

BUDGET AND FINANCE COMMITTEE

Council of the County of Maui

MINUTES

September 29, 2008

Council Chamber, 8th floor

CONVENE: 9:05 a.m.

PRESENT: Councilmember Joseph Pontanilla, Chair
Councilmember G. Riki Hokama, Vice-Chair (in 9:39 a.m.)
Councilmember Michelle Anderson, Member (out 12:10 p.m.)
Councilmember Gladys C. Baisa, Member (out 12:04 p.m.)
Councilmember Danny A. Mateo, Member
Councilmember Bill Kauakea Medeiros, Member
Councilmember Michael J. Molina, Member
Councilmember Michael P. Victorino, Member

EXCUSED: Councilmember Jo Anne Johnson, Member

STAFF: Lance Taguchi, Legislative Analyst
Michael Geers, Legislative Analyst
Yvette Bouthillier, Committee Secretary

ADMIN.: Frederick Pablo, Budget Director, Office of the Mayor
Kalbert L. Young, Director, Department of Finance (BF-22, BF-117, and BF-123)
Agnes Hayashi, Deputy Director, Department of Finance (BF-99)
Cheryl K. Okuma, Director, Department of Environmental Management
(BF-123 and BF-117)
Tracy Takamine, Chief, Solid Waste Division, Department of Environmental
Management (BF-123 and BF-117)
Lori Tshako, Acting Director, Department of Housing and Human Concerns
(BF-99)
Jo-Ann Ridao, Housing Commissioner, Office of the Mayor (BF-99)
Traci Fujita Villarosa, First Deputy Corporation Counsel, Department of the
Corporation Counsel

Seated in the gallery:

David Taylor, Chief, Wastewater Reclamation Division, Department of
Environmental Management (BF-117)
Jacob Verkerke, Information Systems Manager, Management Information
Systems Division, Department of Management (BF-117)

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Milton M. Arakawa, Director, Department of Public Works (BF-117)
Jeffrey K. Eng, Director, Department of Water Supply (BF-117)
David Galazin, Deputy Corporation Counsel, Department of the Corporation
Counsel (BF-123)

- OTHERS:** **Item 99:** Maude Cumming, Executive Director, Family Life Center
Randy Rodrigues, Project Coordinator, Family Life Center
Pamela Lopes, Social Services, Family Life Center
Bettelou Rodrigues, Social Services, Family Life Center
Others (2)
- Item 123:** Grant Chun, Vice President, A&B Properties, Inc.
Stephanie Ross, Property Valuation and Leasing Manager,
 A&B Properties, Inc.
 Others (1)
- PRESS:** Akaku: Maui Community Television, Inc.
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CHAIR PONTANILLA: ...*(gavel)*... The Budget and Finance Committee meeting of September the 29, 2008 is now in session. The time is 9:05. At this time, the Chair would like to recognize the Members that are here this morning. We do have Member Mateo, Member Anderson, Member Baisa, Member Medeiros, Member Molina, and Member Victorino. Excused at this time is Member Johnson and Member Hokama.

Members, we do have four items on the agenda this morning, heavy agenda items. The Chair would like to complete by noon, because we do have some Members that need to leave by noon. Members, without objections, the Chair is going to take the agenda items in this fashion. We're going to have BF-99 up first, then we're going to have BF-123, second item, third item will be BF-117, and the last item is BF-22. If there's no objection, the Chair would like to move in that fashion.

COUNCIL MEMBERS: No objection.

CHAIR PONTANILLA: Thank you. Members, we do have upfront, continuing the introduction, we do have the First Deputy Corporation Counsel, Tracy Fujita Villarosa; our Budget Director, Mr. Fred Pablo; the Acting Director of Housing and Human Concerns, Lori Tsuhako. We do have the Affordable Housing Coordinator, Jo-Ann Ridao with us this morning. And supporting the Committee we do have our Council Staff. We do have

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Mr. Lance Taguchi as well as Mr. Michael Geers; both are Legislative Analysts. Committee Secretary is Yvette Bouthillier.

The Chair would like to accept public testimony at this time. Secretary? No one has signed up. The Chair will leave the public testimony open for a little longer. And before I close, not close, but move on to the first item, I'd like to ask the people in the audience if you do want to testify at this time. Seeing none, thank you very much.

**ITEM NO. 99: AFFORDABLE HOUSING FUND PROGRAM FISCAL
YEAR 2009 ANNUAL PLAN (C.C. No. 08-68)**

CHAIR PONTANILLA: Again, Members, good morning. The first item on the agenda is a bill for an ordinance amending Appendix A of the Fiscal Year 2009 Budget for the County of Maui as it pertains to Part II, Special Purpose Revenues - Schedule of Revolving/Special Funds for the Fiscal Year 2009 Affordable Housing Funds. The purpose of the revised proposed bill is to amend Appendix A of the Fiscal Year 2009 Budget as it pertains to Part II, Special Purpose Revenues - Schedule of Revolving/Special Funds by adding provisos in the Affordable Housing Fund for the FLC, which is Family Life Center, Affordable Rental Harbor Project I in the amount of \$1,049,017 and for Administrative costs of \$30,000.

At this time, the Chair would like to recognize Mr. Pablo for separating all four items. I think this is a good move, so we can concentrate on individual projects as they come along in regards to utilizing this special fund. At this time, the Chair would like to call on the Finance, I'm sorry, the Budget Director in regards to this particular item as well as call on later on the Acting Director of the Department. And by the way, Members, we do have representatives from FLC with us this morning. Director Pablo?

MR. PABLO: Thank you, Chair, and good morning, Members. I'd like to call your attention to the latest communication from the Budget Office and that's dated September 19th. And this is the one to which Chair Pontanilla has been referring. In that transmission from the, from the Budget Office, we did place under the Special Revenue Funds, Revolving Funds, under Item 2, the Affordable Housing Fund for the project which is going to be discussed this morning, and that's \$1,049,070 [*sic*] for the FLC Affordable Rental Harbor Project I - Family Life Center.

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Here to answer any of your questions is the Acting Director from the Housing and Human Concerns Department Lori Tshako and Housing Commissioner Jo-Ann Ridao. Thank you.

CHAIR PONTANILLA: Thank you. Acting Director, if you have any comments?

MS. TSUHAKO: Good morning, Mr. Chair. Thank you very much for having us. This morning we are prepared to discuss the plan for the Affordable Housing Fund Programs for Family Life Center. Maude Cumming from the Family Life Center as well as Randy Rodrigues of the Family Life Center are here today to answer specific questions. In addition, although I apologize for the delay in passing this out, the Family Life Center has provided the Department as well as Members with information that will hopefully answer some of the questions that were raised during their last hearing, specifically about pricing. There have been some changes in the, in the proposals due to the drop, the dropping of, of purchase prices as well as the cancellation of a previous contract that Family Life Center had with the, the seller of the properties that were initially proposed for this project. Thank you.

CHAIR PONTANILLA: Thank you. Jo-Ann, you have any comments to make, at this time? Thank you.

MS. RIDAO: No comments, Mr. Chair.

CHAIR PONTANILLA: Okay. The Chair is going to call on Ms. Cumming as well as Mr. Rodrigues to give us brief comments in regards to your particular project that you are requesting funding for. Ms. Cumming and Mr. Rodrigues?

MS. CUMMING: Thank you, Mr. Chair. Pursuant to the last meeting there were a number of questions that the Members of the Council had. And so we, you should have it in front of you a paper that addresses those concerns.

And one of the first concerns was protection of the County of Maui interests and ownership. And so we understand that the, an agreement or a contract will be drawn up by the Department of Human, Housing and Human Concerns along with Corp. Counsel direction. That would include all of the concerns, reversion clauses if there's any default, property title, and that the project cannot be used for collateral for any loans.

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Also, there were some concerns about the pricing of the units. At the time we, when we started our negotiations was in fall of 2007. And at that time, the market price was around 150,000. So we did enter into a legally binding contract with the seller. However, we had crafted our agreement such that if there were certain things that did not come to pass over the course of time that we were able to cancel that agreement. So we did that and after that we pursued other listings with other realtors. And the current market price is between, anywhere between 60 and 100,000 still. So we believe that, in talking to different realtors, we believe that we could purchase units at an average price of 68,000.

There was also some question about realtor commissions. Normal realtor commissions do not apply to these listings. All, all of the properties, with the exception of one, was in the short sale status which means it's, it's in between the lender and the seller. And so, the, the realtor must negotiate a price with the, between the, the vendor and the seller. And also Mr. Randy Rodrigues also represents us as a licensed realtor. And as the realtor representing the buyer he has no control over the determination of commission.

Another issue was the contingency plan for Home Association assessments. We've done a 30 year pro forma that includes contingencies for assessments, and we also have a line of credit in place to address any situations that we may need to cover immediately, and then pay back out of that fund. That's a reserved fund.

And another question was about displacement of current tenants. Out of 23 units that we looked at nine were vacant and only one of those units was occupied by an individual. He had been in the unit for more than 15 years. And we were not able to determine the income, incomes of tenants. We, we had considered the vacant units as our first priority, but the reason most of those were vacant is because they need major, they needed major rehabilitation. However, if we do purchase any units in which there are tenants we will assess them and see whether they're interested in participating in the program, and if they're determined eligible we would enroll them and continue tenancy. So overall we feel like we could purchase 15 two-bedroom units as opposed to the seven that we had previously talked about for the same amount of money.

We also, there was public, a public testimony received by the manager of Harbor Lights with some concerns. So I did set up a meeting with her to

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address all, any or all of her concerns. And there were three major areas. One was the price, the other was short-term rentals that was not allowed, and that somehow, and I accept full responsibility for this, that I had characterized Harbor Lights as a place that was maybe not as desirable and that we felt like it was just a short, short-term place to put people. But I assured Ms. Brown that we, we have common goals and that is to find housing for people, that we consider Harbor Lights a wonderful place for local families; it's close to the amenities shopping, schools, and other things, and that we would not be an absentee landlord that has no interest in how our tenants conduct themselves, that we would be proactive and responsive to any management concerns, and that we would consider it a privilege to work with the board and the management and that perhaps we could pool our resources to, to do projects around the complex that would be mutually beneficial. And so the outcome, outcome of that meeting was that there was mutual understanding that both Family Life Center and Harbor Lights would work together, share any concerns, and address any problems.

CHAIR PONTANILLA: Thank you.

MS. CUMMING: Are there any questions?

CHAIR PONTANILLA: Thank you. Members, since Ms. Cumming is up there, if you do have any questions for Ms. Cumming, and in regards to the department we'll cover the department as soon as we're completed with Ms. Cumming as well as Mr. Rodrigues. Question? Member Baisa?

COUNCILMEMBER BAISA: Thank you very much, Maude. Thanks for coming and thanks for the communication. I'm just wondering, you said you met with Ginny Patao [*sic*] and that, you know, she's apparently had a change of heart compared to this letter that we have in our binder. Do you have anything in writing from her?

MS. CUMMING: From Mrs. Brown?

COUNCILMEMBER BAISA: Yes.

MS. CUMMING: No, I don't.

COUNCILMEMBER BAISA: That might be helpful because--

MS. CUMMING: Right.

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COUNCILMEMBER BAISA: --you know, this letter on file is not very supportive.

MS. CUMMING: Yes.

COUNCILMEMBER BAISA: So I think it would be very good to have another letter from her saying that I've changed my mind and now I want to be a partner in this, because it would be helpful for us.

MS. CUMMING: All right.

COUNCILMEMBER BAISA: The other thing was I wanted to refresh my mind, it's been a while since you came, and I think the day we did this we looked at four different projects, and they're all kind of running together in my mind, but I, I, I know yours is to buy units at Harbor Lights and rent them, right?

MS. CUMMING: Yes.

COUNCILMEMBER BAISA: So these folks will be low-income renters?

MS. CUMMING: Yes.

COUNCILMEMBER BAISA: Have you pretty much an idea of what those rentals will be?

MS. CUMMING: What they would be rented for?

COUNCILMEMBER BAISA: Yes.

MS. CUMMING: The amount that they would be rented for?

COUNCILMEMBER BAISA: Yes.

MS. CUMMING: Yes. One of our primary concerns was to make available units for those people who have HUD Section 8 vouchers, because we've experienced problems. Although they have a voucher we've experienced problems locating units that would rent to them. So if they are, if they do hold this HUD Section 8 voucher the rent would be \$1,100. If they don't the rent would be \$900.

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One of our concerns is that the maintenance fee is 600 and, I believe its \$668 right now. So, and that includes, of course, the electric, all of, all of the utilities. So the actual rent that they would be paying would be the net of that.

COUNCILMEMBER BAISA: So if they're not HUD they would be paying 900 plus 600, or whatever--

MS. CUMMING: No. No. No. No.

COUNCILMEMBER BAISA: --those figures are? No?

MS. CUMMING: The 900 includes the maintenance fee--

COUNCILMEMBER BAISA: I see.

MS. CUMMING: --of \$668.

COUNCILMEMBER BAISA: I see. And for the 1,100 the same thing?

MS. CUMMING: Yes.

COUNCILMEMBER BAISA: It includes the CAM?

MS. CUMMING: Yes.

COUNCILMEMBER BAISA: Good. That, that was the other question that I had. I have additional questions, but I think they're more for the Department, thank you. Thank you very much.

MS. CUMMING: Thank you.

CHAIR PONTANILLA: Thank you. Fast question. In regards to any repairs to the buildings or to the units themselves, it would come out, out of the maintenance fee?

MS. CUMMING: There are general repairs that are done. I believe, I don't, I don't speak for Harbor Lights, but I believe that on a, on a regular basis general repairs are done, but there are from time to time one-time assessments for big projects.

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CHAIR PONTANILLA: So in the case, in, in your case if you were to take over 15 two-bedroom units, the repair work as well as maintenance work of the units themselves, how do you intend to fund those repair and maintenance work within the units?

MS. CUMMING: If there were an assessment from the management or just an ongoing basis?

CHAIR PONTANILLA: Ongoing basis since you're going to control these units.

MS. CUMMING: On an ongoing basis that is, we have a reserve fund that we've built into that in order to address issues such as broken appliances or other things in the unit that may need fixing.

CHAIR PONTANILLA: Thank you. Members, any more...Member Molina?

COUNCILMEMBER MOLINA: Thank you, Chair. Good morning, Maude. Staying on the subject of fees or association fees, can you give additional comment on that? Any, because the owners will be in the 80 percent and below income bracket, can you comment as to what kind of fees they will be subject to and if you have any information as to what Harbor, the fees are currently right now for Harbor Lights?

MS. CUMMING: I believe for a two-bedroom unit, I'm sorry, it's either 662 or 668 and that is built into the rent. So there would be no additional fees charged to renters.

COUNCILMEMBER MOLINA: Okay. Thank you. That's what I wanted to get some assurances on. Thank you. Thank you, Chairman.

CHAIR PONTANILLA: Thank you. Member Mateo?

COUNCILMEMBER MATEO: Thank you, Chairman. Good morning, Ms. Cumming.

MS. CUMMING: Good morning.

COUNCILMEMBER MATEO: Can, can you just share with me additional information on your projected contingencies for assessments as well as what your line of credit is that you're establishing?

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MS. CUMMING: We have a line of credit that we're not establishing. We already have one because, from time to time because of our funding sources we often have to spend the money and then get reimbursed. So we already establish the line of credit and that is something we can draw from if we need to, and then pay back into the, into the line of credit out of our reserve that we've already built in.

COUNCILMEMBER MATEO: And that, that line is consistent of how much?

MS. CUMMING: At the present time, it's \$40,000.

COUNCILMEMBER MATEO: Okay. Thank you. And the contingencies for assessments is that what you explained to us?

MS. CUMMING: Yes. Those, those would be one-time assessments. I believe in the past they've, Harbor Lights has taken on a project of say repairing all the, the pipes, and those would be one-time things that are assessed to owners.

COUNCILMEMBER MATEO: Okay. Can, you know, and, and I'm just going to, I'm just going to ask you because I don't know how else to, to ask the question.

MS. CUMMING: Okay.

COUNCILMEMBER MATEO: But, you know, you dealing with the 50 percent to the 80 percent median income level--

MS. CUMMING: Yes.

COUNCILMEMBER MATEO: --individuals. Eleven hundred dollars a month is kind of high considering if, one, you're going to buy the properties for rather low and \$1,100 a month, at worse you're going to get the units paid for in about seven years if they stay there, you know, throughout. So \$1,100, if you want to make a difference and help people with low income housing opportunities \$1,100 is kind of high, and I'm hoping that it is not going to be set high because of what HUD pays. HUD contributes a large amount and that in itself has been problem-some because they have helped to generate the cost or the rates of rental units. So I'm kind of hoping that you would deal with the 50 and 80 percent median income levels and provide a rental allowance that is considerably lower than \$1,100 a month.

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MS. CUMMING: Our reasoning in that was that the \$1,100 would leave us 400, about \$430 to work with, but our belief is that we want the tenants to share in some of the, the, the rental costs because we would be trying to develop in them budgets and a way that we can assist them to move out of that. And so that's why we set the rate for HUD clients at \$1,100 since the HUD payment right now could bear that cost. And, and that would, and then of course if the tenant, you know, pays a share of the entire thing based on, on his income, his or her income.

So we wanted to build in a system where the, the tenant would be sharing part of the cost because that is part of our over, overall plan to help them move on.

COUNCILMEMBER MATEO: Yeah, you know, thank you for that, but I'm looking at the 50 percent lower income, the medium income level. A family making \$31,000 or just a little over 31, 000, you know, \$1,100 is a chunk out of what they, out of what they earn. So I'm still concerned about that.

MS. CUMMING: Okay. If, if they didn't have a HUD voucher the, the rent would be \$900. So after we take out the, the maintenance fee which has to be paid no matter what we're left with a little over \$200 to do all the other things that we need to do.

COUNCILMEMBER MATEO: And there was no way of dealing with the property to lower the maintenance fee expectations?

MS. CUMMING: No, I did ask. And, and a primary part of that is the electrical costs because I believe there's only one meter. And so, there's an assessment that is divided among the 300-some odd units that are there. That's an equal share. So it doesn't depend on how much each, each individual consumes, it just depends on the overall total. So...

COUNCILMEMBER MATEO: Thank you. Thank you, Chairman.

MS. CUMMING: Thank you.

CHAIR PONTANILLA: Thank you. Members, any more questions? Member Victorino?

COUNCILMEMBER VICTORINO: Thank you, Chair. And, Maude, thank you very much.

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MS. CUMMING: Thank you.

COUNCILMEMBER VICTORINO: We appreciate all your hard work on this area. The concerns I have are, are really two. Number one, is, of the 23 units that you, you visited you said nine were vacant.

MS. CUMMING: Yes.

COUNCILMEMBER VICTORINO: And of those nine that were vacant because, again, I go to Page 1, you said some units needed major repairs. Major repairs in my mind sounds like a lot of money, but of the nine units that were vacant were they the ones you're looking at as far as major repairs?

MS. CUMMING: No, we wanted to stay away from those. We did want to focus on the ones that were vacant, so we wouldn't have to displace anyone. But when we considered it we felt like they may not be the best choice because they would require more money and rehab than the others.

COUNCILMEMBER VICTORINO: Have you any idea, and, and, again, this is just speculation I guess, but of these nine units that were vacant do you have any idea what kind of costs to upgrade them or to make them livable, you know, to do the repairs necessary? Because when you're talking a unit itself it doesn't fall under the condo association or the AOA, it is your responsibility as an owner to rehabilitate the unit. So do you have any idea what those nine units may cost or per unit cost to rehabilitate?

MS. CUMMING: An average of five to \$7,000. Most of them needed new flooring, replacing of the cabinets, replacing the appliances.

COUNCILMEMBER VICTORINO: Okay.

MS. CUMMING: And, and also what we looked at was not just that cost, but the carrying cost while we did the repairs.

COUNCILMEMBER VICTORINO: Right. Okay, and then the other question I had is just displacement of the month-to-month renters. Would any of those month-to-month renters qualify or did you look into that matter as far as...

MS. CUMMING: I believe that some of them would. I, I don't have any hard information, because we could not get that. We needed the income. But

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in talking to some of the clients, some of the tenants, I believe that some of them would qualify.

COUNCILMEMBER VICTORINO: Okay, because these are very important issues. Again, if we go ahead and try to help some, displace others, I mean we just seem to create another gamut of challenges for our community.

MS. CUMMING: Yes.

COUNCILMEMBER VICTORINO: And so this is why I'm very concerned that of the other 14 units that you're referring here, how many of these people would be displaced and not qualify or would qualify so that we can at least help some of those not be left out in the cold.

The last question I have, Mr. Chair, if I may ask? Is right now you're averaging, or you're, you're saying in your summary you're looking at average cost of about 69, oh, let's say 70,000, let's round it off, and it says including allowances, cost of units, repairs, and carrying costs. Okay. So you're saying we could probably pick up approximately 15 units, 14 or 15 units for about \$70,000 ready to be occupied. And because you say over here repairs and carrying costs. So these units would be ready to be occupied by the 50 to 80 percent income bracket level?

MS. CUMMING: What we are requesting is that if we do select some of the units that need more repairs than others that we may be able to get the, purchase it for a lower amount than others and that we be allowed to use that difference to pay for some of the repairs and to, to pay for the maintenance fee while we're doing that and that overall the average cost would be about 69,000.

COUNCILMEMBER VICTORINO: Okay. So, and so to sum it up is basically you go out and purchase these units. Some will be ready or close to being ready to being occupied, others, so you want to be, are not, and you want to move the money around so that you can get these rehabilitated and ready to be occupied?

MS. CUMMING: Yes.

COUNCILMEMBER VICTORINO: Okay. Thank you, Mr. Chair, I appreciate that.

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CHAIR PONTANILLA: Thank you. Members, any more questions for Ms. Cumming? Member Anderson?

COUNCILMEMBER ANDERSON: Thank you, Chairman. Thank you, Ms. Cumming--

MS. CUMMING: Thank you.

COUNCILMEMBER ANDERSON: --for being here. Originally you were going to purchase ten units and three of them were going to be 50 percent or less and seven were going to be 80 percent or less income.

MS. CUMMING: Yes.

COUNCILMEMBER ANDERSON: So if you're going to do now 15 what is the breakdown for...

MS. CUMMING: We would do the same ratio, and I don't. . .so that would be 30 percent and 70 percent.

COUNCILMEMBER ANDERSON: Thirty percent at 50 percent or less?

MS. CUMMING: Yeah, so ten and five I believe it is.

COUNCILMEMBER ANDERSON: Okay. So of the 23 units that you looked at have you chosen the 15 that you're interested in purchasing?

MS. CUMMING: No, because since then more units have come on the market, and so we want to, that, that may cost less than the ones we originally looked at. So we wanted to be able to look at those as well.

COUNCILMEMBER ANDERSON: And so of the 23 units that you looked at do you know what the rent is on those units right now, what people are paying?

MS. CUMMING: I believe it ranged anywhere from \$1,000 to \$1,300.

COUNCILMEMBER ANDERSON: And they're all two-bedroom units?

MS. CUMMING: Yes.

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COUNCILMEMBER ANDERSON: And do you know of those, how many are HUD qualified or have Section 8?

MS. CUMMING: No, I don't. The, the seller did not have that information available for us.

COUNCILMEMBER ANDERSON: You know, the seller, if the seller is currently renting these to people, as far as I know, all rental applications request your income, and it would seem to me that if the seller is interested in selling these units to a low income housing project that they would be willing to share the income. They don't have to attach a name to it, but just share the income so you would know, I mean--

MS. CUMMING: There were...

COUNCILMEMBER ANDERSON: --I have a real concern that we're going to be displacing people--

MS. CUMMING: I understand.

COUNCILMEMBER ANDERSON: --who, then we're just creating another problem.

MS. CUMMING: Yes. There were different sellers represented by the realtors, and, but we can get that information if we press I'm sure.

COUNCILMEMBER ANDERSON: Yeah, because, you know, we want to know if we're just trading apples for apples here--

MS. CUMMING: Yes.

COUNCILMEMBER ANDERSON: --or what, you know, we're actually doing. Okay. Thank you, Chairman.

CHAIR PONTANILLA: Thank you. Member Baisa?

COUNCILMEMBER BAISA: Thank you, Chair, second time. Just one more. I want to be clear because after listening to the exchange with Member Mateo I'm a little confused. What I understand or what I think I understand is that these. . .say for instance, they will rent a unit for \$900.

MS. CUMMING: Yes.

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COUNCILMEMBER BAISA: And there is a maintenance fee that is a part of that that is included in that.

MS. CUMMING: Yes.

COUNCILMEMBER BAISA: Is this totally paid for by a Section 8 grant or does the renter have to pay something?

MS. CUMMING: If, if they have a HUD, Section 8--

COUNCILMEMBER BAISA: Voucher.

MS. CUMMING: --voucher it would cover the entire thing.

COUNCILMEMBER BAISA: So actually it's not really a strain to the low income wagger earner if they are getting the full subsidy or the full voucher from Section 8?

MS. CUMMING: Right.

COUNCILMEMBER BAISA: See that's important to me because I, it, it kind of sounded like they have to come up with, like, \$400 or something.

MS. CUMMING: No. No, they don't.

COUNCILMEMBER BAISA: Okay, and now if they were in the \$1,100 category, and they had a Section 8 voucher for \$1,100 they too would not have to pay anything?

MS. CUMMING: Not anything additional.

COUNCILMEMBER BAISA: Right.

MS. CUMMING: Just whatever the HUD Section 8 determines that is their share.

COUNCILMEMBER BAISA: Right. So as long as they have Section 8 there really is no financial impact on that family. The problem is that we all are living here in fear from moment to moment as to what's going to happen to things like Section 8.

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MS. CUMMING: I agree.

COUNCILMEMBER BAISA: And, you know, after hearing the news this morning I'm kind of really scared . . . *(end of tape)*. . . 'cause when I got in the car this morning the House of Representatives still had not agreed to the bailout package. And so, you know, we don't know where the market's going. We don't know where housing subsidies or anything is going. So I understand, and I'm very supportive of the idea of making affordable housing available to people but, again, it's such a scary time, but then it's also an opportunity because, you know, these Harbor Lights units have gone all over the place.

You know, many years ago an assistant of mine, when she got married, bought one for about \$40,000, and then it went way below that, and then it went way, way, way up, and now it's on its way down again. So this is a real interesting project to watch but, you know, the, the fact is I noticed in here we'll be talking to the Department about who will own the title to this. And for me that's a critical piece, because if the County is going to own this, then we, you know, land is land and real estate is real estate, and my Portuguese background says it's a good investment when you buy land and real estate. But we'll talk some more after we talk to the Department, but thank you for what you're trying to do. I certainly understand the importance of it.

MS. CUMMING: Thank you.

CHAIR PONTANILLA: Thank you. Members, any more questions for FLC? Member Anderson?

COUNCILMEMBER ANDERSON: Thank you, Chair. Ms. Cumming, do you know what the, the rental limit is at 50 percent income?

MS. CUMMING: I don't know it offhand, but I, I know that we, we have that in mind when we made the determination of what the rent was going to be. There is a whole table. I'm sorry, I don't have that offhand.

CHAIR PONTANILLA: Department, do you have that piece of information in regards to the, the rental for 50 percent median income?

MS. CUMMING: I have it here.

CHAIR PONTANILLA: Thank you. Okay.

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MS. CUMMING: Fifty percent of median, depending on family size, an average family of four is, 50 percent is, oh, no, this is their income, \$34,950. Two-bedroom is 787.

COUNCILMEMBER ANDERSON. Seven eighty-seven--

MS. CUMMING: Yes.

COUNCILMEMBER ANDERSON: --and then what about 80 percent for a two-bedroom?

MS. CUMMING: Eighty percent is \$1,258.

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

CHAIR PONTANILLA: Thank you. Member Molina?

COUNCILMEMBER MOLINA: Thank you, Mr. Chair. Ms. Cumming, just for my own information, what agreements have you made, thus far, with the Department in the event that the Family Life Center goes under or dissolves? And if you, you happen to acquire these properties or these units what, what happens then? Is, is there any agreement that you reached with the County or the Department?

MS. CUMMING: We have not made any agreements, and I believe that comes, you know, once the contract is drawn up, but we understand. We've addressed the issues of reversion clauses that the County of Maui, title would revert to the County of Maui if there's any default. I believe that how the property title is listed will be determined, and we would be amenable to whichever way that the Department would determine that it needs to be.

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

CHAIR PONTANILLA: Thank you. Member Medeiros?

COUNCILMEMBER MEDEIROS: Mahalo, Mr. Chairman. Ms. Cumming, thank you for the information you've provided. I, I wanted to know where would your potential tenants come from?

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MS. CUMMING: Potential tenants, of course, we would assess everybody that's already living in the units. Secondly, we have several housing programs where we have more people than we can handle, but we, we have a number of people that, that call us for assistance and in that process we determine the eligibility. That would be a pool of people that we would draw from. We also have made contacts with HUD, Section 8. They refer people to us on a daily basis for other programs that we have. So we would draw from there as well. We have quite a network between, with other agencies that know of our services. And so, we would do an information sheet and disburse it that way.

COUNCILMEMBER MEDEIROS: So, so other social services organizations do or would refer people to you?

MS. CUMMING: Yes. Yes.

COUNCILMEMBER MEDEIROS: Do you, it seems like you, you have, you know, more than enough for you to fill your units, but do you ever, your organization, I mean, publicize it?

MS. CUMMING: We have not done any public notices primarily because we already have more than we can handle, and we have to turn away a lot of people because we, we just possibly can't handle the amount of requests that we get. So we have not done that in the past, but we are not opposed to doing that in the future.

COUNCILMEMBER MEDEIROS: And since you seem to have more than the units you have is there a priority of who gets selected to become a tenant?

MS. CUMMING: We would want to focus primarily on families with children because they are two-bedroom units. But there are other groups of people with mental illness or disabilities who we have also discussed whether that would be an appropriate place. And, and what we have tried to do in the past is maybe get two disabled people that we write up, get the landlord to write up separate rental contracts, and they could share a unit and that way be able to be housed because their income is very limited.

COUNCILMEMBER MEDEIROS: Okay, and, and maybe finally being that you, you brought up the potential of some of the tenants maybe having some mental disabilities, with a mixed group in a complex like Harbor Lights do you see any concern for these kind of people to be vulnerable to other people living in the complex?

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MS. CUMMING: No, I don't because they're already, we do already have some clients that fall into that category that live there, and, and they're doing fairly well because along with the services we do case management and that is something that we would continue to do. We would do case management as well as offer classes so that we would be constantly, a case manager would be in touch with the person.

COUNCILMEMBER MEDEIROS: Okay. Thank you, Ms. Cumming. Mahalo, Mr. Chairman.

CHAIR PONTANILLA: Thank you. Before I call on Member Mateo, the Chair would like to recognize Council Chair Mr. Hokama for being here this morning. Member Mateo?

COUNCILMEMBER MATEO: Chairman, thank you. Ms. Cumming, we're having this discussion because out of the four projects we looked at earlier apparently your project is the most ready to move, yeah. So with that in mind and your initial request for one point whatever it is for...

MS. CUMMING: Forty-nine thousand seventeen dollars.

COUNCILMEMBER MATEO: What is the status of the loan that you need to secure to add to this, this addition, additional money?

MS. CUMMING: We don't need a loan. That would cover it.

COUNCILMEMBER MATEO: So the entire purchase is just based out of the grant--

MS. CUMMING: Right.

COUNCILMEMBER MATEO: --that these funds--

MS. CUMMING: Right. Yes.

COUNCILMEMBER MATEO: --will, wow.

MS. CUMMING: Yes.

COUNCILMEMBER MATEO: Thank you very much. Thank you, Chairman.

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CHAIR PONTANILLA: Thank you. Members, any more questions for the applicant at this time? Seeing none, I'd like to thank Ms. Cumming as well as Mr. Rodrigues for answering all of those questions that the Members had this morning. So stick around.

MS. CUMMING: Thank you very much.

CHAIR PONTANILLA: Thank you. Members, questions for the Department at this time? Member Baisa, you had a question?

COUNCILMEMBER BAISA: For the Department?

CHAIR PONTANILLA: Yes.

COUNCILMEMBER BAISA: Yes, I did. It was in regards, first of all, to the title that we, it said in Ms. Cumming's sheet or whoever prepared this for us today, it said that the, a resolution of, you know, the title would be discussed, and I'm wondering what the Department's recommendation is going to be.

CHAIR PONTANILLA: Department?

MS. RIDAO: Thank you, Councilmember Baisa for that question. My experience in the past when I was the Executive Director at Lokahi Pacific was that either, either HUD or the County would require that if the applicant is not able to fulfill their obligation that the property would refer to or be, or be transferred over to another non-profit who could perform, or revert back to the County, and the County would make the decision as to what would happen to that property.

COUNCILMEMBER BAISA: Because this is a rental property, when these units are purchased then originally the title will be in the name of the Family Life Center? Will the County be mentioned on that?

MS. RIDAO: Correct. The, the title would be in Family Life Center; however, there will be a clause in the deed whereby it would indicate should the applicant not be able to perform, the property would revert and that is how, when something like this happens then the title company will pick up on that and the County will be notified that the applicant is not able to perform.

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COUNCILMEMBER BAISA: I have one more question before I let somebody else, but it, it's related, but not directly. A while back, probably two years ago, the Department was, we were told by the Department Director that she was working on a rent-to-own program. And, you know, I'm really, I kind of agree with Ms. Brown, and I'm sorry if I called her Ms. Patao, I knew her as Ginny Patao for many, many years, and she became Mrs. Brown, but she does mention the idea of rent-to-own, and I'm wondering if that has gone anywhere, because if it has, with these kinds of prices the time might be right, you know, that people might qualify to buy these things.

MS. TSUHAKO: Thank you, Mrs. Baisa. I'm not aware specifically about the Department's initiative about a rent-to-own program, but during our conversations with Ms. Cumming from Family Life Center and Mr. Rodrigues, we, we did discuss that issue about the potential for tenants going into, wanting to become homeowners, and I think that Family Life Center has taken that into consideration and would, at some point in time, be willing to work with those tenants to achieve ownership.

I'm not certain about those specific properties, but maybe of other properties on site or other places, because their, their program of doing case management and helping people become financially literate will explore those families' willingness to have the discipline to become homeowners. Not every tenant, as we know, is going to want to be a homeowner, but some of them may. And I think that the entirety of the program at Family Life Center will give those people who are wanting to become homeowners the right foundation so that they can, they can do the planning, and do the budgeting, and the, and the discipline spending that will allow them to do that.

COUNCILMEMBER BAISA: Chair, I would really request that we ask the Department because this was brought up in Council, and I'm sure it's in minutes somewhere that at one time there was something going on, and I think it was with Section 8 about a rent-to-own program where the money that is paid would go to home ownership. I'd just like somebody to take a look at it and see if by any chance that's around, because if it is, it would be really a good thing for us to consider, but for now, you know, what we see is what we see.

The other. . .one last thing was about the financial status. You know when we're doing grants and doing this kind of award to a non-profit agency are

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we looking at their financials and their audits to make sure that everybody's okay before we make this big investment?

CHAIR PONTANILLA: Department?

MS. TSUHAKO: Thank you for that question, Mrs. Baisa. We are. Before the grant gets cut to the agency we do look at the budgeting, and I think the agencies are required to turn in their last audit as well as their financial statements to the Department for review. So, yes, the Department does review those, those financials.

COUNCILMEMBER BAISA: Good. Thank you very much, because we know we have some history here of housing things that have caused us concern, so better we look now. Thank you very much.

MS. TSUHAKO: I agree. Thank you.

CHAIR PONTANILLA: Thank you. Before I call on Member Molina, I just have a quick question in regards to Ordinance 3.35.050, 070 regarding the grant loan requirements, and according to the requirements, there's five requirements and basically some of the questions that Member Baisa asked is part of those requirements. My question is how is the Department going to review and follow up in regards to monies that come out of the, the Affordable Housing Fund?

MS. TSUHAKO: Mr. Chair, I'm not sure I understand your question? You mean what kind of monitoring is the Department going to do from here on out?

CHAIR PONTANILLA: Yeah, as, as we move forward in regards to providing funding for projects such as FLC that we're discussing this morning. I know part of the requirement is that they provide an annual report; and hopefully, that someone looks at this annual report. Do you have any, anyone already set to take over this? And, and I think it's going to be a job, you know, for that person to really be on the ball on this one, yeah.

MS. TSUHAKO: I agree. There, increasingly there are many more demands made on the Housing Division for monitoring of all kinds of different agreements that are entered into by the County's Housing Program. Right now, the intention is to have one of the program specialists in the Housing Division manage all of the grants that are generated by the Division. And that person would be ultimately responsible for reviewing the annual reports as well as doing monitoring of the, of the projects that are funded.

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CHAIR PONTANILLA: Thank you. Member Molina?

COUNCILMEMBER MOLINA: Thank you, Chairman. Good morning, Director Tsuhako--

MS. TSUHAKO: Good morning.

COUNCILMEMBER MOLINA: --and Ms. Ridao. First of all, I just want to open up by saying it's very encouraging to see that the tree will now start to bear some fruit, potentially anyway, with regards to this Affordable Housing Fund. Just to touch on some history, the Council, last term, initiated the 2 percent set aside of the real property tax as a Charter amendment, and it was passed by the electorate. And the target group not only included 80 percent and below, but it also included 120 percent, the so-called gap group.

Now, with this current proposal we're looking at the 80 percent and below and potentially 50 percent as well. Can you tell me, and, you know, when I heard Ms. Cumming mention this morning, with regards to this project and its attractiveness to all folks, why was the 120 percent not considered as, I guess, potential tenants for this as well? Can I just get some comments from you? And was it ever considered?

MS. TSUHAKO: Thank you, Mr. Molina. The, the request for proposals that the Department put out to the community did have the parameters for eligibility being from 120 all the way down. And the projects, there were seven projects that applied for funding, four of them were chosen, and none of the seven projects had programs that, that served people at the 120 level. And so, the project that was submitted for our review by Ms. Cumming and Family Life Center had 80 percent and below, and 50, et cetera, as did all of the other projects. But none, none of the people who bid for the, for the projects had 120 as their target group. So we were, the Department was limited in that way because of the, the responses to the RFP.

COUNCILMEMBER MOLINA: Is it the intent in the future of the Department to go out and seek projects that would address the needs of our 120 percent group using monies from this fund?

MS. TSUHAKO: We, we would like that, yes, very much so.

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COUNCILMEMBER MOLINA: Okay. Thank you. Yeah, I would hope you would look at that group as, as well too, because they're working people as well, and there's definitely a need to help our, help our citizens in the gap group. Have you provided us, with regards to the, the administrative expenses, the 30,000, have you given us some type of a breakdown or analysis of how the 30,000 will be used? If, if you don't have it if that could be provided to the Committee for consideration as well?

MS. TSUHAKO: Thank you. I don't believe the Department has submitted that to the Council yet, in terms of justifying those administrative costs, but we will, we will do that.

COUNCILMEMBER MOLINA: Okay. And one more question, Chair. It's basically the same question that I asked Ms. Cumming with, with regards to if the Family Life Center, for whatever reasons, decides to dissolve or liquidate, what assurances does the County have that if they have to liquidate, sell the units, and if there's any profit made by these, you know, selling of these units will the County be, will that be, I guess, reimbursable to the County and put back into the Affordable Housing Fund? Have you had that type of discussion or analysis on that potential issue as well?

MS. RIDAO: Councilmember Molina, we have not had a discussion to that effect. I, I would think that because of the reversion clause either going to another non-profit or back to the County, at that time, a decision would be made if the unit should be sold or kept in the, in the inventory of affordable housing.

COUNCILMEMBER MOLINA: Okay. And I thank you for your response. And I'm just, maybe I'm thinking way ahead, but in the event that, you know, it does happen that at least the Affordable Housing Fund could be replenished to some extent. That's all I have for now, Mr. Chairman. Thank you.

CHAIR PONTANILLA: Thank you. Member Hokama? Member Victorino, questions?

COUNCILMEMBER VICTORINO: No, thank you, none at this time.

CHAIR PONTANILLA: Member Medeiros?

COUNCILMEMBER MEDEIROS: No, thank you.

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CHAIR PONTANILLA: Member Baisa?

COUNCILMEMBER BAISA: No.

CHAIR PONTANILLA: Member Anderson?

COUNCILMEMBER ANDERSON: Yeah, thank you. Could you tell me how many Section 8 vouchers the County has out?

MS. TSUHAKO: Thank you, Ms. Anderson. I believe the total is approximately 1,200.

COUNCILMEMBER ANDERSON: Twelve hundred. And how many people are on the waiting list?

MS. TSUHAKO: I do not know exactly how many people are on the waiting list, but I believe the waiting list, in terms of time, is about two years right now.

COUNCILMEMBER ANDERSON: Two years.

MS. TSUHAKO: But the average amount of time people wait on the waiting list is around two years.

COUNCILMEMBER ANDERSON: And are we getting more vouchers or is it kind of stabilized at 1,200?

MS. TSUHAKO: It's, I don't think we're expecting to get any more vouchers. No jurisdiction is expecting to get more vouchers. It's pretty much a stable count.

COUNCILMEMBER ANDERSON: Okay. So the people that are waiting two years, and at one time I heard it was 1,400 people on the waiting list. Does that sound, does that ring a bell or am I off?

MS. RIDAO: I dropped the cover. . . Councilmember Anderson, I believe that when the number gets really high, then the Department will do a follow-up to see how many people are still qualified on that list or if they need to, to redo the list, but it is my understanding that, you know, not very many. However, there are people who go over income therefore are no longer qualified for Section 8. So there are a few openings annually, not very many.

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

CHAIR PONTANILLA: Thank you. Member Mateo? Just one point regarding Member Molina's question, Members, if you look at 3.35, which is the Ordinance, the subject, the subject project shall not be sold, exchanged, divested, or converted to other uses that are inconsistent with the purposes set forth in this Chapter without the prior approval of the Council by resolution. So there are many safeguards in regards to the ordinance. Members, any more questions for the Department before the Chair makes his recommendation?

COUNCILMEMBER VICTORINO: Recommendation.

CHAIR PONTANILLA: Thank you. The Chair's recommendation is for passage of the proposed bill, a bill for an ordinance amending Appendix A of the Fiscal Year 2009 Budget for the County of Maui as it pertains to Part II, Special Purpose Revenues-Schedule of Revolving Special Funds for the Fiscal Year 2009 Affordable Housing Fund.

COUNCILMEMBER VICTORINO: So moved.

COUNCILMEMBER MOLINA: Second.

CHAIR PONTANILLA: Moved by Member Victorino, second by Member Molina. Members, any more discussion regarding this item? Member Molina?

COUNCILMEMBER MOLINA: Yeah, thank you, Chair. I just want to make a comment. I want to thank the Department as well as Ms. Cumming. I think this is the first step at using the Affordable Housing Fund generated by this Council and passed by the electorate as a, in the form of a Charter amendment. So, you know, the housing crisis is still a big gorilla on all of our backs, but this is one small, but positive step in the right direction. Thank you, Chair.

CHAIR PONTANILLA: Thank you.

COUNCILMEMBER VICTORINO: Mr. Chair?

CHAIR PONTANILLA: Member Victorino?

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COUNCILMEMBER VICTORINO: Yes, thank you, Mr. Chair. And this is one of the instances then, our process in government whereby moving somewhat judicially and somewhat slowly we've come out with a better case scenario. And as you well know if we had done this last year, we would have purchased these units at a much, much higher price. So I think sometimes, even though I know there's a lot of people out there that get very frustrated with the government process, our process sometimes, and in this case, will yield a larger amount of units to help many more people that really, really need the help. So for once, Mr. Chair, I'm glad to say our process and your judicious study of this matter has come out in favor for the people of Maui County, and I thank you, Mr. Chair, for your extra effort in this area.

CHAIR PONTANILLA: Thank you. Members, any more discussion? Member Anderson?

COUNCILMEMBER ANDERSON: Yeah, I'm going to be voting to support this, Mr. Chairman, with reservations, because I would like to have had more assurance that we're not going to be displacing people. You know, it would be different if we were starting from scratch, and we were buying unoccupied units, but these units are occupied by people that probably, hopefully will qualify. So anyway that's my concern.

CHAIR PONTANILLA: Thank you. Members, any more discussion? The Chair would like to commend Family Life Center for coming forward with this particular project to provide affordable housing for people that are in the 80 percent below medium income which is really needed in this County. And the Chair would also like to recognize the Housing and Human Services Department as well as the Budget Director for separating the four projects so that we can take each individual project on its own merits. And, you know, with four projects coming to the Budget and Finance Committee meeting, the first one that we had, you know, we had little discussion on each of the particular projects but, you know, by separating the projects, more in-depth information could be gotten from the applicant as well as from the Department.

So, you know, we do have three more projects that we need to look at and, and this Chair will make every effort to schedule these projects on the timely basis. Member Molina?

COUNCILMEMBER MOLINA: Thank you, Mr. Chairman. Just for informational purposes, I don't know if Director Pablo can do some quick

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math for us. Assuming this matter goes forward to the full Council and gets approved, what would be the balance in the Affordable Housing Fund that would be left?

MR. PABLO: Okay. I have it right here. The projected balance, which is going to be the end of Fiscal Year 2009, is 8.7 million. So we would take that million off, and we should have about 7.7 left. This is, this is based on a 2 percent contribution from the real property taxes in February. Thank you.

COUNCILMEMBER MOLINA: Thank you, Mr. Chair.

CHAIR PONTANILLA: Thank you. Member Baisa?

COUNCILMEMBER BAISA: Thank you, Chair. Before we end this discussion and while we have Director Pablo and the Housing ladies that are doing such a great job, have we any idea when we're going to see the rest of the projects?

CHAIR PONTANILLA: Member Baisa, I think it's going to be contingent between the Department and this Committee Chairman.

COUNCILMEMBER BAISA: I see. Is it months, is it whatever? I mean I'm just curious. We have \$7 million sitting, I hope we can move those.

MS. TSUHAKO: Thank you for your question, Mrs. Baisa. We have already sat down with Family, excuse me, with Women Helping Women. We need, we need to work with them so that they can answer some of the questions that were raised at the earlier Budget and Finance meeting. We've also met with representatives from Lokahi Pacific. And I think that in fact Lokahi Pacific's project may be ready to go next. And we will be working with Chair Pontanilla on scheduling that. We'd like to do that as soon as possible.

COUNCILMEMBER BAISA: Thank you very much. It's really important. Thank you, Chair.

CHAIR PONTANILLA: Thank you. Members, any more discussion? All in favor of the motion please say aye.

COUNCIL MEMBERS: Aye.

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CHAIR PONTANILLA: Any opposed? Seeing none, the motion is carried with eight ayes, one excused Member Johnson. Motion is carried.

VOTE: **AYES:** **Councilmember Anderson, Baisa, Mateo, Medeiros, Molina, Victorino, Vice-Chair Hokama, and Chair Pontanilla.**

NOES: **None.**

ABSTAIN: **None.**

ABSENT: **None.**

EXC.: **Councilmember Johnson.**

MOTION CARRIED.

ACTION: FIRST READING of revised proposed bill by C.R.

CHAIR PONTANILLA: Thank you, Members, for that particular agenda item, and thank you, Mr. Molina, for that ordinance that was created from your office. Thank you very much.

ITEM NO. 123: ACQUISITION OF REAL PROPERTY FOR PHASE V OF THE CENTRAL MAUI LANDFILL (PUUNENE)
(C.C. No. 08-176)

CHAIR PONTANILLA: Okay, Members, moving on. The second item on our agenda is BF-123. . . .*(pause)*. . . BF-123 is the acquisition of real property for Phase V of the Central Maui Landfill at Puunene. The administration is seeking approval for the acquisition of approximately 62.989 acres of real property located adjacent to the Central Maui Landfill site situated at Pulehu Road in Puunene. The administration has entered into a contingent purchase and sale agreement of the acquisition of the said property for a price of \$1.88 million. Fiscal Year 2008 Budget does provide for an appropriation of \$2 million for the acquisition.

At this time, the Chair would like to recognize the presence of Director Okuma. And, Members, we do have representatives from Alexander and Baldwin, Limited, here with us this morning if you do have any questions that you may wanna ask them. So, at this time, I'd like to call on the Budget Director and then...

MR. TAGUCHI: Chair Pontanilla?

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CHAIR PONTANILLA: Member Taguchi?

MR. TAGUCHI: Could we have a five minute recess--

CHAIR PONTANILLA: Mr. Taguchi.

MR. TAGUCHI: --so Staff can distribute the documents that just have been passed to us, to the Members?

CHAIR PONTANILLA: Okay, Members, we'll take our mid-morning break at this time. We'll return at 10:15. This meeting is in recess. . . .(*gavel*). . .

RECESS: 10:08 a.m.
RECONVENE: 10:16 a.m.

CHAIR PONTANILLA: . . .(*gavel*). . .The Budget and Finance Committee meeting is now reconvened. . . .(*end of tape*). . . Budget and Finance Committee is now reconvened. At this time, the Chair would like to call on Director Okuma as well as Director Pablo for comments. And we'll go with Director Pablo first followed by Director Okuma. Also joining the administration is the Division Chief Tracy Takamine. Director Pablo?

MR. PABLO: Thank you, Chair. I don't have any comments right now. So we can do directly to Director Okuma, and she also has the Division Chief from Solid Waste, Tracy Takamine. Thank you.

CHAIR PONTANILLA: Thank you. Ms. Okuma, please.

MS. OKUMA: Yes, thank you. Good morning, Committee Chair, Council Members. Passed out to you this morning are two additional pieces of documents for your information. One, is basically the, the site and the area that we're looking at as far as the acquisition of Phase V, Central Maui Landfill. That amounts to approximately 62-plus acres in terms of this particular acquisition. The other document is a preliminary report that was obtained for these parcels from Title Guaranty. And, as you can see, everything is still subject to this Council's approval. Also, in the audience today are representatives from Alexander and Baldwin, Mr. Grant Chun and Stephanie Ross who are available here for any questions that should come up.

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One of the things that, that I will point out is that time was important in terms of trying to bring this matter to some sort of resolution. And so, therefore, there is a November 10th deadline as far as closing of escrow and also an October 31st date for action by the Council Members. And one of the concerns, with respect to the funding, is that these are funds that would lapse the end of this year. And with that, you know, we're here to respond to any questions you may have. Thank you.

CHAIR PONTANILLA: Thank you. Members, questions for the Department at this time? Member Hokama?

VICE-CHAIR HOKAMA: Our understanding of this purchase proposal to us is \$1.88 million.

MS. OKUMA: That's correct, and it's the, and basically this is property that was appraised at 1.944, and the purchase price is that \$1.8 million that you referred to.

VICE-CHAIR HOKAMA: Explain to the Committee why the difference?

MS. OKUMA: That's basically what we negotiated. We negotiated less than the appraised value. . . .*(inaudible)*. . . 1.880.

VICE-CHAIR HOKAMA: That's the best you could negotiate?

MS. OKUMA: That is what we were able to negotiate, yes.

VICE-CHAIR HOKAMA: Fifty-five thousand dollars more or less difference for about an acre and a half.

MS. OKUMA: Yes. I think there was a strong desire by A&B, and I'm sure that they can respond better than I can, but there was a strong desire on their part to stay with the appraised value, but through the months of discussions and going back and forth, the final price that we were able to agree on was that 1.88.

VICE-CHAIR HOKAMA: Have they appealed any of their, I'm assuming this is under agriculture, so have they appealed any of their agricultural property taxes because of the valuations?

MS. OKUMA: I wouldn't know that. I don't have that information.

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VICE-CHAIR HOKAMA: That was not part of the Department's--

MS. OKUMA: No.

VICE-CHAIR HOKAMA: --due diligence to negotiate a price?

MS. OKUMA: We did not look at that.

VICE-CHAIR HOKAMA: Chairman?

CHAIR PONTANILLA: Mr. Hokama?

VICE-CHAIR HOKAMA: If Mr. Taguchi is able, under your direction, I would be interested if he could place a call to Mr. Teruya and if he has some information that could assist us with this meeting I would appreciate it regarding appeals of property tax value on agricultural land from Alexander and Baldwin. Because if they're appealing our assessment, but asking us to pay the assessment that the appraiser assessed, I think we, we should be aware of that information, Chairman.

CHAIR PONTANILLA: Thank you. Mr. Taguchi, if you can place that call? Thank you.

VICE-CHAIR HOKAMA: Chairman, I'm happy to relinquish the floor at this time.

CHAIR PONTANILLA: Members, any more questions for the Department at this time? Member Medeiros?

COUNCILMEMBER MEDEIROS: Mahalo, Mr. Chairman. Just to follow-up on Council Chair Hokama's questions. In your, well, in the preliminary report that were handed out this morning, Title Guaranty Escrow Services, and you mentioned, and you said the appraised value. Did someone do an appraisal?

MS. OKUMA: Yes, we commissioned to have the appraisal done, and I believe that that was submitted to the Council previously I believe.

COUNCILMEMBER MEDEIROS: And that appraised value was, what, what was it again?

MS. OKUMA: 1.944, I believe. One second, I can . . . *(inaudible)* . . .

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COUNCILMEMBER MEDEIROS: And then under the real property tax, the land, I'm assuming this is assessed, at two point, well, two point something million?

MS. OKUMA: Well, in the appraisal report which was dated February 28, 2008, and I believe we did send that in as part of our submissions, Page 6 of that assessed, that valuation does indicate land at an assessed value of two point, approximately two point million; 2.0223.

COUNCILMEMBER MEDEIROS: Right. That's for the land; correct?

MS. OKUMA: For the land, yes.

COUNCILMEMBER MEDEIROS: And can you explain the difference between that and the appraisal? Why, why is there a difference?

MS. OKUMA: I'm sorry, I don't consider, I wouldn't be able to comment on that, but it is in the appraised report in terms of the work that ACM Consultants did to get to the appraised value.

COUNCILMEMBER MEDEIROS: It seems very unusual that an appraised value is lower than, I mean, yeah, is lower than an assessed value. So by appraised value are you referring to it as being the market value of the property?

MS. OKUMA: I would just rely on the report that ACM Consultants did for this purpose, and I'd say that everything that they've done in terms of looking at and making their determination of the appraised value is in there. Their approach is also in there as well too, and I wouldn't be able to comment on, on that.

COUNCILMEMBER MEDEIROS: In your negotiations for the cost of the property, there wasn't any inquiry about this difference?

MS. OKUMA: Well, the report was done and both sides, both A&B and the County did obtain this copy, and we took a look at it and, you know, and basically relied on the appraised value that the ACM consultant provided to us and what they provided to us was that 1.944 million.

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COUNCILMEMBER MEDEIROS: Okay. One final question, Mr. Chairman. And, and I, I'll try to phrase this a different way, Director. So is it your understanding that the appraised value is the market value of the property?

MS. OKUMA: I, I would assume what they've done is they've taken a look at other comparables, you know, the comparables that they could find. I mean that's generally what I'm kind of aware of, and I assume that that is some sort of market value.

COUNCILMEMBER MEDEIROS: And, and the appraisal of the property was done as Agriculturally zoned property?

MR. YOUNG: Mr. Chair?

CHAIR PONTANILLA: Mr. Young, go ahead.

MR. YOUNG: Mr. Medeiros, the appraisal report, some of the line of questions, going back to some of the questions you've asked previously, this appraisal was done in February of 2008 which, which was prior to the County certifying a, you know, its, its taxed value for this current fiscal year that we're currently in now. So I'm not sure if the valuation on this particular parcel has gone up or down since February. It is not uncommon for an appraiser, an independent appraiser to reach a different value than say our tax assessed value appraisal. They're both for different purposes.

In this particular appraisal that was done by ACM, they looked at various factors that related to the potential value, one of which is comparable sales in the open marketplace for large tracks of agricultural properties. They also looked at income potential on this particular like parcel, likely uses. They also looked at contingent limitations on the type of use that are available. All of those various considerations going in, going in to reach the particular value.

It's important that when the appraisal was contracted that there was no value given to the appraiser by either the seller or the potential buyer as to what would be a target price range so that the value can be reached at independently by the appraiser. So I have reviewed the appraisal report. I am confident that the appraiser was independent. The value, although it is less than the, the County's assessed value at the time, I do believe that how he reached his value was reasonable and fair.

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In terms of your question of was the actual appraisal value used to negotiate a final price, I think the County, at the time, was aware of what the appraised value report, what the report said as the appraised value. I know the seller was aware of, of that value. I'm sure it all factored in, but the County is confident that the value that we're getting this 65 acres for is supported by some independent value.

COUNCILMEMBER MEDEIROS: All right. Thank you, Director Young, I appreciate the information and more clarity on it. Mahalo, Mr. Chairman.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Department at this time? Member Hokama?

VICE-CHAIR HOKAMA: Chairman, thank you. I am curious with the document. What area is the Department being asked to release back to the seller for \$1 a year? I'm looking at Page 6 of 18, there is a license agreement allowing the seller for a license fee of \$1 a year to continue cultivation of existing sugar cane.

MS. OKUMA: Yeah, as I recall in discussions with HC&S, they are anticipating harvesting October of 2009. So this was not, this license was done so that they could continue their harvest basically.

VICE-CHAIR HOKAMA: And where is that land located on our, on our documents?

MS. OKUMA: Okay. So, so if you, on the north side of the property, if you pull out the site map that we just provided you with, to the left of that and along the, the boundaries. So between Lot 2-A and Lot 2-B, that gray area and even up in Parcel, Parcel 2, the approximately 4.228 acres.

VICE-CHAIR HOKAMA: So there's multiple places, sites of the 60 plus acres we're buying that they are going to continue cultivation?

MS. OKUMA: At least for that time period. Only till, yeah, only till October of 2009. Current, it's currently under cultivation, correct.

VICE-CHAIR HOKAMA: Okay. So at least until 2010 you have no requirement of this land that we're being...

MS. OKUMA: No. No, because Parcel 2 is basically a buffer that Department of Health requires, and we would not have...

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VICE-CHAIR HOKAMA: Can you explain the requirement to us please?

MS. OKUMA: I believe that in their solid waste operating permits now, we've encountered this with Molokai and Lanai, they require in their permits a certain buffer around the landfill. I forget, I think it's about 100 yards that's the permit requirement.

VICE-CHAIR HOKAMA: That's a forbidden zone? What is that 100 yards intended for?

MS. OKUMA: It's, all I can say is Department of Health has, in recent times, started to issue permits with that type of buffer, but maybe Tracy can...

MR. TAKAMINE: Yeah, just to clarify it's actually 80, 80 feet is the buffer requirement, and I, and I believe, I don't have the permit here now, but I think they're requiring us for near residential, if there is a subdivision coming in a 1,000 foot buffer. And, and it's mainly to keep the residential buildup from the landfill due to gas migration and, and safety issues.

VICE-CHAIR HOKAMA: Okay. Thank you for explaining that. My other question, so, so we can appreciate the valuations that are being asked and as it impacts the potential sales price, on the larger parcel above, 58-plus acres, we were given an assessment of value, but yet when we look at the assessment of values based on 2,500 acres, so I don't know if, Mr. Young, if you're able to give us a reason how we can appreciate this.

MR. YOUNG: Let me just turn to the appraisal report, Mr. Chair.

VICE-CHAIR HOKAMA: Thank you. Mr. Director, it's on Page 9, bottom header is Title Guaranty of Hawaii. It says printed 8/15/2008 on the top; Class 5, area assessed 2576.6 acres. . . (silence). . . This is the--

CHAIR PONTANILLA: The Title Guaranty report.

VICE-CHAIR HOKAMA: --the report that was just handed out to us, Mr. Young. Do you have this one, Mr. Young? The one we just got.

MR. YOUNG: I, I'm, let me take a look at Ms. Okuma's copy. I don't have a copy of it. Okay. Very good I'm looking at this. The assessed valuation here, as you stated, relates to the 2,500, 2,600 acres and for real property tax purposes they are currently being assessed an agricultural use value of

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2,023,000. I would like to make the distinction that when the appraisal was contracted the appraiser is determining a value specific to the 62.989 acres for his 1,944,000. That's based on a value, again, of comparables and other contingent factors.

For real property tax purposes when the valuations are reached for ag land, the valuation is determined by, I think I mentioned this in, in previous sessions, determined by the type of use or type of agricultural production determines the per acre value of that property. So I'm presuming that for sugar cane cultivation that the per acre value on a, for 2,600 acres brings the value out, for tax purposes, to that \$2 million value, but purely for tax purposes.

VICE-CHAIR HOKAMA: Okay, and, and we appreciate your, your comments, Mr. Director, to help us appreciate the report. So, quickly, just a quick follow-up, and I can appreciate the value that your assessors as well as the independent appraiser looked at. The value is also determined by the ability of this acreage to receive irrigation water?

MR. YOUNG: That goes, that does go into the factor of what is the value per acre, right.

VICE-CHAIR HOKAMA: So, let's say the County's purpose is to do a landfill, so irrigation water is not really one requirement to do the landfill in general. The assessor would take that into account in understanding what is an appropriate value for the acreage that we want to buy for the purpose we intend to use it for?

MR. YOUNG: Not, well, for the real property tax assessor, the real property tax assessor does not have to be concerned with the fact that this property is going to become landfill--

VICE-CHAIR HOKAMA: Okay. How about the appraiser? How about the appraiser?

MR. YOUNG: --but the appraiser would. So if you look at the appraisal report, its Table 1, he lists the comparables that he looked at.

VICE-CHAIR HOKAMA: Right.

MR. YOUNG: And the comparables did not include access to water, so, for two of them. There, there's, it's on Page 21--

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VICE-CHAIR HOKAMA: Right.

MR. YOUNG: --in the appraisal report there's three different comparable transactions there. Two of the three did not include water. So the way to read the appraisal report is that the appraiser took those into account specifically for the fact that they don't have access. This particular parcel may or may not have access for the 65 acres that was also taken into consideration in terms of the overall value. The job on the County is that if we're not going to have the need for the water, then that would affect our, you know, what we would be willing to pay or go into the consideration of what we would be willing to pay in terms, you know, for that factor.

VICE-CHAIR HOKAMA: Okay and, you know, I'll be upfront with Corporation Counsel, I went through most of the document, not the whole thing, so I assuming current, whatever type of report, easements, and what not are still going through the proposed purchase site? I'm assuming they have irrigation and some other appurtenant requirements on the property. So that would be exclusive or inclusive of the value.

MS. VILLAROSA: The easements on the property? They usually...

VICE-CHAIR HOKAMA: Or right-of-ways, whatever.

MS. VILLAROSA: Right, usually if they're utility related they're, they run with the land. So we would purchase them subject to those easements.

VICE-CHAIR HOKAMA: We would purchase it?

MS. VILLAROSA: Right.

VICE-CHAIR HOKAMA: The County?

MS. VILLAROSA: Right. The County.

VICE-CHAIR HOKAMA: Okay, and as you are aware, are we purchasing any of those appurtenant assets?

MS. VILLAROSA: You know, I'm not personally familiarly. I'm just looking at the attorney that was reviewing this project if he knows. I'm not familiar. Our office would have to take a look at that and get back to you.

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VICE-CHAIR HOKAMA: Okay. Thank you, Corporation Counsel. My last question and, Chairman, thank you for your indulgence, I'm assuming because there's a value, unless Director Okuma can correct, correct me, are we buying some sort of structure or building since there's a valuation of a building on, on the assessment?

MS. OKUMA: There's no structure on those parcels that we're, we're going to buy, we're looking at buying.

VICE-CHAIR HOKAMA: Okay. So this building and net value of 353 has nothing to do with the 60-plus acres we're purchasing that's in the appraiser's report?

MS. OKUMA: Yeah, I, I guess because there is no building, there's no building on this, on these parcels we're going to be purchasing, there's no structure.

VICE-CHAIR HOKAMA: Okay. So why would we have one valuation of value when on the smaller portion, under building and net value there's zero, zero, zero? Director, if you need more time I'm happy to allow, ask the Chairman to allow that, and I'm happy to relinquish the floor, Mr. Chairman.

CHAIR PONTANILLA: Thank you. Finance Director, please, Page 9 on this handout. The 2,577 *[sic]* acres represents Parcel 4?

MR. YOUNG: Mr. Chair, what I would surmise is that the \$35,000 or the building value that's associated here is, the building is likely situated on a portion of the 2,500 acre parcel that does not include the 65 acre that we are actually acquiring.

CHAIR PONTANILLA: Thank you. So the 65 acres is part of the total acreage that is sitting on Parcel 4 at this time?

MR. YOUNG: The six..., my understanding is that this, is that the portion, we are purchasing a portion of that Parcel 4. So that Parcel 4 is, is approximately 2,600 acres. We are only purchasing about 65 of, of that 2,600. In fact, the portion that we are actually purchasing is currently essentially a whole, so there is no, there's no agricultural activity or building structures currently there right now.

CHAIR PONTANILLA: Thank you. Member Molina?

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COUNCILMEMBER MOLINA: Thank you, Chairman. Good morning, Director Okuma and Director Young. My question, first, is while I agree with the concept of purchasing this land for additional landfill space, I have some reservations on the sale price or the price that was, it was negotiated for. With regards to this acreage, is this considered, I would assume that this is not considered prime ag land, and it's now low yield agricultural land. I don't know if you're able to answer that or the applicant's representative, but that's sort of my, I guess, lingering question. And how critical is it to purchase this land or make this sale immediately? I mean are we at a critical stage that we must act on this here and now or is there some time?

MS. OKUMA: It is important that there be action now because our Phase IV of the landfill is going to be at capacity approximately the fall or winter of 2009, and we need to be able to begin construction on this site for the expansion Phase V, March of 2009 and actually need to be able to get on the property by the, by the end of this year.

COUNCILMEMBER MOLINA: Okay. You know, I, I'm bringing this issue up because I'm concerned in terms of if we can save a little bit more, get, you know, save the taxpayers a few more dollars I'm all for that. With regards to the price that, I don't know if you're able to reveal that, did you folks have a starting price that you had considered? I, I presume this 1.8 million was something that might have been a compromise price between you and the applicant. Are you able to share information with us?

MS. OKUMA: I would say it was, it was a hard, hard one. A&B very much was staying on the 1.944, the appraised value. And so, even to get to that 1.8 was not an easy process in my opinion.

COUNCILMEMBER MOLINA: So was there, did you folks have another price in mind besides the 1.8-something? Are you able to share that with us?

MS. OKUMA: We were, we were trying to get as good a price as we could, and I think knowing, because the whole thing took a matter of several months, and it was apparent to me that it was going to be difficult to get A&B to consider anything less than that 1.944. And I think through this process we were able to do that.

COUNCILMEMBER MOLINA: What were their reasons given to you?

MS. OKUMA: I, I can't speak to that.

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COUNCILMEMBER MOLINA: Okay. Mr. Chair, at the appropriate time could I have the applicant's representative come up to answer some questions regarding this. Thank you.

CHAIR PONTANILLA: Thank you. Mr. Taguchi, in regards to the telephone call from Mr. Teruya please.

MR. TAGUCHI: Chair Pontanilla, we received a, we e-mailed the Real Property Tax Administrator. His response is that there is no appeal for Parcels (2) 3-8-03:4 and 20. So there is no appeal on the properties.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Department? Member Anderson?

COUNCILMEMBER ANDERSON: Thank you, Chairman. You know, it's really kind of hard to swallow an, an assessed valuation at approximately \$100 an acre to now being an appraised value of \$34,000 an acre. And so, my question is, and I, I may have misunderstood you, but it sounds like, Mr. Young, you said that the assessed valuation is determined based on the current use. And so, does that mean that the appraised value is based on the expected use once the property is sold?

CHAIR PONTANILLA: Mr. Young?

MR. YOUNG: Not the expected use of, for the next owner, but there is a, I just wanted to make a distinction between when you're looking at value for assessed real property tax purposes and a market appraisal that the appraisal, that the appraiser has done, because you arrive at, let's say, a valuation per acre for real property tax assessment by the type of use that they're using in agricultural cultivation. So sugar, let me put it this way. I, I don't know what the exact value, but sugar cane cultivation could result in an assessed valuation of say \$5,000 an acre. That's assessed valuation for real property tax purposes. It does not mean that you could go out and sell an acre of ag land for \$5,000, right. You would likely be selling it for more because that's the market value. That's the distinction between the appraisal report and the, and the reports that you see in here related to real property tax assessed valuation.

So the two million for the 2,600 acres is that type of valuation, it's the real property tax valuation. That value is significantly less because of what the County does for taxing agricultural, cultivated properties.

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COUNCILMEMBER ANDERSON: Right. I understand you said that before. So I guess my concern might be the comparables that were used to set the market value because even though they're all ag land . . .(end of tape). . . now going to be converted into agricultural housing units which gives the land a greater value for the person purchasing it. It's highly unlikely that anybody would purchase land in the middle of a landfill for the purpose of agricultural housing units. So I too have a problem with the per acre price, Mr. Chairman. Thank you.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Department? Member Medeiros?

COUNCILMEMBER MEDEIROS: Mahalo, Mr. Chairman, just one question. Director Okuma, who negotiated for the County on behalf of the County?

MS. OKUMA: My understanding is that discussions had been going on from sometime last year, but it all came down to once various issues were discussed, and I guess negotiated on the purchase price. . .I did the negotiation with A&B.

COUNCILMEMBER MEDEIROS: You did the negotiations alone; just yourself on behalf of the County?

MS. OKUMA: In consultation with Kalbert Young here. Kalbert and I worked very closely together, but in terms of any face to face or discussions, yes, that was myself representing the County.

COUNCILMEMBER MEDEIROS: I see. So, so there wasn't any consultant hired that specialized in real estate negotiations?

MS. OKUMA: No, as I said that as I proceeded along this path I did so in consultation with Kalbert Young.

COUNCILMEMBER MEDEIROS: Okay, thank you, Director. Thank you, Mr. Chairman.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Department? Member Baisa?

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COUNCILMEMBER BAISA: We've got a tremendous amount of paper in front of us, but somewhere I read that in the budget we had set aside money for this, and it was \$2 million.

CHAIR PONTANILLA: Yes. Yes.

COUNCILMEMBER BAISA: So somewhere we had already gotten some kind of indication as to the value of this property and, you know, I, I know we need to be extremely careful about how we spend money these days, these are tough times. But I am very concerned about Ms. Okuma's, actually like a warning to let us know that if we don't act quickly and get this additional landfill up and running, then we get into trouble with the folks that oversee that and start paying big fines, and I think we need to consider that also.

So I don't, I don't know if we can delay and, you know, try to dicker for a better price, but I do understand the concerns that we have about what we have to pay. But I'm more concerned about making sure we don't get into violations with EPA or whoever else comes along and looks at this, and they're not afraid to levy fines because when they levy fines they levy big fines without mercy. So I think this is kind of a rock and a hard place thing where we got to make a decision.

CHAIR PONTANILLA: Thank you. You're right. You know, we got fined by the Department of Health as well as EPA in regards to our landfill not only the Central Maui Landfill, but the one on Lanai, Molokai, Hana. So it is a very important subject that we discuss this morning. Members, any more questions regarding the Department? Member Anderson?

COUNCILMEMBER ANDERSON: Yeah, I'm just wondering if anybody in the Department looked back at what we paid per acre for the previous parcels that were purchased for the landfill?

CHAIR PONTANILLA: Department?

MS. OKUMA: Right. I know that Tracy has the information, but it, it seemed that, yes, we had somewhere along this process talked about that, but let me turn it to Tracy since he was here then.

MR. TAKAMINE: Well, actually I wasn't here that time, but I did, I did look at the file, and we purchased, according to the records, Phase IV, which is I believe 20, 24 acres, I think 18 acres actual landfill and the rest the

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entrance facility. But we paid A&B, I, I recall seeing a figure and a check of \$750,000 which comes out to about I, I think 30, \$30,000 an acre, somewhere around there.

COUNCILMEMBER ANDERSON: Okay. Thank you, Mr. Takamine.

CHAIR PONTANILLA: Thank you. Any more questions for the Department before I bring up the representatives from A&B? If not, if Mr. Chun as well as Ms. Ross could come down? Thank you.

MR. CHUN: Good morning, Mr. Chair, Committee Members. My name is...

CHAIR PONTANILLA: Please identify yourselves.

MR. CHUN: My name is Grant Chun here on behalf of Alexander and Baldwin, Inc., and with me today is Ms. Stephanie Ross who is the, the person whom, from our company whom Ms. Okuma has been working closely with on this matter.

CHAIR PONTANILLA: Thank you, and I think, Member Molina, had a question?

COUNCILMEMBER MOLINA: Yeah, thank you, Mr. Chair and good morning, Mr. Chun and Ms. Ross. My question first is with regards to the agricultural yield of this land. Is this considered prime ag land? I, I would assume it's not. Can you give us some insight on that?

MR. CHUN: We could easily respond in writing. We don't know the actual land use classification of the land although there, there are, as Ms. Okuma mentioned, portions that are in active cultivation.

COUNCILMEMBER MOLINA: Okay, and according to the Director, she mentioned that A&B was very adamant at staying with the appraised value. Can you tell us why? And then obviously you guys went down to 1.8 from the appraised value of 1.9, can you share, share A&B's reasons why you went down?

MR. CHUN: Well, I think just, just to clarify. I, I know earlier, Councilman Molina, you had referred to A&B as the applicant in this matter. Actually, we're not the applicant. We were, we were approached by the County for acquisition of this property and as has been the, the practice in the past, when request of this nature arise, you know, an independent appraisal is

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done as was the case in this matter where an appraiser of the County's selection went ahead and, and did his, his work to ascertain value.

And so, yeah, from our perspective we were, we were comfortable with the work of the, the appraiser from ACM and, and thought that it presented an objective measure of value that, you know, we could basically go to our board with. We need to be situated in, in matters of this nature so that, from our side, when we, when we pitch it, so to speak, you know, we have an objective measure of value that we can communicate and advocate for, for a sale.

COUNCILMEMBER MOLINA: One more question, Chair.

CHAIR PONTANILLA: Go ahead.

COUNCILMEMBER MOLINA: Prior to the County approaching you, can you share with us any potential future plans that A&B or HC&S had with this particular acreage, the 62 acres over the long-term?

MR. CHUN: Well, typically the, the plans for areas such as this which have been utilized by, you know, the quarrying operation in the area typically those areas are reclaimed. So our, our leases with the, the quarrying operator has them putting soil back and making the land available for replanting that would be the normal scenario absent a transaction such as this arising.

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

CHAIR PONTANILLA: Thank you. Members, any more questions for the representatives of A&B? Member Anderson followed by Member Hokama.

COUNCILMEMBER ANDERSON: Hi, Mr. Chun.

MR. CHUN: Good morning.

COUNCILMEMBER ANDERSON: Are you folks in preliminary subdivision right now?

MR. CHUN: Yes, actually the County has taken the lead on that process, ma'am.

COUNCILMEMBER ANDERSON: And so, we're close to final subdivision?

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MR. CHUN: I believe the. . .

COUNCILMEMBER ANDERSON: So that once--

MR. CHUN: Yes.

COUNCILMEMBER ANDERSON: --this is purchased the County can move in and, and start using the property?

MR. CHUN: Yes, I, I believe the process is fairly far along. The County has retained Mr. Tanaka of Tanaka Engineering to spearhead that effort, and I believe the, the mapping and the, the appropriate correspondence has been handled by the, by Ms. Okuma's management group.

COUNCILMEMBER ANDERSON: Okay. Thank you.

CHAIR PONTANILLA: Thank you. Member Hokama?

VICE-CHAIR HOKAMA: Mr. Chun, help us appreciate, I guess HC&S, on their part, asked you to put in a condition of the sale which would be to allow them to cultivate about four acres of land at about 25 cents an acre per year. Is that all the value of that crop is?

MR. CHUN: Well, I think the...

VICE-CHAIR HOKAMA: I'm trying to appreciate why you asking us to pay an appraisal price yet in return for us to release four acres of land we're being asked to release it at 25 cents an acre a year.

MR. CHUN: Yeah, just to clarify. Councilmember Hokama, thank you for the question. The area that's the subject of that license language is, is already planted and anticipated, as Ms. Okuma said, to be harvested in October of 2009. So typically we wouldn't necessarily be negotiating on behalf of the plantation to sell lands that are, you know, in the middle of a crop cycle. But under the, the particular circumstances that the County is faced with, in terms of having to identify the area for their future plan for their landfill, obviously this, this, this acreage, this four acre approximate area has fallen within that sort of envelope.

And so, this is a way of accommodating both the needs of the, the solid waste folks as well as the, the plantation so that they can realize the, the crop without, you know, having to basically give it up.

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VICE-CHAIR HOKAMA: So who offered who the \$1 a year for those four acres? Is that what HC&S requested from the County \$1?

MR. CHUN: You know, I, it was, it was a negotiated provision that our, our respective legal counsels hammered out, but that was, it was seen as a, it was seen as a means by which, Mr. Hokama, the value of the crop wouldn't be lost to the plantation. Because normally in these sorts of transactions if that does occur, if that were to occur, then it would be up to buyer to make up that value, you know, because it's basically a lost crop. So in this instance it's simply not a factor because the plantation would be allowed to complete its cultivation cycle.

VICE-CHAIR HOKAMA: And I, and I'm going to, you know, I understand your, your company's position, Mr. Chun, very well. I understand corporations and their needs and requirements regarding your values. I'm just trying to appreciate and, and understand the values that were being used in these negotiations, so that we can say this is a very fair price. This is what we should pay. But before we come to that I'm just trying to understand how we reached the value of this \$1 for, for this area, because I wish somebody would offer me land to rent or lease for \$1 a year for four acres. And I can appreciate the current value of the crop in the ground, and I'm not too sure what, how you calculate that value because I'm pretty sure at time of harvest and whatever is the world market value of domestic sugar will impact whatever valuations you intended to reach or need to reach. So, tell us is this why we have the 1.88 instead of the 1.94 or is this nothing to do with it?

MR. CHUN: It's nothing to do with it.

VICE-CHAIR HOKAMA: Okay. Thank you, Mr. Chun. I'll make my other comments at the appropriate time, Chairman.

CHAIR PONTANILLA: Thank you. Members, any more questions for Mr. Chun at this time? Member Anderson?

COUNCILMEMBER ANDERSON: Yeah, Grant, I'm just wondering where these four acres may be?

MR. CHUN: If you all look at the map that is in front of you, the shaded area constitutes the approximately 65 acre transaction parcel. The area to the far left that's shaded sort of triangle with a, with a long sort of stem to it is

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part of it, and then the buffer area that Ms. Okuma referred to, along Pulehu Road, up at the top of the map, is also part of, is also sugar.

COUNCILMEMBER ANDERSON: That's not Pulehu Road though.

MR. CHUN: Oh, I'm sorry. At the top of the map anyway, the skinny piece.

COUNCILMEMBER ANDERSON: And so, this I part of the buffer area around the, the current landfill?

MR. CHUN: Yes.

COUNCILMEMBER ANDERSON: And so, this is part of a larger acreage of sugarcane?

MR. CHUN: Yes.

COUNCILMEMBER ANDERSON: And same with over here?

MR. CHUN: Yes, correct.

COUNCILMEMBER ANDERSON: Okay, great. Thank you.

CHAIR PONTANILLA: Thank you. Members, any more questions for Mr. Chun at this time? If not, thank you, again.

MR. CHUN: Thank you, Mr. Chairman.

CHAIR PONTANILLA: Fast question, for the Department. Looking at the map where it says Parcel 1, is that the excavated area at the landfill?

MS. OKUMA: Yes, that's the excavated area.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Department at this time? Member Anderson?

COUNCILMEMBER ANDERSON: We've already excavated the area that we're purchasing?

MS. OKUMA: That's from the Ameron Quarry operation. Basically they go in, excavate, make a hole, and then we go in with our landfill activities.

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COUNCILMEMBER ANDERSON: So we're already using, using it as a landfill?

MS. OKUMA: No, we're not. We're trying to acquire it so that, so that we, so that we can use it as a landfill.

COUNCILMEMBER ANDERSON: Okay, and, so this might be for Tracy. The, the section of cane that is to the left of Lot 2-B, Phase IV, will that be disruptive to you to not be able to use that land for a year in your operations and in complying with EPA?

MR. TAKAMINE: No, that, that parcel of land would be to just expand our operation side of the house not for use as actual land filling operations. It's intended in the future maybe either a maintenance facility or, or areas that we can use. Right now we don't have any additional space to accommodate any expansion of our operations either maintenance activities or, or daily operations.

COUNCILMEMBER ANDERSON: Okay, thank you. Thank you, Chairman.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Department? Seeing none, the Chair would like to make his recommendation in regards to BF-123. The Chair's recommendation is for passage of the proposed resolution approving the acquisition of real property at Puunene, Maui, Hawaii and the filing of County Communication No. 08-176.

COUNCILMEMBER VICTORINO: So moved.

COUNCILMEMBER MEDEIROS: Second.

CHAIR PONTANILLA: Moved by Member Victorino, second by Member Medeiros. Members, any more discussion? Member Hokama?

VICE-CHAIR HOKAMA: Chairman, I believe this is the right thing to do, the acquisition. I have my issues with the negotiated price, but that's, that's something I will, I will deal with later, Mr. Chairman. But as far as the acreage I think it's very well in our interest to, to get acquisition. What would have been even better, Mr. Chairman, is if we knew how this fits in the Integrated Solid Waste Management Plan that we wish the County to move forward in. If this is one of the key foundation blocks for the Central Maui program that would have been good to know how this fits in

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the overall moving of the County in the future regarding refuse, recycling, reuse that would have been even better for us to appreciate the values that are being asked of us. But at this portion it's just the acquisition. We'll take up the funding later in the meeting, Mr. Chairman. So thank you very much.

CHAIR PONTANILLA: Thank you. Members, any more discussion regarding this matter? Thank you. The Chair would like to just make a comment in regards to this particular item. I, you know, as your Public Works Committee Chair, the last couple of years, you know, it is imperative that, you know, we continue to, to utilize the landfill in Central Maui and this expansion would provide at least some time regarding, you know, what we do to the Solid Waste Integration Plan. If we are to plan, you know, utilizing the methane gas for producing electricity that's something that we, you know, we can look forward to in the future as well as a MRF facility in, in the area. So, at this time, the Chair will call for the question.

MR. TAGUCHI: Chair Pontanilla?

CHAIR PONTANILLA: Mr. Taguchi?

MR. TAGUCHI: Just to be clear the, the resolution being voted on is the resolution transmitted via our September 26 transmittal letter from the Director of Environmental Management. It's the revised resolution.

CHAIR PONTANILLA: Yes. Thank you. All in favor of the motion please say aye.

COUNCIL MEMBERS: Aye.

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CHAIR PONTANILLA: Any opposed? Seeing none, eight ayes, one excused Member Johnson. Motion is carried.

VOTE: **AYES:** **Councilmember Anderson, Baisa, Mateo, Medeiros, Molina, Victorino, Vice-Chair Hokama, and Chair Pontanilla.**

NOES: **None.**

ABSTAIN: **None.**

ABSENT: **None.**

EXC.: **Councilmember Johnson.**

MOTION CARRIED.

ACTION: ADOPTION of revised proposed resolution; and FILING of communication by C.R.

ITEM NO. 117: AMENDING THE FY 2009 BOND ORDINANCE (CENTRAL MAUI LANDFILL PHASE V CONSTRUCTION) (C.C. No. 08-169)

CHAIR PONTANILLA: Members, the third item this morning is BF-117, amending the Fiscal Year 2009 bond authorization Central Maui Landfill Phase V construction. This project, which is to construct Phase V of the Central Maui Landfill, has an appropriation in the budget ordinance; however, was left out of the bond ordinance. The Administration is requesting that \$12 million for this project be included on the bond ordinance. This project is expected to go out to bid in the second quarter of this fiscal year. At this time, the Chair would like to call on the Budget Director first followed by Director Okuma.

MR. PABLO: Thank you, Chair. Let me give you a little background about the projects which are in the, in the General Obligation Bond Fund. In the 2009 Budget we have 22 projects there. The majority of the projects come from the Department of Environmental Management. We have seven projects totaling about 26.9 million. Of that, 12.5 million is for the Solid Waste Central Maui Landfill, and we have 3 million from the wastewater for our EPA consent decree. Sewer, we have rehabilitation in Wailuku-Kahului, Kihei-Makena, and West Maui. And then we have two Countywide wastewater projects for wastewater reclamation of 3.4 million and Countywide pump station renovations.

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The second largest department using General Obligation Bond Funding would be the Water Department, and under the Water Supply the major one is for Upcountry. We have 4.85 million for the Makawao waterline improvements and the Upcountry water storage of 3.5 million. In the Wailuku area we have the Waihee wells backup generator for 700,000; Wailuku waterline improvements for 3.3 million, and in West Maui we have, I'm sorry, South Maui we have the Maui Meadows booster pump improvements

Then the third department having projects in the General Obligation Bond Funding would be Public Works. Again, this is mostly highway projects. The South Kihei Road sidewalks for 250,000; Liloa and Piikea Avenue roundabout for 2.5 million. We have Hana the Papahawahawa Bridge replacement for 1.1 million. West Maui we have the Lahaina Watershed flood control 2.2 million; Lower Honoapiilani Road for one million. And on Molokai we have the Molokai Baseyard for two million.

The other departments with bond funded projects are pretty small. The Parks and Recreation has two projects, one of them we discussed previously and that was the South Maui community park for 2.5 million, and there's a War Memorial Complex improvements for 500,000.

Then we have the next department would be the Department of Fire and Public Safety. And here we have the Haiku Fire Station for 600,000. And the last project would be from the Department of Management for the emergency management center for 250,000.

These 22 projects total 50 million. Bond funding has been authorized for roughly 30 million of that and the remaining 20 million is awaiting Council approval. I've spoken to all the directors, and they, they will be present for any questions that, that you may have. But basically we would like all these projects to go forward. I've spoken to the department heads. They feel that they can meet the County Charter guidelines of getting these projects started within 18 months.

We look at it from an administration view considering the downturn in economy this is, this is a good way of stimulating the economy, keeping construction companies open, and getting, helping workers keep their jobs. So with that, if you have any questions we can begin. We have Cheryl Okuma from the Department of Environmental Management. In the

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gallery is Milton Arakawa for Public Works, and Jeff Eng for, from the Water Supply. Thank you, Chair.

CHAIR PONTANILLA: Thank you. Ms. Okuma?

MS. OKUMA: Yes, I guess, you know, in terms of the bond authorization this is for Central Maui Landfill Phase V. Again, because of the capacity issue that we're going to be facing the fall or winter of next year, we need to be able to begin construction on March 1. And, therefore, backing up we, we know we need to be able to get on the property, and then go out for bid opening the second quarter of this fiscal year. And so, there, there is an urgency to this matter as far as the bond authorization, and we're here for questions. Thank you.

CHAIR PONTANILLA: Thank you. Before I ask the Members for questions, the Chair would like to have Mr. Pablo provide us with that information that you just gave us and maybe at a different meeting, not this morning, review with the departments all of those projects that are bonded, you know, and get some idea as far as where they're at, you know, on their schedule regarding the \$30 million of bonding that we approved. Members, questions for the directors? Member Hokama followed by. . . I guess Member Hokama.

VICE-CHAIR HOKAMA: Thank you. You know, I get all excited when I woke up this morning knowing we had this meeting here, Mr. Chairman. For Mr. Pablo please. You, you shared with us that all the departments mentioned that it's their intention to get all their projects out within the 18 month period. It is this Committee's experience that that never happens in my whole tenure in the County. So what assurances have the Departments given you that they can perform?

MR. PABLO: That, that's a very difficult question to answer because every project sometimes have hang-ups, maybe negotiations or maybe some, some other items. It's really hard, hard to determine that. The directors are here for any specific questions on any, any specific projects.

VICE-CHAIR HOKAMA: Have they shown you enough advancement of the project requirements that you feel that they will be able to go to construction?

MR. PABLO: In the communication which we, we provided to the Budget and Finance Committee we do have when the departments expect to go out to

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bid. The ones which, where they didn't have any indication are those are the ones which are still under negotiations for acquisition.

VICE-CHAIR HOKAMA: Okay. What, for the Committee's understanding regarding the County's economy, and I can appreciate the Administration wishing to maintain a reasonable construction economy. What is the forecasted savings on our projects, because we all know what's happening out there, in the ability to reduce the overall project price when we go out to bids; 5 percent savings potentials, 10 percent savings? You know, they're hungry now. They're not as fat and lazy as they were before of giving us 100 percent cost overruns.

MR. PABLO: I wish I could answer that. If, if I knew what the, what the reduction would be in construction costs of course we could, we would do a better job of projecting. That's a very difficult question to answer specifically. This morning we noticed that real estate prices have gone down. At the Harbor Lights we had units appraised at 150,000 and now they're at 65, 75. Who would have known that that would have happened? Similar in the construction field, we have no idea what that might be. We know we have to, we'd like construction costs to go down considering the number of projects out there. But we also have to consider that there might be costs related to petroleum products. And so, you have the fuel costs, utility costs, and possibly petroleum products which are used in any of these projects. So it, it's difficult for me to forecast a 5 percent or 10 percent reduction.

VICE-CHAIR HOKAMA: So do you have a plan of how you plan to allocate and release out those contract bid proposals so that we can maintain the best position to try and get those savings on project pricing instead of, you know, let's say all the departments gonna say we want to release next month 12 projects. But it may not be in our interest to release 12 projects, it might be only four per quarter or something we might want to release. So is there a strategy on how to maintain the County's advantages?

MR. PABLO: That's an idea, Chair Hokama. This is something that I could work out definitely with Director Young from the Finance Department and also from Greg King from the purchasing section.

VICE-CHAIR HOKAMA: Have you been able to control your departments whereby lapse bond funds are, are available for reallocation by this Committee as a recommendation to full Council?

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MR. PABLO: They are aware of that. Every year when we put together the budget we look at the lapsed, lapsed bonds alloca..., availability. We also look at the park assessments, and we look at whatever special revenue funds.

VICE-CHAIR HOKAMA: But in regards to, like, this project are there lapse bond funds available for reallocation to reduce the new borrowing?

MR. PABLO: At this point we're, we are not aware of any specific lapse bond funding. We will be going out before the end of the year because the Fiscal Year '08 projects will be lapsing at the end of this calendar year. So sometime next month we will be determining that when we get the quarterly implementation reports.

VICE-CHAIR HOKAMA: Have you received, so that you can this morning still recommend to this Committee for a bond financing program some information of how the Department and Division plans to adjust rates to recoup and pay for the bond issuance?

MR. PABLO: At the...

VICE-CHAIR HOKAMA: You know, whether it be, yeah, they're gonna raise rates for the next five years over "x" percent per year to recoup the borrowing and debt service for this project is, is that . . .(end of tape) . . .

MR. PABLO: . . .consideration when we do the Fiscal Year '10 budget we will consider the debt service and rates will actually be, be determined. . . .(inaudible) . . .

VICE-CHAIR HOKAMA: So the Department has not given you a financial plan of how to attack this bond proposal?

MR. PABLO: The, the departments had already, when we did the Fiscal Year '09 budget the departments had already considered the debt service and that's how the rates were, were determined. The Water Supply, and the . . .the Water Supply and especially the Waste Water had already...

VICE-CHAIR HOKAMA: Well, we got Mr. Takamine. So Mr. Takamine the current rates in the current fiscal year's budget today reflects this \$12 million bond financing as you understand it?

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MR. TAKAMINE: We did look at it last year and determined what our rates would be, and we did make some proposals of rate increases, but as you know the only thing that we got was a \$2 rate increase for residential customers.

VICE-CHAIR HOKAMA: So I, I guess we need, we need to take that as a no, we did not adjust rates to take care borrowing. So eventually we're going to have catch up some place to make up these borrowed monies. My last question and, again, I know, Mr. Young, because we think alike in this area, you've been assured, Mr. Pablo, that the General Fund with all of its advancements until we're ready to go out our bond fund can handle all of this cash outlays without putting a negative impact on our balances regarding the County's requirements for cash? Because I'm sure, unless Mr. Young changes his mind, we are not going for a bond float in the near future. So you've been given those assurances from the budgetary side that it's okay?

MR. PABLO: Could you repeat that question, Chair Hokama?

VICE-CHAIR HOKAMA: I'm concerned about our cash. The General Fund will advance \$12 plus million for this project. My understanding is this County will not float a bond in the near future and, and with good, with good reasons why we wouldn't, we don't want to go full bond float right now. But my concern is, is the County's cash status then, the balances remaining, comfortable and sufficient enough to take care of all of our requirements including the cushion of unforeseen need, because we're outlaying all this cash prior to an eventual bond float. So you've been, I mean I've been, I am asking if you have been given those type of information that you are comfortable asking us for this bonding, but knowing full well we're going to pay cash for maybe up to a year or so to finance this project?

MR. PABLO: This is an issue which I would have to discuss with the, with the Finance Director in more, more detail.

VICE-CHAIR HOKAMA: Thank you, Mr. Pablo. Chairman, at your convenience I will ask if you would please allow Mr. Young an opportunity to respond to those similar questions at your choosing please. Thank you.

CHAIR PONTANILLA: Thank you. Mr. Young, if you would at this time?

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MR. YOUNG: Mr. Chair--

CHAIR PONTANILLA: Go ahead.

MR. YOUNG: --Chairman, I have taken a look at the General Fund loan advance and our current cash availability in the County funds. The Administration is confident that there is sufficient cash capital available to be able to float, for the next 12 months, to stay below the bond authorization ceiling of that 50 million. So the County does have adequate cash reserves that will be made more clear I think on the later agenda items. One of the later agenda items today is to go over the short-term investments--

VICE-CHAIR HOKAMA: Right.

MR. YOUNG: --and I prepared a, a short presentation, well, the Treasury Office has prepared a short presentation that I'll present for, for you folks and give you folks a better picture of where we currently stand, but it is something that we have to keep a close eye on not only given the financial markets, but the way that the financial markets are currently affecting the County operations. So while we may have sufficient cash today, I'm not saying that it would remain so for the next 12 months, but it's part of our diligence to keep a close eye on it, and should the tides start to turn for the County we will be prepared to go out for bond.

So I'm optimistic in that regard that 12 months the County can float without needing to go to the bond market but, you know, I, I'll reserve any, any need to change that position or strategy.

VICE-CHAIR HOKAMA: I appreciate your caveat.

CHAIR PONTANILLA: Thank you.

VICE-CHAIR HOKAMA: I think that was very important for everyone, including our residents and taxpayers to understand, Mr. Young. And I ask that because I know, Mr. Chairman, I will be bringing up, Mr. Pontanilla will be bringing up the short-term investments after this component.

My concern is, as it relates to the next budget cycle that you folks are all preparing for and, you know, the numbers between you and I, we're looking at ten to 20 percent short of revenue of the current numbers, ten to 20 percent, depending on how much the Council is willing to raise rates to

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balance off the lessening evaluation. So with that is my concern about how much General Fund advancement we will be requiring to make should a 20 percent shortfall in General Fund cash does happen to this County in the next cycle that's a lot for us. That's a lot for anybody.

MR. YOUNG: Yeah, and actually the, the 12 month duration that I mentioned earlier is weighted based on several factors, one of which is the next budget, next fiscal year budget construction. Because although the current bond authorization limit is at 50 million, that 50 million includes projects that were, that were appropriated in Fiscal Year '08 that still haven't, we haven't gone out for bonds. It includes all the projects in Fiscal year '09 that are in the budget, and it will include those portions of projects in Fiscal Year '10 budget that may come to fruition within the, within the next 12 months.

So how long that 50 million will last the County, that ceiling before the next time we go out for bonds, my prediction is that it could last us 12 months. But if projects ramp up like, you know, what we were talking about earlier that it, there's a good time to start rolling out these projects, if that picks up or if the County revenue shortfall starts impeding General Fund cash reserves, that will definitely shorten up the timeframe and if there are more bonded projects in Fiscal Year '10 that get appropriated that would likely shorten up the timeframe.

So all of those things I can't tell you right now how they will play out over the next 12 months, but I'm, I'm giving you, throwing out that 12 months right now as what I see as a picture as of today. But, you know, three months from now don't hold me to that 12 month if I'm back before you telling you that the picture has changed. Yeah.

VICE-CHAIR HOKAMA: We, we are well aware the picture changes very rapidly, yeah, especially with Congress taking Federal action on various items. My concern, Mr. Director, is you and I know we'll make it through the next 12 months, but if this economic situation goes for two, four, five years we may not have the cash reserves to do what we're doing today, and it's of great concern to me, great concern. Mr. Chairman, I, I thank you for my opportunity.

CHAIR PONTANILLA: Thank you, Chairman Hokama. Very good questions for the Director. Thank you for sharing your comments, Mr. Young. I was reading *The Maui News* yesterday in regards to the projects that are going out to bid from the County, and it seems like the Waste Water is, is,

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you know, really on the ball in regards to bidding projects as well as Public Works on road resurfacing. I thought I'd mention that because, you know, when you read *The Maui News* on Sundays it tells us, you know, what projects are being forwarded for bids. Members, any more questions for the Finance as well as the Budget Director or Ms. Okuma at this time? Member Mateo?

COUNCILMEMBER MATEO: Chairman, thank you. Just for the Department. Because the projections had been done during a time when construction was, demand was at its prime does the Department still look at this 12 million price tag as something that is something more likely? Because at this particular point in time there is more of a hunger right now for, from construction companies to secure jobs? The Department's perspective please.

CHAIR PONTANILLA: Mr. Takamine?

MR. TAKAMINE: We, our design consultant did an engineer estimate and, and right now the, I think the last I saw it was coming in at about ten point, somewhere in the range of \$10.5 million. So I feel the \$12 million is a very good number to use based on the, the bid environment that we've been seeing.

COUNCILMEMBER MATEO: Okay. Because usually the bids during, during the peak period rarely came in at what the departments, any department had projected. It usually came in way beyond, but because we're in a slumping environment right now you do anticipate the actual bids when you do go out to bid to come in considerably lower?

MR. TAKAMINE: Lower than, than 10.5?

COUNCILMEMBER MATEO: No, lower than what you're actually asking for.

MR. TAKAMINE: Oh, yes. Yes.

COUNCILMEMBER MATEO: Thank you. Thank you, Chairman.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Department before the Chair makes his recommendation?

VICE-CHAIR HOKAMA: Chairman, I just want to--

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CHAIR PONTANILLA: Mr. Hokama?

VICE-CHAIR HOKAMA: --re-verify with Mr. Pablo. The departments informed you or, or provided you information, Mr. Pablo, that all of their CIP requests that's on the bond fund list will go forward, not necessarily all of the CIP projects that the department is authorized with cash also?

MR. PABLO: That's correct on the bond funded projects. And, and this is in a communication that was sent to the Budget Committee. As Chair Pontanilla suggested I'll, I'll prepare a summary--

VICE-CHAIR HOKAMA: Okay.

MR. PABLO: --for the Members.

VICE-CHAIR HOKAMA: Yeah. Was there, in any way, certain adjustments that made sense to you, Mr. Director, whereby we could shift cash and some other components and have a hybrid funding project with a combination of cash and borrowing, or, or that was not considered?

MR. PABLO: That's a very good question and, and as background, yes, it has been considered. It, it's considered during the budget process. The, the Mayor, the Finance Director, myself, the Managing Director meet with each, with each of the departments. Last year, for example, there was 347 projects submitted by the departments of which roughly 25 percent we prioritized and said we should do it in Fiscal Year '09. And with the, with the advice of the, of the Finance Director we will go and try to see what is the best funding. Some projects could be partially funded from the Special Revenue Fund like the Water Supply, and then the other part would have to be partially from bond funding. So it has been considered. We, we do that every year.

VICE-CHAIR HOKAMA: Okay, but...

MR. PABLO: We, we may do a hybrid funding where, where part of it is under one fund and the other under another.

VICE-CHAIR HOKAMA: Okay, and we, and the, you know, we appreciate your efforts, Mr. Pablo. But was that exercise that review done recently to even, with this consideration before us? Because my understanding is you did that prior to the last budget submittal. Did you have an opportunity to do that recently as it regards to this Committee's questions in, in the

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previous meeting to try and, if possible, substitute projects that weren't ready to go and, and place those on the back burner and move things like this project which is ready to go forward and replace those funding requirements?

MR. PABLO: Yes, this was part of that analysis which we submitted back on August 20th. We did look, we did look at all of the projects and today what I did was just summarize the bond funded projects.

VICE-CHAIR HOKAMA: Thank you, Mr. Pablo. Thank you, Chairman.

CHAIR PONTANILLA: Thank you. Member Hokama, the Chair intend to, intention is to bring that list forward at a later date in regards to reviewing the financials on the projects that are so-called bonded. Members, any more discussion?

The Chair would like to recommend the passage of the proposed bill, "A BILL FOR AN ORDINANCE AMENDING, ORDINANCE NO. 3571 (2008) RELATING TO THE ISSUANCE OF GENERAL OBLIGATION BONDS OF THE COUNTY OF MAUI".

COUNCILMEMBER VICTORINO: So moved.

COUNCILMEMBER MOLINA: Second.

CHAIR PONTANILLA: Thank you. Moved by Member Victorino, second by Member Molina. Members, any more discussions? All in favor of the motion please say aye.

COUNCIL MEMBERS: Aye.

CHAIR PONTANILLA: Noes. None. Let the record show eight ayes, one excused Member Johnson.

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VOTE: **AYES:** **Councilmember Anderson, Baisa, Mateo, Medeiros, Molina, Victorino, Vice-Chair Hokama, and Chair Pontanilla.**
 NOES: **None.**
 ABSTAIN: **None.**
 ABSENT: **None.**
 EXC.: **Councilmember Johnson.**

MOTION CARRIED.

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

CHAIR PONTANILLA: And, Members, the Chair would like to request permission to make non-substantive changes to the bill to complete any pending, to incorporate any pending legislation.

COUNCIL MEMBERS: No objections.

CHAIR PONTANILLA: Thank you. At this time, the Chair would like to close public testimony without objection at this time.

COUNCIL MEMBERS: No objections.

CHAIR PONTANILLA: Thank you.

ITEM NO. 22: SHORT-TERM INVESTMENTS (C.C. No. 08-161)

CHAIR PONTANILLA: Members, the final item on our agenda is BF-22, short-term investments. This is the report the short-term investments for the quarter ended June 30, 2008. And I think we touched a little on some of the questions that may, again, be asked on this agenda item. At this time, I'd like to call on Mr. Young to provide us with opening comments.

VICE-CHAIR HOKAMA: Chairman?

CHAIR PONTANILLA: Mr. Hokama?

VICE-CHAIR HOKAMA: I, I am well aware of the time, but I would ask if you would consider a very short five minute recess?

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CHAIR PONTANILLA: Thank you. Before I call on Mr. Young we'll take a five minute recess. . . .(gavel). . .

RECESS: 11:35 a.m.

RECONVENE: 11:41 a.m.

CHAIR PONTANILLA: . . .(gavel). . . The Budget and Finance Committee meeting is now reconvened. Mr. Young?

MR. YOUNG: Yes, good, good morning, Mr. Chair and Members. This item, thank you for putting it on the agenda because I'm sure it's, whether it was intended or not it's very timely and relevant considering the news of the last week and a half, two weeks in the financial markets.

This item is on the short-term investments which we'll call the County portfolio. All funds that the County has are invested in short-term investments to maximize a rate of return for the County and taxpayers. For the last several years, the County has done pretty well in terms of generating a substantial amount of interest income from its investments and the same looks true today.

What I've handed out was a, is a summary, status report that has been prepared by the County's Treasurer, Suzanne Doodan and her Accountant Assistant Thanaid Uralwong in the Treasury Department. And this goes to supplement the short-term investment report that has been agenda for today. The report comes out every quarter as required by the Code and is, the one that you have, the most current one is for that period ending June 30, 2008. So what I've done is provided a copy of this report to you, which shows the status of the report through September 15th from July 30th. So it's actually an interim report. And I'll speak primarily from the report itself.

The first page of the report shows the type of securities that the County currently holds in its investment portfolio. This I find particularly relevant because as you probably heard a lot of the news in the last month and a half, two months have actually been a, I'll be grim, I'll call it a collapse of, of products and programs in the financial market, a widespread collapse starting with the subprime mortgage collapse going back about six months that has actually been the impetus for a number of failures in various instruments, including U.S. treasuries of late, money market funds of last week. You're seeing collapses in major investment banks. AIG which is

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probably the largest insurer and reinsurer in the country has had failures and required Federal bailout. And also the collapse of the Fannie Mae, Freddie Mac mortgage backed securities. The last time I was here talking on this item we talked about the auction rate securities problem that the County has. There's basically no safe haven out there currently in the marketplace for financial investment. It's a very scary time to be out there.

For the County, by State law, we are limited in terms of the type of investments that we can park our monies in. So we have a very small product base to choose from and that base is largely dictated to be more what has traditionally been thought of as conventional and secure. So Fannie Mae, Freddie Mac is specifically allowed, mortgage backed securities are specifically allowed in Hawaii Revised Statutes. You'll see here on this pie chart that as much as 53 percent of our portfolio is in mortgage backed securities. Fannie Mae, Freddie Mac, specifically, and Federal Home Loan Bank which are mortgages, they constitute the bulk of the County's portfolio.

Now, you may be asking yourself how does it relate to the Fannie Mae and Freddie Mac bailout, or, or, I don't want to keep using the word bailout and collapse, so basically the U.S. Federal Government taking over Fannie Mae and Freddie Mac. Those are not. . .people have always thought that they were government. . .they were an extension of the Federal government, but Fannie Mae and Freddie Mac are actually private mortgage insurance agencies. They're, they've been thought of as being an extension of the Federal government, but that is not the case and everybody now knows that today because the Federal government bought, has bought it out.

Now you may be asking yourself how does the Fannie Mae, Freddie Mac buyout affect the County's portfolio. Our position is that it actually makes it a stronger portfolio because now whereas previously Fannie Mae, Freddie Mac was not secured by the Federal government or the Federal government didn't really have a true stake in it, now they do. So we're looking at it as being, we get that little bit more security in terms of our portfolio. But that's speaking as a, you know, managing our portfolio not speaking as, say, a taxpayer that is now, you know, where the Federal government is investing in these companies.

These mortgage back securities at the time of the, at the time of the subprime mortgage meltdown, we did examine them for what the potential

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exposure would be. Our investment brokerages were confident that it was minimum to little exposure on the Fannie Mae, Freddie Mac side for the paper that we currently hold.

We also have a large chunk in student loan paper and which I mentioned earlier, at the last time I was here, there was a problem in student loan auction rate securities where this market basically collapsed overnight in February of 2008. Since then there has been no liquidity in student loan paper which means. . .I'll refresh your memory. Student loan auction rate securities are securities that are auctioned in the marketplace every seven or 28 days. The interest rate for those is set every seven or 28 days, as a result of these auctions. When there are no auctions that means no one's buying this paper. People who hold this paper can't sell it, so there's no marketplace, so the auction rate has, the auction rate is not set, the auctions are deemed failed. Then the question becomes what is the rate of return for people that are still left holding this paper. And what that relies on is at the time that these papers were constructed the prospectus dictates what the rate will be.

For the County of Maui, all of our student loan paper has a default auction, a default interest rate that is set at 1.5 percent above LIBOR which is the London InterBank Offered Rate. That's a default benchmark much like the U.S. Treasury Bank lending rate or the fed rate as you would know it. So we are actually getting a higher rate of return for student loan paper than say the benchmark or the default rate. That is not the case in the open marketplace because there are jurisdictions that hold student loan paper where the default rate is something less than LIBOR, it may even be zero. We're fortunate that we're not in that predicament.

The negative side, as I did mention previously, was that with no liquidity in the student loan paper we are, we cannot get our cash investment, our cash investment back on any given day. So we're left, the positive is we're getting a higher rate of return, negative we don't have that liquidity. We are working with, we are working with Corporation Counsel as well as our brokerages, because there have been a bevy of lawsuits that have been filed nationally by State Attorney Generals to resolve this marketplace for the investors, investors being municipalities like us, that is still reaching some resolution. And, of course, we have a lot of near liquid type of investments such as bank repurchase agreements, CDs, treasury notes.

The top of the first page kind of gives you a picture of where we are and this goes to Mr. Hokama's question on the last agenda item. We currently

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have about \$370 million. . .at the time of this report was run about \$370 million under investment in cash. As you may recall the entire County budget for the current fiscal year is about 450 million. So we have a pretty sizeable portion of that in cash currently under investment. We also have an average daily balance of about 335 million. The difference kind of gives you an impression of what is the, the week to week or the month to month cash needs of the County, you know, to meet payroll, to pay purchase orders, to pay operational expenses. So even with that consideration we still have a fair amount under investment.

For the amount of portfolio under investment we have a pretty enviable rate of return. We're, we're currently earning somewhere in the neighborhood of 3.5 to 3.7 percent on an annual basis for our rate of return for the period which is July 1st through September 15th, we've already earned about \$2.6 million in interest. And the average remaining maturity, that 598 days, that is an indication of how long our portfolio is, meaning the average duration. So we currently have investments that are actually in excess of one year, but less than two years.

Some of you may know that the yield curve right now is showing higher interest rates say for three years versus say for six months if you look at, just look at CDs. That means that we are trying to get the highest rate of return for our investment portfolio without compromising the liquidity necessary to run County government. And the only way you can do that, the only way you can have that strategy is if you have a large cash reserve sufficient to meet day-to-day needs and be able to invest the other portion into longer term investments.

The second page shows you the different broker/dealers that the County uses to park its investments. I'm showing you this sheet because with the recent news of problems in Wachovia, Washington Mutual, Citi Group, Lehman Brothers, UBS, Merrill Lynch, Bank of America, Bear Stearns -- have I missed any? -- Lehman Brothers, I wanted to show you where our investments are parked and give you some sense that we are in a good position even with the conditions in the market. First of all, the County doesn't have any business with Lehman Brothers.

Bank of Hawaii, as far as we know, have, there's not have been any issues related to their solvency. The monies that we have with Bank of Hawaii, this only related to short-term investments. It doesn't include say our cash checking accounts or our accounts, payable accounts. Bank of Hawaii has our bank repurchase agreements.

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Citi or Citi Group I think the recent news this morning is that Citi Group has tendered an offer to purchase Wachovia, and they also have had several write-downs and had probably the largest exposure in subprime mortgage and student loan paper. Citi still remains pretty solid. We are watching their strength in the overall marketplace. They currently hold about 17 percent of our portfolio. We're not investing in Citi Group itself, we are investing in securities that they purchase in the open market and they just hold. So there is a difference.

First Tennessee is First Tennessee Bank. They are actually the largest bank east of the Mississippi. I think they're probably in the top five of the largest banks in the country. Like Bank of Hawaii their solvency has not been in question.

Merrill Lynch. We list them here as Merrill Lynch, but as you probably know the recent news is that Merrill Lynch has been acquired by Bank of America. Their, their corporate name will likely change to operate under the Bank of America symbol. Merrill Lynch is one of those brokerages that has sold us auction rate securities and student loans. So as of this date we have actually suspended trading with Merrill Lynch until we receive some liquidity back in student loan papers.

Robert Baird and Stanford Group are also investment brokerages. They're smaller by nature, but they're not unlike say a Merrill Lynch or lastly UBS which we're showing here. The recent news in UBS is UBS had a lot of subprime mortgage exposure on both sides of their houses, on both the municipal lending side as well as the private equity and . . .*(end of tape)*. . . to take huge write-downs and they've also liquidated their municipal financing group, which is the, I'll, I'll note here was the County's previous bond underwriters for at least the last five years. So they no longer have a municipal financing group which means that the next time the County goes out we will not be using UBS as our underwriters.

I just wanted to point out two other recent events. The AIG bailout by the Federal government does not affect the County directly. However, there will be an impact to the County as of operations as well as to the County as, you know, all of us citizens. AIG is the largest insurance underwriter reinsurer. Their problems will likely translate to some impact in terms of when the County goes out to seek, to seek premiums on its insurance policies. There, there will be an impact. AIG also has some reinsurance

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issues with any health coverage. So the health coverages that the County offers with HMSA, Kaiser, anybody, anybody who has any type of insurance, house insurance, automobile insurance, liability insurance, anything will likely be affected by the AIG issue. To what extent it will be affected that we'll, we'll have to wait and see as the market plays itself out.

And then the problems with the money market funds, this wasn't really widely reported last week, but money market funds last week was showing some runs. There was some major money market funds in the national marketplace that was showing, they were paying 97 cents on the dollar. I don't know when anybody recalls when money markets, when you, money market was not secure. Ninety-seven cents on the dollar means you lost 3 percent of your value in a money market fund. that led to the Federal government offering up 70, I think it was \$70 billion to shore up financial institutions and that was related to the Lehman Brothers collapse last week Monday.

That hasn't affected the County directly, but where we are keeping an eye out is if that will have some translation to money market funds throughout the general, you know, generally throughout the entire marketplace because the County relies very heavily on those types of pure liquid accounts, money markets, CDs. So I don't want to sound too gloomy about it, but it is a scary place out there in the financial markets right now. The Treasury Division and Finance are working on strategies to secure and keep the County's investments liquid, safe, secure in value without compromising the liquidity needs for the County operation.

The County portfolio at 370 million is the largest that it's ever been. We're still on the top side of where the County has ever been in terms of cash availability. So we're pretty good there. I'm not prepared to offer how long 370 million will last us to get through this current economic cycle because if the cycle is two years, three years or four years we may not have, we may not be able to sustain that level of security for that long. Three hundred seventy million may seem like a lot, but it's not when we're looking at a County budget that, you know, is 450 million. It could go up next year for certain types of expenses.

So I do want to, you know, I'm, I'm pessimistic by nature, but I do want to reassure everyone that we're currently in a very good position. The County remains strong and solvent, but we do need to show some diligence and control on the fiscal side to ensure that the County stays that

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way. So with that, Mr. Chair, I hope I wasn't too, too technical, and I'll be available for any questions. . .answers to any questions, Mr. Chair.

CHAIR PONTANILLA: Thank you. We'll go with Member Anderson followed by Member Molina.

COUNCILMEMBER ANDERSON: Yeah, I just have a quick question. I want a little more clarification. Mr. Kalbert *[sic]*, you said that AIG is a reinsurer and that many of our health insurance policies for County employees may be affected. Affected how?

MR. YOUNG: Not directly, but HMSA, for example. . .reinsurers are basically when insurance companies like HMSA offer medical insurance they don't necessarily have to have their, to keep all of your premiums in their bank account and pay out. What they'll do is they will diversify some of their risk by purchasing insurance from another company to help spread out their overall risk. Well, AIG was very big in that marketplace. My understanding is that HMSA may have had some exposure to AIG.

I'm not sure how that will play out in terms of HMSA's premiums because that will be the affect to the County that if HMSA's premiums are affected because they cannot diversify out this risk whether it goes up or down that will be some affect to the County. But it's not, it's not only HMSA. Insurance companies all over do this. You know, basically just, it's a method of diversifying their risk in the insurance.

COUNCILMEMBER ANDERSON: And so, even though AIG was bailed out there's still going to be an adverse impact to people?

MR. YOUNG: There could be. I, I would suspect that because they were bailed out there would be less of a likelihood for negative impact, but that bailout still has to be approved. You know, Federal government still has to. . .I guess Congress would have to approve all of these bailouts still yet and lack of that approval is going to create some uncertainty in the marketplace. So be, just be prepared that there could be some impact.

COUNCILMEMBER ANDERSON: Impact translating into increased premiums?

MR. YOUNG: Yes.

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COUNCILMEMBER ANDERSON: They should have had you on CNN, Mr. Kalbert *[sic]*. Thank you, Chairman.

CHAIR PONTANILLA: Thank you. Member Molina?

COUNCILMEMBER MOLINA: Yeah, thank you very much, Mr. Chairman and Member Anderson sort of read my mind. I think Mr. Young should have his own financial report. Thank you very much for that very good report, and you broke it down in layman's terms without getting too technical.

MR. YOUNG: Not Lehman's terms.

COUNCILMEMBER MOLINA: Yeah, or Lehman's terms. We won't go there too much, but seriously thank you for that report. I know you've had many sleepless nights recently, you as our finance, chief financial officer or Finance Director having to look at all of our, look at our portfolio and the investments we've made. I commend you for taking this approach that you have taken thus far. So what are the things. . .so basically you're telling us to sort of, we, we should stay the course as it is and not panic, and as it relates to fiscal policy be very strict with spending, am I correct to assume that?

MR. YOUNG: Yes, actually Suzanne Doodan and, and her staff are actually very good in terms of, they're, they're the ones that probably lose the most sleep, because they keep the day-to-day eye on the County portfolio and where the market is going, and they've done a very good job of ensuring our liquidity. They are currently reviewing where the marketplace is, where we are likely going, in terms of we being the country, and how the County of Maui should position itself in its portfolio.

So everybody out there in the general marketplace, cash is looking pretty good. Yeah, these, these short-term, pure liquid investments are looking like they're pretty good but, you know, as I mentioned the failure in the money market industry last week kind of puts that a little bit in question, so the real question is where is the safe haven out there for investments. And that is something that Wall Street really hasn't figured out yet. Where is all of this money that is supposedly losing value? As people are moving out of certain investments they should be moving into something else. What is that something else? Because the real estate market is, is down, and it's going down every day. You would think people would be moving into hard assets, buying up real estate, but they're not.

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The gold market has not shot up either, so people are not buying up gold as much. You're not seeing anybody going into these money market funds or cash accounts. They're, they're not holding up there. You're not seeing. . .the Stock Market is crashing at least three of the five days of the week. So where is the money going? That's the big question. And mattresses, yeah, maybe, you know, you got a lot of people sitting on some tall mattresses, because I, I don't, I don't know myself where all of this capital is, is flowing. That's the trick for the County of Maui, because we are dealing with a large portfolio. We want to ensure that the \$370 million today is worth at least \$370 million tomorrow, and we are trying to position ourselves to ensure that the taxpayers don't lose any value.

But it is a very difficult marketplace because personal investments, like your own, your, each of our own personal investments, we are under the same struggles to try and find where our, where is those places where our retirement fund is going to be secure if we're planning on retiring in two years, or five years, or ten years, or 20 years even. Where are we not losing value? And that's the big question. And so, we are evaluating strategies for the County for its portfolio. I think the overall, my, my fiscal advisement is that, again, I'm, you know, Mr., Chair Hokama has mentioned, you know, both he and I are, I guess would be considered fiscal conservatives. My advisement is that we need to have some very conservative spending practices because we need to see how long the current portfolio will last us.

The, right now the estimates for the economic cycle is about four years. We don't have enough cash and the prospects of where revenues will be for the next four years, we do not have the luxury of spending as we have, or the sense of spending that we have had for the last four years. We don't have that luxury of having that same sense for the next four. So I would advise that we exercise a fair amount of conservatism in terms of fiscal spending, and that's not only for the current fiscal year. My, that advisement would likely be relevant for the next fiscal year, for Fiscal Year '10 budget construction, and I would warn that it may be even more so in Fiscal Year '11.

COUNCILMEMBER MOLINA: Okay. Thank you for that report, Mr. Director. Gloomy as it is, but it's realistic. One last question. How does this, the current state of the economy affect Maui County's bond rating in terms of our ability to borrow? Any potential impacts? I mean if we start to spend as we have in years past, do you see an impact on our bond rating? And

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can you tell us what, refresh our memories as to what is our current bond rating?

MR. YOUNG: Yes, Mr. Molina, the, the County's current bond rating are in the AA+, Aa2 rating scale which is basically three or four notches below AAA, and it's, it's one of the highest in the State, of any State, in the State of Hawaii of any municipality. It's also one of the, it's in the top 15 percent of municipalities in the country.

The current economic condition does affect the County's bond rating, bond issuance. Beginning, many of us probably read the newspaper, last week the State had to suspend its general obligation bond sale in the marketplace because that market there was no buyers out there. And this flow of cash that I mentioned, that is also concerning because people, it means that people are not buying municipal bonds, yeah. The day before that news broke out on the State's plan, the U.S. Treasury bond sales also declined, which means that no one was buying U.S. Treasuries. If no one's buying U.S. Treasuries and no one's buying municipal bonds, two of the products that have always thought to have been the safe haven for cash or for your, your type of retirement investment, no one is buying it. Where, who, what, what are you left to buy, yeah? What, what is left out there?

How that affects the County is that if the County was to sell bonds anytime soon, we would be faced with a glut of municipal offerings in the marketplace because since last week there's been no municipal bond sales, I mean across the country in the marketplace. So all of these places that were trying to sell bonds are basically queued up. There's, there's a suspension in the sale of, of government bonds that hasn't been liquefied yet. So we would be faced with competing with other entities to sell our bonds. When we do that competition and we're selling bonds it means in order to get people to buy our bonds we have to offer a higher rate of interest. So we do not want to be selling bonds when there's a lot of competition out there, okay, that's one.

The overall affect, in terms of our credit rating, is we always thought that if there was a problem in the corporate bond market, which there is, yeah, or if there's a problem in the equity market, which there is, that the counties like Maui that have strong cash positions, strong financial programs that we would stand out and our credit rating would be elevated because of that. I would speculate that that may not always be true now in this current environment, because if you can't sell the State of Hawaii's

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bonds and you can't sell Phoenix, Arizona bonds, their ratings are as high as the County of Maui's. It's not a, it's not a question of their individual solvency or financial strength, it's a question on the marketplace. But the bottom line, the credit rating is meaningless if you can't sell bonds in the open marketplace, and you're forced to raise interest rates just to get your bonds sold.

So it has some impact on the overall County. We are fortunate that we do not have to be in the bond market right now. And I don't know how long this illiquidity in the bond market will persist, but we definitely do not want to be going out for bonds in that type of market condition.

COUNCILMEMBER MOLINA: Okay. Thank you very much, Mr. Director. Thank you, Chair.

CHAIR PONTANILLA: Thank you. Member Hokama followed by Member Victorino.

VICE-CHAIR HOKAMA: I'll let Mr. Victorino go first.

CHAIR PONTANILLA: Oh, Mr. Victorino?

COUNCILMEMBER VICTORINO: Yeah. Yeah, thank you. I guess my question to you, Mr. Young, is twofold. When we're looking at the overall bond market which we just approved, you know, some bond, because we need that to get CIP projects moving which have job related aspects that we are in dire need as a County. Again, I guess it's the domino affect, no matter which way you go you have a real challenge. However, we also know that right now we don't want to go out and try to sell bonds, but when we do, and it's going to come at one point or another, maybe not this year, but maybe next year, but we're going. Would you think our rating would help us or it's just going to be a "dog eat dog" kind of situation? You know, 'eh, I got, I need, I'm willing to sell 'em at 6 6 percent. 'Eh, you either sell it at six, six and half, or you don't sell at all. So do you see that as being more of the market forces than the safety, or the credit rating, or the bond rating, at this, this market now, this type of market we're in at this point?

MR. YOUNG: Yes, Mr. Victorino, I would say that regardless we should secure and hold onto our credit rating. We definitely want as high a possible credit rating as, as we can get, and that hasn't changed even regardless with this marketplace. In fact, that may be more important to us the next

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time. It's just that right now in this current market environment it, it, the credit ratings seem meaningless out there, but that will not always be true. And I think when the County goes out for its next bond sale in the next, within the next 12 months or later, we will be looking at an importance on the credit rating.

We are expecting that we're going go out for, if everything stays the same for the County financial wise, fiscally, we will be going out for another credit upgrade actually, because I do believe that the County is superior to what is out there in the marketplace and some credit rating agencies are actually looking at municipalities as being more secure than say the corporate bonds. And right now we're all corporate or municipals, we're all pretty much judged on the same scale. And since the government don't really have that revenue flexibility that. . .and dynamics that the private corporates have, you know, we've always kind of been, like, tagged back a little bit. But there's some of that philosophy changing largely due to the market environment.

So we would expect that we're going to go out for a credit upgrade the next time. We, we recently got one, if you recall, back in early in January, but I think, you know, now looking at where Maui is relative to every place else in the marketplace and, you know, we are remaining strong, we would likely go for an upgrade, take a shot at it actually.

COUNCILMEMBER VICTORINO: So just for the public's understanding it's because we have, and when, when I say we, the County with yourself and like you mentioned earlier Council Chair Hokama's fiscal conservatism, has put ourselves in a very good position; however, that doesn't eliminate the fact that as time goes on, and we need to make moves, that we're going to have to pay the higher prices which means, or sell bonds at, at a higher rate even with all these other things put together. So at this point we're in a good, good position and maybe even get into a better position, but it doesn't preclude us from having to pay a higher price just because the market is and may continue to be very volatile; right?

MR. YOUNG: Yes, correct. Just because we're in a good position I don't want anybody to get arrogant to think that we are in the best position. We're not. Relatively speaking, you know, we are good, you know, compared to other jurisdictions where they're at, some even within our own State. But by no means are we so superior that, you know, we have carte blanche to fund unlimited programs or that we're going to be immune from paying higher interest if we had to go out in the marketplace. So...

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COUNCILMEMBER VICTORINO: Yeah, and, and again, and you brought some good points, and you mentioned the stock market, and as I mentioned to you a little while ago seven, seven, seven is usually a great number when you go to Vegas. Unfortunately today the market closed 770 points, 777 points lower. So that wasn't a good number. That seven, seven, seven really was not a good, good, and everything else fell. The European markets fell. I mean it's, it's a domino affect. And you mentioned earlier, and I think people have to understand we're so globally connected that what happens somewhere else in the world has a profound affect right here, here in Maui County.

And the last thing I'll say is I think you brought up this fiscal conservatism. I think people should look at their own household's first. I think this is very important that you start looking at home, because fiscal restraint and fiscal strengths starts with the grassroots every day people like us, and it's very important. And more than anytime in our history we've got to really look at home first--

MR. YOUNG: Yes.

COUNCILMEMBER VICTORINO: --and then start moving ahead. So would you agree with that statement?

MR. YOUNG: Oh, that, that is an excellent point. I've been going around with the Mayor doing several economic outlook presentations and that's the message that we try and convey that the County of Maui is just like any other individual, any other household, employee, the County of Maui is just on a bigger scale. Everybody should be concerned that the cost of inflation, cost of goods, cost of fuel, their own investments, their retirements, everything that gets affected for the County of Maui is the same for every individual, every household.

So everybody should be very cognizant, and cautious, and conservative on where they're spending their money, where they get their money from because that's the same factors that we, the County, have to worry about as an organization. But it's no less true for me in my house, with me and my wife, you and your wife and kids, and that's, yeah, that's a very good message to everybody out there.

COUNCILMEMBER VICTORINO: Yeah, and the last thing I'll say, again, the, the best statement I can make to the people and to all of us here is there's

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no quick fix. It took us a while to get here. It's going to even take us longer to get out of here, so we're going to have all work together, consolidate our resources as a community. I think it's going to be very pivotal. But, again, I'll let Chair Hokama, who has esteemed knowledge in this area continue the message. Thank you, Mr. Chair.

CHAIR PONTANILLA: Thank you, Mr. Victorino. Mr. Hokama?

VICE-CHAIR HOKAMA: Chairman, thank you, just some few questions. And I appreciate Director Young's candid comments to the Committee this morning. It's very sobering for all of us even if it's been in the news every day for, for a long period of time already, Mr. Chairman. But some of my questions, since you were kind enough to tell us the type of securities we invest in and the type of entities that we do business with, and we can see some diversification of, of areas that you've done these investments on, on the people's behalf. Are you, at this time, willing to sit tight and maintain those securities and, and institutions that we do business with, or are you looking at making adjustments to reposition our cash in this uncertain situations, uncertain times, Mr. Director?

MR. YOUNG: Yes, Chair, we are repositioning the County's portfolio. The Treasury Division is looking at where is the best strategy to maximize rate of return. That's, and that's the thing with the County portfolio. It's all about rate of return. You know, we don't, it's purely governed by bottom line, where we can get the most monies from our investments. So that's why other than Bank of Hawaii, you notice a lot of the brokerages are all mainland based brokerages. But we are currently in the process of repositioning the portfolio, and it kind of happens dynamically because part of it is largely driven by where are these higher interest rates.

So it might be positioned on the cash side by, when interest rates are paying better in the two years than one year, you're going to see our portfolio move to the two and three year side as long as we can afford it on the cash side. But as far as, like, in terms of investment strategies for different brokerages we also weigh that too because who, you know, will suggest better products or agency type of investments. Is Fannie Mae and Freddie Mac paper better than Federal Home Loan Bank paper, or is it better than, you know, some other paper out there, or should we be buying GE corporate bonds rather than buying U.S. Treasury three year notes, you know, all of those types of strategies, I guess, could be philosophically based, but they're also driven by that whole dynamic of where can we get the best return relative to safety in the open all market.

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VICE-CHAIR HOKAMA: I would say in the past that has worked for us very well, Mr. Director, and I can support that. I just ask that if, again, we may not get the maximum return that may be available out there, but I would hope that at least you and those in our investment committee would look at, because I would have, I would be supportive if there's a portion of our cash investments, short-term cash resources would be considered, that made sense, that we might want to reinvest in Maui County credit unions, and just hear me out.

They may not give us back the maximum rate of return, but those credit unions are based on communities and if that's one of the small ways the County can put cash reserves or cash resources where then the individual resident goes to his community credit union for small loans or what not, you know, if it makes sense for us where we can help people where we place our money, especially our people, then I think it's at least worthy to review and see if it makes sense to put in a percentage of our, you know, we may not want to put \$300 million dollars. We may want to put only \$3 million but, you know, I think we have some very good large credit unions that run, run very well and that they serve a good community purpose. So I would just ask that you might want to consider that.

I'm concerned about Freddie Mac and to be honest and Fannie Mae because while the Federal government has bought a stake of ownership what are they using for their cash resources? It's us the taxpayer. Buying an entity who's going to give us our tax money back in the form of interest back to our investment. Something doesn't work well for me with that. I see Mr. Pablo having a little chuckle. I hope you can appreciate what I'm saying, Mr. Chairman, because we paying to pay us back ourselves. So are we making anything really? And I'm sure an accountant would say of course you are. But as a taxpayer I'm paying the Federal government, and I'm paying the County, and I'm just recycling my money back to myself. So what did I make really? I'm not sure.

But my, my other concern, again, at this time, and, and I appreciate your comments, Director, is with the big boys. The UBS's because we do some work with them, Merrill Lynch, Bank of America, Citi Group, Wachovia Bank, which is very big on the east cost, the Wachovia institutions. I myself ask the same question. Where are people who are withdrawing their monies, their investments putting their investments? Because you and I watch the Bloomberg's reports, we watch the London reports, we watch the Korean banks, the Japanese banks, the Chinese banks and

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they're all, banks all over the world are hurting. It's not just American banks.

So I'm like you I'm wondering where people are putting money. I thought they would invest in technology, but if you look at their stocks it hasn't really jumped with cash incursion. So where are people putting their money? Gosh, you know, I, I wish that we knew the answer because maybe there's a way for us tap that resource . . . *(end of tape)*. . . and this is more philosophical unless you get more information that you can share with us, Mr. Director, Director Young.

My concern is on the big entities like the County, the State of Hawaii, the Federal government. We all have debt. Should our creditors, because they need cash, start collecting on the debt what happens to us? So what would be your impact? I mean if China today says, you know what, I'm going to collect half of the debt the U.S. owes me, because I own, I own about couple of trillion dollars worth of American debt or credit. I don't think we could pay. Not if we bailing out our own personal individual greeds of unsecured loans and everything else. We're now, we're going to pay another \$700 billion of taxes to bail out institutions. What happens when the call comes to pay the debt? For the County we're not in immediate trouble, Mr. Director?

MR. YOUNG: Well, for the County's debt which would be our General Obligation Bonds, and that's actually the only form of debt the County really has is general obligation bonds. There's some small amounts of Revenue Bonds that are outstanding in the Water Department, but by and large we're talking about General Obligation Bonds.

The County currently has, I'm a little bit vague, but I believe it's about 375 million in outstanding General Obligation Bonds. It actually may be a hair less than that, but, so if you look at the total portfolio, the fact that we have about 370 million in debt out there, but we have 370 million in cash sitting in the, you know, under investments, although it's not one for one that is a good indication to me that we're pretty strong. I mean we're, we're in a good position because that's not the same as, say, for the State of Hawaii that has, you know, maybe trillions of dollars outstanding in, in its bonds. I doubt that they have that much, in terms of cash, sitting in it. So relative speaking, you know, we are pretty strong.

Now, the type of general obligation bonds that we have outstanding, not all of them are, are what we, you know, are redeemable in that, in that the

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bond holder could actually call for the money. In fact, I don't think we have any of those types of bonds. We do have callable bonds on some of the issues, but that's more on the County issuing its right to call the bonds. If the interest rates become more in our favor, you know, we could call the bond. So from a debt position we are, we don't have that fear really of our creditors coming to call on the bond side. And less would be true if, you know, if you're talking about, like, accounts receivables or payables. You know, the County does owe some money in terms of on some contracts as payables, but even if everybody, you know, came knocking on our door for their money we, we wouldn't have signed or written those contracts, if we didn't have, if we did not have the cash immediately available, and so that is the case. So for the County we're pretty secure.

That's very different from the Federal government, right, because one of the reasons why the U.S. Treasury Bond Market is faltering is because there isn't that foreign investment coming in. The Chinese pretty much have bought up all the U.S. Treasuries previously, and when they stop buying bonds that's where the problem in the U.S. Treasury is. Now, they could come in, if the Chinese came in and said, yeah, they want to liquidate half of their \$100 trillion in U.S. Treasuries that they hold, there would be some impact on the County of Maui and every taxpayer in the U.S. country in the sense that your taxes would essentially, would have to go up. The government would have to start printing money to pay off that debt. That's not the same situation that the County of Maui has to worry about. So I only worry about that scenario as an American citizen not as a Maui resident.

VICE-CHAIR HOKAMA: I'm glad you made the differentiation, because we were concerned about the County of Maui. While we are happy that our current total debt load and our cash reserves are, are pretty much a wash, which means from one sense, I guess, it's, it's a better position than owing money after you liquidate that still concerns me because you still need cash flow for your payroll every two weeks, you have other obligations, Mr. Pablo will be getting his departmental requests for advancements or things of that nature. So there's a lot of things that may stop because the cash reserves are at very low levels and yet we are still required to pay our employees their paycheck every two weeks. We still got to pay our utility bills to the power utility. So we still have existing cash obligations regardless of us doing projects.

MR. YOUNG: Yes, and that's why it's not, when you look at that, the amount of outstanding GO Bond debt and cash under investment, that's why it's not

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one for one because that money that's under investment cannot be utilized to pay off GO Bond debt, yeah, because we have operation costs. The 370 million that's shown here--

VICE-CHAIR HOKAMA: Right.

MR. YOUNG: --is, is peaked up a little bit because it represents first period payment of real property taxes, yeah, that was due on August 20th. So between August 20th and end of the calendar year it will move down from 370 because real property tax represents the largest revenue infusion to the County. So we don't get that infusion again until February. So this is where the cash management will come into play because as that number moves down it will be at its lowest probably in early February, and you don't want that number, obviously, to go to zero, right. We are hoping that it goes down, you know, no more than down to 300 million, 375 million or 275 million.

VICE-CHAIR HOKAMA: Right.

MR. YOUNG: But you don't want it to go, if it bottoms out and drops that's where, you know, from what I will presume is that the County has ramped up spending, and we're burning through cash. We, we don't want to be doing that. That's an example of not exhibiting fiscal conservatism if we see that happening. So, yeah.

VICE-CHAIR HOKAMA: Right. And then two quick, quick questions, because we all know, you know, even Chairman Pontanilla, it took us a long time to build up where we are, and it can go really quickly down the toilet.

MR. YOUNG: It did take a long time, yes.

VICE-CHAIR HOKAMA: So, you and I know that vigilance of watching our cash is, is very critical. Even Mr. Pablo will agree to that. But, you know, for, for my colleagues that's going to have to deal with it, the State does a lot of investment to try and offset General Fund requirements for, for contractual obligations particularly the health fund and the retirement system. We invest a lot of money because we want the big bang so that we don't have to go back to the taxpayer and say, you know, we still not fully funded. We getting all the baby boomers retiring, we tight for cash, so, you know, we're going to have to do something, either raise taxes or something else.

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In the near future your forecast is like mine, there may be the need of the County to readjust some of our spending to take care of those obligations, Mr. Director, because we're not getting the returns we would like to get, especially those two big cash requirements, retirement system and health fund?

MR. YOUNG: We, my advisement, Mr. Chair, is that the County will have to reevaluate its spending and reallocate its spending specifically to take care of those liabilities. The recent conditions in the marketplace I would presume have meant that the value of the ERS and the EUTF portfolios have declined, which means that when I'm back here during the budget season talking to you about paying the annual contribution for the unfunded liability, the liability in both of those State systems, I would expect, would have gone up because they probably lost value. So which means we're going to have to contribute more--

VICE-CHAIR HOKAMA: More, right.

MR. YOUNG: --to get back to where you were or where you should have been next year if it had made, if it had made money. So that's, that's going to, that's an immediate future, future effect in the FY '10 budget, is you, that tab is going to get bigger.

VICE-CHAIR HOKAMA: Yeah.

MR. YOUNG: Or I, I expect it's going to be bigger. I don't know how the ERS portfolio or the EUTF portfolio did, but I suspect they lost money just like everybody else.

VICE-CHAIR HOKAMA: My concern, like yours, Mr. Director. Chairman, I'm aware of the time. I thank you for my opportunity.

CHAIR PONTANILLA: Thank you. Members, any more questions for the Director? If not, I'd like to thank Mr. Young for providing all of us an insight in regards to the fiscal of the County of Maui. Thank you, Mr. Young. So, Members, at this time the Chair recommend the filing of County Communication No. 08-161.

COUNCILMEMBER VICTORINO: So moved.

COUNCILMEMBER MEDEIROS: Second.

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CHAIR PONTANILLA: Thank you. Moved and second, moved by Member Victorino, second by Member Medeiros. Members, any more discussion? All in favor of the motion please say aye.

COUNCIL MEMBERS: Aye.

CHAIR PONTANILLA: Let the record show six ayes with three excused, Member Anderson, Baisa, and Johnson.

VOTE: AYES: Councilmember Mateo, Medeiros, Molina, Victorino, Vice-Chair Hokama, and Chair Pontanilla.
NOES: None.
ABSTAIN: None.
ABSENT: None.
EXC.: Councilmembers Anderson, Baisa and Johnson.

MOTION CARRIED.

ACTION: FILING of communication by C.R.

CHAIR PONTANILLA: Thank you very much, Members for this long morning in regards to the four agenda items. I would like to thank the administration, First Deputy Tracy Fujita Villarosa, the Budget Director Mr. Fred Pablo, Finance Director Mr. Young, as well as our Council Staff Mr. Taguchi as well as Mr. Geers, and the Committee Secretary Ms. Yvette Bouthillier. Members, do you have any announcements to make? If not, this meeting is adjourned. . . .(gavel). . .

ADJOURN: 12:38 p.m.

APPROVED:


JOSEPH PONTANILLA, Chair
Budget and Finance Committee

bf:min:080929:jc

Transcribed by: Jessica Cahill

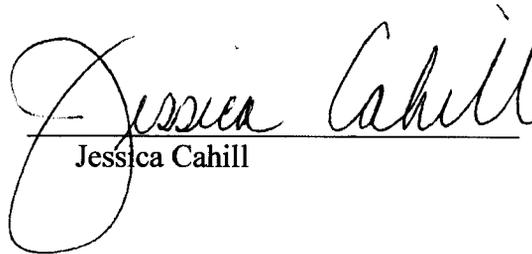
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CERTIFICATE

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

DATED this 15th day of October, 2008, in Wailuku, Hawaii



Jessica Cahill