

BUDGET AND FINANCE COMMITTEE

Council of the County of Maui

MINUTES

June 14, 2016

Council Chamber

CONVENE: 9:04 a.m.

PRESENT: Councilmember Riki Hokama, Chair
Councilmember Mike White, Vice-Chair
Councilmember Gladys C. Baisa, Member
Councilmember Robert Carroll, Member
Councilmember Don Couch, Member
Councilmember Stacy Crivello, Member

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

STAFF: Michele Yoshimura, 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.: Sananda Baz, Budget Director, Office of the Mayor
Carol Reimann, Director, Department of Housing and Human Concerns (BF-38(57))
Clyde Almeida, Housing Administrator, Housing Division, Department of Housing and Human Concerns (BF-38(57))
Kelci Wandell, Section 8 Housing Choice Voucher Program Manager, Housing Division, Department of Housing and Human Concerns (BF-38(57))
Danilo F. Agsalog, Director, Department of Finance
Scott Teruya County Real Property Tax Administrator, Department of Finance (BF-68)
Jeffrey T. Ueoka, Deputy Corporation Counsel, Department of the Corporation Counsel

Seated in the audience:

Danilo F. Agsalog, Director, Department of Finance (BF-38(57))

Janice Yukiko Shishido, Deputy Director, Department of Housing and Human Concerns (BF-38(57))

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

OTHERS: Thomas Croly (BF-68)

PRESS: Akaku: Maui Community Television, Inc.

CHAIR HOKAMA: . . .(*gavel*). . . We shall bring this Committee meeting to order. This is the Budget and Finance Committee of the Council of the County of Maui. This morning present we have our Vice-Chairman Mr. White.

VICE-CHAIR WHITE: Good morning, Chair.

CHAIR HOKAMA: Good morning, sir. And our Committee Members we welcome Mr. Carroll.

COUNCILMEMBER CARROLL: Good morning, Chair.

CHAIR HOKAMA: Mr. Carroll. Ms. Baisa.

COUNCILMEMBER BAISA: Good morning, Chair.

CHAIR HOKAMA: Mr. Couch.

COUNCILMEMBER COUCH: Aloha. Good morning, Chair.

CHAIR HOKAMA: Good morning. And Ms. Crivello.

COUNCILMEMBER CRIVELLO: Good morning.

CHAIR HOKAMA: Good morning. We excuse Ms. Cochran, Mr. Guzman and Mr. Victorino. Let us first disarm ourselves with noisemaking devices on silent or off mode please. Thank you, everyone. We will take testimony this morning from anyone who would like to give comment to the Committee on any agenda item. You have three minutes by Committee rule to speak on the item of your choice. And so this morning, we'd like to ask Mr. Croly if he would please come forward and share his thoughts with the Committee regarding his item of interest.

.BEGIN PUBLIC TESTIMONY. . .

MR. CROLY: Aloha, Chair.

CHAIR HOKAMA: Good morning.

MR. CROLY: Aloha, Committee Members. Tom Croly speaking on my own behalf. As you all know I'm well out-spoken on the issue of property taxes and I appreciate the agenda item today and I have great interest in the Department's presentation about

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

establishing different rates for land and building. I think this is a policy decision that it's good that you take this policy decision outside of budget where you're trying to balance the budget and figure out and you've got the pressures of we have to get "x" amount of dollars out of this. I think there's a lot of different ways that this can go and again I'm interested in the direction that might be considered. What you're considering wouldn't require any legislative action, I don't think, in order to apply different rates to buildings and land because we're already setup to do that. However, something that would require legislative action and I'd like you to consider in this perspective is applying different classifications to building and land. When someone gets/buys a piece of land by zoning they are restricted to what they can build on that piece of land and the value of that land is often considered by what the highest and best use of that land would be. The highest and best use says what can you build? If you can build a hotel then we're going to value the land, the actual instilled value will be based on what it would be worth if there was a hotel on it; irrespective of if you build something lesser than that. That's what built into the land and built into zoning. But once you do build something on that, be it a single-family home or be it a hotel, then I think that the consideration should be what is the use that's being made. If the use is one of it's being used as a hotel then it should be fairly taxed; that building should be taxed as a hotel. But if the use is it's being used as a residential use then I don't think that the tax should be at a hotel. So that would require legislative action for you to set it up where buildings could be classified differently than the land is classified and I'm sure, Mr. Teruya, you would have some thoughts as to how easy or difficult that might be to implement. But it's something I'd like you to consider when you're considering this in the broader perspective. The other thing is to understand that these policy decisions don't land on just themselves. They interact with other things and this policy decision interacts with the homeowner exemption as well as the agricultural assessments that we make. So you can apply a higher rate to the land for example but if we make the assessment based on an agricultural assessment very low, then it's insignificant that you've changed the land value. So again this is an informational meeting. I'm as interested in you in what's being presented and I hope that during this period before Budget starts that you can have the discussion on a policy basis as to does it make sense to tax the land higher or tax the building higher based on some policy decision that you may be trying to implement. Thank you.

CHAIR HOKAMA: Thank you very much, Mr. Croly, for your comments. Members, any questions on testimony given? Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. And thank you, Mr. Croly, for your testimony. So I just wanted to make sure or it's not quite clear to me, you know, as a taxpayer, we're all taxpayers. As a taxpayer who, you know, is outside of this process a little bit, you're more in-tune than a lot of the taxpayers out there but as a taxpayer would you prefer or would you support separate values for land and building or do you...

MR. CROLY: I think that it's a great idea to try to establish greater fairness in the tax code. And to give you an example, some people feel that it's fair to tax someone who has

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

more means higher than someone who doesn't have means. Okay? And it's probably fair to say that someone who has the means to build a million-dollar building on their property therefore can afford to pay more taxes. So if you were as a policy decision to say we're going to apply a higher tax rate to that building than the land, that's, that seems to me to be a reasonable way to create fairness. But first you have to establish what are your goals? You know, but irrespective of what you can do with the rates and so forth, what are we trying to do in terms of establishing fairness? So the idea of different rates for land and building is one vehicle that you have to help establish greater fairness.

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

CHAIR HOKAMA: Okay. Thank you. Any other questions for Mr. Croly, Members? If not, Mr. Croly, we always appreciate your thoughts.

MR. CROLY: Thank you, Chair.

CHAIR HOKAMA: Thank you so much. Okay. We'll go to our District Offices. To the Hana Office, Ms. Lono, anyone wishing to provide testimony?

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

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

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

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

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

CHAIR HOKAMA: Thank you very much, ladies, for your assistance to the Committee. Members, there's no further requests for testimony for today's agenda. With no objections we shall close this portion of the meeting.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Thank you, Members. So ordered.

. . .END OF PUBLIC TESTIMONY. . .

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

ITEM 38(57): AMENDMENTS TO THE FISCAL YEAR 2016 BUDGET
(DEPARTMENT OF HOUSING AND HUMAN CONCERNS, SECTION 8
HOUSING PROGRAM) (CC 15-164)

CHAIR HOKAMA: May I direct you, Members, to BF-38(57). This is under the heading of Amendments to the Fiscal Year 2016 Budget. Under the Department of Housing and Human Concerns, Section 8 Housing Program. And this is correct. This is for the Fiscal Year 2016 which ends in 16 days. Okay? We have before us a correspondence dated June 8th 2016 from Mr. Baz, our Director of Budget. He has transmitted a proposed bill for an ordinance that would amend 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 (Section 8 Housing Program). Mr. Baz's transmittal is for an amendment to increase the grant from Section 8 by \$721,737 to a new total of \$17,601,980. The County has been notified by HUD of a monthly disbursement schedule that outlines the disbursements of the 17.6 million for the Housing Choice Voucher Program for the current fiscal year. You will see the status, Members. I am not asking for any action by Committee. If you feel this is worthy, then we're gonna defer this and on Friday, Council will be asked to consider discharging this Committee of responsibility so Council can take action on Friday if it so chooses. And again, Members, waiving of the rules at that point in time takes six Members. I believe at this time there is only six Members scheduled to be at this meeting. Okay? So unless there is unanimity [*sic*] this will not go forward on Friday. This morning we have Director Reimann from the Department as well as our Deputy present and we have our people from Section 8. So I'll ask Mr. Baz first as our Director of Budget if he has any opening comments for the Members.

MR. BAZ: Thank you, Mr. Chair. Good morning, Members. Just very briefly I want to really thank you and appreciate your Staff and your efforts to be able to hear this item so expeditiously before the end of the fiscal year here. The Department of Housing and Human Concerns did receive additional monies for our Section 8 Program. The Director will outline some of the reasons why they've received additional monies but it's a good thing. We just need to account for it properly in the budget ordinance. So we appreciate the review this morning and hopefully favorable passage on Friday. Mr. Chair, I'd like to turn it over to our Director of Housing and Human Concerns, Ms. Carol Reimann.

CHAIR HOKAMA: Okay. Thank you. Director Reimann, comments please?

MS. REIMANN: Thank you, Chair. Good morning, Members of the Committee. Thank you so much for accommodating this budget amendment and we sincerely apologize for the last minute nature of this request and all of the inconvenience that it has caused. The reason for the amendment is because we failed to report for the additional grant funds that we are receiving for our Section 8 Housing Voucher Program from HUD. Over the last year our Section 8 Division has been working hard to increase the number of individuals and families that we serve. The Division has been instrumental in clearing a waitlist of some 3,000 people. Some of whom were waiting for 5 to 6

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

years for a voucher. After processing everyone on the old list, Section 8 was able to make available a new list which allowed even additional, more additional people a chance to obtain vouchers. They've also increased the number of lease-ups. And lease-ups are when a family or person, with a voucher, finds and occupies a unit. Because Section 8 has been making strides to help more people than ever our budget funding has increased. Helping more families equates to increased rent expenditures. While HUD has provided us with adequate funding, we, at Section 8, have failed to update Council on the increase and now we stand before you requesting a budget amendment so that we can pay for our families' rents. We take full responsibility for this oversight and for failing to keep our budget updated for Council. We have initiated meaningful discussions with our leadership team to ensure that this does not happen again. Internally we are reviewing our practices and procedures to ensure that there is thorough monitoring and reconciliation of our County budgets to expenditures on a regular basis. We will also be working closely with Budget and Finance Staff. Buddy Almeida, our Housing Administrator, and Kelci Wandell, who is in charge of our Section 8 Program are both here to answer any questions. Thank you.

CHAIR HOKAMA: Thank you, Director. We appreciate those comments. Before the Members ask their questions or concerns, Director, this 721,000 that, and we're happy you're receiving it, this is for vouchers only? It's for Section 8 Housing vouchers? What is your expected use of this new monies please? Is the mic on for Mr. Almeida? Yeah, yeah, Mr. Almeida, if you would please use that. Identify yourself first for the record.

MS. WANDELL: Good morning...

CHAIR HOKAMA: Speak into the mic please. So yeah, if not the Members gonna keep asking you to speak louder, yeah. Thank you.

MS. WANDELL: Good morning, Chair --

CHAIR HOKAMA: Good morning.

MS. WANDELL: --and Councilmembers. Thank you for having us here. My name is Kelci Wandell. I'm the Section 8 Housing Choice Voucher Program Manager. The additional funds that we're requesting will cover housing assistance payments to landlords as well as some operating expenses of administrative fees to pay for salaries and other operating expenses. I don't have the exact breakdown right now but mainly it'll, the main chunk of it will go towards housing assistance payments for families.

CHAIR HOKAMA: Okay. And this is for vouchers and families that are brand new on the list? You cleared the old list right? The old waitlist. So this is --

MS. WANDELL: Correct.

CHAIR HOKAMA: --all --

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

MS. WANDELL: Correct.

CHAIR HOKAMA: --brand new applicants for Section 8?

MS. WANDELL: Correct. Well, besides brand new applicants we've also increased our payment standards that we help per family so the current participating family that is participating. Families on our program also had an increase in the housing assistance payments that we pay per family. So that increased as well.

CHAIR HOKAMA: Can you tell this Committee of those...you have a number of how many vouchers this means? Like 1,000 new vouchers, 500 new vouchers?

MS. WANDELL: Our vouchers have steadily increased, I believe, from 1,200 to now, I think as I think March or April it was 1,408 and then in May we had a decrease to I think 1,385. Yeah.

CHAIR HOKAMA: So of this 1,400, round numbers --

MS. WANDELL: Right.

CHAIR HOKAMA: --what would you say is Maui County families versus non-resident families? Percentage-wise for these vouchers?

MS. WANDELL: You mean...

CHAIR HOKAMA: Do you have a handle of how much it's our own people that making use of these vouchers versus our non-residents?

MS. WANDELL: That I would have to get back to you on the percentage but I believe it's a very small percentage for, you know, for outside, people who are not in our jurisdiction that we're administrating for.

CHAIR HOKAMA: Okay. And then the County receiving additional vouchers, does this mean another jurisdiction isn't doing as well therefore HUD transferred vouchers to this County because we're doing a --

MS. WANDELL: No it...

CHAIR HOKAMA: --good job?

MS. WANDELL: We weren't given extra vouchers. We were given additional housing assistance HAP funding so not, we still are, we still have the same amount of vouchers that we have to utilize, 1,464, that has not increased but our funding, our HAP, Housing Assistance Payment...

CHAIR HOKAMA: Per voucher has gone up?

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

MS. WANDELL: Correct.

CHAIR HOKAMA: The amount --

MS. WANDELL: Yes.

CHAIR HOKAMA: --per voucher has gone up?

MS WANDELL: Yes.

CHAIR HOKAMA: Got it. Okay. Thank you, Ms. Wandell.

MR. BAZ: Mr. Chair?

MS. WANDELL: Okay. Thank you.

CHAIR HOKAMA: Yes, Mr. Baz?

MR. BAZ: Just for your information too, in the monthly disbursements letter that we provided you'll see some dollar amounts in the bottom and we don't know the breakdown specifically of the \$700,000 that we're adding but if you look at the total 16 point...the new increased amount, we're looking at \$16.3 million being for Housing Assistance Payments and \$1.3 million being for the administrative fees.

CHAIR HOKAMA: Okay.

MR. BAZ: So you get an idea of what the breakdown is.

CHAIR HOKAMA: So the Committee understands the importance of this proposal this morning. Part of this money is needed to take care of your payroll requirements. Is that a good understanding on this Committee's part, Director?

MS. REIMANN: Yes, Chair.

CHAIR HOKAMA: Okay. So we need to pay for work already provided because we are on a lag system. Okay. So if you understand State law we are required to pay our employees on the next payment cycle. Okay. So we have some issues on timing and processing. Council is gonna do it the fastest we can and if I understand Chairman White we are going to need to schedule a special Council meeting for final reading to get this done before the end of fiscal year. Okay. And again, it impacts payroll, which I will again state for the record is for work already performed. Mr. White, questions/concerns on this request?

VICE-CHAIR WHITE: Thank you, Chair. And yes, we will schedule a special meeting --

CHAIR HOKAMA: Thank you, sir.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

VICE-CHAIR WHITE: --to take care of this. So, Director, the question that comes to my mind is do we have enough money to cover the current payroll?

CHAIR HOKAMA: Mr. Baz, if you wish to answer?

MR. BAZ: Yeah. Thank you, Mr. Chair. So because of the Finance Department and the way that we account for payrolls, they, the, even though the payroll for June 15th gets paid on June, excuse me July 15th, gets paid on July 15th, it gets accrued back to the year before. And so for Fiscal Year '16 there's a Fiscal Year '15 payroll still included in the expenditures for '16 so we're gonna have to back that out so that's one payroll that yes we can cover for the June 15th payroll.

VICE-CHAIR WHITE: And...

MR. BAZ: But by June 30th we'll need this in place.

VICE-CHAIR WHITE: Okay. Yeah, I wish we had a little more detail on what the breakdown was to see how much is payroll and how much is rent relief. But I understand the challenge.

CHAIR HOKAMA: We'll request that through the Director if she can maybe provide some comment by Friday's Council meeting. Director, if possible? We would appreciate that consideration.

VICE-CHAIR WHITE: Thank you, Chair. And with that I have no further questions or concerns.

CHAIR HOKAMA: Okay.

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

CHAIR HOKAMA: Mr. Baz?

MR. BAZ: We're gonna be coming back for a Fiscal Year '17 Budget amendment and at that time we can do a more thorough review of the program and the details of the expenditures and things like that. But if you're looking for a breakdown in the budget details there's a decent breakdown as far as ratio goes so you can look at and then apply it to this new amount.

VICE-CHAIR WHITE: Yeah, no, I was just, I'm just concerned that if we are having to use this money to cover payroll that the existing payroll was not covered in our original budget.

CHAIR HOKAMA: Mr. Baz?

MR. BAZ: Yeah, thank you.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

VICE-CHAIR WHITE: 'Cause our original budget was that 64...

MR. BAZ: Yeah, I understand your question. You know, the payroll was covered in the original request. The problem is that they've expended, you know, as much money as they said they were gonna receive in the budget ordinance. So there's no, even though... 'cause in the budget it doesn't breakdown what's payroll and what's housing assistance payments. It's just one lump sum for the Section 8 voucher program. So because the limitation in the ordinance is that dollar amount, they... doesn't, you know, the breakdown of what they spend it on isn't controlled by the details of how much is on each.

VICE-CHAIR WHITE: Okay.

MR. BAZ: Yeah.

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

CHAIR HOKAMA: Thank you. Ms. Crivello, any questions for the Department or Mr. Baz?

COUNCILMEMBER CRIVELLO: I guess you sort of explained it but not so much in detail and so out of this 700-something thousand, you don't know how much will go to operations? You have...

CHAIR HOKAMA: Mr. Baz?

MR. BAZ: So, Mr. Chair, we can make a good assumption for people's... and now I understand Mike White's, Chair White's question a little bit more. The extra money that we're receiving is for the housing assistance payments right? Because we have more people leased up. So if you look at the total aggregate of what we were receiving of 16, the original \$16 million, the amount that was based on, you know, the fixed operational costs and the flexible housing assistance payments.

COUNCILMEMBER CRIVELLO: So you're saying you went over the fixed operational cost?

MR. BAZ: No, we went over the flexible housing assistance payments, right? Because we're getting more people into housing and so we have to pay for that housing so that's why we're receiving more money from HUD. Yeah, it's not because our operational costs went up.

COUNCILMEMBER CRIVELLO: But you're not able to meet payroll?

MR. BAZ: Because of the limitation on the budget ordinance because it's all one lump sum.

COUNCILMEMBER CRIVELLO: Okay.

MR. BAZ: Yeah.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

COUNCILMEMBER CRIVELLO: Thank you.

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

COUNCILMEMBER BAISA: No, I think we have enough information and know what we gotta do. Thank you.

CHAIR HOKAMA: Thank you. Mr. Carroll, questions, sir? Okay. Well you already heard Mr. Baz saying that they need to come in for also a revision on the brand new fiscal year's budget that will start on July 1st. Which is okay 'cause we got time to take care of it unlike this request. Are you gonna need or utilize, Mr. Baz, County General Funds to make up for the short-term operational requirements until this grant is finally processed by Council?

MR. BAZ: No, Mr. Chair. We do not.

CHAIR HOKAMA: Okay. And I appreciate it 'cause it's a concern of the Chair of County General Funds for Federal grant positions. Okay. Is there anything else, Members, you would like to ask for prior to Council meeting that may assist you or anything, other concerns regarding this request this morning? Make it known now please. Okay. We heard Ms. Reimann as well as Mr. Baz saying that they'll make their own internal adjustments to avoid a recurrence. Is your...I believe we gave you one budget position for Section 8? You have a budget position in Section 8? Right? You have an accountant?

MS. WANDELL: Yes, we do have an accountant for Section 8.

CHAIR HOKAMA: Is that, is the accountant's position part of it to inform the three of you of a potential issues regarding the balances?

MS. WANDELL: Yes. And she will be monitoring it more closely in the future.

CHAIR HOKAMA: Okay. Is this a concern that this Committee needs to know from a Federal perspective of HUD and how they might view this? Is this a little...is this gonna be an issue for them as part of your auditing reporting?

MS. WANDELL: No.

CHAIR HOKAMA: And if it's not, that's great. I just want to know if it's gonna be part of a concern that later on they're gonna bring it up in your single audit or something as saying...

MS. WANDELL: No it's not.

CHAIR HOKAMA: It's not a concern for us.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

MS. WANDELL: Yes.

CHAIR HOKAMA: Okay.

MS. WANDELL: Correct.

MR. BAZ: Mr. Chair?

CHAIR HOKAMA: Mr. Baz?

MR. BAZ: If this passes there's gonna be no issue with the audit. The Feds don't, I mean this budgetary control is completely an internal process that the restriction on, as part of the budget ordinance and it's not relative to the Federal grant other than can we receive it or not. And so if we can't receive it then yes that will be an issue. If we can receive it then there will be no issue.

CHAIR HOKAMA: Okay. Thank you for that comment, Mr. Baz. We appreciate it. Any other, any comment you wish to add before we dispose of this item, Director Reimann?

MS. REIMANN: No, but thank you so much for accommodating us.

CHAIR HOKAMA: Okay. Mr. Almeida, Kelci, anything else you folks might want to add to the discussion?

MR. ALMEIDA: No just to...Director Reimann mentioned thank you very much for expediting this...thank you very much for expediting this process. We truly appreciate you hearing this so quickly. And again we are putting steps in place to make sure that we monitor this and that this will not happen again so those measures are already being taken and put into effect.

CHAIR HOKAMA: Thank you very much.

MR. ALMEIDA: Thank you.

CHAIR HOKAMA: We appreciate that comment. Okay. Members, if there are no further questions, your Chair is going to have this item deferred with no objections so that Council may make a decision on Friday. Any objections to the deferral?

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Thank you very much. This item is deferred.

ACTION: DEFER pending further discussion.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

CHAIR HOKAMA: Director, thank you. Buddy, Kelci, thank you very much for being here. Deputy, thank you for being here. Ms. Shishido. We'd like to bring forward now Director Agsalog and our Real Property Administrator, Mr. Teruya, for discussion on the next items.

ITEM 68: SEPARATE REAL PROPERTY TAX RATES FOR LAND AND BUILDINGS WITHIN A CLASSIFICATION (MISC 5/23/2016)

CHAIR HOKAMA: We have item 68 and as stated as part of the testimony this is a discussion. I will not be asking for any decisions regarding this. This is just to have a discussion that was brought up in the Budget cycle regarding whether or not this County may want to consider specific rate differences between building and land. We have, again, our two key people from our Finance Department to give us their comments as well as respond to the Committee's questions. And again, this is from a communication dated May 23, 2016 from the County Clerk which has referred this item back to this Committee as part of the Committee's recommendations for the Fiscal Year 2017 Budget. So at this morning, first I'll ask Mr. Baz if he wishes to share any comment before I ask Finance Department for any comments they may wish to share at this time.

MR. BAZ: Thank you, Mr. Chair. We, the Administration is, likes that the Council is discussing this item. We appreciate the review of how we tax land and buildings and await discussion and we can provide comment later as far as any policy decisions that the Council decides.

CHAIR HOKAMA: Thank you, Mr. Baz. Good morning, Mr. Agsalog. As our Director of Finance, we'd be interested if you'd like to share any comment as this point in time, sir.

MR. AGSALOG: Good morning, Mr. Chair and Members of the Committee. And yeah, thank you for having us here and again every time we discuss policies to improve or enhance our process, you know, it's always a welcome discussion for all of us. The Budget Director has spoken about policies. Myself, the Director of Finance, and our Administrator will be a technical resource person for you today, although I have not had an intimate discussion with him with regards to this particular issue. I'm just kind of very protective of my staff that should this go when we separate if we reclassify it to two I will have some concern as far as just one, appeals maybe because then the allocation from one building land for the other will be now appealable. I know the rates are not but it's normal that people that know the system they will look into it and they say I want to allocate more to the cheaper rates than the higher rates and although that it might not affect the total value of the property then that would be an appeal for my people, the Board of Review, to look into it so I'm just kind of looking at those portion of it. But again, we are here to, if you are, if this discussion will go to fruition we'll be more than happy to support the Committee, Mr. Chair, by doing more research. Again as I mentioned I have not much intimate discussion with this particular policy discussion that we doing but we'd be more than happy to support the

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

Committee's track in enhancing our process. Mr. Teruya has a very brief look into the overview of this particular one but he will be able to give you some technical resource help also, assistance, Mr. Chair.

CHAIR HOKAMA: Okay. Thank you very much, Director. Mr. Teruya, any comments you wish to share at this point in time?

MR. TERUYA: Thank you, Chairman, Members. Scott Teruya, Real Property Tax Administrator. We don't have a position on what it should be. It's really this body that should determine whether you guys want to split different rates. We do have the ability because we have them separate. Just for some historical information the City and County of Honolulu had a dual system like we do have here with land being predominantly higher from 1989 to 1998. Since that time they went to one rate for simplicity purposes and the fact that when you do have higher rate on one versus the other at, just like the Director said there's a tradition to appeal one that's the higher rate than the other even though they weren't really arguing the fact of the overall value being correct. The County of Kauai had a split rate system which was traditional to have the land rate higher than improvements from 1982 to 2005. Then in 2006, for some reason and I don't know the reason why, from 2006 to 2013 they had the building higher than land. So I think you can see that even though you have a system in place where you do one versus the other, I don't even think they know why they transferred it over to the improvements versus the land. And today I think for, this is the third fiscal year that they only have one rate. So they too have changed from one system to the other to a one-rate system. Hawaii County had split rates from '83 to 2002 with land being higher. There is thought that they will go eventually to one rate system as well. And the reason being is the way we value properties are, you know, in the State of Hawaii we have the cost and market approaches to value and in different situations you do one versus the other. In the condominium a lot of time they're trying to move towards market, market modeling. In that process of valuing condominiums, land value is relatively low in comparison to the building because of the way we allocate value so to speak. The land value is not a true land value. It's taking the entire parcel and you're allocated a percent common interest of that total value and the remainder is thrown onto building so you can see in some cases how traditionally the building value in a condominium is allocated more towards the building. In the single-family residential properties, a lot of times, the value is higher so in the single-family residential process you have a sales price minus what we have reconciles a building new less depreciation and the remainder is land. So there's little bit two different approaches so even though the value of one condo and a house being similar in total value, the allocation may be different and so if you create a rate higher in one or the other it will affect two different properties differently. So I guess what I'm here is not to tell you what system to use or which should be higher but know that there are some things that we need to consider when we decide to or if you should decide to go one versus the other. We don't have a particular silver bullet to tell you that this would be the way to go because ultimately there's unintended consequences whichever way you go. Maybe point out some properties where it shows you that the land-to-building ratio are different among classifications. Agricultural-use parcels predominantly are low land-to-building ratios. Condominiums with high density, I

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

would give you example like Harbor Lights, you have a lot of units on that one piece of property so if you get a percent common interest on each unit is very low for land value. Maybe high land-to-building ratios are like rural properties where predominantly it's all land value. And what's very interesting is most homeowners have a high land-to-building ratio. And more so being that you have an exemption of 200,000 so your net building is relatively low which leaves you with a very, most majority taxable is on land so for the homeowner class I think a high land tax is pretty regressive for most homeowners. So that's something you should consider. Throughout the United States, it's predominantly a single-rate system. There's very few states or municipalities that have a split rate system. I think, I believe it's either Pittsburgh or Pennsylvania, I think it's Pennsylvania, that probably is 13 of them, municipalities have different land and building rates but that's one of the few with Hawaii having split rates. But predominately throughout the U.S. it's a single-rate system. Chairman, I think I'll leave it at that. Some background, I mean, it's not that we don't want to spend the time to research everything but it's a lot of work to compile if we want to consider scenarios. If this body chooses that we should be looking at scenario system, it'd be probably best that the Council maybe bring up the scenario so we can do it because it would be endless for my technical staff to be doing a presentation on what-ifs. It would probably be better to find out what you guys want us to consider and then maybe we can come back, Chairman, if you choose, to give more historical information about where we were post World War II, the reasoning behind the split rate system of a higher land tax versus a building tax and then we can maybe go down from there, Chairman.

CHAIR HOKAMA: We appreciate your comments, Mr. Teruya, Mr. Agsalog. And we can appreciate there are many different scenarios so there's many different approaches and outcomes that we could have. But there's two things that basically this Committee's concerned about, one is tax rates for building in our discussion valued at over 1 million. The Residential classification and we cite City and County of Honolulu. They have two separate tiers for residential. And again their two tiers are based off building valuations. And then the second one of course is the separation of land and building within the classification which is the main topic of today's discussion. So we appreciate your comments. I would say that as part of the discussion also I would hope that eventually you would give us comment regarding nonprofits too. I don't have a problem of maintaining the taxation policy on the land. But I have noticed many jurisdictions are now looking at the building component as possible --

COUNCILMEMBER BAISA: Chair?

CHAIR HOKAMA: --taxable --

COUNCILMEMBER BAISA: Chair?

CHAIR HOKAMA: --considerations.

COUNCILMEMBER BAISA: Could you get closer to your mic please?

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

CHAIR HOKAMA: Oh, thank you. I'm sorry, Ms. Baisa. I'm saying that on the mainland, our 48s, there is already discussion on whether or not buildings should be considered taxable for nonprofits. And that's more about the type of structure some of them put up. Already they getting the break on the land, but if you can put up a \$10, \$20 million structure why shouldn't you pay tax on that \$10, \$20 million structure? It's a question, it's not a policy. And whether or not there is fairness that we maintain total tax...what is currently, what is the right word to that? Non-payment or exemptions? So that's something I would like us to look at in the future. But I find it interesting from what I heard if we, Mr. Teruya, we heard accurately, our sister counties, Big Island and Kauai, have moved from a split more to a unified single rate. Is that a good understanding for this Committee this morning?

MR. TERUYA: Thank you, Chairman. The City and County of Honolulu and Kauai County are on a single-rate system. The County of Hawaii is similar to us where we have land and building, although they are historically using the same rate for land and building.

CHAIR HOKAMA: Okay. Okay. So in your opinion as one of our key professionals, gentlemen, Director and Mr. Teruya, the difference of classifications and density impacts no matter which way we look at right? Because if we looking at splitting rates you just told us for ag and rural conservation the land is more than the building.

MR. TERUYA: That's correct.

CHAIR HOKAMA: For the residential, the resort, condominium, the building is more than the land?

MR. TERUYA: That is correct. And, you know, Chairman, what may help I know during certification we gave you guys all the spiral-bound handouts and, Chairman, if you don't mind I would kinda really quickly let you know that in your handout that you had--hopefully you still have them--it notes in the beginning part of the pages about allocation between land and building per classification. And really quickly, Chairman, without saying the numbers for Timeshare, it's predominantly in building. In Residential, it's predominantly in land. In Commercialized Residential it's right about 50 percent. In Apartment it's 1 to 4, it's probably building is higher, 4 to 1. In Commercial it's 2 to 1 on land. On Industrial it's 2, a little bigger on land. Agriculture it's 2 to 1, land. Conservation, it's 2 to 1, land. Hotel, it's predominantly building. In Homeowner, more towards the land value. And the aggregate total, it's just slightly higher in building. So like I said, you know, it's really mixed. Or it really depends on the classification you're in. And when you go back to the total, it's really about, really similar. So it's kind of damned if you do, damned if you don't; you know, do we go more on land, do we go more on building? That's a really a question for you. But historically and traditionally, if there is a higher rate, it's probably on land. And that is just the research that we've done through most municipality is land has been the, predominantly the higher rate versus if you do have a split system, Chairman. And I think it started a long time ago, pre-war, World War II where there were very few individuals owning majority of the land and the commoners probably wanted a higher land tax so that they could distribute the wealth of land and that's probably how it

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

started. And here we are today and things have changed so, but I just, history is good to understand why they did one versus the other and whether it still relates today is really for this body. Thank you.

CHAIR HOKAMA: We appreciate the comment. I would say that is a factor, but the other big factor was in the '60s when State Land Use Commission reclassified the whole State into the four categories. That was a major impact on land values and land ownership and land development. So I can tell you I remember that being headed by the late Mr. Eddie Tangen as the key to that Land Use Commission's efforts so we appreciate the historical components. Are you, do you have access, Mr. Teruya or Mr. Agsalog, you shared something interesting regarding Kauai. That Kauai made a philosophical or policy change from land and building and flipped it. Do you know if they achieved some of the certain benefits, whether it was stopping escalation of land prices over double digits or it brought their housing prices down to something that their people could more readily purchase? I mean, do we have some factors you could share as part of that experiment they did?

MR. TERUYA: Chairman, currently I do not know and I don't want to speculate on behalf so right now I don't have any comment, Chairman.

CHAIR HOKAMA: How...do you and your peers meet on a regular basis and talk about subjects such as these as County real property assessors and appraisers?

MR. TERUYA: Yes. Chairman, the administration, from all four counties, we meet on a quarterly basis to discuss county issues, common problems, solutions and a lot of it has do with our vendor and our type of software that we're using, and just a common practical appraisal practice towards lot of the problems that we not only face here in Hawaii but we face throughout the U.S.

CHAIR HOKAMA: 'Cause I'm thinking, and I'm glad Ms. Baisa is here, I, you know, I really think this is the type of subjects that HSAC should be having at one of its two conferences that we should have every year. One is of course the Leg on legislative proposals at the State, but I think we should make use of all our counties sitting together and talking about common issues like this real property taxation.

COUNCILMEMBER BAISA: Mr. Chair?

CHAIR HOKAMA: Ms. Baisa?

COUNCILMEMBER BAISA: I totally agree with you. You know, I was very distressed when I heard about the agenda for the meeting. With all of the huge issues that we have going on Statewide I thought this would've been a great opportunity to sit down and discuss these kinds of things. But it's a different agenda and, you know, we're not in charge of it. The island that takes it decides that. And so we're good sports, we'll support, but I do think, Chair, that, you know, we do have to sit down...and, you know, when we get here we always talk about well what are the other islands doing? And that's the opportunity, when we're all in the room, and Chair Victorino did try,

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

very hard, he wanted to set up a time for talking and networking and that didn't go over very well. I'm sorry, but, you know, I will bring it up.

CHAIR HOKAMA: I'm happy to, if the Committee would like, I am happy to send a letter on this Committee's behalf requesting HSAC to consider such topics because it's good to sit down and have a discussion of mutual issues and challenges.

COUNCILMEMBER BAISA: Chair, I for one would appreciate it a whole lot because that kind of communication would help those of us who, you know, have different ideas. Thank you.

CHAIR HOKAMA: No, thank you for those comments. Mr. White, questions to our resource people regarding this subject agenda item?

VICE-CHAIR WHITE: Thank you, Chair. My question is on the condos. If you look at the lead page on a condo. I just looked at the Whaler condo and their land value is little over \$21 million. If I were to go...my understanding is if I were to go to each condo unit and add the appropriate assigned land value that that will total up to the total land value shown on the first page?

MR. TERUYA: The way condominiums are...and I'm not going to say yes or no because I'm not sure what page you're looking at but, if you add all the condominiums' units land values up it will total the master of the parcel.

VICE-CHAIR WHITE: Okay.

MR. TERUYA: Yes.

VICE-CHAIR WHITE: Yeah, that was my understanding. I just wanted that, to clarify so I appreciate that. Thank you. Thank you, Chair.

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

COUNCILMEMBER CRIVELLO: No, I had what would be the disadvantage or the advantages but I guess would you kind of want to make some kind of clarification from your part?

CHAIR HOKAMA: Mr. Teruya?

MR. TERUYA: Chairman, it...double-edged sword. I mean, you know, for the way I see it is I can understand the process of having improvements higher because it seems like traditionally if you have the means to build it, you could afford it. That's just my thought of it. I'm not saying that that is the better approach to it because I said of allocation for certain type of properties it's valued land residual and some are done a building residual so I think it could be unfair to have one higher than the other in that aspect. Furthermore, for our, speaking on behalf of my Department it's more problematic when you have separate rates because it makes a complex situation muddy because now you're gonna have people appeal based on what is the higher rate

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

when it's not the problem. The problem is is the total value correct or not? It's the allocation that we must do by law that gives you the opportunity to appeal one versus the other. And I think that is the reason why more municipalities move to one rate because now you can't pick apart just land or just building; it's really about the total value. So my next opinion on behalf of the Department is we would prefer to actually have a single rate which we had proposed before; however, the circuit breaker rule required the building value to be 400,000 so therefore we left the land and building component separate. So in my opinion I think we already have enough classifications, by making additional rates makes it that much more deliberation on part of the Council so if the current process is laborious, it'll be twice as laborious. So I just caution you we have enough classifications to begin with and by separating land and building will just make it that much harder for deliberation purposes. Thank you, Chairman.

COUNCILMEMBER CRIVELLO: Thank you.

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

COUNCILMEMBER BAISA: Thank you very much, Chair. And thank you for this discussion today. I think it's really important because every now and then somebody will bring it up and say, you know, we ought take a look at this and we are taking a look which is good. But it kind of sounds to me like listening to Mr. Teruya that this is a solution looking for a problem again. You know, it appears that what we have is working and so if it's working and what I hear is other municipalities have tried and they're coming back to what we're doing so I don't know if it's worth a whole lot of further investigating. I think we have more exciting things to think about but I really appreciate this discussion. I think it's important. Thank you, Chair.

CHAIR HOKAMA: Thank you very much. Mr. Carroll, questions, sir? Again, Members, the Chair's intent was to have the initial discussion today, defer it and if need be work with the Department and Division to be able to share with you additional information. Your Chair's thought is that is we want to talk about residential and whatnot then one of the things that this County does that our sister counties have chosen not to is how we've approached certain things for residents' benefit under residential. We're the only county that has a homeowner exemption, okay. Once we give, it's always difficult to eliminate unless you have a better substitution in its place. If you recall the history of the exemption, discussions of max tax and the impacts of huge annual spikes in valuation because of the foreign market at that point in time and we talk about the Japan balloon that bursted. And we had to pay the price in this County because some properties sold ten cents on the dollar because the national government required all their corporations to get their debt in place. And, of course, it was hurtful for Japan but look where there are now once they took care debt. They're . . .(inaudible). . . right back as a powerhouse. So again, one of the things I would like us to consider is how we're financing things, what is, are we still doing taxation...can we do taxation in a fair manner? Is there any tweaks that makes sense? And again, as Ms. Baisa said, we shouldn't be looking with a solution for a problem to fix, if there's no problem to fix. Okay? And so I appreciate that comment because I would say our County does some

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

things very, very well. Not everything, but we do certain things really well that I think we can show others that our policy is very solid. Ms. Baisa?

COUNCILMEMBER BAISA: Thank you very much, Chair. And I don't want to say that everything is hunky-dory because no, you know, there's always we have things that we'd like to take a look at and we always talk about these during budget and I really appreciate the fact that we are discussing this away from budget --

CHAIR HOKAMA: Yes.

COUNCILMEMBER BAISA: --because that's the time to discuss about this kind of stuff and when we get to budget we have other things to think about. But, you know, they're, like you mentioned, you know, we could sit here and discuss the home exemption. Is it the right amount? Is it our people are, should everybody be getting it? Should we put that in some kind of scale? We could talk about a lot of things, you know. We always have testifiers who come and talk about the categories and the description of the categories and those kinds of things; I think we could dig deeper. But what is on the table today and that is this straight up thing of separating land and buildings. I just don't see that there's a whole lot of merit in doing that, Chair. Thank you.

CHAIR HOKAMA: No, thank you. I appreciate your very straightforward, candid comment, Ms. Baisa. Okay. Anyone else at this time? Members? Mr. Couch, you have anything?

COUNCILMEMBER COUCH: Thank you, Mr. Chair. Yeah, I've been listening to the discussion and I agree with Ms. Baisa on this one; I'm not quite sure what we're trying to fix there. But we do have, and I just want to put it on record, I think we have an item, at least from the budget, talking about reclassification. Are you intending on doing that anytime soon? 'Cause it fits kinda in with this discussion as well.

CHAIR HOKAMA: Yeah, the Staff and I are going to review the master agenda again, Mr. Couch. My thing was to start discussions earlier.

COUNCILMEMBER COUCH: Okay.

CHAIR HOKAMA: I'm not asking for decisions 'cause I think this is what we should be doing.

COUNCILMEMBER COUCH: Yeah.

CHAIR HOKAMA: Having a discussion.

COUNCILMEMBER COUCH: Yeah.

CHAIR HOKAMA: And see if there are areas we would like to work on. If the Committee's consensus is we are currently okay with the current status, there's more advantages than disadvantages, Department/Division gives their comments, I'm fine with that. My thing to the community is that we've held the discussion and we have, through our

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

due diligence we've believe that the current status is the best for this community. That's fine with me. But if in the discussion, you know, it comes up that we should look at a specific point, maybe tweak it, I'm fine with that too. But we are following through from the budget session on subjects that we don't need that clock pressuring us.

COUNCILMEMBER COUCH: Right. Right.

CHAIR HOKAMA: So deferral is not an issue today; a proposal comes up today, not an issue 'cause this is part of now the discussion process. And that's what I want to do is just bring it up, let people know that we take their, our responsibilities seriously as far as their monies are concerned, the amount of fairness in what they pay to the County. What they should expect in return for that payment of taxation and other than that again I will bring up that part of this is also how we're gonna look at 14 brand new contract proposals coming up in September...in --

COUNCILMEMBER COUCH: Yes.

CHAIR HOKAMA: --January of 2017. Okay. So this is timely in a sense of looking at ways to adjust revenue stream. Not that we're gonna do it, but it's part of the consideration.

COUNCILMEMBER COUCH: Okay. Thank you, Chair.

CHAIR HOKAMA: Okay. Is there anything else? Mr. White, anything else?

VICE-CHAIR WHITE: No.

CHAIR HOKAMA: Mr. Teruya, Mr. Agsalog, Mr. Baz, anything else you'd like to add on this subject before we defer this item? Gentlemen, anything you'd like to add? Mr. Agsalog?

MR. AGSALOG: No, Mr. Chair. Thank you for just being proactive and I applaud the Committee for trying to enhance our process. And I think at this process that we do it's always welcome to the community to hear it also.

CHAIR HOKAMA: Okay. And then again we'll do more due diligence and, you know, the university is pumping out a lot of proposals and ideas of how to look at taxation, affordable housing, and whatnot, so we'll see if the university has maybe some recommendations on us regarding areas of local governance. So we'll review that and report back to the Members. If there's no objections, the Chair will recommend deferral of Item BF-68.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: Okay. We'll defer this item.

ACTION: DEFER pending further discussion.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

CHAIR HOKAMA: Mr. Teruya, thank you very much. We appreciate your assistance. Members, we have two more items...would you guys like a short break?

COUNCILMEMBER BAISA: No.

CHAIR HOKAMA: You guys ready to power out and finish up? Okay, we'll finish up.

ITEM 14(1): SHORT-TERM INVESTMENTS (FISCAL YEAR 2016 (JULY 1, 2015 TO JUNE 30, 2016)) (CC 15-275, CC 16-32, CC 16-80)

ITEM 14(3): SHORT-TERM INVESTMENTS (FISCAL YEAR 2015 (JULY 1, 2014 TO JUNE 30, 2015)) (CC 14-266, CC 15-44, CC 15-123, CC 15-211)

CHAIR HOKAMA: Fourteen-one is basically the new quarterly or quarterly reports regarding the short-term investments. Fourteen-three is something we discussed previously but on No. 5 of 14-3 we did send the Department a correspondence that they have responded to. And therefore that's why you have those both items present, and I'm gonna ask Mr. Baz, Mr. Agsalog if they have...and if there's no objections, I don't have a problem taking these two together since they're all --

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: --they're on the same thing, short-term investments. Okay. Mr. Agsalog, anything you'd like to share with us regarding the short-term investments? Status? Have we made more money? Have we lost some money?

MR. AGSALOG: Thank you, Mr. Chair and Members of the Committee. Again, thank you for reviewing this for us today and thank you for putting it together so we can discuss it as a whole. But we also can be able to answer individually should you have any question on a particular report, Mr. Chair. The report are very straightforward in, we reporting it quarterly as required for our investment and to, also I'm proud to say that the two members of the committee, the Investment Committee, are here also, Mr. Budget Director and I, I being the chair of the Investment Committee. So we'll be able to answer any questions you might have. The last report, which is March 31, 2016 quarter, we have reported 814,405 as interest income, Mr. Chair. I think so far we are now up to 2 million for the 3 quarters and then we'll have a little bit more coming as the fiscal year ending, Mr. Chair. And I will answer any questions you might have, Mr. Chair. Thank you.

CHAIR HOKAMA: Thank you, Director. We appreciate your comments. Were there any major shifts in accounts or areas of investment, you know, whether you took, put, more into government Federal funds, money market funds or did you put more in

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

certificates of deposit? Have you made any changes in where you're investing as well as the amounts or percentages of investments, Mr. Director?

MR. AGSALOG: Thank you, Mr. Chair. Right now we are heavily in CDs at the moment. And unfortunately, Mr. Chair, our effort in the Leg didn't work as much so we have, we are not buying any of those agencies anymore as the Legislative Auditor found out that it is not listed. We are maturing them and we not purchasing them until we can get it into our HR-46 in our investment, whatever it's listed in our investment statute, Mr. Chair. But last month we divested 17 million out of it because now it matures so that I can report to the Committee, Mr. Chair. So it's CDs. We have treasuries, we still have the same track as far as safety first, you know, of course liquidity second because we have responsibility to pay our vendors and all that and our payroll. And of course, yield is the third. So it's the same track, Mr. Chair, that we have been doing.

CHAIR HOKAMA: Okay. Do you put any monies in Fannie Mae and Freddie Mac programs, Mr. Director?

MR. AGSALOG: I'm not sure, Mr. Chair. I know we had, how much we have today if we have. I didn't get through the last report yet. But we have some, still quite a bit of agencies, Mr. Chair, and that Fannie Mac [sic] it falls under agency.

CHAIR HOKAMA: Right. Right. And again, you know, if we do like others, you know, I track, crazy, but I track money too, so.

MR. AGSALOG: Mr. Chair? It's just that those agencies are a little bit higher yielding.

CHAIR HOKAMA: Yes. That's why I was just --

MR. AGSALOG: Yes.

CHAIR HOKAMA: --curious whether we getting some benefit, and one, it also because I think Council took action where now for our residents and some of their home considerations we've supported the ability of that Freddie Mac loans so they can qualify and get some advantages in their purchasing. So if this if something we investing in that helps accelerate and makes this community stronger, then I was gonna say thank you for investing in those type of accounts. Because it's reinvested back into the community; in our families through purchasing of housing units so, you know, I find that good stuff, Director.

MR. AGSALOG: And, Mr. Chair, that was the driving force for me to go to the Legislature and get it at least put it in our HRS. You know I really appreciate your support, Mr. Chair, because when I was at those hearings, you know, the support, the letter of support that you guys have written really helped, but unfortunately towards the end we didn't make it. And I'm intending to pursue it again this coming Legislative session and hopefully that we will be more fortunate this time, Mr. Chair.

CHAIR HOKAMA: Yes.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

MR. AGSALOG: And again I would hope that I'll get some letter of support again, Mr. Chair. But again, yeah agencies, Mr. Chair, yield a little bit better than the treasury notes that we have right now.

CHAIR HOKAMA: Okay. Are...

MR. BAZ: Mr. Chair?

CHAIR HOKAMA: Mr. Baz?

MR. BAZ: Thank you. I do have some numbers on Fannie Mae and Freddie Mac, if you'd like. As of March 2016, we had \$54.5 million in Fannie Mae and Freddie Mac had \$19.1 million. We do have a pretty significant...

CHAIR HOKAMA: Yeah, it's significant amounts of money.

MR. BAZ: And the Investment Committee met in March, it was our last meeting, and we actually revised the investment policy slightly to allow us to purchase more certificates of deposit and have it be a little bit larger percentage of our portfolio so that we can take advantage of the higher interest rates that are --

CHAIR HOKAMA: Sure.

MR. BAZ: --and the safety of the CDs.

CHAIR HOKAMA: Currently can you give us a, again you can round it out, but have we advanced out already from our cash or short-term investments for future bond projects? Have you made any advancements out of the cash funds for capital improvements at this time? Before the bond float, I know, you know, the Department will consider cash advancements.

MR. AGSALOG: Mr. Chair, there is, on the last authorization I have signed we have authorized about 19 million to be loaned.

CHAIR HOKAMA: Right.

MR. AGSALOG: There is no actual invoices out of that 19 million have been transferred to the bond at the moment. Since we have the Budget Director and I and our staff at the accounts looked into what should be the measure that we will go and float the bond; is it the authorization or is it the actual one? So I think the last one I signed, like I said it's about 19 million authorized meaning to just encumber the project, the contract. Four and a half million of actual expenditure so that must have come up, come in right away, Mr. Chair. And most of that are our County, not Water Supply.

CHAIR HOKAMA: Okay. And we are still on your current proposed schedule for bond financing right, Mr. Director? We still targeting that period of future date as you

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

shared earlier in budget session about more than likely when the County will actually go for a bond float once you get the sufficient numbers?

MR. AGSALOG: Thank you, Mr. Chair. And I think the last report I have sent to you would be in the middle of this calendar year.

CHAIR HOKAMA: Correct.

MR. AGSALOG: I have revised that now because looking at the trend of the expenditures of what we have, I'm kinda looking at maybe another 12 months, Mr. Chair. We still going to be within the provision of the budget ordinance to that 24 months of the day of loan or transfer or the accomplishment of the project. So the next report that you will have, Mr. Chair, as far as the loan transfer is concerned, it will state now that we will be probably in the summer 2017. The reason being on that, Mr. Chair, is I have reviewed quite a bit of our current bonds and there is no candidate at the moment for refunding so that is one of the measures that I use if we have any savings that we might be able to achieve, Mr. Chair. I would really like to achieve those savings but at the moment we don't have any candidate as far as savings, Mr. Chair.

CHAIR HOKAMA: Thank you for reviewing it and being able to give us that comment this morning, Director. We appreciate that. Mr. White, questions for the Director on short-term investments?

VICE-CHAIR WHITE: Yeah, my question is what short-term investment opportunities does the State have available to them? Are they similarly limited as we are to, you know, the types of investments that we can do?

CHAIR HOKAMA: Director?

MR. AGSALOG: I think whatever the, it's the Federal Farm bank that is listed in their 36-21, HRS 36-21 I think it is. It's not listed in ours and we were trying to mimic that and that's the one that I, we have invested I think about 36 million on that because it's an agency that is, it's sponsored by the Federal but it's not a Federal. So those are the one that we were trying to achieve in our own HRS and they are very yielding at the moment. It's Federally-guaranteed but it's not the U.S. Federal government.

VICE-CHAIR WHITE: Thank you. And what were the reasons that they, that the Legislators gave you for not allowing us the greater flexibility?

MR. AGSALOG: It just stopped at the conference when it went to conference. They deferred it and they didn't get a vote at the conference, Mr. Chair.

VICE-CHAIR WHITE: So --

MR. AGSALOG: The State --

VICE-CHAIR WHITE: --to summarize...

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

MR. AGSALOG: --House put it in conference and what happened I'm not really sure of the detail things but when they did the hearing they amend it to put a start date or effective date of 2030 and then they deferred it after that.

VICE-CHAIR WHITE: Okay. So...

MR. AGSALOG: There's no changes in the language on anything it's just the date of effectibility [sic].

CHAIR HOKAMA: I would say it got caught up in our TAT and every other taxation revenue stream discussion. It was part of the...what they call that...collateral damage.

COUNCILMEMBER COUCH: Collateral damage, yes.

VICE-CHAIR WHITE: Yeah. Well, it's interesting that they not only withhold any increases to our TAT but they also decide that we're not, we're also not gonna be able to earn more of a return on our short-term investments. I don't understand why they can't do one if they're not gonna do the other. But...

CHAIR HOKAMA: Maybe that's why we need a con-con.

VICE-CHAIR WHITE: Lots of things I don't understand under the big square building. Thank you, Chair.

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

COUNCILMEMBER BAISA: Oh, no thank you, Chair. But I agree with you. I think it's time. When was that last one?

CHAIR HOKAMA: Nineteen seventy-eight.

COUNCILMEMBER BAISA: I remember. Both you and Mr. Souki went right?

CHAIR HOKAMA: Yes. Yes.

COUNCILMEMBER BAISA: Oh my goodness. I don't...well maybe.

CHAIR HOKAMA: Why you think counties have power of real property taxation? It wasn't 'cause the great, the goodness and graciousness of the Legislature. It was the people of Hawaii through the Constitution that understood the role of local governance and the need for revenue stream; certain revenues. Revenue stream that it has certainty. I should say that correctly.

COUNCILMEMBER BAISA: It's been a long time.

CHAIR HOKAMA: It's been a while. It's been a while.

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

COUNCILMEMBER BAISA: Thank you, Chair.

CHAIR HOKAMA: Thank you.

COUNCILMEMBER BAISA: Nothing about this. Thank you.

CHAIR HOKAMA: Thank you. Mr. Carroll, any questions, sir? Okay. Well we appreciate the update, Mr. Director. And we appreciate the good work you do, Mr. Kulp does. Again the Committee would just issue that we are concerned about the ability of a fallback position. We, should anything God forbid with Mr. Kulp, we want to make sure that the County can continue to take care of its short-term investments requirements regarding our cash, the ability of liquidity, for payroll and other operational purposes, so we appreciate the Investments Committee's due diligence and conscientiousness to make sure that the County is receiving the interest that we should be getting at the maximum amount. So we appreciate your good work, Director. With that, Members, your Chair is gonna recommend that we defer item 14(1) because it has the most current investment portfolios in case there's a need for continued discussion and the Chair will ask if we can file 14(3) unless you have an issue with the response the Department has provided regarding the August 25, 2015 report?

COUNCILMEMBER BAISA: No objection.

CHAIR HOKAMA: With, if there are none, with no objections, we are going to file 14(3) and defer 14(1), Members.

COUNCILMEMBERS: No objections.

CHAIR HOKAMA: No objections? Okay. We have completed the need. Mr. Baz, Mr. Director, any other comments you wish to share? We're happy to give you an opportunity if you have anything else.

MR. AGSALOG: No. Thank you, Mr. Chair. I just want to thank also the members of the Investment Committee. I think this is a forum also to brag about how we have improved the oversight of the investment by having now the Budget Director as a member of the Investment Committee. Originally, Mr. Chair, they were only three members of the Investment Committee, the Director of Finance, the Deputy Director, and the Managing Director. Today I'm so proud to say that this new committee which is the Finance Director being the chair, the Budget Director, the Deputy Director of Finance, the Managing Director, and the Account Administrator. So its position is not people, its position that sits in the Investment Committee. So I really appreciate it that they work very hard in discussions and I also, staff at investment I really appreciate them for bringing discussion points during our meeting and presentations that they do. So again, Mr. Chair, thank you again for reviewing our report.

CHAIR HOKAMA: And thank you for that update on the Investment Committee, Director. We appreciate that and especially the expansion to get better input and decision-

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

making. It won't be at this meeting but down the road you're gonna need to let us know how you want to approach then the role of the County Treasurer. Because currently I believe the Treasurer has some responsibilities by job description regarding investments. So we leave that to you and your due diligence, Director, to come up with any recommendations. If you have them we'd be happy to have a discussion with you on those considerations.

MR. BAZ: Yeah, Mr. Chair?

CHAIR HOKAMA: Mr. Baz?

MR. BAZ: I just wanted to thank you again for expediting the Section 8 budget amendment. I think we made history, it's the quickest passage of a budget amendment that we could and we really, really appreciate the cooperation provided by this Committee and your Staff with my staff as well. We appreciate that.

CHAIR HOKAMA: No, thank you, gentlemen. Your staff has been very easy to work with so we thank you also. Okay. We say we need a motion to file CCs. We only recommending action to Council so but that's okay 'cause only Council can do official action so it's interesting what people with law degrees come up with. So saying that, I would entertain a motion to file 14(3).

COUNCILMEMBER COUCH: So move.

CHAIR HOKAMA: Okay. Second?

VICE-CHAIR WHITE: Second.

CHAIR HOKAMA: We have a motion by Mr. Couch, seconded by Mr. White. Any further discussion Members? All in favor say "aye."

COUNCILMEMBERS: Aye.

CHAIR HOKAMA: Oppose say "no." Motion passes with six "ayes," three excused.

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

NOES: **None.**

ABSTAIN: **None.**

ABSENT: **None.**

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

BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

MOTION CARRIED.

ACTION: FILING of communications by C.R.

ACTION: DEFER pending further discussion of item BF-14(1).

CHAIR HOKAMA: There being no further business before this Committee, thank you very much Members. We are adjourned. . . .(gavel). . .

ADJOURN: 10:25 a.m.

APPROVED:



RIKI HOKAMA, Chair
Budget and Finance Committee

bf:min:160614:kt

Transcribed by: Kimberly Tabon

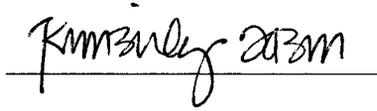
BUDGET AND FINANCE COMMITTEE MINUTES
Council of the County of Maui

June 14, 2016

CERTIFICATE

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

DATED the 6th day of July, 2016, in Kahului, Hawaii

A handwritten signature in black ink, appearing to read "Kimberly Tabon", is written over a horizontal line.

Kimberly Tabon