

MINUTES

**FINANCE/ECONOMIC DEVELOPMENT COMMITTEE**

**February 6, 2008**

A meeting of the Finance/Economic Development Committee of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Councilmember Jay Furfaro, Chair, at the Historic County Building, Room 201, Lihu'e, Kaua'i, on Wednesday, February 6, 2008, at 9:11 a.m., after which the following members answered the call of the roll:

Honorable Jay Furfaro  
Honorable Shaylene Iseri-Carvalho  
Honorable Mel Rapozo  
Honorable Bill "Kaipo" Asing, Ex-Officio Member  
Honorable JoAnn A. Yukimura, Ex-Officio Member

EXCUSED: Honorable Tim Bynum  
Honorable Ron Kouchi

Minutes of the January 23, 2008 Finance/Economic Development Committee Meeting.

Upon motion duly made by Councilmember Iseri-Carvalho, seconded by Councilmember Rapozo, and unanimously carried, Minutes of the January 23, 2008 Finance/Economic Development Committee Meeting was approved.

The Committee proceeded on its agenda items as shown in the following:

- C 2008-09**      Communication (11/27/2008) from the Council Vice Chair, requesting that the Director of Finance be present to provide an update on the Risk Management Study.  
                  **[This item was deferred.]**

**JAY FURFARO, FINANCE/ECONOMIC DEVELOPMENT CHAIR:** We have four (4) items on the calendar mostly on financial items today. The first particular one is dealing with a request from the Vice-Chair Rapozo. This is something that he and I have been actually focused on for the last five (5) years... the five (5) years that we have been on the Council and it is a presentation to be provided by the Director of Finance regarding a risk management study and perhaps a new policy as to how we manage loss prevention in the County of Kaua'i. The timing is excellent as we get ready to go into the budget sessions, but I would like to present an outline to the Committee members and ask eventually just to receive this and

wait for Mr. Rezentes' presentation soon. So I guess we need to get the lights if we can and can we go into the loss prevention commentary.

As mentioned earlier, there are... there is a pass out for all of you on this particular presentation and I will, in fact, be sending this over to Wally Rezentes, Jr., the Finance Director, but the goals in loss prevention and evaluation here as we have become a \$147 million operating corporation. What Councilman Rapozo has requested that I present today is provide kind of an update on where we want to go with loss prevention. The County of Maui have, in fact, set up a loss prevention department, and the Big Island as well. Some of the items that we are tasked with to accomplish, we will go ahead and do in this presentation, so Yvette, we will go through the first slide.

We are talking in terms of establishing a Risk Management Division within the County of Kaua'i. It will involve identifying a Risk Manager who is involved with all claims and losses and control activities. It also would probably involve and this is the framework on the County of Maui which is a coordinated staff of three (3) with assignments that are directly coordinated with Parks, Public Works, capital projects, and Human Resources. The capital projects is a very important opportunity to review new projects, large capital projects, equipment before, in fact, they are actually processed for purchase. The model we have here (both Fire and Police) will identify their own internal loss control officers as their area of expertise dealing with fires, public safety, and actually the laws of the State of Hawai'i and the County of Kaua'i are a little bit more specialized, so there would be two (2) additional people participating in the loss control (one from Fire and one from the Police Department). We will go to the next slide.

What we would like to identify our loss prevention task force and the Department Heads actively participating to measure exposure from accident loss on a regular scheduled basis (meet, communication, and exchange information). We would also hope that we would accomplish in this Department making inspections of major assets at least annually, coordinate the facilities regular safety meetings with key department managers, advice on risk management aspects of new capital projects and purchases from this department. We can go to the next slide.

Provide input to the County Council on insurance requirements including contract reviews. In other words, vendors that do business with the County, have a review of their policies naming us co-insured. Make risk financing decisions through this department, negotiate insurance renewals, maintain risk management records including insurance policies, worker's compensation, loss data, and correspondence with insurance brokers. Also, we would expect the preparation and maintenance of our risk management manual. This should be reviewed by department annually. Also, communicate key information to senior management and this obviously means in the Public Works Department dealing with the Division

Head, the engineers, as we talk about loss prevention in Fire and Police interacting with them directly reviewing a particular cases as well as working closely with the County Attorney's Office. We would allocate risk management cost of the departments. Currently, if you follow our budget, risk management is all lumped into Finance. We would want to actually transfer those cost directly allocating them to the departments, so they are then managed by the individual Division Heads. Oversee loss prevention activities with Department Heads, distribute loss data quarterly to departments will responding to risk management related questions that would probably require quarterly interaction with the Council. Establish loss prevention roles of individual departments including liability claims and administration, reviewing the actual claims that are filed and the administration by the individual Department Heads as noted earlier that we are talking about transferring that financial liability to the individual departments. Establish clear claims settlement authority, develop a risk management information system, maintain potential exposure, tracking of insurance certificates, and calculating cost for department allocations. They would have to work closely with Mr. Knutzen in the IT Department. We can go to the next slide.

Finally, Human Resources coordination with the trainer, new hire orientations, and something that we have been hoping to have for a long time... an overall training business plan for the County of Kaua'i. We can turn the lights back on and that is the end of the presentation. There are hard copies for the Committee members and this is the scope that we have laid out... that Mr. Rapozo has entrusted with me and hopefully we will take this framework and build on it with Mr. Rezentes in the very near future. So with that, are there any comments? Will there be any comments from anyone in the audience? Should I suspend the rules? Mr. Mickens?

There being no objections, the rules were suspended.

GLENN MICKENS: Thank you Jay. For the record, Glenn Mickens. Just a couple of questions. This sounds like a great thing, these prevention goals. My question is, who is going to oversee this thing. Is it going to be a Marion Higa type of a thing or is it going to be in-house people that are going to be looking at this? You mentioned three (3) with assignments that are directly coordinated with Parks and public recreation. Again, Jay, who are these... who will the people be that are going to look at these things and really oversee it?

Mr. Furfaro: Perhaps I didn't emphasize it enough at the beginning of my presentation, but the thinking here is that it is a new department Glenn. It is identified and lead by an individual who is particularly sensitive to issues dealing with employment laws, loss prevention, programs that deal with evaluation of policy premium, so that there is a economic measurement of the cost of the new department versus the current process that we deal with that it is kind of a shared

responsibility and that is an excellent question. On the Big Island, the division is headed up by an attorney, so we are...

Mr. Mickens: Not an attorney with the County, an outside attorney that you bring in?

Mr. Furfaro: No, it is someone who has a background in law, employment law in particular, insurance laws and that is what the framework of this discussion is about. As we approach budget, is there value in identifying rather than having Human Resources, Finance, and everybody kind of overseeing this in general terms. The Big Island and Maui and Honolulu all have a separate department lead by an individual who is a Division Head. I only use that comparison on the Big Island as having a very well rounded attorney leading it as an example, but your question was who would oversee this. It is actually talking in terms of identifying a new department that actually acts independently from the Division Heads, but works closely with Finance.

Mr. Mickens: But it is independent as you are pointing out.

Mr. Furfaro: Yes.

Mr. Mickens: And what about the fiscal part of this thing? What is the cost going to be for adding this new department?

Mr. Furfaro: They are all great questions Glenn and today's purpose is only to express the concept that Mr. Rapozo and I have been talking about to the Committee with the hopes that we will get a full presentation from Mr. Rezentes, Jr. who I can tell you has been working diligently on making a presentation to the County, but this is just kind of the framework.

Mr. Mickens: Sure. Well, like I said, I hope it is completely independent. It will be well worth whatever moneys are going to be spent on this thing. If you do have oversight and you do have teeth in it whatever somebody recommends... somebody has some teeth to go ahead and take care of it, but I appreciate it. Thank you Jay.

Mr. Furfaro: Mr. Taylor, please come right up.

KEN TAYLOR: Chair and members of the Commission, my name is Ken Taylor. I think this is a good step forward. I think in the long run, the cost will be minimal to the County because of the savings incurred with this type of program. I hope to see more activity and training of (inaudible) to the departments to better prepare themselves for minimal losses. I think the idea of allocating the risk management cost to each department is an important situation and I think one of

the things that you want to look at is also requiring that information be part of the review of Department Heads when time comes for raises and so on. If a Department Head is working diligently with his people under him to eliminate problems, he is obviously doing a good job doing his job where if somebody is allowing things to go astray a little bit, there is certainly reasons to consider that issue when it comes time to evaluate raises and so on. So I hope that is also part of this overall picture, but I think this is a great step forward and I commend the Committee for moving forward with this. Thank you.

Mr. Furfaro: Thank you and Ken, you did hit the concept correctly. Hopefully, we are conveying that the economics associated with having people focused on improving just general awareness and safety and loss prevention in the County will lead to savings from the loss portion. It is a methodical process here and I do want to point out your second question as we have set things up with the Salary Commission going forward is all Department Heads are subject to a review prior to any increase given in their salary grading. Those are some of the recommended guidelines that continue to come up.

Mr. Taylor: I am just saying that this should weigh very heavily in that process.

Mr. Furfaro: Thank you. Is there anyone else from the public? If not, I will call the meeting back to order.

The meeting was called back to order, and proceeded as follows:

Mr. Furfaro: Members? Yes, Councilwoman.

SHAYLENE ISERI-CARVALHO: I guess for me, what... there was a risk management study that was done by the Administration sometime ago. Is this the framework that was recommended in that risk management study?

Mr. Furfaro: It is very close to it, yes, Councilwoman. In fact, that report was framed, I think, November of 2007 or 6, but we do have the report available.

Ms. Iseri-Carvalho: Alright, and then the... how much input did the County Attorneys have in the creation of this division?

Mr. Furfaro: I did visit with them briefly on the concepts so the seed is planted. This framework, again, was just to share the concept of what we would hope to hear from the Administration and I would hope at that time, the County Attorney is working with Mr. Rezentes to make their presentation.

Ms. Iseri-Carvalho:        Alright. Well, setting a creation of a department is the administrative... is an administrative function. I guess I have some concerns. A couple of months ago, Councilmember Rapozo and I visited the Risk Management Officer on the Big Island that you had made reference to and it was just by shared luck that he was an attorney did not... the job requirement did not require a juris doctorate degree.

Mr. Furfaro:                As I so stated.

Ms. Iseri-Carvalho:        To be a part of that, but it is important that it is... this division is... I guess there is direct and immediate correlation with the County Attorney's Office. The Big Island also have the County Attorneys that are intimately involved with the claims and I don't know how that all fits in here, but it is separate and apart from the Risk Manager. They have a risk management team in a sense that when a claim comes in to the Council or to the County Attorney's Office, they immediately within 24 hours set up a meeting. The claims are immediately distributed... whatever the complaint is and there is some recommendations made on the spot and I don't know if that is how quick this department is going to act or is it going to be left with the County Attorney's Office to create a separate risk management team independent of these other tasks. It doesn't seem to be as... I guess there is not much specificity as to how this will all work and you are saying that we expect the Finance Director to come forward with more specificity prior to budget to explain what the role of these staff members will be, why the staff members are only going to be directly coordinated with Parks, Public Works, Capital Project, and Human Resources and not with the Fire and Police Departments. I guess I just don't understand the...

Mr. Furfaro:                First of all, I think using the word coordinating, Councilwoman, is the fact that I use the term... that those two (2) areas are extremely specialized and have a larger amount of risk management and they should have their own individual references to the department. Yes, you are correct. The concept as pointed out in item number one is establishing a risk management division is the goal, but in fact, some of the parameters that we have seen as to, you know, small claims. Who is authorized at what level? You know, that is in my experience with large corporations, those kinds of things are framed and I am hoping for those comments to come from Mr. Rezentes and the County Attorney's Office. What I had hoped to acquire for us today was some additional information since this was recommended to come to me in Finance, that we all have the opportunity to ask these very important questions that you are surfacing today as part of the Administration's upcoming plan and if it has value to establish a risk management division and a safety team. So all of your comments are extremely well received, but I do not have all the answers. I am just setting what I believe I understand the goals to be from earlier risk management experience as well as the documents that you referenced earlier.

Ms. Iseri-Carvalho: So these goals are ones that are already ones that the Administration shares?

Mr. Furfaro: As I understand with my visit with Mr. Rezentes at this point, there are goals in here outlined that they have the similar vision for, yes.

Ms. Iseri-Carvalho: And like I said, I see the basic macro idea of creating a risk management which I was very supportive of and had recommended when I first was here on the Council. I just don't see the specificity on the establishment on how it is going to occur and how all the different agencies will be coordinating and whether or not this risk management is going to be an independent body or subjected to the County Attorney's Office and how much power or authority will this risk management have versus the County Attorney versus the Department Head. So the power structure on who is going to have the actual control doesn't seem to be here at the moment and we will get that I assume from the Finance Director.

Mr. Furfaro: Yea, I think your earlier comment is very well taken. At the end of the day, the Administration is responsible for this, but I want nobody to doubt... if I was given this task, I could put this thing together pretty quick, hold people accountable for their performance and hopefully net the best results. All this is attempting to do is say, who is authorized up to what point? Who reviews our insurance plans? Who's dealing with our insurance broker? What and who is the negotiating team for the renewals? What are the experience factor? Who is putting together the data? When is the data reviewed and by who, and who is working closely with the Human Resource Department. I think what I am trying to say here in our commentary is very, very worthwhile. I would hope that this is a goal setting process that Mr. Rapozo was setting out to move forward with earlier in our terms to see that the Administration comes back and takes this responsibility for what could be economic benefits for the County. So it is not intended to be the plan, it is intended to be the core of the subject matter in setting goals (goals for loss prevention). So thank you very much for your excellent comments and we should incorporate more of those when Finance comes forward.

MEL RAPOZO: Just a few comments. I think I agree. I think this risk management division is much necessary, long overdue. I think we have been asking this for five (5) years... in the last five (5) years, every year, and I am more interested in seeing our Administration's plan versus what the recommendation from the study showed because I did get a chance to briefly read the draft. I don't have a copy and I need to get one, but I know there were some specific issues that we were not going to follow. What I wanted to hear from Wally was why not, why we chose to go against the consultant's recommendations in some areas because that is why we hired the person. We really have no experience in this County right

now in risk management, we don't. I think the proof is in the pudding as we look at how much money we spend, how many different insurance policies we have and often times we are here and not able to tell what insurance policy is what. We spend way too much money in settlements and in claims and there is never an attempt in my opinion... there is never an attempt to fix the wrong, the problem. There is really no accountability. I mean if we mess up, we just pay the lawsuit and the employee continues to work as if nothing happened. I think that is why we need a risk management division.

We've had a Risk Management Coordinator for quite a while, but he just has no one to coordinate which leads to my next point is... first of all, I think we... for the upcoming budget which will be in a couple of months, I find it hard to believe that the Administration could put together a structure that would gain my support for a new division in the next budget. However, there are things that we can do and we talked about it at the last budget, Mr. Furfaro, about allocating the claims, the risk management cost to the individual departments. We can do that in April when we do our budget and I would encourage us to do that, so that when a department runs out of their money, they have to come here in front of the public to ask for money. That is one way I can tell you. On a recent visit to Florida to a waste to energy facility... Councilmember Iseri-Carvalho and I visited a plant that was... the safety program was incredible... recognition for employees that work safe and smart. There were awards, safety boards with... it was just incredible what they do. I actually took some pictures of that and we will probably put it on a PowerPoint when Wally gets here. Wally as well went to a Planning Conference in Washington, D.C. So, I mean, it is a huge task, but both of the members of the public testified and I am glad that you see the value of the investment of this division because the returns are great. If we have to spend \$200,000 or \$300,000 a year to completely outfit a division that saves us \$5 million, it is a no brainer. So I have no doubt that we will support a risk management division; however, the details need to be explained by the Administration in a way that I will see the benefit.

You know, as we look for a risk manager or their staff, you know, this is a highly specialized area that you cannot just hire someone that was a good supporter for your campaign. This one has to... you have to have the insurance experience, you have to have the risk management experience. You cannot just be someone that is the nice guy that might be a certified accountant or H.R. person because it is another level of expertise that I hope as we go forward and when we budget for these positions, we budget so that we can hire someone as qualified that can negotiate insurance premiums, so that we are not getting taken to the cleaners in the premium as well as the end result when we have to pay the settlement. Legal experience is nice as well. As Councilmember Iseri-Carvalho has mentioned, in the Big Island, they have a lawyer... well, he just happened to be a lawyer, but he is very well versed in risk management and insurance. What an asset. We saw the

numbers that Big Island spent in lawsuits in five (5) years and we beat them in one year. We beat them in... almost beat them in one case. So we have a long way to go in risk management, but this is a good start and I am glad to see that it is finally on the agenda and that we can actually discuss it. Unfortunately Wally isn't here, hopefully he will be here. I guess, Chair, I heard you say receive, did you mean to defer this until the next meeting because I would like to have to this come up.

Mr. Furfaro: It is your choice.

Mr. Rapozo: Okay, if it is my choice, then I would recommend that we defer and get them here in two (2) weeks because even if he is not ready, the agenda item is to update us on the risk management study which is not his plan. It is the study that was done that we paid for. That is more of a concern for me as I want him to update us on the plan (the risk management study) as well as the reasons, like I said, why we may deviate from what the recommendations of the consultant were and that is all that my concerns were. Thank you.

Mr. Furfaro: Thank you. Mr. Chair, do you have anything?

BILL "KAIPO" ASING, EX-OFFICIO MEMBER: No, I just want to commend both of you for the follow up work that you are doing.

Mr. Furfaro: Again, I am just kind of summarizing here. We are trying to set up some key result areas. This document that I framed today is goals. It is not the plan. The first thing we have agreed on is we need to get organized and that organization as pointed out by Mr. Rapozo needs to be presented to us by the Administration. We also need to take it from there if we are seeking outside special assistance and agreeing that some of these items and the goals could be set up such as allocating, you know, certain financial exposure to the individual departments... I think will all come up as we delve deeper into this project. So as I am hearing from you Mr. Rapozo, you would like to move to defer?

Mr. Rapozo: Yea, if there is no more discussion. I will move to defer.

Upon motion duly made by Councilmember Rapozo, seconded by Councilmember Iseri-Carvalho, and unanimously carried, C 2008-09 was deferred.

**C 2008-15** Communication (01/03/2008) from the Director of Finance, transmitting the Period 5 Financial Reports – Statement of Revenues as of November 30, 2007. (Statement of Revenues-Estimated and Actual (Listing), Statement of Expenditures and Encumbrances (Listing), Revenue Report (Listing), and Detail Budget Report (Listing) on file in the County Clerk's Office.)  
**[This item was deferred.]**

Mr. Furfaro: I would again like to refer some information to the Committee as we get closer to the budget period and this is also... referred into my Committee from a correspondence from the Mayor actually identifying the unappropriated surplus of the County. It did come to us in a very different structure than we are used to in the past. It was just kind of general listing. I do want to point out that as of June 30, we are as I have showed in my earlier presentation experiencing some additional increases in revenues. This document that was sent to us did not summarize, less some of the amounts that have already been identified in the supplemental budget. It did not also give us an update of what is currently being spent in repair and maintenance items. So I have a short presentation and Mr. Chair, I wanted to share the presentation because this is what I hope to bring to the Cost Control Commission before budget time as well. So Yvette, may we go to the next presentation?

A while back, I did share with you folks and I am reissuing an old report which I presented my Committee which was a summary of the County surplus. I just want to bring our particular attention to one slide on this before we go to the next. This is the June 30, 2007 summary and I do want to point out that we had identified a large surplus at that point in time and it was based on the fact that we had unencumbered expenses that were in the budget of \$10,716,000 at the year end and we had overages from forecasted revenues. This is not just tax revenues, this is all revenues of \$6,392,000. So we had a reported unappropriated surplus of \$11,558,982 and then we showed a fund balance there of \$5,549,000 based on several projects that we took on. So I would like to talk on the... I would like to go to the next presentation which is the piece that talks with some of the emergency funds that we had put together, but also some of the things that are happening with our major expenses which are contributing to some of the overages as well as some of the surpluses.

First of all, we would like to look at the individual operating departments and also some of the major cost, for example, utilities, and the information I am going to share with you is information that I have gathered thanks to Glenn Sato over in Economic Development Office. In particular, this is the trends on our existing utility cost which are now up to \$7,166,000 for the period ending 2007. The blue columns represent the actual kilowatt hours that the County is consuming and if there is any good news here, it is a fact that in 2007, we have, in fact, gotten our kilowatt hours down below 20 million kilowatt hours to 19,929,000. I am in a bad position to read this, I am sorry. But we also hit a high of 20,800,000 in 2005 when it became a very active issue for the Council in putting in some energy management systems throughout the County. We can go to the next slide.

What that translates to... in 2005, we actually increased our kilowatt usage by 5.4%, but that translated with the oil adjustments to 21.7% increase in the actual dollars that we are being invoiced from the utility company. 2006, our

picture looks a little better. We actually dropped our kilowatt hours by seven-tenths of 1%, but the dollars still went up \$27 million. As we ended 2007, we, in fact, had a little growth in kilowatt hours of six-tenths of 1%, but our dollars increased almost 31%. So we are getting a handle on one of the bigger expenses in the County reflecting kilowatt usage which is being managed. My compliments to many in the County, but obviously experience in the cost changes mostly related to the oil charges. The unappropriated surplus... I have been following since I have been on the Council and I want to make sure that everybody understands that this is something that we shouldn't reflect as being, you know, a pool of money. The reality, we go for emergency repairs, we go for many other new projects through this, but, you know, different from a business. If you were selling cars and your revenue was down, you could change the price of the car. If you were in a hotel and your revenue is down, you could change the rate for the room, but the County is dependent on other political subdivisions for money. In fact, if you look in the year 2003, we have forecasted a surplus of \$7,400,000. We actually ended with \$9,800,000... an additional surplus of 2.3% and that is only at... that is only a 31% increase only over what we forecasted, not over the total budget. In 2004, we had forecasted \$6,025,000 and we actually ended with \$10,300,000 which was 71% higher than we had forecasted. We had some very good incomes from travel... the TAT taxes and other moneys coming into us from the Federal government. We also had a surplus of \$3,500,000 in 2005 and in 2006, there is the surplus of \$17,461,000. But if I could reflect to my earlier presentation, only \$6,300,000 of that was actual revenue. We did not spend what we budgeted by almost \$10 million and a lot of that are timing issues. We can go to the next slide.

If we look at the overall departments by budget, the really good news here is nobody spent more than 100%. In other words, nobody exceeded their budget and that is the good news. The bad news is that we have had some projects that have been put into the budget that we haven't... whether it is staffing or other things that we haven't really acquired what we had budgeted for. The Council is not immune to that. As you can see last year, we only spent 65% of what we budgeted and we have several recruiting issues for staff replacements. The Finance Department and you can see the previous years, 2003, 2004, 2005, and 2006 they spent 92.1% of what we budgeted. Police spent 95... I am sorry, I can look at this better with my glasses. They spent 95.1%. Fire spent 96.6% of what we budgeted. Public Works spent 97.1%, Planning spent 95.1%, and some of the big contributors as we budgeted for employee benefits, we actually budgeted a little less and spent 80.0% of what we budgeted. The biggest growth here was in the retirement expenses. We spent 90.7% of the retirement expenses, but please note that we are actually budgeting more. Our retirement contribution is almost 15% now of our raw payroll. All other areas... although it is a smaller bar graph, you can see that we did not have a very good year in 2003. We exceeded our unplanned expenses up to 120%, but in all other areas, we are at 21.7% and I will be expressing that when we talk about the individual repair and maintenance items that we have a schedule.

So contrary to what has been presented in this new kind of structured presentation, the nexus where I see our projected financial... can you move that screen? There we go, just a little bit. Considering where we are at right now, we have for five (5) months, actual revenues here and I do want to point out at this time, we should have had a financial that took us to the end of December. We do not have one. In checking with all of the things that we have addressed in the audit, we are very close to having the year end... calendar year end financials out to us, but the variance line is what I have put in as the comparisons for half a year and the projected actual line deals with if we continue on the trends. So we had budgeted on the bottom line there. We had budgeted in the General Fund. This is the General Fund, \$105 million in the annual budget. If you go out to the projected actual income, we are about \$101 million in projected revenue. The biggest deficiency right now actually appears in inter-government revenues. We have not received payment from the State on our TAT tax, so I am only forecasting what has been budgeted there. Usually, the State only pays us in December and the year end for that money. So with the visitor industry doing a little weaker than projected, you know, there is some concern on that TAT tax. So I have adjusted that putting it back in and with the estimated TAT in, our surplus this year may as well... according to the trends, be about \$8.6 million. We are good on that. Thank you. So that is a little different and I guess we could button this down when Mr. Rezendes is back and I have sent these charts over to him on our big cost items. The reason why I wanted to summarize that is we are circulating a bill that would identify that surplus, \$6.2 million, and that will be addressing the Pono Kai Seawall emergency repairs, the 'Aliomanu temporary relief road, the Kapa'a Ocean Field Study, the Moanakai/Fujii Beach shoreline and permit phase, Kapa'a Beach Shoreline Protection Design, and reimbursing Solid Waste for money that we took out of the bond. So that is a snapshot from the information that I have that addresses items in 2008-15 regarding statement of expenditures, encumbrances... I do want to point out that we are about six (6) weeks behind in this year's audit from my observation and some of that was related to. We have attacked all of the items that we had deficiencies in last year's audit, but we will look forward to getting more financial information from Mr. Rezendes with the calendar year closing financials. Thank you. Any questions? Anyone from the audience? None. I will call the meeting back to order.

The meeting was called back to order, and proceeded as follows:

Mr. Furfaro: Yes, go right ahead.

Ms. Iseri-Carvalho: (Inaudible)... analysis where we had Council Services and Police. The Police shows, in 2004, 99.9%, but actually, it went over 100%.

Mr. Furfaro: Not according to the records that I have. What they went over is that they went over in certain areas of their operating budget such as payroll, overtime, and so forth, but when you accumulate their budget, I have...

Ms. Iseri-Carvalho: So what was the \$322,000 overage during Chief Lum's time when we were discussing?

Mr. Furfaro: That was specifically for the fact that he was, in my opinion exceeding his allocated straight time pay by that much and it had to be transferred over to his overtime. I do have a separate presentation on that, but this does not... this does not reflect that his payroll was under... this reflects the whole department ran 99.9% in 2005, 99.9% in 2004, and 93.3%. It does not say that he was not over in payroll, this is total department.

Ms. Iseri-Carvalho: Right, and I remember that discussion. It basically was that it was the entire department. It wasn't just the payroll because otherwise... I mean if he was within his budget, I don't see what the whole problem was with being \$322,000 over. I mean I have some confusion there because the way that it was represented to us by the Administration and I think people were in the audience would agree was that every money in every account was spent plus the \$322,000. That was the representation that was made here and if that is not correct, then we need to clarify that because that was my understanding and I believe that was everybody else's understanding here as well. We... they routinely transfer the straight time acco... overtime budget or any other accounts to the overtime and then to whatever salaries that needed to be done, so I guess I would like to see the actual numbers there. And then, um, when it says on the slide that showed the employee benefits, retirement expenses, and all other areas, what is the all other areas?

Mr. Furfaro: All other areas, I am going to touch on it in the next segment as they deal with purchases that we made that were or were not budgeted. They could deal with tapping into the revolving fund and so forth and it is kind of a cumulative of all items and I can give you that exact breakdown. I will go back and reflect the presentation from Finance on those Police numbers. He was over in the payroll sector, but the Department was not over, but payroll is your biggest single cost in any operating department and he was substantially over. I will get you that individual presentation as presented to us.

Ms. Iseri-Carvalho: Okay, um, I guess... and the other question that I had is, is there a specific time that the State has to provide the TAT funding?

Mr. Furfaro: Yes, they are supposed to pay us the first increment by December 31. This is the financial statement through November 30 and I think typically what we get... in the end of December, we get the November ending and

the end of January, we should have got the end of December, but because as I mentioned, we are behind in the audit. We are also now a little bit behind in our financial reporting. At least that hasn't come over to me. I do want to point out the graphs and items that I put on the board are a general snapshot and do not catch every particular detail, but it is a snapshot for you so that you know exactly where we are.

Ms. Iseri-Carvalho: And then my last question would be... on the electrical use cost, what was the... do we know what the reason was for the decrease in usage in 2006?

Mr. Furfaro: Yes, if I recall, we had a trained automated system that actually ran circulating pumps and chilled water and we asked them to go re-visit with Trane (the vendor) the timing and coordination of air conditioning the Pi'ikoi Building. These are the real big items running pumps and circulating waters and running the condensers for air conditioning. Trane was actually, I believe, very valuable and going back and reviewing timing and circulating pumps and setting chill water temperatures.

Ms. Iseri-Carvalho: And the reason I bring that up is because I know in a lot of buildings and we have been at the Pi'ikoi Building when it has been freezing cold. I mean there is just no reason for us to have the temperatures at that low temperature and, yet, nobody can adjust (the employees cannot adjust it) because it is set automatically.

Mr. Furfaro: Right.

Ms. Iseri-Carvalho: And yet we have been in places... I can tell you that even at the Prosecutor's Office where 10 or so members of the staff would have heaters on while the air conditioning was on because it was too uncomfortable with the air conditioner on. So it was like additional energy usage to try to bring down the temperature and I don't know if they have addressed that because it doesn't appear so because we were just over at Pi'ikoi and it was freezing again in those conference rooms.

Mr. Furfaro: Right.

Ms. Iseri-Carvalho: So what has the Administration done to... because we brought this up many times and I know in our budget message, we had requested or set a goal that we are going to reduce our energy consumption and I am hoping that we are going to meet that goal, but do you know if the Administration has taken any aggressive steps to assure that we are not defeating the purpose here. We have the air condition and the heating on and clearly, that should not happen and the temperature thermostat should be allowed to be

adjusted or it should be set at a much higher temperature that is comfortable.

Mr. Furfaro: Well, I say... for the progress we have met, I would like to thank Glenn Sato again because he has now consolidated all of the utility bills for the County. I want to say that engineering is looking at the Trane maximum service qualities on setting temperatures, on settings circulating pumps, on timers, and so forth, but you know as well as I do that I cannot walk over across the street and say to them, you will set this policy accordingly. But what I am attempting to do is saying, through this report, we are watching, the Council is looking for a greater kilowatt savings, you have made some progress, but the things that you have just pointed out obviously are still unacceptable. In my business, I would measure utilities by the individual cost of the rooms that produce revenue. So if I am spending \$4.50 one year on the cost of utilities per occupied room, and it jumps to \$5.10 per occupied room, then clearly, between the housekeeper, the engineer, and the Director of Rooms, I would hope that they would resolve the problem. This first attempt to present this and I did finish this yesterday and I did send it over to Mr. Rezentes and to Lani (Nakazawa) to say, you know, you made some progress, but we are far from the answer. I am not portraying anything more than kind of a snapshot of where we are. We are starting to contain some kilowatt hours, but there is room for more improvement and I thought this was a valuable sheet as we come up on the first presentation for the budget. I hope that Glenn will be able to give us a summary of all utilities budgeted by department. That is the progress that we have made so far. If you remember a year ago, we did not have that information.

Ms. Iseri-Carvalho: Thank you.

Mr. Rapozo: Okay, and that is why I think it is important to have the Finance people here, so we can clarify some of the questions. I do want to state that the Police budget... I remember quite vividly the discussions with the Finance Director at that time and going over the budget, going over the numbers, and, in fact, it had gone over by over \$300,000.

Mr. Furfaro: \$375,000 if I remember correctly.

Mr. Rapozo: Yea, almost \$400,000, so I just don't want the public to get the impression that didn't occur and I am not sure where Mr. Furfaro where you got these numbers and where you got that explanation. If it is from the current Finance Director, then we need him here to clear up the air because if, in fact, that is true, I would assume that this County owes a huge apology.

Mr. Furfaro: It is not true. Mr. Rapozo, I would say this again. The other thing that I want to say to all of you is, everything that you have seen in these PowerPoints, I have initiated on my own. These are not documents coming over to

me, but, you know, I have been in management long enough to understand the value of controlling large expenses. There is a separate presentation, the Police Department ran over in overtime, ran over in consuming their straight time and used their vacant positions and the request was about payroll. The summary I gave you is the encapsulated department, but you know, quite frankly, I am not sure there is too many Councilmembers around that would take the time, the energy, to put these things together to say, hey, I understand them and I am looking at them and there is room for improvement. I am sure that you can concur with that, but I will dig out the original presentation on the payroll portion and that is correct. The payroll was substantially over.

Mr. Rapozo: Thank you, and don't get me wrong. I appreciate what you are doing, I mean, because you are right, I would not do this for this specific issue because I just don't have the time and as your Committee, but I appreciate the work because this is work. I just want to make sure that the public doesn't get the impression that that whole fiasco we went through a few years ago was not accurate and that is why it is important to have the Finance people here and not at a Planning conference. The other point that I wanted to make was about the unappropriated surplus because I can tell you that tomorrow, the phone is not going to stop ringing when they find out \$17 million and like Mr. Furfaro said, \$10 million plus of that was unspent money. It is money that we did not spend. Like he pointed out, Council, 65% of the budget is what we spent. Well, you got \$500,000 in there for an audit, you got positions that we couldn't fill, we have a Legislative Auditor, and we have quite a bit of positions that we cannot fill. Like every other business on the island, you know, finding employees are tough. So my point in all of this is as we talk about a new Risk Management Division, as we talk about new positions in Police and Fire, new positions in the Mayor's Administration, new positions in Parks, new positions in Finance, and let me just state for the record right now, I will not support a new position unless we take a (inaudible) position off the books. If we are not spending money for positions, then that tells me that we don't need those positions. Don't ask for more if you cannot fill what you got, so we should not see an increase in the budget because of positions because we can use positions that haven't been filled if you understand what I am trying to say. We do that all the time, but I think we need to make that clear that, in fact, in additional revenues, it was little over \$6 million and that is what an unappropriated surplus should reflect, some unspent money. When we are talking about over \$10 million of unspent money, then we are not budgeting properly. We are basically over budgeting on many items that we are got to tighten the belt coming up this month... I mean this next couple of months and look at, really, what do we really need to run this County? What do we need to run this County because to carry \$17 million, that is a lot. That is 13% of our budget. 13% of our budget is unappropriated surplus and that is a lot. That is a lot and it does make it easier when we run into issues of emergency repair, but that is quite a bit of money. So I would expect as the new budget comes across, there will be some positions that obviously we don't need, we

haven't used for a couple of years to be taken out of the budget, so we can balance it out. So anyway, Mr. Furfaro, I appreciate, again, the presentation. It is so much easier when we get to look at it on a bar chart as opposed to the numbers that come across. In fact, in the reports... one of the reasons I asked to have it referred to your Committee was because the reports that came across, they are very difficult as you stated in your opening statement... very difficult to comprehend because it doesn't reflect all of the areas of the Finance Department. Again, I ask to have this referred. I would like to see this carried over again Mr. Furfaro until we can get the Finance Director here if that is not a problem.

Mr. Furfaro: Thank you. Anymore comments? I do want to, again, point out a couple of things here. You know, my background... I did this for a living for a long time and I would not be doing my colleagues justice nor myself if I didn't attempt to understand and come up with some reasonable framework of what the financial interpretations are. You should never let financial interpretations scare you, but I do want to say that they gave us something in the Mayor's memorandum that is very different than the structure that we have in the past. The good news is, yes, we have \$17 million and it is 10.1... \$10 million plus of it is based on, we spent less money. That is actually... but the rationale why we didn't spend is yet to be determined. I also want to point out that the surplus does not reflect an audited number. This is my caption. I think we are still, like I said, about six (6) weeks behind on an audit. The other thing that I want to point out is that as I have listed this upcoming bill on items that have been in various Committees, there is about \$6.2 million in capital appropriations-various projects, that are going to be coming forth and it is very hard for the public to look at that and say, well, gee, you are going to take it from the surplus, you are going to take it from the surplus. What is the surplus and that was the attempt that I try to do today. So on that, if there are... what is your wish on this?

Mr. Rapozo: Well, I guess I would like to have this discussion in the presence of the Finance Director and if that cannot be done today, obviously he is not here, then I would ask that we defer this to the next meeting.

Mr. Furfaro: Okay, I will take that as a motion. Is there a second?

Councilmember Rapozo moved to defer C 2008-15.

Ms. Iseri-Carvalho: Public testimony?

Mr. Furfaro: Oh, I am sorry. Thank you Councilwoman. Is there anyone that would like to give any additional testimony on my presentation? Yes, I am suspending the rules.

There being no objections, the rules were suspended.

Mr. Mickens: Thank you Jay. Glenn Mickens for the record. Just clarification Jay. Again, for the public sake, the projected budget was going to be \$9,253,000. It turned out to be \$17 million instead. Now if the amount hadn't come out to only \$9,253,000, would that have been enough to ta... you were saying that the good part is that unknown things happen and you got money in there to be able to play with. If that budget hadn't gone up to \$17 million, would you have still had money in the projected budget to go ahead and take care of the unknown things?

Mr. Furfaro: That is a very good question Mr. Mickens and I will give you this summary of that 17 right here. I will give this to you.

Mr. Mickens: Okay.

Mr. Furfaro: Again, I want to point out that when we did the budget, you start the year with a surplus.

Mr. Mickens: Right.

Mr. Furfaro: Okay, that kind of starts the... you actually identify the next years spending by knowing what the surplus was.

Mr. Mickens: Right.

Mr. Furfaro: And that was \$9.2 million. We had identified that.

Mr. Mickens: Yes.

Mr. Furfaro: So it actually ended at 17, but it wasn't because we had higher revenues as the majority of it. It was because we did not spend almost \$10 million of what was in the budget.

Mr. Mickens: Yes.

Mr. Furfaro: And we don't know the actual conclusion until the end of the year until we also have the audit, okay. So what I am saying is, the biggest savings was on unencumbered expenses and as Mr. Rapozo has pointed out, just things in the Council, we had set money aside for audit, for a full-time auditor and so forth, and we haven't met those obligations. That contributes to that unappropriated surplus.

Mr. Mickens: But the part that you say that you are saving now, you didn't take that into consideration that you could to bring the budget from the \$9 million up to \$17 million (the unencumbered part or the savings). You are saying the different departments which, as you pointed out, is a good thing, but that

wasn't taken into consideration from the \$9 million to the \$17 million then that you were going to get those savings.

Mr. Furfaro: I said the good thing is, nobody spent in the year 2007, not... nobody spent over their allocation.

Mr. Mickens: But you didn't anticipate that?

Mr. Furfaro: No, and you don't see it. This is kind of a snapshot to tell us where we are at.

Mr. Mickens: Right.

Mr. Furfaro: You know, where we are at on these items, but when it comes to the fact of the matter is, you forecast a surplus which was \$9 million to start us in the next year.

Mr. Mickens: Right.

Mr. Furfaro: So the real difference is identifying what is probably a little over \$5.9 million more in savings than what we had identified in the surplus.

Mr. Mickens: Right.

Mr. Furfaro: So I will give you this sheet and I will be glad to speak to you more in detail, but the good news is that people aren't spending over allocated amount.

Mr. Mickens: True.

Mr. Furfaro: The good news is, you know, maybe we are going to revisit these things in the budget and ask deeper questions about if we are not spending this. The other thing that we are going to ask in the budget is the fact sometimes we budget projects in a year, but it actually takes two (2) years to complete. You know, we have those types of things that we have to resource because all of the things that were identified were probably justified in the Mayor's narrative.

Mr. Mickens: As you pointed out and I think as Mel pointed out, the biggest thing the public is going to come back and say, you got this \$17 million surplus, why aren't they giving it back to the people instead of...

Mr. Furfaro: Mr. Mickens, you are not hearing me. Of the \$17 million, we actually budgeted 9. We knew there was going to be 9 of that.

Mr. Mickens: True, I understand that.

Mr. Furfaro: And it shows up right on the finance statement that is posted.

Mr. Mickens: But you have gone up 88% from your projected budget. That is what the public is going to look at. If you have an 88% increase, why wasn't some of that money given back.

Mr. Furfaro: That is why you elected me to look at this.

Mr. Mickens: Okay, right, and I do appreciate that Jay because that has been your expertise in the hotel business to be able to look at that.

Mr. Furfaro: So I am looking at it and that is the message that I am sending over across the street.

Mr. Mickens: Yes, okay, thank you Jay.

Mr. Furfaro: You're quite welcome Mr. Mickens. Any other... I will call the meeting back to order.

The meeting was called back to order, and proceeded as follows:

Mr. Furfaro: Mr. Rapozo, what might be your pleasure?

Mr. Rapozo: If there is no more discussion, I will make a motion to defer.

Upon motion duly made by Councilmember Rapozo, seconded by Councilmember Iseri-Carvalho, and unanimously carried, C 2008-15 was deferred.

**C 2008-16** Communication (01/07/2008) from the Director of Finance, transmitting the FY 07/08 Second Quarter Statement of Equipment Purchases, in accordance with Ordinance No. B-2007-656.  
**[This item was deferred.]**

Mr. Furfaro: As requested, Mr. Rapozo, you asked me to look into the particular balances for the purchases. I will point out that the report was in your packet at the last full meeting and I do want to point out that we had budgeted \$4.2 million on items dealing from the Mayor's Office, Civil Defense, Economic Development, Parks & Recreation, Convention Hall, of which we have spent only

about 12% of what was in that budget. That is the rationale on the large amount balance that exist, but I also want to point out that in our procurement rules, you know, we are five (5) months into the year, and we have these account balances, but the reality is, when we buy cars, we buy cars all at one time. So, therefore, you have vehicles that are appearing in Public Works and Parks and one of them appears in our Department as well. But they actually collect all the information from the various divisions before they go out for request for purchase or evaluate capital leases. This is somewhat consistent with the past and I also want to point out that the fact of the matter is that this does not reflect any capital items. This is only items that were in the approved budget ordinance, but like previous years, most of the purchase seem to happen when they collectively get all... if Convention is buying chairs, they look through the whole County who is buying chairs. They spec the chair, they buy the same chair one time for the best possible price. That is what I have come to the conclusion on, so there is no major items in there that they shouldn't be able to acquire in the next seven (7) months. I hope that satisfies your previous question.

Mr. Rapozo: Yea, you know, I was approached by a Public Works employee and I guess they were waiting for a lawnmower for a long time and I guess he was told by the Director or the Engineer that, you know, Council, you know, they had to wait for Council to approve the funds. Well, you know, the funds were approved last year at the budget which is probably in the May timeframe and I guess it is frustrating for the employee who, you know, is obviously going to blame the Council. One of the reasons I wanted, again, Wally here, was to clarify and you did a good job, but I wanted Wally to clarify the process and why does it take eight (8), nine (9), or ten (10) months to get a vehicle after it is approved or a lawnmower. It is just a shame that it takes that long and, you know, we do get blamed for a lot and that is fine. But I think the people need to understand that when the budget is approved in May and it becomes effective July 1, the funds are there and it just takes that effort of going out and doing the procurement process and I am not sure how long that takes. And that is just the nature of the beast in government and that is one of the reasons why it takes so long. You know, I am satisfied and I don't know if anybody else wants Wally here. I did read that one on C 2008-16. I don't have a problem with receiving that one and on C 2008-17, I would want to defer that as well for Wally.

Mr. Furfaro: Yes Councilwoman, go right ahead.

Ms. Iseri-Carvalho: I guess it would be my preference to defer it. I do have some more questions. I understand what you explain and you are saying for the cost saving, but at some point, there is a limit. I guess sometimes you have a... if you purchase an item, 1 to 100, and this is your price and then 101 to 500, this is your price, and then 500 to 1,000, this is your price, and anything after a thousand, it will all be at the same price. Is that the kind of pricing scheme that we are

working with or is it on the shipping and handling, the cost of that, that is the cost that is why we are waiting all this time because in the meantime, we are not getting as efficient services as we should. So if we can speed up that process in some way, then we should look through that. We also have a program through the National Association of Counties (NACo) officials which is a U.S. Community's Alliance which we have a bill now going through the State Legislature to allow the counties to use that process where we would benefit from a countrywide rate as opposed to only a County government rate which is a lot cheaper which we will have access to. I know their pricing is that way except that if we belong to NACo, you will have that same price no matter what amount you buy. It will be this price that they set because, again, it is on a countrywide whoever belongs to that organization get the benefit of the same price whether you are in Virginia or Chicago or Hawai'i and we would benefit, of course, the most because of the shipping and the cost and that. I'd like to know if... really where is the extra savings, so if Wally could be here to explain that, I would appreciate the Committee's indulgence in deferring this item as opposed to receiving it.

Mr. Furfaro: I am going to share with you that I will support your deferral. I do want to point out, and, again, I am here to look at those particular things and thank you for the blessings that you all made me the Finance Chair. I thank my Committee selection, but you also need to know and what you were referring to and I have done it in my business along, and it is called, National Chain Specs and where if you are buying a GM product or you are buying, there is a pre-bid quote given that gives you preferred preference and so forth and that terminology is called, National Chain Specs. I do want to say that the lag in the progress in the project is really related in my opinion to people trying to do the best they can for the best possible price. I am not defending how the lag time is, but it is a significant lag time. On the answer, we have budgeted \$4.2 million in repair, maintenance, and new equipment, and to date, we have spent... well, the fund balance is \$3.8 million, so... and I have done that with my own calculator. So I will support a deferral if you want to make that motion. Mr. Rapozo, are you okay with that?

Mr. Rapozo: I am fine. That is fine.

Upon motion duly made by Councilmember Iseri-Carvalho, seconded by Councilmember Rapozo, and unanimously carried, C 2008-16 was deferred.

**C 2008-17** Communication (01/11/2008) from the Mayor, certifying the unreserved-undesignated fund balances of all County funds as of June 30, 2007, in accordance with Kaua'i County Charter Sec. 19.14.  
**[This item was deferred.]**

Mr. Rapozo: Mr. Chair, likewise, for the same reasons given on the prior two (2) items, I think we will defer this; however, I do want to send a communication from the Committee advising Mr. Rezentes of the questions that we have had today because what I don't want is for him to come up and say, oh, I wasn't prepared to answer that. You know, I want him to be prepared to explain to the public as well as us, the process of the expended... of the unreserved balances, purchasing, and everything that we've talked about and I hope staff can remember what we asked.

Mr. Furfaro: After our meeting today, I will stay behind. I will compose from my notes some of those questions. I will circulate the questions to the two (2) of you to see if there is anything I missed and that you wanted to add, and then we will send that over and look to reschedule when Mr. Rezentes has some time. Again, I don't mean to sound defensive for the overall department. They are good questions, but taking some of my own energies to look at these things, I think there is constant improvement here and there is room to have dialogue. Is there anyone from the public that wishes to speak on this item? No. Okay, was that a motion then?

Upon motion duly made by Councilmember Rapozo, seconded by Councilmember Iseri-Carvalho, and unanimously carried, C 2008-17 was deferred.

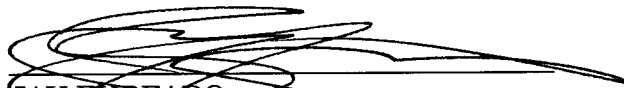
There being no further business, the meeting was adjourned at 10:25 a.m.

Respectfully submitted,



Lisa Ishibashi  
Council Services Assistant

APPROVED at the Committee Meeting held on February 20, 2008:



JAY FURFARO  
Chair, Finance/Economic Development Committee

