any other questions in this area? Okay, let's move forward. Anything, any questions on 007, which is the Timely Reconciliation of Federal and State Grant Programs? You have comments from our auditors. There was two instances on receivables for $192,000. And then this is the Timely Reconciliations perform a grant fund accrual balances could lead to misstatements in the County's financial statements. I believe last, we did give, I think, Budget Office, an additional position for a Grants Manager and I understand that Mr. Baz filled it in January, which is not too long ago, but if you want comments from Mr. Baz regarding this grant position and impact on this finding, I will allow Mr. Baz to come down and join the Committee if he wishes to. Any questions for Mr. Baz? You guys have any questions for Mr. Baz? I guess you're off the seat. Any other, any questions for the auditors or Mr. Agsalog on this one? It's pretty straightforward. Mr. White?

VICE-CHAIR WHITE: Just a question of which department or departments were involved?

MR. ISOBE: One is Housing and Human Concerns and the other one is the Mayor's Office.

VICE-CHAIR WHITE: And do you recall which, which amount, what those two totals were?

MR. ISOBE: Sorry. One is, the Housing one is 92,000 and the Mayor's Office one is about 100,000.

VICE-CHAIR WHITE: Do you recall what type of grants they were?

MR. ISOBE: The Housing one is Kupuna Care and the other one is Coqui Frog Eradication.

VICE-CHAIR WHITE: Okay, thank you.

CHAIR HOKAMA: Other questions on this area, Members, for either Mr. Agsalog or the auditors? Ms. Crivello?

COUNCILMEMBER CRIVELLO: Thank you. I note here your recommendation is the County should implement policies and procedures to complete monthly or quarterly reconciliations, et cetera. I'm not sure how the office that handled the coqui frog grant is but doesn't the Department of Housing and Human Concern have set policies and procedures as to monthly and as well as quarterly reports for all of their grants?

CHAIR HOKAMA: Mr. Isobe?

MR. ISOBE: Yeah, I believe they...so quarterly reporting requirements. The, I guess, the reporting that they do to the Federal agencies or the State themselves, that's, I guess, different than reconciling back to what's sitting in IFAS and what we're looking at is in these grant receivables, the deferred revenue amounts, is a lot of different grants that are set up within IFAS and making sure that that amount that is recorded as receivable or amounts that had been received in advance, actually tie back to the amounts due, whether it be from the Federal agency or a State agency or a granting agency who has, I guess, promised these program monies. So reconciling that back to IFAS is, I guess, what we're looking at.

COUNCILMEMBER CRIVELLO: So actually that's where, it's the reconciling with the actual IFAS system that seems to have some sort of a glitch or lack of reconciling within that system. Is that how I hear you?

MR. ISOBE: Correct.

COUNCILMEMBER CRIVELLO: Okay. Alright, thank you.

CHAIR HOKAMA: Any other questions for our auditors? Okay. Number 008 is their findings on Logical Access and Access Security. So, any questions for the auditors regarding Logical Access and Access Security? One thing I did want to ask is your recommendation number 003, when you say, monitor vendor access into IAS. Is there a current security issue with, that we should be made aware regarding vendor access?

MR. ISOBE: For vendor access into IFAS?

CHAIR HOKAMA: Yes.

MR. ISOBE: Oh, that's actually into IAS.

CHAIR HOKAMA: IAS.

MR. ISOBE: So, yeah, IAS is your Real Property Tax assessment program. And that one is, I mean, I believe that's Tyler Technologies, has access to that software.

CHAIR HOKAMA: Right. Yeah. I understand we use Tyler so right now they have, what you would say what, more access than standard from a policy standpoint?

MR. ISOBE: No, I believe it just needs to be monitored. That's the recommendation.

CHAIR HOKAMA: Okay, and when you say "monitored" that would be from our own internal MIS Division or our own IT component in-house that would be doing the monitoring then? Is that what you're recommending to us?

MR. ISOBE: Correct, and along with the request that would be coming in from Real Property Tax.

CHAIR HOKAMA: Right, right, right. Okay. Well, I think this Committee is quite aware of and, regarding security issues and we are very open and supportive to improve our security standing so we look at Mr. Verkerke as our IT professional to give us guidance in this areas. Members, questions on this, in this area, under finding number 008? I believe we also had a standing committee review with Mr. Verkerke recently on some of these items so I'm okay with it. Any other questions, Members? If not, findings under Backup and Recovery. Mr. Director, are you working with Mr. Verkerke's division on this issue regarding backup and restore policy since you are the keeper of records, besides the County Clerk, by Charter?

MR. AGSALOG: Mr. Chair, I know the record management, I think, task force that was meeting a little bit earlier or later last year. We were working together and trying to see what's the Records Management group will recommend as far as these, managing our records electronically. The backup and recovery, I, it's my understanding that IT have their protocols in doing all of this so maybe the IT people can give you a little bit more. I don't work with them every day to ask them if they have done the backups every day. I don't have that protocol, Mr. Chair.

CHAIR HOKAMA: Okay, thank you. Mr. Isobe, are you aware of whether or not we have done or need to do an assessment to move this forward?

MR. ISOBE: I think, looking at the next finding 2015-010, the IT Governance --

CHAIR HOKAMA: Right.

MR. ISOBE: --and actually having a formal steering committee to look at, I guess, perform an IT risk assessment and address the different risks that the County face at it relates to IT would be something that would address these types of issues, whether or not it's backup and recovery, access security, logical access and access security and recovery procedures and determining, I guess, where the County's risks actually lie.

CHAIR HOKAMA: Okay. Under, on number 010 also, since we can kinda combine 009 and 010 on your findings, would you include things like cyber insurance as part of that assessment and governance requirements?

MR. ISOBE: Correct. And that's, I mean, primarily looking over your financial reporting systems and, I guess, the controls over those systems.

CHAIR HOKAMA: I'm in support of what you're recommending 'cause that's something that, I believe, Risk Management is moving forward, our IT is moving forward on it so I think internally, as the Chairman of this Committee, I'm quite happy with what our professionals are already moving forward on. So I hope they communicated that to you that we're not standing still on this area, we're moving forward already, so I'm okay with this area, Members. Questions for either the Director or the auditors on either 009 and 010, Members? Mr. Couch? Why am I not surprised?

COUNCILMEMBER COUCH: It kinda, 010 relates to both 008 and 009, you know, some of the access procedures, and I'm kinda surprised that both of those are in here. How much have you worked with Mr. Verkerke on what his backup policies are? I'm really surprised that we don't have any formal stuff, formal policies written.

MR. ISOBE: Let me get back, let me try get back to you on this, let me try go through this real quick.

COUNCILMEMBER COUCH: Okay.

CHAIR HOKAMA: Okay, that's fine.

MR. ISOBE: Sorry.

CHAIR HOKAMA: No, not a problem.

MR. ISOBE: Actually, I guess, based on our discussions, there actually isn't a formal policies and procedures for backup and restore.

COUNCILMEMBER COUCH: There is or is not?

MR. ISOBE: There is not.

COUNCILMEMBER COUCH: I guess what you're, I mean, you mean it's not written down in a policy statement? Is that, 'cause they've been doing backups for …

MR. ISOBE: Yes, correct, they've been doing backups. There's just no formal policy and procedure related to the backup and then actual testing of recovery.

COUNCILMEMBER COUCH: Yeah, the testing of recovery is a tough one. Okay. And we didn't have this last year, though, right?

MR. ISOBE: This was here last year.

COUNCILMEMBER COUCH: I don't recall that. Okay. And what was their response last year?

MR. ISOBE: I'm sorry, I don't have it on me right now.

CHAIR HOKAMA: We're going to need to get that information --

COUNCILMEMBER COUCH: Yeah.

CHAIR HOKAMA: --Mr. Couch.

COUNCILMEMBER COUCH: No worries, thank you.

CHAIR HOKAMA: Okay. Other questions on this area, Members? Okay, let's move to 011. Any questions regarding the Centralized Position to Monitor Federal Program Compliances? Is this what we gave you, Mr. Baz? Mr. Baz, why don't you come forward please, 'cause I believe Council assisted with a position and, again, my understanding is Mr. Baz was able to fill it in January. So if, Mr. Baz, if you would please give us some comment on number 011, please?

MR. BAZ: Sure. Good morning, Chair and Members. Sandy Baz, Budget Director. Thank you very much for appropriating, even though I didn't request it, a position in my division during this Budget session. The individual that I hired is from within the County. She was actually managing the grants subsidies that we give out and making sure that the nonprofits were meeting compliance requirements. And so transitioning her to the Federal grant monitoring is, it's different but it's similar. So what we're doing is working, I have Marci Sato, my Senior Budget Specialist, and I working with her and with the different grant managers to learn. Right now, she's just basically collecting what current procedures are happening, how grant managers are reconciling their reports that, you know, as Member Crivello mentioned, the quarterly reports and other reports that go to the Federal agencies and then tying that back into IFAS. You know, we're finding some deficiencies in the types of reports that we get out of IFAS and what the grant managers have access to. And so we're working on those and we'll be writing up policies and procedures on working with the grant managers to assure that the reconciliation's happening. Department of Finance has done a good job in reviewing the old and prior grants as a other finding was discussed and it's going to assist moving forward once we have this all in place.

CHAIR HOKAMA: Okay, great. So this will definitely assist Housing and Human Concerns with that issue that they've already working on regarding their reporting of their, on their IFAS and projects?

MR. BAZ: Yeah, I believe so. Any exceptions to, you know, normal reports, then, you know, we're starting to review those and tried to look and see why we may have some outstanding receivables from prior years and working with the departments. We're actively working on those.

CHAIR HOKAMA: Great, great, thank you so much. Members, questions on this for Mr. Baz or our auditors? It's something that we've assisted them in. Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair. And yeah, yay, finally, huh. I'm just, so this particular, this is, this responsibility is like a fulltime thing, this one person will only focus on this? And that's enough to fill a fulltime job?

MR. BAZ: It probably would be. I have her doing other tasks as well. And so, you know, we have a hard worker who's very skilled at getting things done and figuring stuff out. So she's assisting us in other areas as well in our division. But majority of her focus is specifically on this. She will be, also be managing more of the Grant Subsidy section from the Budget Office side of things as well, what the other departments are doing in managing and working on implementation of this AmpliFund Grant Management Software that we've acquired for the County as well. It's, the Grant Management Software, we're working on just the Grant Subsidy section at this time but eventually it has the ability to manage and monitor the federal grant receivables as well.

COUNCILMEMBER COCHRAN: Okay, well, very good. I'm glad we finally have a body here to look into this and hopefully next year will not be in the booklet. Thank you.

CHAIR HOKAMA: Thank you. Any other questions for Mr. Baz or the auditors on this one? Okay, the last item, I believe we already have had discussions. It was brought up by Ms. Baisa. Are there additional questions regarding the financial data schedule as it regards basically to Housing and Human Concerns? Mr. Isobe gave comments earlier. I think the Director of Finance gave comments earlier. Just something that the new Director of Housing and Human Concerns is working on. She's aware of it and she's working on it so, additional questions at this time? Okay, having none, I'm going to, again, because of the timing, Members, I'm going to keep going. The auditors have a requirement this afternoon regarding airline schedules and whatnot, so we're going to finish the Water audit before we break, okay, because after that we have our State representatives coming in for retirement system this afternoon. So we'll bring up the Water audit at this time, which is BF-8(1).

VICE-CHAIR WHITE: Mr. Chair? While we're moving into that, I just had one question --

CHAIR HOKAMA: Yes, sir?

VICE-CHAIR WHITE: --on the transmittal letter for the Single Audit.

CHAIR HOKAMA: Yes, sir?

VICE-CHAIR WHITE: It's on the second page of the auditor's--actually, I guess it's second to the last page of the auditor's letter--there's a discussion about adjustments that were corrected by Management and then other adjustments that were not corrected because of, they were not considered material in nature. And I'm just wondering, there are five different adjustments and I'd just like the auditor's comments on what those amounts were.

CHAIR HOKAMA: Okay.

VICE-CHAIR WHITE: And 'cause I know sometimes they're considered immaterial because the budget is so big but I'd just like to have a sense of what some of those misstatements were that they found.

CHAIR HOKAMA: So, Mr. Isobe, if you could please respond?

MR. ISOBE: Okay. Some of these items, like, as you mentioned, the depreciation related to the prior placed-in-service dates on some of the capital assets is part of this accumulated depreciation difference. Some of these other ones, actually don't have the information with me right now. So, I mean, I would have to get back to you on it. I'm not sure if I sent it in e-mail to Finance yet but, I mean, I'm pretty sure --

VICE-CHAIR WHITE: That's fine.

MR. ISOBE: --they have it on hand with them.

VICE-CHAIR WHITE: If you can forward to the Committee Chair, that'd be --

MR. ISOBE: Sure.

VICE-CHAIR WHITE: --sufficient.

CHAIR HOKAMA: Okay.

VICE-CHAIR WHITE: Thank you, Chair.

CHAIR HOKAMA: We'll follow up, Mr. White. Any other questions on the Single Audit, Members? We can follow up on any of your requests, please let me know. Okay, if not, let us move on to the Water Supply's Report, which is BF-8(1).

ITEM 8(1): DEPARTMENT OF WATER SUPPLY'S FINANCIAL AUDIT REPORT (FISCAL YEAR 2015) (CC 16-21)

CHAIR HOKAMA: Again, Mr. Taguchi, this is actually initiated through a communication from you. You have any comments you want to give before we ask Mr. Isobe for his comments on this item?

MR. TAGUCHI: Thank you, Chair Hokama. The Water Supply's Audit basically, similar to the CAFR Audit, the major difference in the financial statements results from GASB 68, where the net pension liability, unfunded pension liability, is disclosed. The, I think Department of Water Supply had to recognize $24 million of liability for future pension commitments to current and past employees. So that's the one largest difference in the financial statements.

CHAIR HOKAMA: Okay, thank you very much. Mr. Isobe, your comments regarding the Water Supply's Report please.

MR. ISOBE: Okay. Our independent auditor's report starts on Page 3 and goes to Page 5. On Page 4 is our opinion on the financial statements and we also issue a clean opinion, or unmodified opinion, on the Department of Water Supply's financial statements. Mr. Taguchi stole my thunder, but on Pages 6 and 7 as it relates to the net pension liability, you'll see in the middle of Page 7, on the non-current liabilities, the net pension liability recorded of $24.2 million is reflected within the Department of Water Supply's financial statements. The Department also carries similar disclosures to the County's CAFR and relating to these pensions and that begins on Page 25 and runs through 29--sorry, a lot of pages--32. So similarly, the department has recorded that liability and the related deferred inflows and outflows related to these pensions on their financial statements in compliance with the new GASB, so. That's the main highlights part of this Department of Water Report.

CHAIR HOKAMA: Thank you so much, Mr. Isobe. I'm going to ask Ms. Baisa if she has any questions at this time regarding the Water Report.

COUNCILMEMBER BAISA: No, Chair, I'm very happy to have a clean, unqualified opinion. Thank you very much. And I am really excited to see the pension liability in here. I think this is really good. You know, we have this idea that, oh, well, we have money. But, you know, when you take into consideration, these huge, huge pension debts, it's scary and I think it's important that we account for them. So I'm okay. Thank you.

CHAIR HOKAMA: Thank you. Ms. Cochran?

COUNCILMEMBER COCHRAN: No, Chair, I share the same comments as Ms. Baisa. So, thank you, auditors, for your work.

CHAIR HOKAMA: Mr. Couch? Ms. Crivello?

COUNCILMEMBER CRIVELLO: No questions. Thank you, Chair.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: No questions.

CHAIR HOKAMA: I will ask Mr. Meyer, our Deputy from the Water Department, if you would like to come forward and offer some comments regarding the auditor's report, please. We would be happy to hear from your as our number two man from the Department of Water Supply. And, Holly, if you want to come down, please come down and join the Director. We're happy to hear from you, also. Mr. Meyers [*sic*], you or Holly can start off.

MR. MEYER: Thank you, Mr. Chair. Paul Meyer, Deputy for Water. With me is Holly Perdido, our head of our fiscal group. It's always a pleasure, believe it or not, to go through an audit and to receive the satisfaction of having your books looked into very carefully, the testing, the sampling done. And believe it or not, it's also a pleasure to receive the comments and exceptions because we all can improve our business and there were a few things brought up this year that we knew about but it allowed us to devote time and focus on them and get some things cleaned up. And they'll still need some further attention but it's, it really is, for me anyway, satisfaction to have an outside audit and a clean pair of eyes looking at our business. Thank you.

CHAIR HOKAMA: Thank you.

MR. MEYER: Holly?

CHAIR HOKAMA: Ms. Perdido?

MS. HO: Is it morning? Good afternoon, Committee Chair and Councilmembers. Yes, we would like to thank the auditors. We feel we have a very good working relationship. Our staff is hard working and trying to get things done and correctly and we work very closely with Department of Finance too. But, yes, thank you and we look forward to our next audit, shortly

CHAIR HOKAMA: Members, any questions for either Mr. Meyer or Ms. Perdido? Ms. Baisa?

COUNCILMEMBER BAISA: Chair, with your indulgence, not a question, but I would like to thank Holly and the staff for the wonderful work. This makes me feel a lot more comfortable. You know, we hear so much negative about our Water Department and it really is undeserved. And thank you very, very much.

CHAIR HOKAMA: Thank you for your comment. Any questions either for our Water Department representatives or our auditors, Members, at this time? Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you, Chair, and thank you, Department. I guess in reference to earlier discussions we had here in regards to the contracts and that…was with the Water Department, right? They had some …

CHAIR HOKAMA: It was one of the, yeah, Water was part of *. . .(inaudible). . .*

COUNCILMEMBER COCHRAN: Water had, I guess, it was the disconnect between the closing out of projects with the Finance Department and thereby having assets bigger than what they should've been, type of thing. So, do you have comments towards that finding?

MR. MEYER: Thank you, Member. That was one area that, as I referred to just a moment ago, that we needed more attention on and, if I could go on a little bit and try and explain how this evolved. It did not represent a misstatement in terms of project costs not being recorded. They were in the books, all of the projects costs were recorded properly. This is a question of coordination between the two divisions, our Engineering Division, in particular, the capital improvements group, and the fiscal group. Many times when a project is, in effect, finished and the assets are put in service, the Engineering folks don't regard that project as really being done or closed out because there are as-built drawings, there are warranty agreements, there are finish work details that still need to be completed. So the CIP engineers are still very much involved in managing that project. They're not ready to sign off on the final cost of the project and as a result, they don't instruct the fiscal group to close it out, capitalize it and begin depreciating that asset so it stays as work-in-progress, or construction-in-progress. That's something that requires regular periodic attention and we do have a system now in place to do that on a regular basis. It's initiated by the fiscal group and they literally sit down and work with the construction engineers. This last audit, we did have some cleanup work, there was a, I wanna say, an abnormally high volume of material that was still in the in-progress accounts that should have been capitalized. And, again, it was an incorrect classification between accounts, if you will, as a way of characterizing that.

COUNCILMEMBER COCHRAN: Okay. Very good. Thank you for the explanation and being on it and looking into it too. So, thank you, Chair.

CHAIR HOKAMA: Thank you for that question. Members, any other questions for our resource people? If having none, we thank you for being here, Mr. Meyer and Ms. Perdido. Okay, Members, with no objections, the Chair would like to defer the Single Audit Report as well as the CAFR, with no objections.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: The Chair will take a motion to file BF-8(1), the Department of Water Supply's Financial Audit for the Fiscal Year 2015.

VICE-CHAIR WHITE: So moved, Chair.

COUNCILMEMBER BAISA: Second.

CHAIR HOKAMA: Okay, I have a motion made by Mr. White, seconded by Ms. Baisa. Further discussion, Members? All in favor of the motion, please say "aye."

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed, say "no." Motion passes with seven "ayes," two excused, Mr. Victorino and Mr. Guzman.

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

NOES: None.

ABSTAIN: None.

ABSENT: None.

EXC.: Guzman, and Victorino.

MOTION CARRIED.

ACTION: FILING of communication by C.R.

CHAIR HOKAMA: And we shall be in recess until 1:30 this afternoon. We are now in recess. *. . .(gavel). . .*

RECESS: 12:19 p.m.
RECONVENE: 1:31 p.m.

CHAIR HOKAMA: *. . .(gavel). . .* ...to order. This is the continuation of this morning's recessed meeting of March 28, 2016 of the Budget and Finance Committee.

ITEM 52(1): PRESENTATIONS ON OTHER POST-EMPLOYMENT BENEFITS (BF-52(1))

CHAIR HOKAMA: We are going to take out of order from the agenda and at this time bring up BF-52(1) under the heading of Presentations on Other Post-Employment Benefits. This afternoon, we are pleased to introduce two people who have flown here to share information with us. That is Mr. Wes Machida, State Director of Budget and Finance, as well as Tom Williams, Executive Director of the State's Employee Retirement System. So, gentlemen, if you would come forward? And we look forward to your presentation and your comments regarding those programs you represent. Staff is handing out copies of their presentation and we also have it on the screen on the Chamber floors, so.

MR. WILLIAMS: Chair, Members of the Council, I'm Tom Williams, the Executive Director of the Employees Retirement System, State of Hawaii. And it's a great honor to be invited here to provide you an update as it relates to the status of Employees Retirement System. Joining me is Emalu-Hina, who's in the back of the room, but you know her well. Her offices are just across the street. And, of course, Wes Machida, who's head of Budget and Finance. And Wes is my boss and I'm his successor, and he has agreed that to the extent I foul things up, get it wrong or miss something that he'll correct me and I'm really grateful for that.

MR. MACHIDA: Thank you, thank you, Tom, for saying that. Thank you, Chair and thank you, Council --

MR. WILLIAMS: Excuse me. Excuse me.

MR. MACHIDA: --Councilmembers for having us here, appreciate it. And Tom is the better of the two of us so I'll just leave it at that. Thank you.

CHAIR HOKAMA: Thank you.

MR. WILLIAMS: He always raising the bar by saying that. In any case, we have a fairly full agenda, but not as full as yours. So what we're going to do is try to go through these items fairly quickly and make sure we afford an opportunity to focus on those areas that are most important to you. Of course, you have the hard copies before you so I don't need to read all of this. I think there are a couple of areas, though, that we're going to spend a little bit more time on and that would relate to the investments, the funded status, unfunded liability, and some of the legislative proposals that we've dealt with this session. But most importantly, I think the opportunity to respond to your questions and hopefully we'll have some answers. This is pretty straight forward. I think we're an important part of this State, a huge economic impact. We've got 119,000 members and beneficiaries in the system. You have a breakdown there, I think it's something like one in eight employees of the State is impacted by or a member of the retirement system so you could see that it's of significant importance to a substantial number of our citizenry. This is just a chart that shows the information we just showed prior, the 119,000 people, but you can see how that membership has grown over the last decade or so. This is from 2000 through 2015. Things seemed to have stabilized there in 2011, sometime soon after the great recession, but they've begun to grow again and in particular, I think, what you're going to find is that the numbers of retirees is edging up fairly substantially as we are known as a mature retirement system. We've got more people in who are beginning to retire than we're hiring, so to speak. This is another way we're looking at the same set of information but this merely the retirees and the beneficiaries. The active employees are not reflected here. And, again, there's a pretty sharp ladder or increase in terms of the numbers of retirees. We see in 2003 something above 30,000 as member retirees and now up in 2015 it's approaching less than 45,000 so not a very, very long time but a significant increase. Same information and it shows it by year. It seems that in 2012, things kind of, again, tapered off but they're on the increase again. Breakout of Active Members, this is always of interest to those we speak with. They like to see how the impact that they have on the system and Maui County is bolded there and about 67,000 approximate members, 2,450 as of June 30, 2015. The number may have increased modestly one way or the other but we think this is fairly accurate as to the representation of Maui County in the program. Breakout of Retirees and Beneficiaries as of June, again, here we show that in Maui County we have 1,086 retirees, 62 individuals on disability retirement, 128 beneficiaries receiving benefits again for that total of 1,276. ERS Update. Pensioners, beneficiaries, something we've talked about already. When I mentioned the significant impact that ERS has on the economy, it shows here that we pay out about $1.1 billion a year in retirement benefits and I talk regularly to the folks who tell me how important that is and we hope to be able to continue to meet those obligations into the long-term future. And you'll see the impact of those benefits is gonna increase over time. We are forecasting that in 30 years, that we'll be paying 3 times what we do today, $3.5 billion in 30 years, but the 1.1 today is not insignificant. Average annual pension, of course, there's significant disparity and the pension depends upon what your salary was and the years of service and what professions you were in but the average pension is about $26,500 a year and that's, you know, fairly substantial as a core component of someone's retirement benefits. Obviously, it's important for individuals saving today to have some independent supplemental retirement as it is sometimes referred to. But I think it's interesting to note, too, that over 14,000 of our members who are working today are eligible for retirement so you've gotta treat 'em real well, otherwise they're going to come, head to our offices and retire. And we'll talk about a couple of things that are occurring, that is stimulating some interest in retirement, a little further on as we go. The Dollars Contributed, the total contributions, $939 million a year in contributions. And, I guess, I want to contrast that to the $1.1 billion that we pay out. You know, apart from the investment earnings, we'd be in a net loss circumstance but investment earnings play the largest role in a mature plan, generally between 60 and 70 percent of every benefit dollar is derived from the investment earnings. So that's one of the reasons we're trying to focus on our investments and we're going to talk about the staff and one of the structural reforms we're making in order to stabilize and increase investment returns over time without correspondingly increasing the risk of the program. And you see there, Maui County's proportion is 31,468,000 as of Fiscal Year 2015. ERS Funding, you know, we get funded from contributions from employers and employees. There is now 24 percent contribution required on the pay for the public safety workers, police and fire, and 16.5 for all other employees. And, again, those employer contributions, exclusive of the employee component, $717 million in 2015. These are contribution rates as they apply to different classes of members. Pre-July 2012, you see those and different contribution dependent upon when you joined the system but the member contributions are equal to about $222 million on an annual basis. We'll get to something that's pretty important for the system and for all of you and that's looking at our funding status. The actuarial value of our investments as of June 30, 2015 was $14.4 billion. It's probably pretty close to that right now. We've had some pretty dramatic downturns in the first part of the year in December and January but the markets have stabilized and come back. And so we're probably pretty, getting close on that, again, but we had a pretty good year in 2015. The return on the actuarial value and the difference is the actuarial value, the so-called smooth value, of assets over a five-year period sort of smooth out the highs and lows and so we had about a 7.9 percent return on the actuarial value. And that was versus an expected return of 7¾ percent. You may be aware that a number of funds, ours included, has decided that it would be prudent to lower that expected return. So in a phased manner, the Board has decided to lower that from 7¾ to 7½ percent beginning July 1 of 2017. It's sorta ratcheted down from 7¾ to 7.65, 7.55, beginning July 1 of this year, and then it'll be 7½ from July 1 of 2017 going forward, until such time as there's a decision that long-term returns would suggest otherwise. Investments, this is a typical pie chart showing the allocation of our assets. It looks like a lot of public pension funds. The only thing I would suggest to you is that the big blue part and the red part, those are all equity investments. The equities, while they may be 40, 50, 60 percent of a portfolio's assets, they represent about 90-95 percent of the portfolio's risk. And so we're always trying to find some way to balance that risk and not to be exposed to one asset class so heavily and we've got a methodology that we're employing, we're implementing, as we speak, that will help to lower the risk exposure of our equities. This is the risk-based allocation and you see a big blue part there, both actual, as well as the target, and this is representing a significant change in the way in which we view risk because we look at investments that behave similarly in certain economic environments and what we can find is that we're trying to group those, whether they are from private equity or equity or real estate because in certain economic environments, these things all move in tandem, if you will, and to reduce the risk we're trying to find some uncorrelated investments and there are sectors that are proven to be uncorrelated. This is just another depiction of where we are at on the left, and why we're trying to simplify things by melding, if you will, a lot of assets where, for example, we got US equity, international equity, we've now all, packaged that into something called growth-oriented. And we begin to analyze the sectors as to how they provide return as well as risk relative to the corresponding sectors. Funded Status, accrued liabilities are $23.23 billion, that's what we owe. That's the benefits that have already accrued in the system, the promises, the commitments that we made and that's versus assets that are 14.46 billion as of that date. The unfunded actuarial accrued liability is $8.77 billion. And under the current structure of the program, and that's looking at the contribution levels and the benefits levels that currently apply, the fund is targeted to be fully funded in 26 years but, of course, that depends upon all of those actuarial assumptions being borne out, being realized. And some of those are not only the investment assumptions but they relate to the demographics, they relate to the mortality assumptions that we employ underlying these liabilities. And one of the great things about living in Hawaii is that you've got an exceedingly long life expectancy relative to the rest of the states. And, of course, that creates its own wonderful benefits but it also creates challenges for people who are paying monies out when...and so what we're in the midst of doing is we're having an experience study, we do this every five years to determine what, if anything, has changed demographically and we look at the investment assumptions as well. But this year, we'll see if there is, should be any change in the mortality tables to reflect increased longevity and the sense is that there probably will, that's what are actuaries are beginning to signal. The Funded Ratio, how much do we have relative to how much we owe and that's the 62.2 percent funded ratio. It's not so terribly good, as you can see, we're in the bottom quartile among public pension funds. It's not because there's been inept management. I think it's a result of a number of factors. One relates to the several downturns we've experienced over the last decade, particularly the one, most recent one in 200-2009 when most public pension funds declined about between 30 and 35 percent but significantly and one of the things I've learned is that for a number of years, it was a habit or a practice, perhaps, that the excess earnings of the funds were siphoned off and used toward the General Fund and what that, of course, does is takes away any cushion you might have had to absorb those blows that occur when there is the market downturn. And so we're experiencing that now. But the structural changes that have been implemented, as well as the contribution rate increases and the like, we think if everything works the way we hoping it will and we will work toward, then, again, we're going to be moving toward full funding. We don't want to move in the other direction but it does require great diligence at this juncture to make sure that we don't move in the negative direction. And that's why we're trying to reduce the risk in the portfolio. Shows you when we think we'd be fully funded. It looks like something, 2039 or thereabouts, again, assuming all those assumptions are borne out. We've talked a little bit about the unfunded liability and the assumed investment return rate going down to 7½ by July 1 of '17. Another look at the same chart so I won't bore you with that but it gets back to the $8.7 billion we've talked about. And of this pension liability, of course, we're under new accounting laws, are required to break that out by employer-sponsor segment and you can see here, the State of Hawaii has the largest part of that liability, the $6.2 billion. County of Maui, 367, $368 million of that unfunded liability is ascribed to the County. This is too small for me to read but what it's basically showing is the contribution growth rate and the numbers of dollars forecast out through 2023. It looks like the growth rate is declining in terms of contributions but the overall dollar amounts increasing. Benefit payments and liabilities, they're all reflected there, just another way of looking at some of the same data. There were a number of legislative proposals that were introduced in the most recent session impacting ERS. Some, and all we've been responding to over the last couple of months. I've been very busy with Wes' assistant and staffs developing testimony and meeting, attending hearings and the like. But this one, House Bill 2312 is one that is just a clarification in some respects. It allows or clarifies that employers can make their contributions on a, in advance, if you will. Right now, the legislation appears to suggest or require that employers make their contributions on a monthly basis. And as it relates to the State, the monies are put into the State coffers at the beginning of the year and if they dole those out to the Retirement System 1/12 each month, what it results in is that a delay in our having those monies to invest so by the State investing those monies at the beginning of the year in large measure, it allows us to put those monies to work earlier and reduce the unfunded liability. And I think Wes and some of his analysts have suggested that over a 20-year period, it could be as much as $500 million just by putting the money that's sitting there already, in a few months early. There is also a bill related to unclaimed property and while we think everybody ought be entitled to and should receive his or her retirement benefits, the reality is that in some instances we find that we've lost touch with these individuals and we really have a methodology in place to try to locate these people though a bunch of services and the like, but even despite our best efforts, sometime we lose track because they move to the mainland or whatever and right now those monies, once we can't locate them, particularly at age 70½, when they're required to begin receiving benefits, we send that money to the State's unclaimed property fund. And what we're proposing is that the ERS would retain use of those funds, they would never forfeit from the individual, we would make sure the individual's names, et cetera, were listed with the unclaimed property fund and when they came back and asked for those monies, we would commit to pay them out but in the interim, they would be in the ERS fund portfolio, professionally managed, low fees, as opposed to the unclaimed property fund that earns a very, very marginal, low rate of interest. Oh, I'm going in wrong direction, you don't want to do that again. Investment personnel, one of the things we're trying to do is just to allow that the investment personnel we hire can be exempt from civil service. Right now the requirement is that they largely are civil service employees and we think it improves our ability to recruit and to retain competent staff by having the flexibility to hire them as exempt so it just gives us that flexibility. There is also something called a QDRO, a Qualified Domestic Relations Order, that's been characterized as a Hawaii Domestic Relations Order that allows a spouse of a member who is divorced to be awarded by a judge a portion of the member's benefits. Most states have some version of this and we have worked with other legislators who've demanded that this be made available so that's something that's moving its way through the Legislature as well. There are a number of bills that, I think, that hit home for you all here and they're broadly referred to as privatization bills, I think they relate to the hospital here that's being transferred to Kaiser Permanente's control, I think, July 1, and so there are efforts, the three of these here, represent efforts on behalf of legislators to respond to the loss and benefits and the lost opportunities these individuals have and they range from trying to provide additional years of service to some retirement incentives based on pay to continued employment in the ERS. A number of these proposals have problems with 'em. The one that would allow them to continue in ERS is, membership, is particularly problematic because it would jeopardize our tax-exempt status. You can't have private employees accruing benefits in a public plan without risking the tax status of the entire program. And we won't talk about the others necessarily but we think that this first privatization affects about 1,465 employees on the payroll as of the time we checked and the kind of benefits that are being offered, they range from $5 million to about $11 million in terms of the cost of those benefits but the major impact to ERS is to the unfunded liability because the programs assume that these 1,400 employees are going to continue in the employ of the retirement system and the contributions would be coming in over the lifetimes of those individuals and those contributions will terminate when these individuals are privatized. And while there's a net gain of about $35 million because some people who were in the fund, who won't earn benefits, won't vest going forward, there's a $213 million negative impact on the unfunded liability because of that lost payroll. So I hope I didn't take too long. Be certainly willing to answer any of the questions you might have.

CHAIR HOKAMA: Thank you, Mr. Williams, for that presentation and also what is happening and not happening at the State Capital for our retirees' and employees' benefits. Members, any questions for our guest, Mr. Williams, as well as Mr. Machida? Ms. Baisa, we'll start with you.

COUNCILMEMBER BAISA: Thank you very much, Chair. Just curious, if a person works for the State and maybe works for the State for like 20 years and then comes to work for the County and works here a few years and retires, where does that get charged?

CHAIR HOKAMA: Mr. Williams or Mr. Machida?

MR. WILLIAMS: You, yeah, please.

MR. MACHIDA: Okay, so just …

COUNCILMEMBER VICTORINO: Can you go closer to the mic, Wes, yeah --

MR. MACHIDA: Sure, sorry.

COUNCILMEMBER VICTORINO: --turn the mic, yeah, so I can hear?

MR. MACHIDA: Okay, so in this example, Councilwoman, so 20 years for the State and then the rest of the years for the County?

COUNCILMEMBER BAISA: Right.

MR. MACHIDA: So during the 20 year, their tenure with the State, the State, as an employer, would be making the contributions on behalf of the employee as well as if they're in a contributory plan, then the employee member would also make contributions. So up until the point that they separate from service from the State and then they go into the County's, then the County will start to make contributions on behalf of the employee for how many years they work for the County. So it's a split in terms of the contributions between the State and the County.

COUNCILMEMBER BAISA: And then when it's paid off, it's charged pro rata?

MR. MACHIDA: No, actually, when it's paid out to the employees, it's paid out, but the charge has already been made. It's a pooled fund so--

COUNCILMEMBER BAISA: It doesn't matter.

MR. MACHIDA: --it probably doesn't matter. There's a correction that's made if there's a under-contribution, as an example, then the pool of assets would have to make up that contribution.

COUNCILMEMBER BAISA: Okay, alright, thank you.

CHAIR HOKAMA: Thank you. Mr. Carroll, any questions? Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. On Page 26, you have the H.B. 2445. Is, if that passes, that means that the folks that essentially will start working for Kaiser will still get retirement benefits? Are they going to be contributing as well? And who's going to be contributing the employer portion?

MR. WILLIAMS: Well, the intent of the bill, 2445, would allow the employees who are transferred over to Kaiser, to continue employment in the, or coverage, if you will, in the Employees Retirement System, but that fact, in and of itself, is problematic from our perspective because the tax qualification of the ERS requires that we service only governmental workers or public sector employees, and it's my understanding that on July 1, these individuals would no longer be public sector governmental employees. They convert to be employees of Kaiser Permanente. So if were to allow them to continue then it would jeopardize the tax status of the entire fund. We would be subject to other pension regulations, there's one called ERISA, for, that applies to the private sector, and we don't comply with the requirements of ERISA either, and we don't want to because they're very different than those that apply to governmental plans. And if we were to lose our tax-exempt status, we couldn't make contributions on a tax-deferred basis, as is the case today, and the entire contribution of the value of benefits would be taxed at the time people receive them as, in a lump sum, as opposed to spread out over their retirement years. So I believe the bill contemplates letting 'em stay in the system but we are opposing that bill because it jeopardizes the benefits for all those who remain. So we don't think that that's a solution, quite frankly.

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And if I'm getting too far astray from the subject…that is an important issue because there are a few people who are just getting close to where they can retire from that and then they're going to be switched over to what is essentially a private entity, although it's supposed to be a public-private partnership so is there anything that we can work, we can mess with, you know, legal definitions, et cetera --

MR. WILLIAMS: We'll have to …

COUNCILMEMBER COUCH: --because it is public-private.

MR. WILLIAMS: Sir, we'll have the counsel, we'll seek counsel of attorneys but I would say, not a lot. A couple of those bills, though, do address the issues or attempt to address the issues you allude to that there are some people who are near retirement and one or more of the bills would allow people to start up to five years earlier than they would normally retire so they'd be tacked on a number of years so they wouldn't normally be eligible for say five years from now, they'd let 'em begin retirement. There was one of the bills that would allow one month of service for each year of service up to a maximum of three years. There's also an effort to provide cash compensation up to 50 percent of an individual's pay upon the RIF or reduction in their roles. So there are a variety of approaches that are in various of these bills and we've costed out for the Legislature each of those. We've not taken a position pro or against except for the one that would jeopardize the tax status of the system.

COUNCILMEMBER COUCH: Okay, thank you, Chair.

CHAIR HOKAMA: Yeah. It's interesting. A lot of things that you would think would have been taken cared of on the negotiations table is now trying to be solved by a law, which is not what I think is the right way to do it. So it's an interesting dynamics on how to deal contract talks through one law. Back to the retirement system as it relates to the County of Maui. Ms. Crivello, questions?

COUNCILMEMBER CRIVELLO: Not right now, thank you.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: No, I'd just like to thank Mr. Williams for his presentation, very clear and thorough. Thank you.

CHAIR HOKAMA: Mr. Victorino?

COUNCILMEMBER VICTORINO: And, thank you. And, again, Wes and you, sir, thank you for being here because every year when you folks come up, it's very enlightening. Sometime somewhat disturbing but very enlightening as far as what you bring forward. I guess my questions fall really in the area of growth because you mentioned that we now see the incline as far as number of employees that the State and County are employing and you mentioned that don't make the guys who are close to retirement, that 14,000 people, upset because they'll all retire at one time, which would leave us a big vacuum. But there's really a dichotomy right there with the fact that you're bringing in people and you're starting 'em here and you get all those that are near retirement and they're here, both for every aspect, medical, all the expense factors are much higher here than here and some of the changes we've made in the laws also preclude them getting what these people will be getting when they get to that point. All that being said, I guess my question is, being what it is, knowing that hopefully our investments hold steady, and that's one of those real, I don't know, next year or the year after, do you believe that limiting hiring is first thing, I guess, is the first question I would have that would help and secondly, looking at retirement as being a methodology of capping our unfunded mandate? In other words, it'll, by getting these many people retired, we know we going pay 'em that and the younger ones coming in or newer ones coming in, we know they're going build towards that but it'll be on a different scale. So that's where I have a challenge with your numbers because your number's assuming that these 14,000 don't retire right away, or you may assume they're retiring right away, you just said don't get 'em angry so they won't retire, and the new ones coming in. Do we still build or do we try to, I guess, like what was first brought to our attention years ago when we were in a recession, we let one retire, we hire one? If we don't need 'em, we don't hire. That's my question to you.

MR. WILLIAMS: It's a complicated question.

COUNCILMEMBER VICTORINO: Oh, and I made it that way 'cause, you know, the public, that's a question they ask, you know, do we need all of these people?

MR. WILLIAMS: Well, I assume we do, I mean --

COUNCILMEMBER VICTORINO: Yeah, okay, okay --

MR. WILLIAMS: --I don't know.

COUNCILMEMBER VICTORINO: --so that's, that's --

MR. WILLIAMS: That's not my --

COUNCILMEMBER VICTORINO: --we answered no.

MR. WILLIAMS: --that's not my role to --

COUNCILMEMBER VICTORINO: Yeah.

MR. WILLIAMS: --figure out, you know --

COUNCILMEMBER VICTORINO: Right.

MR. WILLIAMS: --whether they're efficiently employed or not and it just illustrates to me the dangers of trying to inject humor into these presentations because I wasn't really concerned that these 14,000 people would leave us or that we should be terribly concerned about it because each of 'em has an individual circumstance and, you know --

COUNCILMEMBER VICTORINO: Right.

MR. WILLIAMS: --and many will want to work because they're in good health, they got a long ways to, you know, for a whole, whole variety of reasons. And I didn't want to suggest that the rate of hiring of State employees is continuing to grow because even if it were static, you know, the contributions are set based on the actual employee population and paying that benefit over time. We do assume a payroll growth rate even if there were no more people but we assume someone retires and someone replaces 'em, as you suggested, but they replace 'em, we owe them a lot less, generally, because --

COUNCILMEMBER VICTORINO: At that point, yeah.

MR. WILLIAMS: --yeah, they haven't vested and they start at the beginnings of their careers versus the end of their career so I don't know that it's a solution to cap the numbers of, members in the plan. I tend to think that it's not, quite frankly. I think you have to address the benefit formulas and those are things that the Legislature and the Board has already tinkered with to adjust those benefits accruing going forward.

COUNCILMEMBER VICTORINO: Okay. And I thank you because, again, there is a human element, I'm sorry, we're only looking at numbers but there are real people out there that are affected by this, either here now, going tomorrow, or coming in the day after. It doesn't make a difference at this point. There are human factors and sometimes I believe we in government and even in the private sector look at numbers more than we look at people and that's what we are about, people, and I don't want that lost in the shuffle. The other question I had is, these contributions that you actually put down here between police and fire, general employees and then the change in 2012, there's a gradual increase, that's on Page 12 by the way, I'm looking at Page 12. I see where these contributions have steadily increased as far as their contributions are concerned, right? Do you think that we, that that's something that we also gotta keep moving towards, adding a little bit more, a little bit more, 'cause they get more, they need to contribute more? I want your take on that.

MR. WILLIAMS: Well, we always try to match the contributions with the liabilities, with the benefit accrual. And to the extent those liabilities are increasing, it requires an increase in the contribution. And I mentioned earlier, the demographic changes that underlie our liabilities and our payouts and in many instances, you know, when these plans were first formed, particularly for police and fire, individuals worked 'til 50 or 55, they had to stop work and health precluded their continued receipt of benefits but now we're seeing because of a lot technological and equipment changes in healthcare that people are living a lot longer and they're receiving those benefits longer so it is probable that there will be some additional contributions required going forward because there will be additional payments required going forward reflecting this improved life expectancy and other factors, quite frankly, they get salary increases at higher than, you know, anticipated rates. You all know about the spiking issues that relate to public pensions and the like and so there are a number of variables that input into that, and I would like to say, too, that it's so important for, I know, Wes and I and our Board, quite frankly, we have to understand the numbers but it's all about the people, that's why we do what we do.

COUNCILMEMBER VICTORINO: Yeah, well, thank you, and I appreciate it. And the final question, Chair, and I'll let other ask, is, you know, when you were with the assets and how you have lowered the expectation of return, you know, you're lowering it to 7.5, and then how long would it be before you look at it again, two years? Is that what you said? And I missed it, if you did, I missed it.

MR. WILLIAMS: No, there is no set --

COUNCILMEMBER VICTORINO: Yeah.

MR. WILLIAMS: --timeframe --

COUNCILMEMBER VICTORINO: I see.

MR. WILLIAMS: --quite frankly. You can look at it and we review it every year to see --

COUNCILMEMBER VICTORINO: Okay.

MR. WILLIAMS: --if it's reasonable but generally you make these changes over longer periods of time because, you know, we've got a long-term perspective, we're not looking at just the next six months, what's happening, you know, in the globe, around the globe. So we're trying to look at, generally, five to ten years. So we just made some changes but nothing precludes us from making additional adjustments if it seems warranted.

COUNCILMEMBER VICTORINO: Well, I think, you know, we appreciate that and I think, you know, the hard work you and the Board and Mr. Machida does is greatly underappreciated by many. But, you know, if it wasn't for you and your Board and, again, Mr. Machida and others, and Mr. Hokama comes in that category of fiscal prudence, you know, a lot of this will just get out there and we'd be in a world of hurt, we'd be like another Orange County or something of that nature and we don't want that. We don't want, ever put our employees or our retirees in that harm's way or even future retirees. So I thank you very much, Mr. Chair. I've got a few more questions but I'll let others, and then if we have time, I'll ask 'em at that point. Thank you, Chair.

CHAIR HOKAMA: Okay, thank you very much. Is there a current policy by the Board or a practice that if you hit more than 7.5 percent, the surplus or the additional revenue generated is then automatically set to offset additional liability?

MR. WILLIAMS: Mr. Chair, it's my sense that that policy prior that would allow that excess earnings to be redirected towards the General Fund was terminated, that that's, was legislatively precluded going forward but Mr. Machida probably has a greater recognition, knowledge of that.

CHAIR HOKAMA: Mr. Machida?

MR. MACHIDA: Yes, so, I'm sorry, your question is?

CHAIR HOKAMA: Can the Leg still siphon off the excess earnings --

MR. MACHIDA: No.

CHAIR HOKAMA: --which they did from the '70s and that's why we in this bottom 25 percent? 'Cause I've been following this from the '70s and I'm not a happy beneficiary.

MR. MACHIDA: Chair, yeah, they can't do that anymore, since 2005.

CHAIR HOKAMA: Since 2005?

MR. MACHIDA: Yes.

CHAIR HOKAMA: So, for me then, that means at least 35 years they siphoned off monies that should've helped fully fund this program.

MR. MACHIDA: Just, Chair, yes. In fact, for 37 years, about $1.7 billion ...

CHAIR HOKAMA: One point seven billion?

MR. MACHIDA: One point seven billion over a 37-year period.

CHAIR HOKAMA: So much for legislative leadership. They're more concerned about keeping their jobs than doing their damn jobs. Mr. Carroll, questions for our resource people?

COUNCILMEMBER CARROLL: None at all.

CHAIR HOKAMA: Ms. Baisa?

COUNCILMEMBER BAISA: No, I'm okay now.

CHAIR HOKAMA: Mr. Couch? Ms. Crivello?

COUNCILMEMBER CRIVELLO: Not right now.

CHAIR HOKAMA: Mr. White? Mr. Victorino?

COUNCILMEMBER VICTORINO: No, good to go.

CHAIR HOKAMA: Mr. Williams, we thank you. And one of the things that I wanted to ask you is, the instruments that your board and trustees assist you with on investments, are you limited to what the State statute currently, as it currently reads, or are you in a situation where you have additional instruments available to the system by other authorizations?

MR. WILLIAMS: I'd have to review the statute to understand the distinction between what may be required but I don't believe at present that there are any constraints, apart from prudent ones, on what we can invest in. We tend to have the full array of investment strategies and opportunities available to us. I think, historically, there had been limitations in most public plans where they limited the amount of exposure to stocks and versus fixed-income type investments. Most of those have gone by the wayside and I don't believe that they constrain ERS in any way today.

MR. MACHIDA: Chair?

CHAIR HOKAMA: Mr. Machida?

MR. MACHIDA: We, ERS follows Section 119 of the Hawaii Revised Statutes. And so all of the investments conform to those statutory provisions.

CHAIR HOKAMA: Okay. What parameters does the trustees have from a fiduciary standpoint? I mean, let's say, they told Mr. Williams, we want to pick funds A, B, C instead of 1, 2, 3 and we lose our butt on it. How much financial responsibility do those trustees have regarding the loss of a lot of that money? None?

MR. WILLIAMS: Well, again, I'd want, because of my relative inexperience, to seek advice of those with greater knowledge of the system but I don't think that the trustees normally bear liability for losses that may occur in the system. There are some prudent investor statutes and others that would expose an individual to personal loss if, in fact, they made purposefully, intentionally, knowingly, unwise decisions but our board tends to operate as a full entity. No individual has undue influence and say I want this one versus that one. Generally, it's a coalition of investment consulting firms. We hire professional general investments. We have so-called private or alternative investment consultants. We have real estate investment consultants. And it's typically an analysis that takes place both by investment managers and our investment consultants that leads us to a particular investment. And we don't make the investments really in an isolated, standalone way. It really looks at those investments as to how it integrates with the rest of the investments in the program because, again, that focus I mentioned earlier, that we're looking at lowering the risk, and each investment of any substance that you put into a portfolio changes that risk/return profile positively or negatively. So there's always an effort to integrate investments that have the best or highest probability of achieving our goals of improved return with lower risk. So, you know, it's unlikely that board members will be assessed penalties for a failed investment and hopefully, while you can't guarantee all of 'em, that the failed ones would be modest and relative to the ones that produce strong and positive returns.

CHAIR HOKAMA: Mr. Machida?

MR. MACHIDA: Well, first let me clarify, Section 88-119 covers investments. I don't think I said 88, I said 119, so it's 88-119. Secondly, I have the pleasure of serving as a board member now. So for the past year, I have been a trustee of the Employees Retirement System. The managers that are hired by the retirement system are, have discretion in terms of what they invest in. We do monitor them. We do have policies that oversee those managers and the investments that they do make, that if there are any losses, as an example, and their performance isn't up to par, that we will review them to make sure that, we put them on notice that their performance either has to improve, if not, then they're subjected to certain consequences. And so we do check on that. Secondly, we do have a securities litigation program now that we take a look at, whereby if it's found that there are companies that have committed some fraud or other mismanagement of some kind, we do have counsel that would take a look at that and we will go after the companies whether it be as a participant or a lead. We will go after them to ensure that we're made whole. And so there are things that we do look at to make sure that we go through our proper due diligence as trustees to ensure that the fund is either made whole or that it's not suffered losses as a result of others.

CHAIR HOKAMA: Okay, okay. Well, you know, for me, when you guys make the right decision, we all benefit but when you don't, we, as an employer, have to now ante up a bigger share to the pot. So from a, you know, employer's perspective, why wouldn't the County of Maui, if we were asked to, be able to leave the State system to go to another system to have better earning powers and better returns to further reduce our obligations faster and sooner? Let's say, California, as we've been in discussions, California have asked us that if we wanted to and were interested, to join CalTRUST, California County's program, for investment. And they have a bigger pot and a bigger influence on the market for us to get potentially better earnings for this County. Why wouldn't the State allow counties like us then, those opportunities, because it's our obligation we're trying to address, address and eliminate?

MR. WILLIAMS: Well, I think it's a policy decision, sir, as to whether or not member entities, counties or employers can so-call disaffiliate from a retirement system. Generally, there are laws that either specify the conditions under which an organization might disaffiliate or in some instances, in fact, it's not allowed. But that's what legislators determine, whether or not you have that capacity or not. Those that do allow so-called withdrawal or disaffiliation generally require that your withdrawal leave no obligations in the system that are unfunded. So to the extent that there are these unfunded liabilities, they generally are accelerated, they're paid upfront before an entity could, allow to be withdrawn. Let me just say that from an investment perspective, I think the investment team at the ERS has had results as good as or better than a significant number of other public pension funds and it's not because they've gambled or made bets on one sector or another, it's because they've got a very competent staff and they've diversified in a meaningful way, not only domestically, but globally. And so while, you know, there are any number of entities that may hold out past performance as, you know, as a magnet as to why you might want to go with them, you know, whether that's going to be borne out in the future or not, but one can never know. But I don't know of any other…maybe there are other counties that have withdrawn from, in other public pension funds to go with the entity that you described but I think that the County's best options are within the system here that it has even greater influence or control over than maybe one in California, but that's just my perspective.

CHAIR HOKAMA: 'Cause, let's say, every county in this State is fully funded, we've wiped out our obligations, the State didn't, so something happens to the fund, all of us who fully paid is gonna now be penalized by the one entity that has still an obligation to the fund, right?

MR. MACHIDA: Chair? So from the pension's standpoint, it's a pooled fund, so everybody shares, the State has always statutorily made its fair share contribution. You may be referring to, I guess, the next topic of discussion, which is on the health benefits side, which is not a pooled fund but are tracked by employer. So, as an example, I'll go through it later on but you'll see the difference between County of Maui's funded status versus the State of Hawaii as an example. I might be going ahead of schedule but the County of Maui's funded ratio for the health benefits side is about 33.4 percent, the State if 2.7 percent. So there's a big disparity between the two but it is tracked separately. So collectively, you're going to see the funded ratio of the health benefits side of about 7 percent in total but the County of Maui is way ahead of the State in terms of what it's been able to put in and fund that health benefits system.

CHAIR HOKAMA: And we'll get to that real fast, soon, Mr. Machida, so thank you for that heads-up on the discussion we're going to have. But my thing is, you know, so maybe one of the, does the system currently have some kind of payment recommendation or policy? I mean, you know, for us, we working with our Finance Director. We've recommended and the Director has agreed and support it, to pay our portion of the annual fiscal year in the first quarter because we want that interest earnings. Why doesn't the State do the same thing?

MR. MACHIDA: I'll speak to that, Chair. The State --

CHAIR HOKAMA: Is now doing it in the first quarter?

MR. MACHIDA: --is now doing it because, we recognize--so when I first became Finance Director, one of the things that we tried to do is we tried to make sure that we could control whatever within our jurisdiction, that we didn't have to do any statutory changes or amendments. So one of the things that we have done as a State is that instead of giving 1/12 every month of the contribution, we are now giving everything upfront at the beginning of the year because our analysis have shown, have done four different scenarios, four different changes over the long run in terms of down years versus up years and all of them point to the fact that if we're able to do this at the beginning of the year over an extended period of time, we can reduce future contribution levels by half a billion to billions of dollars. And so we have done that analysis and we have done that this past fiscal year and we will continue to do so as long as monies are available and as long as I am Finance Director.

COUNCILMEMBER VICTORINO: Okay.

CHAIR HOKAMA: And, again, you know, I know what you just said, Mr. Machida, but as I understand Constitution, like our Charter, we are required to pay our obligations. So, you know, for me, I get nervous when you say, with funding available, 'cause for me the Legislature has no choice but to fund. They're required by law to fund. So, you know ...

MR. MACHIDA: I should clarify that, Chair, actually we will make that payment because the funds will be available at the beginning of the year.

CHAIR HOKAMA: Are all the other counties following the same practice? Are you aware, Mr. Machida? Because it's better for your investment portfolio to have all this cash upfront for potential earnings, right?

MR. MACHIDA: And that is correct. The one thing, too, is that when we make that contribution at the beginning of the year versus throughout the year, it also helps out all of our brother and sister counties as well too because it's a pooled fund.

CHAIR HOKAMA: Right.

MR. MACHIDA: So whatever is reduced, it's enjoyed by everybody. So we are going to recommend, or at least present that, to all of the counties to make sure that they understand what the impacts will be.

CHAIR HOKAMA: When, how often does the actuary actually go and separate out the earnings to make sure that each county gets its accurate credit or allocation so that it's reduced off their net obligation?

MR. MACHIDA: Well, on the pension side, it's a pooled fund so everybody enjoys the same amount of benefits that one employer might contribute to but on the health benefits side, it's tracked separately so they do that annually. So ...

CHAIR HOKAMA: Yeah, but somebody gotta be able to tell me, this is the County of Maui's retirement balance.

MR. MACHIDA: Right. So now they do that because of the new reporting requirements. So they will split out, as Executive Director Williams had mentioned in his presentation, they split out the net pension liability amounts by employer now. Whereas, before it was done on an estimated basis based on the payroll distribution of each employer.

CHAIR HOKAMA: Yeah, that didn't make me too happy.

MR. WILLIAMS: And it's done an annual basis, sir.

CHAIR HOKAMA: On an annual basis, Mr. Williams?

MR. WILLIAMS: Yeah, on an annual basis now since these do, governmental accounting standards ...

CHAIR HOKAMA: You gotta be closer to the microphone.

COUNCILMEMBER VICTORINO: Talk into the mic, please.

MR. WILLIAMS: I'm sorry, there.

CHAIR HOKAMA: Thank you.

MR. WILLIAMS: Its, the actuaries look at our program on an annual basis, a fiscal year basis, and under these governmental accounting standards board requirements, this is done yearly. So that's the way we're able to give you the information as to all of the member segments and Maui's liability and we'll be able to do that going forward every year.

CHAIR HOKAMA: Okay, thank you. You had a question, Mr. Couch? Other questions, Committee members, for Mr. Williams or Mr. Machida on the retirement component?

COUNCILMEMBER VICTORINO: No. Thank you.

ITEM 115: COUNTY OF MAUI RETIREE HEALTH CARE PLAN ACTUARIAL VALUATION REPORT AS OF JULY 1, 2013 (CC 14-145)

CHAIR HOKAMA: Okay, we'll move on then and why don't you also join us, Mr. Agsalog, on this one? I know that Mr. Machida is going to give us some comment on the health care actuarial report as of July 1, 2013. This is under BF-115. So we'll have Mr. Machida, and Mr. Agsalog will assist the Committee, with comments on this item, Members.

MR. MACHIDA: Thank you, Mr. Chair and County Councilmembers. It's a pleasure, again, for me to be here, really appreciate it.

CHAIR HOKAMA: Thank you, Mr. Machida.

MR. MACHIDA: And as I'm going through the presentation, if there is anything that you need know or ask about, please feel free to do so because I'm here to try to answer all of your questions. My presentation will be much shorter than Mr. Williams but don't be misled by the number of slides because they are equally, if not more important, because of the funding situation with respect to the health benefits.

MR. AGSALOG: Mr. Chair?

CHAIR HOKAMA: Mr. Agsalog?

MR. AGSALOG: Thank you, Mr. Chair. Before we proceed to Mr. Machida's presentation, let me just say that the actuarial that was sent to you dated July 1, 2015 was the newest one that we have and I apologize to the Committee because I wasn't able to attend the actuarial presentation in Honolulu so Mr. Machida will provide that presentation to us and I really appreciate it. Again, the actuarial that was provided to you, and I also provided it to the Office of Mayor, Budget Office, for us for the appropriation portion of the Act 268 or the full ARC that we have. So, again, Mr. Chair, Mr. Machida will do the presentation for our portion.

CHAIR HOKAMA: Thank you, Director Agsalog. And, Mr. Machida, if during your presentation, you could help us have a better understanding, so maybe if you could help better define the term deferred inactives versus pension or retirees versus active?

MR. MACHIDA: Okay.

CHAIR HOKAMA: Thank you.

MR. MACHIDA: So, in fact, in you don't mind, because one of the first slides that we're gonna go through is really the total membership data --

CHAIR HOKAMA: Okay.

MR. MACHIDA: --and so, but before then, this is the agenda that I'll be covering today. So I'll have about 11 slides or so that would cover the membership data, some of the benefit counts, and then going through some of the valuation information. But let me get to the question at hand, Chair, if you don't mind.

CHAIR HOKAMA: Thank you, mister ...

MR. MACHIDA: So we have here, in terms of total membership data, and so this is with respect to the health benefits side of the system versus the pension side. So, Chair, you asked about deferred inactives?

CHAIR HOKAMA: Yes, thank you.

MR. MACHIDA: So those are the individuals that left State or County government employment but at some point down the road, would be eligible for a health benefit when they retire. And so those are the individuals. So you have about 6,600 of those individuals currently. I believe on the pension side, we have about 9,000 or so. But this represents the health benefits only. So that's what they are, Chair. They are individuals that at some point down the road, so they probably have about 10 years or more of service, so they will be eligible to get some defrayment off of their premiums when they do retire. So they'll either get 50 percent of their premiums paid for, 75 percent or 100 percent. So this represents the counts and we wanted to do a comparative analysis. One of the things that's unlike the pension side, on the health benefits side, a valuation analysis is done every other year, so it's not done every year, it's done every other year. So 2013 and 2015, there was a valuation report and as Director had mentioned, you just recently got the valuation report for 2015. So the next one that would come up would be 2017. Wanted to give you an idea in terms of the enrollment counts, in terms of, so for all of the members where they're enrolling in, whether it be medical, drug, dental, vision or life insurance, everybody wants to be in a life insurance plan so that's where you got the biggest counts. And this doesn't speak to, some of the members may be also on their spouses or family's coverage as opposed to with the EUTF, so this doesn't necessarily speak to how many of those are with their spousal coverage. This is for the County of Maui. So wanted to break up between the entire health system versus the County of Maui. So as you can see here, this is probably representative of the entire system as well too, where most would be in the life insurance and medical plans. Now this is probably what you are really interested in and this is really the valuation report for the health benefit side. And so we wanted to split it out between all employers and the County of Maui. So the present--and let me just concentrate maybe on the County of Maui for the Council's benefit. So the present value of benefits is $546 million, of which the actuarial accrued liability represents 446 million. Your portion or the value of the assets that pertain to the County of Maui is 149 million, which means that the unfunded actuarial accrued liability is 297 million or a 33.4 percent funded ratio. So the County of Maui has one of the better funded ratios amongst all of the employers. And although all employers funded ratio blends into 6.7 percent, as I had indicated earlier, the State of Hawaii, I believe is about 2.4 or so percent. So unfortunately the State brings down that funded ratio when you consider all employers. The minimum OPEB contribution, so about three years ago, there was an enactment of legislation that requires prefunding of the OPEB. So OPEB is Other Post-Employment Benefits. And so there was a graduated phase-in of the contributions that are required from 20 percent all the way to eventually 100 percent in Fiscal Year 2019. So it goes from 20 percent 1 year, to 40 percent the next year, 60 percent the following year, 80 percent, and then, finally, 100 percent in Fiscal Year 2019. And so when I say, those phase-ins, it's really the annual required contributions, so it's a percentage of the annual required contribution. So when you look at, for 2017, which is next fiscal year, the minimum contribution required by law is 60 percent of the ARC or Annual Required Contribution, so for the County of Maui, that represents $9.7 million. The pay-as-you-go portion for 2017 is $15.6 million. Now the subsequent year, after 2017, it's 80 percent so that's part of the phase-in. So it's 80 percent of the annual required contribution. So for 2018, instead of the 9.7, which represents 60 percent for 2017, it'll be 12, it's projected to be $12.5 million, which represents 80 percent of the annual required contribution. And the pay-as-you-go amount for 2018 is estimated to be 17.3 million. So what shows here is that there's a steady increase in the requirement, not only because of the phase-in period, but from the pay-as-you-go amount, from also what's needed on an annual basis to pay the employer's fair share for the retirees as well too. But let's talk about what the future holds for all of us because it's one thing to talk about the current and the near future but let's talk about into the far future as well too because as you well know, since I've been here for the past five or six years doing this presentation, one of the things and one of the issues that I like to bring up is the escalating contribution requirements and how each employer will have to take a look at that as to how that fits into their budget, how that fits into the other program services that need to be done or need to be executed. So when you look at those estimated future contribution requirements, so what I've done is looked at 2017 versus 2025, 2035 and then finally in 2044. And the reason why I look at 2044 as the end date is because when the actuary looked at the health benefit contribution requirements, they're looking to pay down or close to within a 30-year period. Twenty forty-four represents a period, actually 2045 represents the period where it gets close to that. So I wanted to take a look at all of the requirements before then. Twenty twenty-five, so it increases, the annual required contribution increases, so you look at the first column, the ARC, from $1 billion in 2017 to projected to be $1.3 billion in 2025 but it's projected to increase to 1.9 billion in 2035 and finally, 2.3 billion in 2044. So this is looking at all employers. The benefit…look at the additional cost, the final column of prefunding. So just by virtue of the fact that prefunding occurs in between that time period, look at the stabilization of that requirement. Yes, it goes up from 307 million to 431 million but then when you look at 2044, it goes back down to 300 million. So what you really see is the benefit of the prefunding. Rather than escalating, it tappers off. This is a really busy schedule but what this shows--and you have it your report, in your valuation report--it has every year, the projections. So rather than this previous schedule, where I try to summarize in increments, this schedule shows it by year, every single fiscal year. This is the schedule, for me, in particular, that I pay particular attention to as Finance Director because it really shows what the future requirements will be on an annual basis. And one of goals that we want to try to do is to reduce the contribution levels going forward. Even if the benefits have to be maintained, doing other things to reduce those contribution levels. As an example, making those annual required contributions at the beginning of the year versus throughout the year. Let me also state this, in 2014, there was no requirement to make contributions, no mandated requirement, I should say. The State did contribute $100 million. Because of that $100 million in 2014, and there were some extra contributions that were made in 2015, along with the favorable experience, future contributions are being reduced as a result of that by about 25 million per year to about 40 million per year. So it really, that shows the benefit of putting monies in earlier rather than later.

CHAIR HOKAMA: Mr. Machida, on that projections, you were sharing with us that you said was, especially that slide that, the other slide, that you said was a key one for you in your projections --

MR. MACHIDA: Right.

CHAIR HOKAMA: --this is all based on a 7.5 return of investment?

MR. MACHIDA: This is actually based on a 7 percent return on investment.

CHAIR HOKAMA: Seven percent return?

MR. MACHIDA: Right. So I'll talk about this a little bit later when we talk about legislation because the EUTF is not able to invest in the same way that the retirement system is.

CHAIR HOKAMA: Oh, okay.

MR. MACHIDA: So because of that, its expected return is lower than the retirement system but we are planning to see if we can change that. There is legislation currently making its way through the legislative process that will allow, if it's passed and signed into law, will allow the EUTF to invest in, if it wants to, in the same way that the retirement system is able to.

CHAIR HOKAMA: Okay, thank you for that.

MR. MACHIDA: But this is, Chair, this is based on a 7 percent expected return.

CHAIR HOKAMA: Okay.

MR. MACHIDA: This is a graphical representation of really what the prefunding does. When you look at that solid blue line, that really shows that the unfunded liability will be paid off, if everything, all the other assumptions hold true, it'll be paid off in 2046 or so. I know it seems like a far distance away or time period away but really going from that solid blue line to the dotted lines, where you really have a point where you might not ever be able to pay it down, I think this is a really important graphical representation of what the prefunding does and really, hoping to ensure that it's paid off within a reasonable time period so as not to burden future taxpayers and future generations.

CHAIR HOKAMA: Would you know how much of an impact this has on employer's bond rating, this, just from this graph?

MR. MACHIDA: This has a major impact to the bond ratings. I know that it was stated in the Mayor's State of the County address that Maui County has the highest bond rating of any employer within the State of Hawaii and that is true. I just recently came back from a bond rating presentation about a month ago or so. The high debt levels, which includes the unfunded liabilities, is a major factor in the rating of the financial stability of the employers. And so this, when you have a plan in place that is able to pay down, that shows that the unfunded liabilities will be paid down within a reasonable timeframe and you stick to the plan, there is effort to show that we will stick to that plan, it's looked upon favorably from the bond rating agencies. And any downgrade or negative change to the outlook could cost any employer, in terms of their bond rating, millions of dollars in better pricing, in, which means, which translates to better interest rates, lower costs for the employers.

CHAIR HOKAMA: Understood. Yeah, thank you for that comment, Mr. Machida.

MR. MACHIDA: Just wanted to show you and give you an idea so, for comparative purposes, on the asset allocation between what the EUTF goes through versus what the ERS goes through. So wanted to show you where currently the makeup of those distributions or allocations are. So when Mr. Williams talked about the equities and how much equities were allocated in the pension system, when you really look at the EUTF, it's not nearly as much. Twenty-four for US Equities, percent, 19 percent for International Equity. So when you see 60 percent or so for the pension system, you're really looking at about 43 percent for the EUTF. So, hence, in the long run, the difference between the 7½ percent expected return versus the 7 percent return. This is the performance over the last four years of the EUTF. So as you can see here, and I think what's important to note is that really, when you look at 2012, you know, the plan did very well. It beat not only its peer group, but also its policy benchmarks. And although it's beaten its policy benchmarks in the subsequent years, the peer group for 2013 and 2014 had outperformed it, not for 2015 though. But when you compare the ERS' returns to the EUTF's returns, they're not as comparable because they're not able to invest in the same way.

CHAIR HOKAMA: Okay, understood.

MR. MACHIDA: Now, talking about the proposed legislation. If you look at the first bullet, that SB 2838 is important to get passed because it'll allow the EUTF to invest in the same way that the ERS is able to do so. So we are lobbying or pushing hard for this to get passed. And, by the way, I also sit on the Board of EUTF. I recently got appointed so it was important for me to make sure that we protect both systems, not only the pension side but the health benefits side as well too. And then when you look at the second bullet, what's important to note here, because it really helps with the unfunded liability of the health benefits side, what it does is it fixes, so once you retire, it fixes the definition of a dependent-beneficiary. So for some people, when they retire, they may add on family members after they retire, which increases the premium cost and the coverage. We felt that it should be fixed at the point of retirement and not anyone added in thereafter. So, hence, this legislation or this proposal, and this will help with the unfunded liability going forward. So far, it's made its way through the legislative process. We're not sure if it's going to be approved at the end of the legislation or the legislative process but, again, we are pushing to see, to make sure that this is something else that we will see through. And, again, so the point of it all is that there's a lot more to be done so even though there's a plan in place, we are still looking at other ways to address the liability issues because what we want, we don't want to happen, is anything that's been happening to the municipalities throughout the United States, whereby, you know, they fall short and members are not able to enjoy what they deservedly earned. We don't want that to happen. So we are still trying to do other things to protect that, to deal with the unfunded liabilities in a positive way. And with that, that ends my presentation, but I'll be happy to answer any questions that you may have for me.

CHAIR HOKAMA: Okay. Well, thank you, Mr. Machida, for your presentation. But before I ask the Members if they have questions, I would ask Mr. Agsalog, as our Director of Finance, if you have additional comments you would like to share, Mr. Director?

MR. AGSALOG: No, Mr. Chair. Aside from what you have already mentioned that we are now very proactive in sending our portion of the unfunded liabilities as soon as the first quarter rolls in for our appropriation. We do, we are very, very active in that now so, with that, I will also answer questions if there's any that's directed to me, Mr. Chair.

CHAIR HOKAMA: Okay, thank you very much. Mr. Machida, do you get to participate or have some kind of say in collective bargaining?

MR. MACHIDA: I participate in it, from the costing standpoint. We do, have a Chief Negotiator that handles it.

CHAIR HOKAMA: So for the benefits side and whatnot, you help the employers understand what kind of cost implication and impact a proposal on the table that is being negotiated will have on us?

MR. MACHIDA: Yes. So not only from the salary and current fringe benefits standpoint, but also from the long-term liability standpoint. So even when we go through arbitrations now, we also look at the impact to the pension and health benefits systems as well, too, in terms of the dollars.

CHAIR HOKAMA: Okay, well, thank you for doing an important job for all of us in that area. Can you tell this Committee this afternoon, who is the current Chief Negotiator for the State or do we not have one?

MR. MACHIDA: It's Mr. James Nishimoto. He is also the Director of the Human Resources Development Department.

CHAIR HOKAMA: Okay.

MR. MACHIDA: So he's serving in two capacities currently as Chief Negotiator as well as the Director.

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

COUNCILMEMBER BAISA: Thank you very much, Chair. And thank you so much, Mr. Machida. You know I've been watching you over the years and the presentations become more impressive every year and I really like the emphasis on the legislation. I think it's made a big difference. You know, this has been an elephant in the room long before I got here, and I've been here ten years, and I think we're making progress and I want to thank you for that. But I do have a question, I'm kinda curious. You know, this legislation that you mentioned where you're trying to get the ability to do different investments, better investments, is there any particular area in investing that you're precluded from doing that you'd like to do?

MR. MACHIDA: Well, as an example, in the private equity area, that has a tremendous upside. While cash flow wise it may not be immediate, the long-run returns, potentially, are far reaching, I mean, they're, it's been from the retirement system standpoint, it's been a very good thing to have had over these last several years or so. We've seen the fruits of those investments come to play and so that's just one example, Councilwoman.

COUNCILMEMBER BAISA: The other thing that I'm interested in is, what about international investing? How does that go? Do we have enough, could we do more?

MR. MACHIDA: When you look at the asset allocation mix between the EUTF and the retirement system, I believe when we go back to the slide, International Equity represents 19 percent, the retirement system, I believe, has over 20 percent in International Equity. And so, while there may be some benefits to doing that, we also have to remain cautious because we do know that there are things going out, on throughout the world. China is an example, Brazil, you know, countries such as those and others that we have to be, you know, cautious about.

COUNCILMEMBER BAISA: Okay, thank you very much. Thank you, Chair.

CHAIR HOKAMA: Thank you. Mr. Carroll, any questions? Mr. Victorino?

COUNCILMEMBER VICTORINO: Thank you, Chair. And not so many questions, I want to thank, again, Mr. Machida. Through the years, and I, too, have been here ten years, and I've watched this develop into something that, it's much more palatable, understandable, and more importantly, workable. I think we saw a pie in the sky when we first walked in these doors and now reality is beginning the set in, you know, two thousand and, what is that, I forgot the year that you guys looking, 26 years down the road as possibly fully _____. I remember the first meeting I had with you in Honolulu and was 31 years at that point, and that was only 3 years ago. So we've made tremendous progress, Mr. Chair. And, of course, the Legislature, the administrations, all have began to realize that if we don't make changes within our system itself, this is an uncatchable, what I like to call 'em, like a little mongoose, it's always going to get ahead of you, you ain't never gonna catch 'em. No matter how hard you try, it's gone. And so, I believe you guys have done a fabulous job in this area. Again, as I told Mr. Williams, you know, the concerning factor is the number of retirees, you know, them, we living longer and the cost of medical, I mean, it is not going to go down. If any way, it's going to continue to rise exponentially and it's going get to a point where I don't know how people can afford it. I mean, I recently had two-days stay in a hospital in Vegas and the bill was $42,000. Now my medical covered it, you know, they covered it because it was an emergency stay but $42,000, I could've stayed at one of the beautiful hotels, they could've given me some cash to play on the machines and I still wouldn't have paid as much. That's what I'm saying, two days, actually it was really a day and a half. I went in Sunday morning and I was out Monday afternoon so it was really a day and a half, Mr. Chair, $42,000. And so I know medical, I saw a bill, this lady was in Action Line, $72,000 and they wouldn't resolve it, you know, at first they didn't want to pay it and then Action Line got involved and I hate to see us get to that point but that's what it seems to be. We get litigious about paying bills. But how do you address that rising cost because there is the other side of the coin that if a doctor or a practitioner or a physician's aide doesn't provide enough tests or something is not completed, you can get sued, if they find, because you did not run that specific test, which might be $10,000, you contract or you are found to have a certain disease which may be incurable or maybe life changing, how do you address that?

MR. MACHIDA: Well, Councilman, I think one of the things that is being looked at is wellness programs as well too.

COUNCILMEMBER VICTORINO: Good.

MR. MACHIDA: So that's one thing that's being looked at because obviously, you know, if there is programs such as those that people can participate in, hopefully it will reduce the amount of visits that need to occur. Also, I think some of the carriers are taking a proactive approach in terms of health screenings, doing earlier health screenings. That's something else that's being looked at. While we can't, you know, control necessarily everything, I think what we can do is try to minimize the impact, the future impact. So those are a couple of the things that is being looked at and while it may take a little while for those to come to fruition or be implemented, I think they need to be discussed and seriously looked at as a way to mitigate future increasing costs. Just to let the Councilmembers know, the actuary uses, I think, a 5 percent increase, annual increase, in the costs as a guide. And it's just, obviously, you know, if looked at in terms of the actual experiences that occur and then those could be adjusted going forward but for now, I believe it's about 5 percent.

COUNCILMEMBER VICTORINO: Then, Mr. Chair--and thank you, Mr. Machida--and, Mr. Chair, I'll say this, this is not, it's not only us. I was on the plane yesterday and this young lady was flying in for a job interview at Maui Medical Group from Canada. Canada now has capped how much you retrieve in certain, in all aspects of medical coverage. This doctor is capped at a certain level and because she's capped at a certain level, she may work only five months and the rest of the year, she has to work for free because of their social medicine, their system. So she's coming here to look for a job and then I started to go in about rents and foods and everything and she said, I'm from Toronto, no big deal. So my jaw dropped and I said okay, welcome, I hope you can find something 'cause we're really short of doctors and practitioners, too, here in Hawaii. But she's coming from Canada and the Canadian system is in dire need. They're in very, very bad financial shape right now. And I was like, oh, I guess, welcome to the world, maybe this is a global issue. But, I mean, we can only take care of our little world and we can't worry about everybody else but it is something that's happening right now. And because we have a critical shortage of doctors, whether it's the Philippines, whether it's from Canada, wherever, they're coming now because they feel they can retrieve more here, even under Medicare, than they can where they are now. So I thought that was very interesting. That made for an interesting flight back from California yesterday with that lady and her husband and we had a lot of time, we sat next to each other going all of this so. I tell people this, it's not much better on the other side of the fence. In fact, in much cases, when you jump over, you find it's worse off. Thank you, Chair.

CHAIR HOKAMA: Okay. Let's get back to --

COUNCILMEMBER VICTORINO: Sorry.

CHAIR HOKAMA: --the benefit and how much we owe. Mr. White?

VICE-CHAIR WHITE: Thank you, Chair. And, Mr. Machida, I don't know if you've seen the GRS study, maybe Mr. Agsalog can respond to this, but on Page 2, it's interesting, what it looks like to me is that although our market value of assets has been increased because of the money we've contributed, our market value assets have grown by 122 million, roughly, but the value of present, or present value of benefits has grown by 66 million so the net result is that although we've put in 122, we've only seen our unfunded liability, unfunded actuarial accrued liability drop by about 62 million. Is that something that we can expect to have continue to happen with the cost of medical going up?

MR. MACHIDA: I'm sorry, Councilman, so that's on Page 2 of the --

VICE-CHAIR WHITE: On Page 2, yeah, I'm sorry --

MR. MACHIDA: --of the GRS report?

VICE-CHAIR WHITE: --in the second box, yeah.

MR. MACHIDA: The second box? So on the actuarial summary?

VICE-CHAIR WHITE: Yeah, I'm looking at the present value of benefits growing from $480 million to 546 in just ...

MR. MACHIDA: Oh, I'm sorry, that's on the Maui's share only?

VICE-CHAIR WHITE: Yes.

MR. MACHIDA: Okay, sorry, I have the all employers one.

VICE-CHAIR WHITE: Oh, sorry.

COUNCILMEMBER VICTORINO: Oh, I didn't know, Mr. Chair, we was covering this too. I thought we just sticking with this one. I'm sorry.

CHAIR HOKAMA: No, no, we also, with the report from Mr. Agsalog.

COUNCILMEMBER VICTORINO: Oh, the report, okay. Oh, thank you.

MR. MACHIDA: Okay.

COUNCILMEMBER VICTORINO: I didn't realize that we were ...

MR. MACHIDA: Sorry, Councilman, I have the report now.

VICE-CHAIR WHITE: Okay, so the present value is growing from 480 million to 546 and even though our value of assets has grown from roughly 27 million to 149, we're up 122 million, we've only taken $62 million off of our unfunded actuarially accrued liability. So is this something that we can assume is going to continue because of the continuing increases in medical costs and I'm assuming that's increase in costs plus growth in number of employees to some degree?

MR. MACHIDA: And that could happen. I think what's important to remember on this page in this section is, what jumps out to me, in particular, is the fact that you go from a

7 percent funded ratio to a 33.4 percent funded ratio. So, to me, that shows that you are doing, the right things are happening because you have increased it, in my eyes, significantly, in the last two years. And so I don't necessarily look at it also from a dollar standpoint, but I also look at it from a percentage standpoint so you have changed your, the portion that's not funded from 93 percent to 66 percent. And in my eyes, that's pretty substantial.

VICE-CHAIR WHITE: Oh, no, I think we're doing the right thing. It's just, it's a little frustrating that we're putting a lot of money in and we're only gaining on the problem by half of what we put in.

MR. MACHIDA: And I think that--and that's a good point, Councilman--I think it'll grow if, this legislation also is passed to allow the EUTF to invest in the same way as the ERS, you're going to see a shift because in the long run, the return should be much better than what the EUTF could get now under its current statutory provisions.

VICE-CHAIR WHITE: That brings up another question, Chair.

CHAIR HOKAMA: You know, let me just--do you know why the retirement versus the health was given two different types of investment limitations?

MR. MACHIDA: I'm not sure why. At that time, it may be because, like anything else, when you start to fund initially, you want to be more conservative than not until you're able to build up a significant corpus. I'm not sure, though. That's something that, you know, I can check back and see if there's anything in the minutes of what had transpired on the health benefit system side.

CHAIR HOKAMA: I just find it interesting that you don't have the same options as the retirement side.

MR. MACHIDA: And hopefully we can correct that.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: If, looking at this page on your presentation, just off the top of your head, could you give us a rough return rates for the ERS, for 2012, we had a 5.9, what would that have been for the ERS?

MR. MACHIDA: I will check, I have a summary here for the pension side, I can check really quick --

VICE-CHAIR WHITE: Okay.

MR. MACHIDA: --if you don't mind, if you give me maybe about a minute or so, I can check for that.

VICE-CHAIR WHITE: Well, that's up to the Chair. If you wanna, you can get back to us. I'm just interested in seeing what the comparison is between the two.

CHAIR HOKAMA: This is on Page 11, Mr. White?

VICE-CHAIR WHITE: Yes. So it'd be good to see what the ERS was able to achieve in the same years, 2012 through '15.

MR. MACHIDA: Okay, so, in 2012--that might not be a good example because it's showing about a flat, flat rate, zero percent. But in 2013, the ERS earned 12.3 percent. In 2014, it earned about 18 percent. And in 2015, it earned about almost 4 percent.

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

CHAIR HOKAMA: Thank you. Ms. Crivello? Mr. Couch? Are there any other questions, Members, you would like to ask Mr. Machida or Mr. Agsalog as it regards to Other Post-Employment Benefits. I think, Mr. Machida, we thank him for recognizing our efforts in trying to pay down our obligation. I am, like him, very pleased with the percentage of pay down. So, as he says, Maui, I guess, is leading the pack at the 33 percent pay down. You have anything else you'd like to share, Mr. Machida, with us? We are open to, you know, any additional comments you may share.

MR. MACHIDA: Yeah, well, first of all, I wanted to thank you because without your assistance, we couldn't have gone as far as we have so I really appreciate that from, this Council has helped us, you know, moving forward. And so I really appreciate your efforts, as well as, obviously, with the State Legislature with the administration and then with even the other employers, but I think it takes a collective effort to get through this. It's, it is a large liability. It's one that needs to be addressed. And even though there's plans in place, there still needs to be more done and can be done, in my eyes. And so I wanted to thank you all for that. I really appreciate it.

CHAIR HOKAMA: We also want to thank you for your good job in a very important and responsible position, Mr. Machida, because thousands of employees and retirees depend on the fund to be able to have them a good retirement and a healthy retirement. So we appreciate your efforts. Mr. Agsalog, sir, as our Director, do you have any closing comments you wish to share?

MR. AGSALOG: I just want to thank you, Mr. Chair, for looking into this and I know it's Budget time and the document was provided to you and, of course, to the Budget Office also for their reference in appropriating our required contribution, whatever we decide to do as a County. So, again, Mr. Chair, thank you very much.

CHAIR HOKAMA: Thank you. Okay, Members, with no additional questions, the Chair, with no objections, is going to be deferring Items 115 and BF-52(1).

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: So ordered.

ACTION: DEFER pending further discussion.

CHAIR HOKAMA: We'll take a recess, five-minute recess, be back at 3:15 and then we'll take up the next item, which is going to be Royal Order of Kamehameha. We are in recess. *. . .(gavel). . .*

RECESS: 3:08 p.m.
RECONVENE: 3:18 p.m.

ITEM 38(36): AMENDMENTS TO THE FISCAL YEAR 2016 BUDGET (OFFICE OF ECONOMIC DEVELOPMENT (THE ROYAL ORDER OF KAMEHAMEHA I)

CHAIR HOKAMA: *. . .(gavel). . .* May I direct you to BF-38(36). This is an Amendment to the Fiscal Year 2016 Budget, Office of Economic Development. Members, what is before you is a revised bill, dated March 18, 2016, from the Budget Director, Mr. Baz, whereby (1) he sends us a Carryover/Savings from the General Fund of $60,000 and a grant for 60,000 through the Office of Economic Development, Grants and Disbursements for the Royal Order of Kamehameha. And so, Members, what is before you is that bill and the parameters of this Committee is either you vote it up or you vote it down. There is no revisions to the bill, okay. That is what is sent from the Budget Office and that is the parameter of this position of this Committee's authority, you vote it up or your vote it down. Or you can have it recommitted to, and stay in Committee. Okay, at this time, I'm going to ask Mr. Baz if he has any opening comments on this item?

MR. BAZ: Good afternoon, Chair and Members, and thank you for hearing this item regarding a grant to the Royal Order of Kamehameha for their 150th Year Jubilee Celebration. Administration proposed supporting this project and we look forward to the ability to execute a grant with them and help them with their celebration. So we have the Director of the Office of Economic Development, the Office of the Mayor here as well, Teena Rasmussen, to provide details. We have provided our responses to written requests for the Committee's purview that are in your files as well for more information. So, thank you, Mr. Chair.

CHAIR HOKAMA: Thank you, Mr. Baz. Ms. Rasmussen, any comments you wish to share with the Committee?

MS. RASMUSSEN: We have been in contact with the organization and we have told them that they will need to have a grant to us ASAP as soon as you take action on this item and we will be working with them to try to expedite that. It will not, however, be executed by the time of this event since it is next week but we'll do our best to get them the funds as quickly as we can get it through the process.

CHAIR HOKAMA: Okay, thank you very much.

COUNCILMEMBER VICTORINO: Chair?

CHAIR HOKAMA: Yes, Mr. Victorino?

COUNCILMEMBER VICTORINO: Being that this is critical and, again, we had the explanation this morning from the various members of the Royal Order of Kamehameha. For me, I, like you said, it's either up or down, I'm ready to vote and I know which way I want to go so whenever you ready to call for the question, I'm ready to rumble. Thank you, Chair.

CHAIR HOKAMA: Thank you. Mr. White, questions?

VICE-CHAIR WHITE: No, I'm supportive of the measure but I was just wondering, Ms. Rasmussen, do you, are you aware of whether any funding is going to be coming from OHA or Maui Native Hawaiian Chamber?

MS. RASMUSSEN: It's my understanding that there is no other funding coming from, I mean, from another grant source. If I'm incorrect, then maybe they can correct me. But, no, OHA did not give them a grant.

VICE-CHAIR WHITE: Okay, so that just creates a little more urgency then. Thank you, Chair.

CHAIR HOKAMA: Okay. We do have Mr. Kahoohanohano present if there's a need for a resource response. So the gentleman is in the gallery, as well as Mr. Kahaialii. So if there's questions for the gentlemen, you can pose that. Ms. Crivello, any questions?

COUNCILMEMBER CRIVELLO: No questions. I wholeheartedly support the efforts of the Royal Order of Kamehameha.

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

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And I, you know, I did have a question. I was curious as to why it went from 200 to 60 but it sounds like that's not going to be entertained so the other question I would have--I guess it would be for the group--why it's coming in so late, you know, 'cause the thing's next week, we're kinda being pushed up against the wall here, if I can ask them?

CHAIR HOKAMA: Which person would you like to direct your question to? Mr. Kahaialii?

COUNCILMEMBER COUCH: Mr. Kahaialii, Kaui.

CHAIR HOKAMA: Mr. Kahaialii, if you would consider the request from Mr. Couch?

MR. KAHAIALII: Aloha, everyone, aloha.

CHAIR HOKAMA: Okay, Mr. Couch, if you would please restate your question for Mr. Kahaialii?

COUNCILMEMBER COUCH: Yeah, I was just curious as to how it's, I mean, it looks like you've been planning this for a while, how it's that we're a week before and we're finally getting this?

MR. KAHAIALII: That's a good question. At the time of its inception, from when I had received it from my group to carry this ball and fulfill this obligation of kuleana, it was in November of 2015. So when I received that position of Chair of the event, I had approached the County of December of 2015. So the question of why we're here today, now, about two months later, I really can't answer that, I don't know. It went back and forth on, as far as discussions between either the Council or Budgeting or, it's in your house. It was is your house that the ball was left. So where it went from there, I don't know, but I'm just glad we're finally here.

CHAIR HOKAMA: Mr. Couch?

COUNCILMEMBER COUCH: Okay. I think that's it. Thank you.

CHAIR HOKAMA: Since Mr. Kahaialii is at the podium, if there are any other questions for the gentleman, please make it known at this time please. Okay, having--oh, do you have a question, Ms. Baisa?

COUNCILMEMBER BAISA: Yeah, well, since it's my turn and he's here, I figured we might as well.

CHAIR HOKAMA: Sure.

COUNCILMEMBER BAISA: Thank you. Thank you very much, Kaui, for coming today. I guess, like Mr. Couch, I, there's not a whole lot to talk about because it's an either or --

MR. KAHAIALII: Sure.

COUNCILMEMBER BAISA: --you know, and, of course, I would've liked to be able to discuss the difference between what you said you needed and what we're recommending but, you know, we have some information in our binder but it isn't, you know, definitely, you gonna take, what is it, 60,000 we're recommending, and what you're gonna exactly do with that. Can you elaborate?

MR. KAHAIALII: Sure. At the beginning of the proposal to this event, the thought was to go and invite the dignitaries of the first Order of Kamehameha or their arm that exists today, as we do, 150 years later. Whether it be the majesties from Japan, Europe, Germany, to be here to acknowledge that relationship that it was then to today. And the hope was to have them to come here to Maui, to Hawaii, to sanction this one again, again that relationship with us, such as, you go out and do your sister cities, but this is something that has been established way in the past and those treaties or those acknowledgment at that time still exist today. So some of those burdens or monies would have been required to bring these people over. And that would've been some of the bigger bulk of the money spent, besides media, advertisement and getting those that we thought would be more privy to what is going on or what has happened through the existence of the Order to be present.

COUNCILMEMBER BAISA: I see. And so you've had to scale it back considerably?

MR. KAHAIALII: I had to scale it back.

COUNCILMEMBER BAISA: And so, essentially, the $60,000 will be mostly used for just core expenses that you gotta pay.

MR. KAHAIALII: Correct. The event itself, that's, Grand Wailea was able to work with us and bringing to an affordable, I guess …

COUNCILMEMBER BAISA: And you'll be selling tickets to the event?

MR. KAHAIALII: We are selling tickets at this point in time. It is a weeklong event.

COUNCILMEMBER BAISA: I'm giving you an opportunity to sell tickets.

MR. KAHAIALII: I have 'em with me. The table is set up outside. I mean, we've got tickets for you and I know you've all received my e-mails. I know I have made that a real commitment of myself to send those e-mails out to you so I could get some kind of reply or, you know.

COUNCILMEMBER BAISA: Okay, so people who need them can contact you?

MR. KAHAIALII: Sure.

COUNCILMEMBER BAISA: And that'll help --

MR. KAHAIALII: Yes.

COUNCILMEMBER BAISA: --offset this money?

MR. KAHAIALII: And don't buy one ticket, buy one table, that'd be great.

COUNCILMEMBER BAISA: Okay. Thank you very much. Thank you, Chair.

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

COUNCILMEMBER CARROLL: No, no questions. Just that I really support this. I think it's really great. I think it's a good opportunity for us to further support the Hawaiian community and especially for this 150th year celebration. Thank you.

CHAIR HOKAMA: Thank you, Mr. Carroll. Any further questions for Mr. Kahaialii?

COUNCILMEMBER VICTORINO: Yeah, Chair?

CHAIR HOKAMA: Mr. Victorino?

COUNCILMEMBER VICTORINO: Thank you. And, again, thank you for being here. And I wholeheartedly support what you've brought forward. I see this is a weeklong celebration. Are each of these days, you guys will you be charging for admission for all of these events or just…I know you doing for the dinner 'cause I already got it. And the other question I had for you, why do you have to have it formal? Hawaiians never dressed in tux. Give me a break, bruddah. But that's another story. But do you charge for each one of these events during the week?

MR. KAHAIALII: A`ole. It is free, it is open to the community, come and enjoy. Get educated, empowered, if anything, to maybe have more knowledge of what the Royal Order actually is, what they stand for, what the light, the culture, the practitioners of today.

COUNCILMEMBER VICTORINO: Okay.

MR. KAHAIALII: And so I applaud you if you going dress up like the rest of us kanakas out there but I've seen your name come across my table.

COUNCILMEMBER VICTORINO: Yes.

MR. KAHAIALII: And I'll be looking forward to you in a nice black suit with a bow tie on there, Mike.

COUNCILMEMBER VICTORINO: You got it. I'll do that just for you, sir. Thank you. Thank you, Chair.

CHAIR HOKAMA: He's going remember that, Mr. Victorino. Any other question for the gentleman? If not, Mr. Kahaialii, thank you for your --

MR. KAHAIALII: Ai, mahalo.

CHAIR HOKAMA: --presence this afternoon. Any further questions, Members, or comments for either Mr. Baz or Ms. Rasmussen? If not, the Chair is willing to entertain a motion to move forward to Council, passage on first reading, be ordered to print, A Bill for an Ordinance Amending the Fiscal Year 2016 Budget for the County of Maui as it Pertains to Estimated Revenues; Office of the Mayor, Economic Development Program; Total Operating Appropriations; and Total Appropriations (Operating and Capital Improvement Projects); filing of all related communications and allowing Staff to make nonsubstantive revisions.

VICE-CHAIR WHITE: So moved, Chair.

COUNCILMEMBER VICTORINO: Second, Mr. Chair.

CHAIR HOKAMA: I have a motion made by Mr. White, seconded by Mr. Victorino. Discussion, Members? Having none, all in favor of the motion, please say "aye."

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed say "no." Motion passes with seven "ayes," two excused, Ms. Cochran and Mr. Guzman.

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

MOTION CARRIED.

ACTION: FIRST READING of bill by C.R.

CHAIR HOKAMA: This will go forward to the Council for final approval. Thank you very much for your presence this afternoon.

MR. KAHAIALII: Mahalo.

CHAIR HOKAMA: May I direct you to BF-38(48) [*sic*]. Thank you, Ms. Rasmussen.

MS. RASMUSSEN: Yeah, thank you.

ITEM 38(46): AMENDMENTS TO THE FISCAL YEAR 2016 BUDGET (DEPARTMENT OF POLICE (PAUL COVERDELL FORENSIC SCIENCES IMPROVEMENT ACT)

CHAIR HOKAMA: This is an amendment also to the Fiscal Year 2016 Budget (Department of Police) under the subheading of Paul Coverdell Forensic Sciences Improvement Act. From Mr. Baz, we have a communication dated March 10, 2016, with a proposed Bill for an Ordinance as it Pertains to Appendix A, Part I, Grant Revenue - Schedule of Grants by Departments and Programs, Department of Police. And this is for a grant in the amount of $7,410. Mr. Baz?

MR. BAZ: Thank you, Mr. Chair. I appreciate you bringing this up so quickly. The Police Department notified my office of a grant they received for this--let's see, actually we just got this request on March 9 so we appreciate the quick response--but the amount of $7,410 will be received as a part of this grant to use for the purchase of portable field presumptive gunshot residue and explosive detection systems, CSI kind of stuff, I suppose. But we do have somebody here from the Police Department if you should have any detailed questions regarding this but yeah, we have the contract with the State here ready to execute once the Council approves this grant agreement, should you. Thank you.

CHAIR HOKAMA: Okay, who's the representative from the Department? Why don't you come down, sir, and since you've made the effort to be here and been very patient, why don't we bring you down and allow you to--if you could introduce yourself, please?

MR. EARLES: Yes, thank you. Aloha, Tony Earles with the Maui Police Department, Police Evidence Specialist, and, as he said, a CSI-type guy.

CHAIR HOKAMA: Okay. So why don't you give us some comment, please, if you can, regarding this portable detection system that this grant will assist the Department with?

MR. EARLES: Certainly. Thanks again, Chair, as well as the Council, for hearing us. We were very fortunate to be able to compile a grant to help us as an island community in this effort because of the fact that when a gunshot is fired, a clock starts ticking. There are up to four hours after the gun is fired to recover evidence from the hands of the person who fired the weapon. And, as you know, Lanai, Molokai, even sometimes Hana, with the traffic, can be stretching it quite a bit. So in order for us to be able to sample those hands, we are requesting these three units. One will be on Lanai, one Molokai and one here in Central, Wailuku. This will help us to be able to make sure we retrieve those samples within that four-hour window.

CHAIR HOKAMA: Thank you very much for those comments. Mr. Victorino, this is under your Committee's purview. Questions?

COUNCILMEMBER VICTORINO: No. Thank you, Chair, and it always intrigues me that we can improve our whole legal system by having this type of equipment so that we can be sure or, a lot more certain that what we get as far as the results are more palatable in a court of law. So, thank you. Only thing is, does Ms. Procter comes with it? No? He's knows exactly what I'm talking about.

CHAIR HOKAMA: Okay, we're glad because not all of us get that one.

COUNCILMEMBER VICTORINO: Sorry, one of my favorite shows. Sorry, go ahead, that's it. Thank you, Mr. Chair. That's all I have.

CHAIR HOKAMA: Thank you, Mr. Victorino. Mr. White, any questions?

VICE-CHAIR WHITE: No questions, thank you.

CHAIR HOKAMA: Ms. Crivello?

COUNCILMEMBER CRIVELLO: No questions, thank you.

CHAIR HOKAMA: Thank you. Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. I totally support this. My only concern is the fact that we actually need to use this.

MR. EARLES: Amen.

COUNCILMEMBER COUCH: Hopefully we don't have to use it very often, them very often.

MR. EARLES: Thank you for your question and your comment. I will say that we average around 85 cases per year involving a firearm, doesn't mean that it's been discharged, okay. So, yes, that was part of our rationale for justifying the grant through the Federal government.

COUNCILMEMBER COUCH: Thank you, Chair.

CHAIR HOKAMA: Thank you. Ms. Baisa?

COUNCILMEMBER BAISA: Wow, that's an eye-opener --

CHAIR HOKAMA: Yes.

COUNCILMEMBER BAISA: --for me.

CHAIR HOKAMA: Me too.

COUNCILMEMBER BAISA: I would've never thought that many but I'm in full support. Thank you.

CHAIR HOKAMA: Thank you. Mr. Carroll, questions? So would this system also be able to assist you besides gunshots, illegal aerials and fireworks?

MR. EARLES: It could be used for such things; however, we want to try to keep it for mainly gunshot residue, as well as explosives detection. That requires like a second set of things you have to purchase to go into that, so. It could be done.

CHAIR HOKAMA: Yeah, well, you know, 'cause every year we seem to get a lot more illegal explosives being fired off --

MR. EARLES: Oh yes, sir --

CHAIR HOKAMA: --into the skies.

MR. EARLES: --I live in Kahului.

COUNCILMEMBER BAISA: Unbelievable.

CHAIR HOKAMA: You know, we, you can either hear it or you get to see that type of explosive. You know, it's a firework, but it's an explosive.

MR. EARLES: Yes, sir.

CHAIR HOKAMA: Powder that's being, you know, combustible so, again, if this helps you in your enforcement and ability to convict those that are doing illegal activities, I commend you and your Department for moving this forward.

MR. EARLES: Thank you.

CHAIR HOKAMA: Further questions on this request, Members? Thank you very much for being here this afternoon.

MR. EARLES: Thank you very much.

CHAIR HOKAMA: Your Chair will entertain a motion to move forward to Council, the proposed Bill for an Ordinance, to pass on first reading, be ordered to print, A Bill for an Ordinance Amending the Fiscal Year 2016 Budget for the County of Maui as it Pertains to Appendix A, Part I, Grant Revenue - Schedule of Grants by Departments and Programs, Department of Police (Paul Coverdell Forensic Sciences Improvement Act), and allow Staff to do any nonsubstantive revisions.

VICE-CHAIR WHITE: So moved, Chair.

COUNCILMEMBER VICTORINO: Second, Mr. Chair.

CHAIR HOKAMA: I have a motion by Mr. White, seconded by Mr. Victorino. Members, any further discussion? Having none, all in favor of the motion, please say "aye."

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed say "no." Motion passes with seven "ayes," two excused.

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

MOTION CARRIED.

ACTION: FIRST READING of bill by C.R.

ITEM 38(48): AMENDMENTS TO THE FISCAL YEAR 2016 BUDGET (DEPARTMENT OF WATER SUPPLY (STATE OF HAWAII – WELLHEAD PROTECTION PROGRAM))

CHAIR HOKAMA: May I direct you, please, now to Item 38(48). This is an Amendment to the Fiscal Year 2016 Budget, Department of Water Supply. This is subtitled, State of Hawaii, Wellhead Protection Program. So on March 15th, the Budget Director submitted a proposed bill to us to amend Appendix A, Part I, Grant Revenue in the amount of $46,000 from the State of Hawaii for a Wellhead Protection Program. Mr. Baz?

MR. BAZ: Thank you, Mr. Chair. Again, we appreciate the expeditious review of this grant. We did receive from Department of Water Supply, a notification of another grant from the State of Hawaii and this one specifically for Wellhead Protection Programs. So we do have…and this is in the amount of $46,000. We do have the Deputy Director of Department of Water Supply, Paul Meyer, here as well as staff to answer any questions you might have.

CHAIR HOKAMA: Thank you. Mr. Meyer, any opening comments you can share with the Committee, please?

MR. MEYER: Thank you, Chair and Members. This is a program that is run by Eva Blumenstein in the Resource and Planning Group. I'd like to ask Eva to explain to you the nature of this grant and also the program that it's going to be used in.

CHAIR HOKAMA: Okay, Ms. Blumenstein?

MS. BLUMENSTEIN: Thank you, Chair. This is the third grant that we've been awarded from Department of Health Safe Drinking Water Branch in order to address wellhead protection and water quality around the potable wells of the County. This particular grant would follow upon a 2012 grant where we developed incentives on upgrading potentially contaminating activities within the capture zones of our wells so this additional 46,000 would allow us to target some of the those potentially contaminating activities, as well as continue public outreach and education.

CHAIR HOKAMA: Thank you very much for those comments. Ms. Baisa, this is under your Committee jurisdiction.

COUNCILMEMBER BAISA: Of course, I'm in full support of this. I think it's very important. We have been trying very hard to get this legislation through the Water Committee unsuccessfully but we're not done. It's very, very important that we protect our wells because this is our water sources. And, you know, with all the bad publicity that we've been hearing about contaminated water, we have to take this seriously. And so I'm very excited to have this. Thank you.

CHAIR HOKAMA: Yes, we don't want a Flint, Michigan.

COUNCILMEMBER BAISA: You got it, not even close. Thank you.

CHAIR HOKAMA: Amen to that, Ms. Baisa. Mr. Carroll, any questions, sir? Mr. Victorino?

COUNCILMEMBER VICTORINO: Thank you and I'll echo what Ms. Baisa said, you know, this has been around for the last eight-nine years, this is not something new. Yeah, we've been looking for funding for a long time so I'm glad to see we finally got to this point and it is not just Flint, Michigan, it is all the other threats that we live with today in our real society.

CHAIR HOKAMA: Thank you.

COUNCILMEMBER VICTORINO: You know, Flint, Michigan is just an example of dumb government, but that's another story and I won't go there. But this is other threats that we really, really have to be very seriously. So I want to thank the Department for all their hard work because I've been following this for the last nine years, since I first came on, and I'm glad to see it before I leave. Hopefully, we'll get it done. Thank you, Mr. Chair.

CHAIR HOKAMA: Thank you. Mr. White?

VICE-CHAIR WHITE: No questions, thank you.

CHAIR HOKAMA: Ms. Crivello?

COUNCILMEMBER CRIVELLO: No questions.

CHAIR HOKAMA: Mr. Couch? Anything further, Members? If not, the Chair will entertain a motion to move forward to Council for recommending passage on first reading, be ordered to print, A Bill for an Ordinance Amending the Fiscal Year 2016 Budget for the County of Maui as it Pertains to Appendix A, Part I, Grant Revenue - Schedule of Grants by Departments and Programs, Department of Water Supply, State of Hawaii, Wellhead Protection Program; filing of all appropriate communications and allowing Staff to make any nonsubstantive changes.

VICE-CHAIR WHITE: So moved, Mr. Chair.

COUNCILMEMBER VICTORINO: Second, Mr. Chair.

CHAIR HOKAMA: I have a motion by Mr. White, seconded by Mr. Victorino. Is there further discussion, Members? Having none, all in favor of the motion, please say "aye."

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed say "no." Motion passes with seven "ayes," two excused.

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

NOES: None.

ABSTAIN: None.

ABSENT: None.

EXC.: Councilmember Cochran and Guzman.

MOTION CARRIED.

ACTION: FIRST READING of bill by C.R.

CHAIR HOKAMA: Mr. Meyers and Ms. Blumenstein, thank you very much for your patience and attendance this afternoon.

ITEM 38(49): AMENDMENTS FOR THE FISCAL YEAR 2016 BUDGET (DEPARTMENT OF HOUSING AND HUMAN CONCERNS (STRATEGIC PREVENTION FRAMEWORK PARTNERSHIPS FOR SUCCESS))

CHAIR HOKAMA: Members, may I direct you now to BF-38(49). This is, again, a proposal from Mr. Baz as it relates to the Fiscal Year 2016 Budget. This is under the Department of Housing and Human Concerns. This is specifically regarding the Strategic Prevention Framework Partnerships for Success Program. And this is, let's see, a grant in the amount of $110,000. Mr. Baz?

MR. BAZ: Thank you, Mr. Chair. We're on a roll here with the State of Hawaii grants to the County of Maui. This one is the Strategic Prevention Framework Partnerships for Success out of the Alcohol and Drug Abuse Division of the State Department of Health. And we do have the Deputy Director of Housing and Human Concerns, Ms. Jan Shishido, here to answer any detailed questions about this project. I look forward to receiving this money. Just a note, we are receiving this money for this fiscal year and in the proposed budget for Fiscal Year 2017, we're going to be receiving an additional $110,000 so we're able to put that into our proposed budget document. So, Mr. Chair, Ms. Shishido's here.

CHAIR HOKAMA: Okay, thank you for that, Mr. Baz. Ms. Shishido, any comments you can share with us?

MS. SHISHIDO: Good afternoon, Budget and Finance Chair Hokama and Councilmembers. In December of 2015, very short window, four counties were invited to, for a request for proposal, City and County of Honolulu, Kauai County, Hawaii Island County and no ka oi, Maui no ka oi, Maui County. And we were invited by the Department of Health's Alcohol and Drug Abuse Division and the subject and title of the grant is County Coordination for Substance Abuse Prevention System. Maui County has been awarded 110,000 for Fiscal Year '16-'17 and if funds available, also for Fiscal Year '18. The grant period scheduled for this fiscal year is June 1, 2016 to September 29, 2016, four months. The goal of the requested service is to identify, enhance and sustain a Statewide substance abuse prevention system by using the State prevention framework process to develop and implement a comprehensive substance abuse prevention system enhancement plan for each county. And also to support each County agency to serve as a local resource for substance abuse prevention providers in the County. We will have the opportunity to use these funds number one, to build partnerships and enhanced collaborative efforts to address the substance abuse issues of the County, number two, assess substance abuse problems in the County and number three, strengthen the capacity of the County prevention workforce to address substance abuse problems of the County. The Department is not adding any new County personnel to this partnership for success grant, but we'll be able to subcontract out the data collection and strategic planning to a nonprofit agency as we work alongside with them. Thank you for your consideration and appropriate action for this proposed bill.

CHAIR HOKAMA: Okay, thank you. Have you done any advance work in securing that third-party agency to assist you with this request?

MS. SHISHIDO: Yes, we have.

CHAIR HOKAMA: Okay. And, again, since it's not official yet, I don't want you to disclose it since, you know --

MS. SHISHIDO: Thank you.

CHAIR HOKAMA: --we need to take action first but it's good to know that you folks have already taken steps to start implementing as soon as possible. So, thank you for that. Ms. Crivello, any questions for our resource people?

COUNCILMEMBER CRIVELLO: Yes, I do, thank you. Thank you for being here. So when you say, to a nonprofit, that I'm with the understanding or what I'm hearing you is to one nonprofit and that would involve all of Molokai, Lanai and Maui --

MS. SHISHIDO: Correct.

COUNCILMEMBER CRIVELLO: --as a whole. Is it just that full amount or is it possible to have it break down so each island can come up with the a strategic plan for its prevention in regards to substance use?

MS. SHISHIDO: Thank you for that question. This grant is going to enable use to also budget in for community outreach, community, I guess, community forums to dialogue within, with Lanai and Molokai as well. And we will look into possibly forming those different, you know, I guess, different or, I guess, provide community input and community dialog as well for each of the …

COUNCILMEMBER CRIVELLO: Well, I ask because, you know, Maui, I recognize that basically, generically, you would say we all have these substance use or drug use and alcohol use but each island--well, I speak for Molokai, it has its own process, in fact, one that they've been going through for several months now, trying to come up with a community strategic plan. So when you come from the other island and try to create this dialogue or forum, what, to me, it makes a difference if you have your participation from a nonprofit that does the treatments and prevention on island. But what I hear you saying, it would be one nonprofit who will be expanding its dialogue to the other island. Is that how the State --

MS. SHISHIDO: And, right now …

COUNCILMEMBER CRIVELLO: --grant had put …

MS. SHISHIDO: Oh, I'm sorry. Right now, we are in the really early stages of how we're even going to put this together 'cause it was, this grant actually has been before ADAD from SAMSA way back in 2014-15 and only now, in December, did they come forward and to put this all together. So I like your idea. I like that we can dialogue with your strategic plan on Molokai and I will be sure to put that into our planning.

COUNCILMEMBER CRIVELLO: Thank you. I would appreciate that. And we have, I think, more than, as well as our high school, middle school as well as two other nonprofit entities that have ADAD and not so much prevention but I guess more on treatment. So I think this is of value that ADAD is also allowing the prevention side 'cause often it's so hard to get funding for prevention --

MS. SHISHIDO: Correct.

COUNCILMEMBER CRIVELLO: --so I see this of value, especially among our young people, or our youth in particular. So thank you and hopefully we can still be in touch with the opportunities that can outreach to the Hana, Molokai and Lanai also. Thank you.

CHAIR HOKAMA: Thank you for those comments and questions, Ms. Crivello. Mr. Couch? Ms. Baisa?

COUNCILMEMBER BAISA: No. This is wonderful. We need all the help we can get. Thank you.

CHAIR HOKAMA: Thank you. Mr. Carroll? Any questions for Ms. Shishido? Mr. Victorino?

COUNCILMEMBER VICTORINO: No, not at this time.

CHAIR HOKAMA: Mr. White?

VICE-CHAIR WHITE: No questions.

CHAIR HOKAMA: I would just say, again, I am like Ms. Crivello. We have, you know, Ms. Shishido, that we have a Coalition for Drug Free Lanai and Ms. Aki--no that's her maiden name...rats.

MS. SHISHIDO: Joelle Aoki.

CHAIR HOKAMA: Aoki, thank you, thank you. Gosh, it's no fun getting old. So thank you for that reminder. So, again, yes, we do have already online program, on island program so, again, we just would ask that you utilize those resources to your benefit, please. Ms. Shishido?

MS. SHISHIDO: Thank you. Because as Councilmember Crivello was talking about Molokai, I wanted to comment that on Lanai I've already talked with Joelle and she, we kind of knew about this grant coming down and we had some good conversations --

CHAIR HOKAMA: Good.

MS. SHISHIDO: --and the Coalition for Drug Free Lanai is on the radar for sure.

CHAIR HOKAMA: Thank you so much. Any further questions, Members? Having none, the Chair will entertain a motion to move forward to Council for passage on first reading, be ordered to print, A Bill for an Ordinance Amending the Fiscal Year 2016 Budget for the County of Maui as it Pertains to Appendix A, Part I, Grant Revenue - Schedule of Grants by Departments and Programs, Department of Housing and Human Concerns, Strategic Prevention Framework Partnerships for Success, and allow Staff to make any nonsubstantive changes and there is no filing of this item.

COUNCILMEMBER CRIVELLO: So moved.

VICE-CHAIR WHITE: So moved.

COUNCILMEMBER CRIVELLO: Oh, second.

CHAIR HOKAMA: Motion by Mr. White, seconded by Ms. Crivello. Members, any further discussion on the motion before you? Having none, all in favor of the motion, please say "aye."

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed say "no." Motion passes with seven "ayes," two excused.

VOTE:	**AYES:**	**Chair Hokama, Vice-Chair White, and Councilmembers Baisa, Carroll, Couch, Crivello, and Victorino.**
	NOES:	**None.**

ABSTAIN: **None.**

ABSENT: **None.**

EXC.: **Councilmembers Cochran and Guzman.**

MOTION CARRIED.

ACTION: **FIRST READING of bill by C.R.**

CHAIR HOKAMA: Thank you so much, Ms. Shishido.

ITEM 38(47): AMENDMENTS TO THE FISCAL YEAR 2016 BUDGET (DEPARTMENT OF PARKS AND RECREATION (STATE OF HAWAII – MOLOKAI ATHLETIC COMPLEX))

CHAIR HOKAMA: Okay, we have one last item, Members, that I would like to direct you, and this is for BF-38(47). This is an amendment sent to us by Mr. Baz on March 15 of 2016. This is, regards to the Department of Parks and Recreation, State of Hawaii, Molokai Athletic Complex. This is a grant for the Department of Parks and Recreation. Mr. Baz, why don't you give us comment on this one?

MR. BAZ: Thank you, Mr. Chair. So the item before you is a bill for an ordinance to amend the grant revenue to recognize $400,000 from the State of Hawaii. The State Legislature appropriated $400,000 for a Molokai athletic complex--the original intent, planning, design and construction of a gym, football field, tennis courts and baseball field for the Molokai Athletic Complex. I think they were dreaming for $400,000 but it's a decent start. Our Member from Molokai, Stacy Crivello, has been working with the Legislature on getting this funding in there for her island. They were able to appropriate it; however, have not, so far, spent the money and so with her urging, we asked for the delegation of those funds to the County. So the Department of Accounting and Generals Services, DAGS, has now authorized the delegation of those funds to the County. We do need to encumber the funds before June 30th otherwise they will lapse. So it's a pretty quick turnaround that we're going to need to do. The Director of the Parks and Recreation was unable to be here this afternoon. He was going to send a staff person but I don't see the staff person here so between myself and maybe Member Crivello, we can try to answer as many questions. We're kinda looking at--as you know the Kaunakakai Gym is in a deteriorated state, it's in a tsunami zone, has prone to floods and all kinds of termites and everything else you could ever think of, just kind of holding it together at this moment. So for the community, you know, it would be a good partnership if we can move forward with the State on a joint project for the Molokai community. We have had initial discussions about some land that may be available and this could possibly go towards, you know, looking at the acquisition and starting to do some needs assessments for the community over there and what exactly we should be building because we wanna make sure that, you know, we're building something that's appropriate to what the community's needs are and what their desires are and then we'll look at the funding, similar as to what we've done in other Park areas. Just my brief explanation, Mr. Chair.

CHAIR HOKAMA: And so we did request Parks to have a representative?

COUNCILMEMBER VICTORINO: Chair?

MR. BAZ: Yes, you did, Mr. Chair. The Director was unavailable so he was going to be sending over his Planning and Development Division Chief but I don't see Mr. Halvorson here.

CHAIR HOKAMA: Okay, okay. I'll ask Ms. Crivello if she has comments she'd like to share with us.

COUNCILMEMBER CRIVELLO: Thank you, Chair. Thank you, Director. This was sort of like my bucket list when I first got elected, hearing the chatter from my island community. And at the time, the late State Representative, Mele Carroll, and myself had conversation with a dream that perhaps we can come up with a athletic complex but not so much to include football field or baseball fields, but more to, with the construction of a new gym. Mr. Hokama, I'm sure you're familiar with our Molokai Gym, you being a high school basketball all-star, that came up from Lanai and, you know, the thought is our gym is pretty dangerous, but we utilize it, what we have. The ceilings are just about falling apart, but the whole intent, too, is looking it as some sort of emergency shelter, which would include the East Side of Molokai as well as the Kaunakakai area before the third river or the Manila Camp river. Once that gets flood out, you can't go anywhere, as well as the fact that it's now in flood zone area, why we moved the Fire Department, we moved the Police…and the intent is to move the Police Department, all for those reasons of flooding, as well as our whole Kaunakakai Town is in a tsunami inundation. So the thought was at least to start off with the planning and design, to come up with a conceptual plan in working with the community. So with her passing, we really didn't know where this money was, to tell you the truth, and through the help of Senator English's office, they helped to, helped my office and staff to try and navigate to where it was and then lo and behold it showed up and that's why we're having a, just a small window to put it all together. So we're talking story with some of the private landowners. There is nothing definite now but there's some encouraging hopes that there's some possibilities. And the intent is to go above the Kaunakakai Town as to what it will show. So, Members, this is, appreciate what the Governor has delegated the monies to the County for us to try and follow through with something. And hopefully, we'll be able to have enthusiastic community to try and come up with--I call this our big dream. And anything's possible with big dreams. So, thank you, Chair. I know we have different phases, Phase I, Phase II, Phase III, but the number one phase is where we're gonna get the rest of the money. So gotta start someplace. Thank you.

CHAIR HOKAMA: Thank you, Ms. Crivello. Yeah, nothing wrong with dreaming. I mean, lot of things start with a dream, so. So Mr. Baz, just a couple of things because this project is called State of Hawaii, Molokai Athletic Complex. Is this for the benefit of our various school programs on Molokai, from the high school to the intermediate school, to our elementary schools on Molokai? And that is why this is part of a State of Hawaii complex --

MR. BAZ: Mister --

CHAIR HOKAMA: --title?

MR. BAZ: Yeah, Mr. Chair, thank you. The actual title in here referencing the State of Hawaii is just the funding source for those funds, not necessarily the intended use of the product of the those funds. If you noticed any of the grant revenues that we just reviewed, they all said State of Hawaii and then the grant title. And from, you know, the Mayor's concern regarding this, you know, he's been looking, you know, and discussing with the community a replacement for the Kaunakakai Gym for at least the last few years for the County's sake and for the community of Molokai to have an adequate facility. So, you know, it's something that we would be moving forward with even without the State funds and we'd be requesting. I'm sure, yes, the kids that are going to the school will benefit from this but it's not specifically for a school, like other school gyms are.

CHAIR HOKAMA: No, again, part of us is to try and understand the parameters of this project. And why I bring up the school is because the Leg may bring up a point of what does a County do for the schools and whatnot since they might wanna, not wanna give us certain revenues that we may be fighting for. And so, you know, my thing is, look at what the County provides in return in infrastructure and other ways of support that we would consider this a fair consideration. And that is why I found it interesting that this was under State of Hawaii because I was hoping that they would take a little bit more financial interest in this project too. So what is your understanding, Ms. Crivello --

COUNCILMEMBER CRIVELLO: Yes.

CHAIR HOKAMA: --on the 400,000? This is just …

COUNCILMEMBER CRIVELLO: It's for planning and design and in collaboration with the late Mele Carroll, she passed the legislation. It came from her and it's her bill that had passed through so in the short time--in fact, this was one of her last works that she put out for the island. And when she called me, she says, we got it, now let's go for it. And what's, her part, too, was the fact that we're talking an emergency shelter, possible emergency shelter. Her thought, too, was in the conceptual plan was maybe we can in one phase is also have dormitories. Again, this is where we often have many, many off-island as well as mainland schools that come over to participate, and then charge them for housing. Usually we don't, well we don't have the infrastructure and often teams cannot come over because we lack the infrastructure. And, if anything, in respond to how it would be for our elementary all the way up to our high school kids, I call that, having them a new gym for the gym rats, you know, that's what it's all about.

CHAIR HOKAMA: So, Ms. Crivello, is there a current site for this complex?

COUNCILMEMBER CRIVELLO: We are in negotiation, or conversation, with a possible site, yes.

CHAIR HOKAMA: ‘Cause I believe we purchased Duke Maliu, didn’t we, years ago, when Mr. Kawano was still with us? I thought we made financial arrangements to secure and purchase Duke Maliu.

MR. BAZ: Mr. Chair, I’d have to double check on that. We have, the Administration, has had meetings to, and have looked at different areas. You know, we’re looking at other purchases on Molokai and during the Fiscal Year ’17 discussion, we will look at, you know, furthering the Police Department’s relocation or possible relocation and, you know, if there are sites available that could accommodate those, you know, both or joint so, you know, the cost of infrastructure is reduced, different things like that, we’ll look at those factors. But we, at this point, this funding is the only funding that’s available, that the County hasn’t put any monies into it, just some efforts and we will happily receive this money so that we can start pushing forward our efforts to get this done.

CHAIR HOKAMA: Okay, well, this needs a lot of more work ‘cause--and, again, so because, my understanding, these funds have specific language. You know, I like what Ms. Crivello brought up about that potential disaster center or somewhere the community can go for tsunamis or hurricanes. But this is a, you know, our understanding and that’s how we post it, this is specifically for a gym, football field, tennis courts and baseball field. Is there flexibility as you understand the funding to --

MR. BAZ: Yeah.

CHAIR HOKAMA: --consider things like what Ms. Crivello shared with us?

MR. BAZ: Mr. Chair, thank you. From my understanding, the main appropriation is for a Molokai athletic complex. The details of the specifics that are involved in the complex, as well as the use of the funds, are flexible. So if the Molokai Athletic Complex appropriation, you know, is deemed to be used for more, you know, planning at this point, of acquisition costs or anything like that, then that’s appropriate, as well as, you know, they do mention, you know, as Member Crivello said, Phase I, II and III and all of these items may be included in all of the phases but it’s really up to how future appropriations are set forth if we wanna include the emergency shelter component or anything else that we see fit as a part of this partnership.

CHAIR HOKAMA: Okay, thank you for that.

COUNCILMEMBER CRIVELLO: Chair?

CHAIR HOKAMA: Ms. Crivello?

COUNCILMEMBER CRIVELLO: I wish to add to…I have met with representatives from the landowner that we're looking into the different sites and it sounds very promising. The next is to bring the Administration on the table with the landowner.

CHAIR HOKAMA: Okay, thank you for that. Mr. Baz?

MR. BAZ: Yeah, and I also wanted to add that this is part of the Department of Parks and Recreation Master Plan for Molokai. This is a already included aspect of their master plan so it does align with what the needs of, you know, of the County are and have been identified by the Department.

CHAIR HOKAMA: My problem is how and when to fund, Mr. Baz. I understand the priorities. I mean, it's important, I agree. It's just how and when we're going to fund is my challenge at this time. Questions for Mr. Baz or Ms. Crivello, Members, on this request? And I'm not going turn down State money, especially when it'll help us get an assessment that will help us make future decisions on more accurate information so I think this is something good. We should say, thank you, and move it forward. So if there's no further questions, and this will also allow Ms. Crivello additional time to work with potential landowners and others on what is this project going to actually be when the details are finalized. So the Chair is open to a motion to move forward to Council for passage on first reading, be ordered to print, A Bill for an Ordinance Amending the Fiscal Year 2016 Budget for the County of Maui as it Pertains to Appendix A, Part I, Grant Revenues - Schedule of Grants by Departments and Programs, Department of Parks and Recreation, State of Hawaii, Molokai Athletic Complex, and allow Staff to make any nonsubstantive changes, and they'll be no filing of this item.

COUNCILMEMBER CRIVELLO: So moved, Chair.

VICE-CHAIR WHITE: Second.

CHAIR HOKAMA: I have a motion made by Ms. Crivello, seconded by Mr. White. Any further discussion, Members? Having none, all in favor of the motion, please say "aye."

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Opposed say "no." Motion passes with five "ayes" and the following excused: Ms. Baisa, Ms. Cochran, Mr. Guzman and Mr. Victorino.

VOTE:	**AYES:**	**Chair Hokama, Vice-Chair White, and Councilmembers Carroll, Couch, and Crivello.**
	NOES:	**None.**
	ABSTAIN:	**None.**
	ABSENT:	**None.**

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

MOTION CARRIED.

ACTION: **FIRST READING of bill by C.R.**

CHAIR HOKAMA: Members, we have completed the full agenda of the Committee for today's requirements so I thank you. Be back tomorrow, we have another full agenda that we are going to take up. So thank you for your presence. And Mr. Baz, Mr. Ueoka, thank you so much. This meeting is adjourned. . . .*(gavel)*. . .

ADJOURN: 4:11 p.m.

APPROVED:

Riki Hokama

RIKI HOKAMA, Chair
Budget and Finance Committee

bf:min:160328:alp

Transcribed by: Annette L. Perkett

CERTIFICATE

I, Annette L. Perkett, 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 20th day of April, 2016, in Haiku, Hawaii.

Annette L. Perkett