BOARD OF WATER SUPPLY
COUNTY OF MAUI
JOINT CAPITAL PROGRAMS/FINANCE COMMITTEE MEETING

Taken at the David K. Trask, Jr., Building, 2145 Kaohu Street, Room 205, Wailuku, Maui, Hawaii, commencing at 11:00 a.m. on May 16, 2001.

Reported By: Rachelle Primeaux, CSR #370

ATTENDANCE:
Members Present:
Howard Nakamura, Chair
Peter Rice
Mike Nobriga

Others Present:
Jonathan Starr
Kent Hiranaga
Orlando Tagorda

Staff Present:
David Craddick, Director
Fran Nago, Secretary
Howard Fukushima, Corporation Counsel
Ellen Kraftsow, Planning
Mike Quinn, Fiscal Officer
George Tengan, Engineering
Herb Kogasaka, Engineering

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CHAIR RICE: The Joint Committee Meeting between the Finance and Capital Program Committees is now called to order Wednesday May 16th, 11:00 a.m. Present Committee Members Howard Nakamura, Mike Nobriga, Peter Rice. Also present Board Member

Jonathan Starr, Howard Fukushima, esteemed Corp Counsel, director David Craddick, Kent Hiranaga. I keep forgetting Kent. And member of the public, Sally Raisbeck, and staff whose names will be recorded by the recording secretary.

The draft budget, I'm sorry, approval of the minutes, the minutes of the last Joint Capital Programs/Finance Committee Meeting on March the 5th were distributed. Are there any questions, comments, deletions, changes? Well, can I have a motion for the approval of those minutes then?

MR. NOBRIGA: So move.

MR. NAKAMURA: Second.

CHAIR RICE: Moved and seconded. Any other comments? All in favor, say "aye."

VOICES: Aye.

CHAIR RICE: Opposed, say "nay."

(No response.)

CHAIR NOBRIGA: Away we go. Is there any testimony from the public?

MS. NAGO: Sally, if you could come up here, it makes it a lot easier for her.

CHAIR RICE: All right. Sally.

MS. RAISBECK: I decided you needed the benefit of my wisdom. I merely wanted to suggest to the Board that when I was at the previous Capital Improvements Committee Meeting back, the previous one before today, I thought how wonderful it would be if in order to present projects to the Board, you had access or the Department had access to some project management software, which I know existed 25 years ago when I worked for MIT. And I'm sure it's much, much more sophisticated now, but it makes it such a clear visual presentation for any project as to what stage you're at, what the plan is in terms of months and years, you know. It just makes it so much more visually understandable. So my suggestion was merely that when you have, you know, 40 projects, to be able to look at one page for each and see where it's at is really helpful.

MR. CRADDICK: That's what this is.

MS. RAISBECK: No, not that. It shows the points what has to come before what, the pathway. I think there's --

MS. KRAFTSOW: Critical path.

MS. RAISBECK: Critical path. And that would help you guys I think a lot.

CHAIR RICE: Very good suggestion, Sally. Thank you. And I think it's appropriate as we review the budget to look for some little niche where we can have that. Okay. Any other public testimony? Good. Okay. The budget has been distributed in its draft form. And we recently received copies of the CIP budget and some descriptors here. Let's start with the operating budget. Mike, are you ready?

MR. QUINN: Ready.

CHAIR RICE: Okay. You want to give us a quick overview?

MR. QUINN: I would like to focus on the draft operating budget that was faxed to everybody on May 10th. I'm assuming all the Board Members have that. Okay. And I'll focus on fiscal year 2002, our proposed -- the proposed column, which is the far right-hand column on Page 1.

Our operating revenue, water sales account for the line share of our operating revenue, about 98 percent. Interest income is a separate item. And I've projected water sales for fiscal year 2002 to increase by a little over $2 million or 7.7 percent over the fiscal year 2001 estimate. And basically, how I arrived at that was I've taken the water sales through April of this year and I estimated sales for May and June.

Also, incorporated in that operating revenue in the water sales figure is a projected increase of about 2 percent in new services or somewhere in the area of 576 to 600 new services next year. So as far aspirating revenue goes, water sales are about 98 percent of that 29,136,500 figure. In terms of interest income, there is a schedule attached to your package here, and it's Schedule D, and that will show you how I arrived at projecting the interest income. One of the concerns I have is that treasury bill rates, three-month treasury bill rates hit their lowest point in seven years the other day so we do not expect -- I think it's reasonable not to expect the kind of return on our cash balances that we got this current fiscal year in the last fiscal year. I projected 4.5 percent. I discussed these projections with the County Treasurer. It's a guess. I can't predict exactly what our return is going to be, but that's -- that's basically the assumption I made on Schedule D.

And I'm projecting $1.1 million in interest revenue. Other receipts, the $265,000 is primarily for sewer billing that we charge for our services that we -- for the County Wastewater Department Division.

CHAIR RICE: Let's stay with revenue then and income. Any questions for Mike on the income section?

MR. QUINN: No, I feel fairly secure with that projection as far as water sales.

MR. CRADDICK: Mike, this is assuming no change in the water development fee, right?

MR. QUINN: Yeah, well, we'll get into that more in the CIP portion.

MR. CRADDICK: This is assuming no rate ranges, no change in the water development fee, which I highly recommend the Board deal with that water development fee because we've lost over a million dollars now in the last couple of years, and development is picking up. That rate is going to pick up.

CHAIR RICE: Mr. Starr.

MR. STARR: Yeah, I was surprised to hear the 500 to 600 new services. It seems like there's a lot of construction going on. Is that a realistic number, or is it more like a thousand?

MR. QUINN: It has picked up, you're right, in the past few months, and that could be a conservative estimate. It will impact the sales assuming that those new services are single-family residents that, and I've assumed that those kind of homes services consume 36,000 gallons of water every two months. That's what's built into that summary, but, you're right, it could be somewhat conservative.

CHAIR RICE: Mike, is the discrepancy between your projected year end interest income of 1.9 and your budget, is it all interest rate?

MR. QUINN: No. Basically, what I do is I take the projected balances, beginning of fiscal year 2002, and I take the projected ending balances as a result of the CIP related funds projection that we're going to spend down a certain amount of those funds, then come up with an average balance for the year.

Now, it could be understated to the extent that we don't spend down those CIP funds. That would be the only area that -- and that's what happened this year. We understated our interest, revenue projection primarily because we did not spend the CIP related funds, which are the CIP reserve, water system development, storage and source funding, the funds you see on your CIP schedules.

CHAIR RICE: Okay. Any other questions on income?

MR. TAGORDA: May I, Mr. Chairman.

CHAIR RICE: Yes. Let the record reflect Board Member Orlando Tagorda.

MR. TAGORDA: This interest income you've been stating here and proposing, this interest income comes from some encumbered funds or money that's in the bank or money that's supposed to be for capital improvement projects. How about those bonds that we have, are they also included in this interest income?

MR. QUINN: Yes, for instance, the '98 bond that the Board, the receipts that we got in '98, August of '98.

MR. TAGORDA: How long do we have to hold that G.O. bond, '98, to be in compliance with law? I believe there are some limitations that when you borrow G.O. bonds --

MR. QUINN: That's correct.

MR. TAGORDA: -- you have to use it for a certain job and use it at a certain specific date.

MR. QUINN: That's correct, and in this particular case, for instance, the '98 bond issue, after five years, we would be subject to arbitrage.

MR. TAGORDA: That's correct.

CHAIR RICE: So Orlando, Schedule D in your packet is the list of the his calculation of the interest income, so it shows you all the income and the assumption that he's making in terms of interest earned and how we get to that.

MR. TAGORDA: Thank you.

CHAIR RICE: Any other income questions of Mike? Okay. Mike.

MR. QUINN: Payroll is probably, not probably, payroll is the primary thrust behind the increase in the estimating expense versus the projected fiscal year 2002 proposal expense. You can see under payroll we're estimated that we'll come in at $5,922,000 versus a proposal of 7,285,000.

There is a schedule, I believe it's Schedule B, which addresses overall variances, and then Schedule C, which specifically addresses the payroll variances. And what we've done is broken down each division within the Department so that the Board can see specifically which jobs are vacant, how we funded those jobs in the proposed fiscal year 2002 budget. And what I mean by that is you'll see, for instance, under water plant, we didn't fully fund those jobs. Some were funded for half a year. Some were funded for a quarter, et cetera, so those are the jobs that are currently vacant.

I believe the division head, some of the division heads are here to respond to any of the Board Member's questions regarding those vacancies. I can speak to fiscal. In my particular case, fiscal vacancies, I anticipate filling every one of those vacancies by the end of this fiscal year. We've tried to give you comments in terms of the status.

For instance, in fiscal, the customer relations assistant job, the first one, a test is being prepared right now. We have a list of applicants. So let me back up and let the Board know about this process. It's a little cumbersome and time-consuming. Basically, we have a vacancy. So we decide we want to fill that vacancy. We have to post that vacancy, I believe it's posted for ten days; is that correct? Ten days. We get a list of applicants. Personnel has to look at the applicants to see if they meet what

they call the minimum qualifications.
If they meet the minimum qualifications, then they're entitled to take a test in most cases. In that personal customer relations assistant job, there is a test. They take the test, and then we finally get the list of the people that qualify based on whether they passed the test, and then we can interview. That process can take easily six months. That's one of the issues that we have in terms of filling these jobs.

MR. CRADDICK: If I could make a suggestion to the Board here. I know these vacancies were a concern last year. I know things are going on in the various divisions where the number of vacancies that exist right now, a lot of them may be gone by the end of the year. But if the Board would like to, we could move all the vacancies out to a separate line item, and when we finally approve the budget, any that aren't filled by the end of the year, leave them in that line item. And if they do get filled by the end of the year, they go back into the regular portion of the budget. And out of those vacancies that are put in a separate line item, maybe take, and I'm just picking this number out of the sky, 75 percent of that, leave it there, put 25 percent in the operating budget, leave that 75 percent there. And then when we actually fill them, just come back to the Board and let them know that they are filled at that time when we're able to do it.
Or if we're going to do it, I don't even know if you want to go that far. If you want some approval process before we fill it, that's possible, too.

CHAIR RICE: For my fellow Board Members. Last year, this was an issue because there was a large number of unfilled positions and partly because of the process that Mike explained where it takes a long time to actually get somebody hired and partly because we didn't have a lot of applicants for jobs. We agreed to leave it in the budget for review again this year. But one of things we did last year, and you'll see on that Schedule C that there is a notation in parentheses there, half pay, quarter pay, because we're anticipating filling the job, but we know it won't -- it will take a while, so the budget only reflects that portion of the year where the person would be hired. I think not so much that we approve. I mean these jobs are necessary for the operation of these departments, but I would like to see us pull those, all those unfilled positions out, put them in a separate line item, and at least as they're filled, we're notified so we get a better feel for the process.

So we're not reducing the budget. We're taking that section out and, in effect, monitoring it more carefully. There are -- there's a couple of jobs I believe that where the offer is being made right now where we could put those into the regular payroll line item, but at least in this case as these jobs are filled, we'll be notified, and then they'll be moved into a regular payroll line item. I think that's a good suggestion. Yes, Mr. Nakamura.

MR. NAKAMURA: So on Schedule C, other than those that you've identified as quarter pay or half pay, this amount for payroll assumes that all of the other positions would be funded for the whole year?

MR. QUINN: That's correct.

MR. NAKAMURA: And the second question is is there any expansion provided for in the payroll?

MR. QUINN: No, no expansion jobs. I should make my previous answer, under engineering, and the Board already discussed this open engineering position, Program Management, that's not noted, but that's half pay. But no there are no expansions.

MR. NAKAMURA: Full year's pay, no wonder we can't recruit an engineering program manager.

CHAIR RICE: That's what I thought. Now, I assume the issues of -- I'm sorry, the other issue was that, Mike, the payroll increase, wage increases are per contract in here?

MR. QUINN: That's correct.

CHAIR RICE: And as well as the benefit increases are all per contract, and that's calculated based on the existing staff?

MR. QUINN: Yeah.

CHAIR RICE: Bargaining unit staff, right?

MR. QUINN: Actually, it's based on the payroll number, and what we did is we projected a 7 percent increase, which amounts to approximately a 4 percent increase that's related to contractual obligations and 3 percent for what we call step increases where people move up and get an increase because, primarily because of time in their job.

CHAIR RICE: But that's not 3 percent across the board because everybody is not stepping, right?

MR. QUINN: What we do is we're using the overall 7 percent number, which is the number the County is using, and it is across the board.

CHAIR RICE: Well, that --

MR. QUINN: So it would be, it would be inflated to the extent that not everyone is going to get it, but we did a, when Holly ran a line item schedule for each employee, it came very close to overall 7 percent, so we went along with the County's number.

CHAIR RICE: Well, we don't have to do something because someone else does it.

MR. QUINN: It's reasonable.

CHAIR RICE: Okay. But it's reasonable, okay.

MR. QUINN: Now, I will, also, your employee benefit numbers are inflated to the extent that we don't -- if we don't fill all those jobs, then we won't incur some of those expenses, employee benefit related expenses such as health benefits, things like that, because the way those items you see on that variance sheet, we apply a percentage to the overall payroll, which is consistent again with the way the County does it, and that's what we will get charged from -- by the County for those employee benefit expenses.

CHAIR RICE: The County will charge us employee benefit expenses for the employees that are currently in place, not for this list of employees?

MR. CRADDICK: And retirees.

CHAIR RICE: And retirees, right. But not for this list of to be hired?

MR. QUINN: No, we will get charged for that.

CHAIR RICE: Once we hire, right.

MR. QUINN: Because they take our payroll, and that's how they charge us whatever our payroll is.

CHAIR RICE: Questions on payroll or staffing? Yes, Orlando.

MR. TAGORDA: Mr. Chair, again, Mike, would there be any other way for these Departments not to budget money for these future employees, and as they are filled in -- as you fill in the vacancies, you come in to the Board for complete salary and employee benefits? Because actually, we don't, we're not sure whether these vacancies is going to be filled in this fiscal year or next fiscal year, so avoiding too many numbers for those vacancies to be filled in, you know, why don't we just not put money on those vacancies. And when you fill it up, we come -- you guys come to the Board and we put budget on it. We put money on those vacancies.

MR. QUINN: You could do that, but I --

MR. TAGORDA: That's one way of trying to make your -- the Department, you know, budgetary thing.

CHAIR RICE: Well, I hear what you're saying I guess.

MR. CRADDICK: I don't think you want to amend your budget month by month.

CHAIR RICE: That's why I asked for it to be pulled out into a separate category so that we would know about it. But we're supposing now, what Orlando's question brings up is a question of need. We're assuming that we need all these positions, and if that's the assumption we're making, even by moving them into a separate category, his question then really is do we need all those positions.

MR. TAGORDA: Can you fill up those positions at one time, the same time, this fiscal year?

MR. QUINN: In my case, I intend to have them filled by July 1, so those first four or five, you can see we just hired somebody, first of all. We're interviewing waiting for the personnel. So those jobs are imminent, and I don't know about -- the other division heads aren't here to speak in terms of how quickly they can -- they all have different issues in terms of hiring.
I know the water treatment plant has trouble getting qualified people. That's a constant problem they have.

MR. TAGORDA: Sometimes it takes six months or more to get all these employees to fill in those vacancies.

MR. QUINN: But I think it doesn't accomplish exactly what you want, but the recommendation that we have a separate line item for these vacancies allows the Board to track it and see the effect of it. Certainly, there's no -- I don't think we've had any expansion positions for a long time, so we continue to operate with a, quote, authorized amount of jobs than we've had for years. It's just a question of filling these vacancies. I know it's been a problem with the Board before. That's why we tried to itemize each one of these jobs to let you know precisely where those vacancies are, and if you have a question as to whether the vacancy is needed, the division heads can respond to that if you want.

CHAIR RICE: Well, this is a committee meeting and we're having a workshop tomorrow, which I hope you're going to attend on the budget, so the committee heads might be prepared if that question comes up tomorrow during the budget workshop as to the need for the positions that are hired because you have gone a while without them. That doesn't mean you don't need them. You just might think about that in case it comes up.

MR. QUINN: And I might -- I might add that we're projecting overtime to be lower than this year's budget and we are on budget for overtime because that was an issue also last year.

CHAIR RICE: Okay. Thank you. Okay. Materials and supplies. And understanding that we're going to have a budget workshop tomorrow, let's go over these, you know.

MR. QUINN: My only comment with materials and supplies is that the primary increase is for chemicals, and that's due to the upcountry corrosion control regime that we anticipate buying the chemicals for that, for that item. And then the other items, which are of lesser importance are listed under that Schedule B. And I'm not sure it would -- the increase is not material once you exclude chemicals, and I'm not sure it warrants going into a detailed explanation of every dollar unless the Board wants us to under materials and supplies.

MR. NAKAMURA: Mike, I don't understand that Schedule B, so under materials and supplies, there's a total that comes out to 358,000. What is that 358,000?

MR. QUINN: That should be the variance between what we're estimating we're going to spend this year and what we're proposing to spend next year.

MR. NAKAMURA: So these are the additions?

MR. QUINN: Yeah, and that's the explanation, chemicals, the $1,000. The majority of that is that upcountry program. And the division heads will be prepared tomorrow to respond to any other variance explanations if the Board so wishes.

CHAIR RICE: I would just make a comment for tomorrow, the $22,000 in postage is a lot of postage for something, difference. We're not talking about an annual cost. We're talking about additional cost of postage.

MR. HIRANAGA: May I ask a question.

CHAIR RICE: Yes.

MR. HIRANAGA: How would this current meeting differ from tomorrow's meeting?

CHAIR RICE: Not much. I didn't know -- in our past meetings, we didn't have the attendance of all of our esteemed other members, and I don't want to resist them or hold them back from asking questions at all.

Some of the same questions will probably be asked tomorrow.

MR. HIRANAGA: I guess I'll excuse myself.

CHAIR RICE: Okay. How do you rate us? He's proctoring this committee.

MR. TAGORDA: Show up tomorrow.

MR. NOBRIGA: Tomorrow will be more lively.

MR. STARR: What I see here is I see a budget projecting us to lose about a million seven.

MR. QUINN: I'm sorry, Jonathan, where are you?

MR. STARR: I see a projected loss of a million seven here unless there's an emergency which would add to that, you know, unless I'm reading it wrong. We would go into 2002 with $4 million in capital, $3,953,000 in cash. I'm a cash guy. And, you know, we would project to end the year with $2,370,000 in cash.

MR. QUINN: Yeah, I was going to address that.

MR. STARR: So we're projecting a loss of a million seven in actual cash.

MR. QUINN: Assuming we transfer 4 million to CIP, which is an option the Board does not have to do, since we don't need $4 million in the CIP budget, which we're going to discuss later. I was going to leave that as a possible option for the Board if they wanted to increase that working capital emergency fund because we're going to end up with over $2 million in excess cash balances in the CIP reserve account, which is where that $4 million will get transferred to. If the Board sees fit to just transfer $2 million, then you would end up improving.

MR. STARR: Three-hundred ahead.

MR. QUINN: Yeah, we would be ahead.

CHAIR RICE: But I don't think you do, because I think the problem we get with this system of accounting that I dislike intensely is that we're playing with the numbers. We're not looking at our actual operating costs versus capital. And the fact, what Jonathan's observation is true overall, our cash position is down, but it has to do with assumptions we're making down here about emergency and capital improvements.

MR. QUINN: That's right.

CHAIR RICE: Right. And what we ought to be looking at is our operating.

MR. STARR: What we really need.

CHAIR RICE: How the operating performs year to year, and if the operating is a loss, then we need to look at operating budget and not capital improvements or our emergency fund necessarily. I think that's an absolute wrong way to look at it, and so I know this is the system. And maybe this is why Government sometimes has problems, but we have to -- we are responsible for managing this thing correctly.

MR. STARR: You're right.

CHAIR RICE: And I had struggled with that last year as the Finance Chairman. Didn't we kind of juggle the numbers around?

MR. QUINN: That's why you -- at your suggestion, we segregated the below the line expenses, which I think was helpful. Because you do get a true picture of your expenses, you know, current operating expenditures.

CHAIR RICE: Yeah, so our operating, our net before other expenses, our true operating profit is 6.9.

MR. NAKAMURA: More like 3 million.

MR. CRADDICK: No, no.

MR. STARR: No, a lot of those items are we have to pay like refunds on lines and equipment and so on.

MR. CRADDICK: The one big thing you're missing off there is the appreciation on your operating cost. You put that in, and that number goes real negative.

MR. STARR: But that's what the transfer is supposed to be is to equalize the depreciation.

CHAIR RICE: And that's why I'm getting to that is because as we talked about this last year, and we now have the study which says what the capital reserve should be, which is almost the equivalent of depreciation now. This number is too small.

MR. STARR: It should be eight, right?

CHAIR RICE: I think we saw that presentation, seven or eight, something in that range.

MR. CRADDICK: Keep in mind, that's depreciation of old dollars, not replacement cost.

CHAIR RICE: Right.

MR. CRADDICK: Yeah, that's a very good observation.

MR. STARR: So maybe we should plug eight in there.

CHAIR RICE: Well, no, I hear what you're saying, but it brings into another question is if we actually have the correct number in there, and let's say we have the money, we can't do that many projects in a year.

MR. STARR: Well, the thing is unless we can show need, we can't get it. That's been our problem in the past.

CHAIR RICE: And I'm thinking about the end of our five-year rate increase and our need to go back for -- that's a good point. The $100,000 chemical cost that's the big number in the supplies is required?

MR. QUINN: Yes.

MR. CRADDICK: A good portion of that is lead and copper, too, that we're not doing this year.

MR. QUINN: Paul is here from the treatment plant. He can address the corrosion control issue.

MR. SEITZ: We were mandated by the State to on or about June 1st start the addition of a corrosion control inhibitor into all three of the upcountry systems. This is in compliance with the lead and copper rule. We're using a zinc orthophosphate. That's going to cost approximately $76,000 in material on an annual basis, plus there's some equipment and some testing and monitoring charges that go along with that also.

Additionally, we just bid out the aluminum chlorohydrate for next year also, and that has had a significant increase as well, so that's basically what makes up the 100,000.

CHAIR RICE: So essentially it's required, so it's not really an option.

MR. SEITZ: That's the short answer, yeah.

CHAIR RICE: But as we look at the -- you know, there's $358,000 of variance in the materials and supply category, which is 15 percent. And in business, you know, you don't cut 15 percent in revenue and you don't come in with 15 percent of increased expenses. That would be the message in the departments.

A mandate from EPA or something relates to corrosion control. Well, we have to figure that out. But to the extent that people have wish lists in the budget and we're looking at $1.7 million differential, I think we have to look at it very carefully.

And I don't know, it's kind of hard, Mike, I assume that if we had the estimated year end next to your total budget and the materials and supplies, we would come up with these variances that you're talking about in your Schedule B?

MR. QUINN: That's correct, that's right.

CHAIR RICE: That seems to me to be a lot of explaining to be done, huh? Office, in the Schedule B under office where it says $27,000 variance, is that in office supplies?

MR. QUINN: That's correct, yeah.

CHAIR RICE: So that means that's -- my math is not that good, but that's 20-some percent. That's a lot for office supplies. What's in there?

MR. QUINN: We're doing more copying and I think it's in-house as opposed to --

CHAIR RICE: Well, if we're doing them in-house and it's causing our costs to go up by 20-something, 30 percent, then maybe we shouldn't be doing them in-house. I mean I'm just making general comments, but I'm feeling that where we have such large percentage increases, there needs to be a good explanation, and the answer needs to be known.

MR. QUINN: Okay.

CHAIR RICE: Right?

MR. QUINN: We can do that.

CHAIR RICE: It's not wish list. It's real stuff. I'm not picking on you, Mike. I'm making the comment for the benefit of everyone sitting here.

MR. QUINN: Essentially, what we do is we sit down with the division heads after we have December's numbers, half a year's expenses. And we show them where they are for a half a year, and we ask them to project the balance of the year and then project what their needs are for the upcoming fiscal year, and that process goes on for about three months or so before we come up with this budget.

Obviously, the closer we get to the end of this fiscal year, the better we can do in terms of estimating our expenses. But I can be -- we can be prepared to explain each one of those items, which division is going to incur those expenses and for what particular purpose if the Board asks those questions tomorrow.

And I agree, they -- we have all those schedules here. I didn't hand them out to the Board, but it's quite a -- and then we have several books, about two or three feet of books that outline all those expenses, but if the Board questions any one of them, we can tell you exactly where the expenses have been incurred and which division is projecting and a division head will be there to respond to exactly why they projected an increase in that particular expense.

CHAIR RICE: Well, I think if we just said, okay, we take the variances on Schedule B, I think we need to be prepared to explain them.

MR. QUINN: I agree. I'm prepared to do that today if you want. It's just going to take quite some time.

CHAIR RICE: What's the pleasure of this group?

MR. NAKAMURA: Mr. Chairman, question. What kind of a schedule are we going to generally have to follow? Is the intent to finally approve the budget at the last meeting in June, or are we going to be on some kind of, you know, what is our schedule?

CHAIR RICE: Our schedule is to have the workshop and then to have the budget approved subject to public -- no, we have to send it to public hearing, and then it comes back for final approval.

MR. NAKAMURA: So presumably, does that work for you, the regular meeting in June?

CHAIR RICE: Presumably, after the workshop tomorrow, at the Board meeting next week, we would recommend that the budget as it is or as amended would go to public hearing. And we would schedule public hearing, and then we come back and propose a final budget for Board approval. That's the schedule. Mr. Starr.

MR. STARR: Mr. Chair, I would like to recommend that we look again at the Brown & Caldwell model and to see what our real depreciation should be and that we consider plugging that number into our budget even if it might show a large loss. I think that's, you know, that's real. If you're in business, you have to take into account your replacement costs and depreciation, otherwise, you'll be out of business. So I think if we can pull that out again and decide on a number, plug it in here, then we'll end up in a much more realistic view of what we have to achieve, whether by cost cutting or by increasing our revenues.

MR. QUINN: Our financials show the depreciation, all the financials that you get every quarter in the annual report.

MR. STARR: What's our annual depreciation?

MR. QUINN: It's over $8 million.

MR. STARR: Okay, there you go.

MR. QUINN: So this is a cash budget. So we're dealing only here with predicting how much cash we need to run our daily operations, but I understand the --

CHAIR RICE: Theoretically, that would be cash that we would need if that schedule was right and we believe that it's right. And if we had the staff and the resources to do the replacements on that basis, that would be real cash that was needed.
I agree with Mr. Starr, I think that's going to be important as we get to the process of rate increases.

MR. QUINN: That Brown & Caldwell study, as I recall, I don't have it in front of me, predicts something near $4 million for next year.

CHAIR RICE: Well, let's take it out, and we'll look at it.

MR. STARR: No, I think we plugged 4 million in there to see what it looked like, but I think what the model wanted to show us was somewhere around 8 million. That's where it wanted to go.

MR. QUINN: Eventually yes, but for next year, his schedules predicted $4 million, but however, one of his points was how much money do you need to be putting in that thing to meet the higher requirements that are upcoming? And if we just contributed $4 million for the next two years, as he says, the tank in 2004 or something like that.

MR. STARR: Yeah, which I don't really think is a responsible way of doing it, of going about it.

MS. KRAFTSOW: Remember he was talking about the Nessie Curve, Jonathan, where there's sort of phases of development and your replacement costs can go up and down with those phases, so there really are periods where you don't need to. And if we started putting away like just the average, remember, he showed that huge surplus that we would build that would totally interfere with our ability to get the rates and funds that we need, so it's kind of a tricky balance.

MR. CRADDICK: Can I put my two cents in.

CHAIR RICE: Yes.

MR. CRADDICK: Again, the Board has had the water development fee for two years still not dealing with that. We know the big area where we're losing money, and that's when we're pumping water upcountry during drought to keep the reservoirs full. I'll leave that up to you guys whether you think that's continued good policy if you're going to try to raise the money to cover those electric costs, but those are real expenses. Something we can do and need to do, we've got one more year on the rate increase, so we really have I would say a year to talk about what Jonathan is talking about.

The likelihood that you're going to do a rate increase during an election year is minimal, so to do that right now in light of these other things, which you probably can do, it would be my recommendation to deal with issues, you know, that are before you rather than one that doesn't hit until next year or three years down the road. And we're going to have to gear up for that. I mean we all know it's coming, but it's not on us right now.

And if you look at the strategic plan issue, there's a lot of things on system expansion that we are going to have to deal with, and we really need to get that water development fee and review it. Our system has more than doubled in size since that fee was implemented.

CHAIR RICE: I understand.

MR. STARR: First of all, I want to thank you for letting me participate. I think we have to be very careful in keeping the water development fee and capital improvement issues separate from operating and rates. I think that we have two very separate functions, and I think by law we, you know, if we did raise the water development fee, which I believe we should do, that would be really in relation to water development projects.

But it won't help us and I can't see it as helping us in terms of our operating structure. We have to keep our operating structure dependent particularly on our operating revenues, and if we were to commingle the two, then I believe that we would be -- we would be getting ourselves in serious trouble.

CHAIR RICE: Yeah, I'm a firm believer in looking at the operating side. The other thing I would like, Mike, we had talked about this working capital emergency fund. And because you're trying to budget, I mean balance this budget as zero, you did, you reduced that number, huh?

MR. QUINN: Yeah.

CHAIR RICE: Right?

MR. QUINN: Yes, correct.

CHAIR RICE: And the only thing that was changed because you were trying to get the zero budget, right?

MR. QUINN: Well, and also the assumption that you're going to transfer $4 million into CIP. As I said, you don't need that next year if you approve the CIP budget as it stands now, so that's a big assumption, that $4 million. If the Board wants to do that, fine. Because you would have the option of keeping that in your emergency fund and transferring that if and when you need it.

CHAIR RICE: And I bring it up because I want the Board Members to think about if we establish an emergency fund and we fund it, then we ought to leave it alone or we have to decide what's our priority. We say -- if we really think there's a need for an emergency working capital fund, then we fund it, and that's it. It doesn't become, oh, well, that need becomes less this year because we want to do something else or because we've got a problem, right?
So if we say the number is 3.5, then the number is 3.5 and it's 3.5 forever and it's untouchable. The thought, think about that.

MR. STARR: I think our problem is that, you know, I see two lines I think should be stricken from this, which is the beginning balance shouldn't be part of our total. We're looking at the total resources but, you know, beginning balance is not -- is not a revenue or it's not an income or an expense. It's just money sitting in the bank. So to my mind, that should be stricken, and then the working capital should be stricken. If there's an emergency fund, that's another matter. But really, you know, the working capital is an attempt to replenish the balance for the next year, but they shouldn't be in a cash -- on a cash sheet like this.

CHAIR RICE: Yeah, that's the system. We had the same problem last year.

MR. QUINN: But we do need working capital. We need our monthly cash flow, and we estimate that as around $2 million we need and we keep in our revenue fund, so that's absolutely essential.

CHAIR RICE: It's a balance sheet. I understand what you're saying. It is essential. I don't think he's saying it's not essential.

MR. STARR: We need the money somewhere.

CHAIR RICE: But it's the presentation we're talking about.

MR. QUINN: That's why we did that last year. We put it in that category.

CHAIR RICE: The other reason for the emergency fund is if we were to have a hurricane, we calculated how much money we would lose from water service for not being able to provide water, so that was part of that. And then we would still have expenses, so we had to have an emergency fund for that, so those two numbers add up to something.

MR. QUINN: That's right.

CHAIR RICE: And typically, it would be on a balance sheet. It wouldn't be shown on an operating statement. I know what you're saying. Okay. Let's -- maybe we're getting into a lot of this stuff we're going to talk about tomorrow.
Let's try and give some feedback from the committee to Mike so that if there's anything else we want him to be prepared for tomorrow when we have our workshop.

MR. QUINN: One thing I hear is the message that we should be prepared to explain any of the variances, and we are.

CHAIR RICE: Big variances, not every variance. If there's a 5 percent variance, I'm not so sure we need to spend time on that. But just, for example, I used office supplies. If I used the $74,000 budget, and it's increased by 27, that's a big number for some reason, right.

MR. QUINN: And what we do is according to schedules, my division as to what their expense will be this year and why we're proposing for the proposal for the upcoming year, so there are schedules that we'll have available.

Now, but I'm glad the Board brought that issue up because I just wanted to point that out regarding the transfer of the capital replacement fund. I just wanted you to know that you do not need the $4 million. You need $2 million next year, not 4 million. But it's your option again whether you want to keep it in the working capital emergency fund or transfer it later or whether you want to authorize us to transfer it into the CIP reserve fund.

CHAIR RICE: Mr. Nakamura.

MR. NAKAMURA: Mr. Chairman, I agree with you that we should set a number for the working capital emergency fund, and that is the number that remains. It's not, you know, what's left over for that particular year or whatever. And at the same time, I agree with Jonathan that we need to also set aside a fixed amount each year for replacement of our existing facilities. I think the real question that has come up though is when we do that, can we actually implement those projects on a timely basis during the year because that seems to be at this point anyways, difficult.

CHAIR RICE: And I -- yes, but if we know, if we believe that model is correct or if it's 95 percent correct, we need that money to do those replacements, right? So it has to be part of our accumulation of cash. If we don't happen to get to all those projects in a year, that doesn't mean that that replacement doesn't need to happen. Maybe, okay, maybe that useful life is maybe one year better or maybe one year less, and the next year we may get caught with a bunch more. But if we don't provide for that funding for that amount of money, then we're going to get caught somewhere.

MR. NAKAMURA: Right.

CHAIR RICE: And I think that's the point he's trying to make.

MR. NAKAMURA: And I agree with that.

CHAIR RICE: And I agree with that, too.

MR. STARR: Can we have that modeled tomorrow?

MR. QUINN: Here it is. The driving force is $4 million. Fiscal 2000, 2001, 2002, a little bit over 4 million; 2003, a little over 6 million. That's why the $4 million is here. It's in concert with what they told us, but I just wanted to tell the Board they don't have to do this this upcoming year if, in fact, the priority is to increase or standardize the capital, the working capital emergency fund. That's the decision that you make.

CHAIR RICE: But the problem is we're going to have to make up that money in the subsequent year, so I think we understand it's our prerogative, but I don't know that would be the wise prerogative.

MR. QUINN: And you only have so much money to work with.

MR. STARR: My recollection of the model was that was the way it started, and after we looked at it for a while, we found that if we increased it initially, we would end up with the thing spiking in five years, and that that was, you know, that that was, maybe 4 million isn't really enough, that it really should be 6 million or 7 million.

MR. QUINN: That's right. It isn't enough to sustain you over a long period of time, that's correct.

MR. STARR: I'm looking to try to create a framework that will sustain us for a long period of time.

MR. QUINN: And that's where rates come into effect.

CHAIR RICE: You might have that computer with the model here. Do you have it on a laptop that we could just bring? We'll, I'm not sure we will have to make a decision by tomorrow anyway.

MR. QUINN: I could bring the relevant, like Ellen here has the relevant copies of those screens, so that could be made available. It's in your package I think somewhere.

MS. KRAFTSOW: It's in your Finance Committee Meeting packet.

MR. QUINN: Finance Committee Meeting packet, the whole replacement model. It's in front of you, so you can see.

CHAIR RICE: Having reviewed, okay, let's try and move along here. Having reviewed the budget, is there any other questions that anybody would have or so that Mike can be prepared and staff for tomorrow's meeting?

MR. NAKAMURA: Just one comment, and I don't know if you can necessarily do it for tomorrow's meeting. But we've had requests from Board Members to be able to relate some of the major proposed capital improvements to invoke the community plans and the strategic plan.

CHAIR RICE: I have a question. In terms of professional services under planning, all these projects were schedule -- no, it's just the professional services.

MR. QUINN: Those are essentially Ellen's projects.

CHAIR RICE: Well, were they in the budget last year, and if they are new projects, I think we need to know which ones are new.

MS. KRAFTSOW: Do you want that right now?

CHAIR RICE: Miconia removal for 100,000 was not in the budget last year. It was 20 I think.

MS. KRAFTSOW: No, it was 100.

MR. QUINN: Yeah.

MR. CRADDICK: I'll tell you something else on that, too. The County put in 200, and they're expecting we're going to do the same for matching funds.

MS. KRAFTSOW: Yeah, they called and asked if we would increase it to 200 because they're finding that miconia is getting out, and it's an emergency situation.

MR. STARR: The State.

CHAIR RICE: That's because of the State cut, is that why?

MR. STARR: No, it's getting out. What they're doing isn't working.

CHAIR RICE: If you know quickly, what's on here that wasn't on here last year?

MS. KRAFTSOW: Yeah, the matching funds for protocol for invasive weed identification, and the allowance I think was there, too, in case we needed it. The research facilitation of services for the wellhead protection program, but that's EPA funded. That's part of the grant, so we have to show it in our budget, but actually, it's part of the $70,000 grant that you guys already approved for us to get from EPA. So although it's showing in our budget, we have to show it in our budget, it's money that's coming from elsewhere.

CHAIR RICE: Mike, then you would have a revenue source for that?

MR. QUINN: Which one?

CHAIR RICE: You can't have an expense that's not ours but without having the revenue source.

MS. KRAFTSOW: It's one of those grants where we spend it and we bill EPA.

CHAIR RICE: Yeah, I understand. I'm just telling Mike you can't have the expense in there and balance to zero budget if you're getting 70 grand on the other side.

MR. QUINN: Okay. I'll look at that.

CHAIR RICE: I'm just trying to -- all I'm trying to do is give comments to Finance so we can be more prepared for tomorrow. So that's the question. The next question is Mike did a schedule for you on damages and claims. We're self-insured, and last year when we were doing the budget, we thought it was appropriate in terms of trying to figure out what the budget figure ought to be is to go back five years and do an average. And that's how he arrived at the 100,000, and there's a schedule that shows you that. And I just, and it's 100,000 because of this some claim and settlement in 1997 for 457,000. So if we're looking for dollars, at some point, that's certainly something to think about.

MR. QUINN: Also, the base yard rental, we haven't paid that.

CHAIR RICE: I know. That base yard rental was in last year and we didn't pay it, and it's back in again. Has anything happened with regard to that?

MR. QUINN: Nothing.

CHAIR RICE: Nothing.

MR. QUINN: So we can take it out?

CHAIR RICE: We'll talk about it tomorrow. Yeah, but I saw it. I understood that. Is there anything else that anybody wants to direct Mike and his staff to before we -- no.

MR. NAKAMURA: One thing on the capital, Mike, I'm kind of curious, the projects that are, when we discussed capital, the projects that are in the budget, which are the ones that are carry-overs from prior years? It looks like an awful lot of them are this year's projects that haven't been implemented.

MS. KRAFTSOW: Can I ask you a question for the Board.

CHAIR RICE: Yes.

MS. KRAFTSOW: We have this field on the top left corner here that says program that's like Board Program. It goes back to those old Bob's bullets where the Board made a list of priority things like safe drinking water. At one point, we took the strategic plan to try and figure out if we could come up with a new set of bullets or Board priorities so that there would be the match right there on the sheet. And we didn't come up with anything really different than the current system, but if the Board would want to see something on these print-outs on a regular basis that comply with strategic plan, some kind of formulated thing or if you just want --

CHAIR RICE: You have to show it what was done before. It sounds like a good idea, but I need to look at it.

MR. QUINN: So on the capital projects, what are carry-over, anything else?

CHAIR RICE: Okay. Anything else? No, yes, no? Okay. Then we'll see everybody tomorrow at the workshop. Joint Finance/Capital Programs Committee is adjourned.

(The meeting adjourned at 12:00 p.m.)

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