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Director of Council Services
David M. Raatz, Jr., Esq.

Deputy Director of Council Services
Richelle K. Kawasaki, Esq.

COUNTY COUNCIL

COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

March 31, 2024

Ms. Maria Zielinski, Acting Director
Department of Finance
County of Maui
Wailuku, Hawaii 96793

Dear Ms. Zielinski:

SUBJECT: **FISCAL YEAR ("FY") 2025 BUDGET** (BFED-1) (FN-6)

Section 18 of the Mayor's proposed FY 2025 Budget, relating to General Budget Provisions, transfers and loans, removes the existing \$55,000,000 cap on the aggregate amount of transfers and loans that must be unreimbursed and replaces it with a percentage of the total operating budget. In pertinent part, the provision states:

At any time, the aggregate amount of transfers and loans that must be unreimbursed must not exceed [\$55,000,000.] 10 percent of the total operating budget. In case of a disaster or emergency as defined in section 127A-2, Hawaii Revised Statutes, and resulting in a proclamation of a state of emergency or local state of emergency under section 127A-14, Hawaii Revised Statutes the Council may, by ordinance, increase the allowable aggregate amount of transfers and loans by an additional 10 percent.

For FY 2025, the Mayor has proposed a total operating budget of \$1,074,538,912. The County continues to operate under a state of emergency and local state of emergency (Governor's Tenth Proclamation Relating to Wildfires issued on March 5, 2024; and the August 2023 Wildfires Seventh Emergency Proclamation issued by the Mayor on February 13, 2024).


May I please request the County's bond counsel be prepared to provide comments on this change to Section 18, including any impacts the change may have on the County's bond rating, at the BFED Committee meeting of April 1, 2024. May I further request the County's bond counsel provide comments on this change in writing by **April 8, 2024**.

Ms. Maria Zielinski
March 31, 2024
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In addition, may I please request that you respond whether the County can advance the level of general fund cash that would be required by the proposed cap? May I further request your response in writing by **April 8, 2024**.

Thank you for your attention to this request. Should you have any questions, please contact me or the Committee staff (James Krueger at ext. 7761, Kasie Apo Takayama at ext. 7665, or Yvette Bouthillier at ext. 7758).

Sincerely,


YUKI LEI K. SUGIMURA, Chair
Budget, Finance, and Economic
Development Committee

bfed:2025bgt:240330afn01:cmn

cc: Mayor Richard T. Bissen, Jr.
Acting Budget Director

BFED Committee

From: BFED Committee
Sent: Sunday, March 31, 2024 8:24 AM
To: Maria Zielinski
Cc: BFED Committee; Didi Hamai; Michelle Santos; Zeke Kalua; Lesley Milner; Kristina Cabbat
Subject: PLEASE READ attached letter re: FISCAL YEAR ("FY") 2025 BUDGET (BFED 1); (FN-6)
Attachments: 240330afn01 signed (FN-6).pdf

Ms. Zielinski: Please refer to the attached letter from the Budget, Finance, and Economic Development (BFED) Committee Chair, dated March 31, 2024. Please respond by **April 8, 2024**

Mayor's Office (attention: Michelle Santos and Zeke Kalua): Please forward the attached letter to Mayor Bissen for his information.

Ms. Milner: FYI

Thank you,
Yvette Bouthillier, Senior Secretary
BFED Committee

RICHARD T. BISSEN, JR.
Mayor


MARIA E. ZIELINSKI
Acting Director

STEVE A. TESORO
Deputy Director



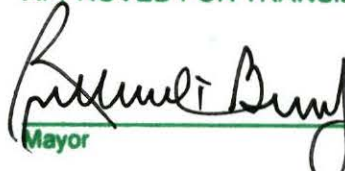
DEPARTMENT OF FINANCE
COUNTY OF MAUI
200 SOUTH HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.mauicounty.gov

April 8, 2024

Ms. Lesley Milner 
Acting Budget Director, County of Maui
200 South High Street
Wailuku, Hawaii 96793

Honorable Richard T. Bissen, Jr.
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

APPROVED FOR TRANSMITTAL



Mayor Date

For Transmittal to:

Honorable Yuki Lei K. Sugimura, Chair
Budget, Finance, and Economic Development Committee
Maui County Council
200 South High Street
Wailuku, Hawaii 96793

Dear Chair Sugimura:

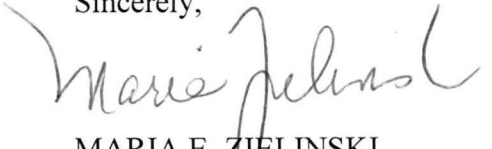
SUBJECT: FISCAL YEAR ("FY") 2025 BUDGET (BFED-1) (FN-6)

In response to your communication dated March 31, 2024 attached is a response from the County's bond counsel, Craig Scully of Katten Muchin Rosenman LLP, relating to Section 18, Transfer and Loans of the FY 2025 Budget General Budget Provisions.

Chair Yuki Lei K. Sugimura
Budget, Finance, and Economic Development Committee
April 8, 2024
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Thank you for your attention to this matter. Should you have any questions, please feel free to contact me at extension 7475.

Sincerely,



MARIA E. ZIELINSKI
Acting Director of Finance

Attachments

Memorandum

TO: Maria E. Zielinski, Acting Director
Department of Finance

FROM: Craig M. Scully
Mike Melzer

DATE: April 5, 2024

SUBJECT: County Council Letter of March 31, 2024 (the “Council Letter”) regarding Fiscal Year 2025 Budget Proposal

Maria,

The Council Letter requested our comments on the increase to the aggregate dollar amount cap of transfers and loans contained in Section 18 of the General Budget Provisions of the Mayor’s FY 2025 Budget Proposal, including any impacts the change may have on the County’s bond rating.

For context, we reference the relevant language from Section 18:

If there is money in any County fund that the Director of Finance determines to be in excess of the amount necessary for the fund’s immediate requirements, the Director of Finance may make a temporary transfer or interest-free loan from the fund to the Bond Fund or the Housing Interim Financing and Buy-Back Revolving Fund, if the transfer or loan will not impede the County’s necessary or desirable financial operation. **The amount of temporary transfers or loans must not exceed the amount of general obligation bonds, state loans, or notes authorized but not issued.** At any time, the aggregate amount of transfers and loans that must be unreimbursed must not exceed *10 percent of the total operating budget. In case of a disaster or emergency as defined in section 127A-2, Hawaii Revised Statutes, and resulting in a proclamation of a state of emergency or local state of emergency under section 127A-14, Hawaii Revised Statutes the Council may, by ordinance, increase the allowable aggregate amount of transfers and loans by an additional 10 percent.* (emphasis added)

This transfers and loans policy, referred to hereinafter as the “Policy,” provides the County with flexibility surrounding the timing of its general obligation bond issuances, potentially reducing issuance costs and risks arising from short-term marketplace disruptions or other periods of temporary volatility. The italicized language replaced a prior cap of \$55,000,000, was the focus of the Council Letter and is the topic of this memorandum. The bold language is emphasized for purposes of our analysis of the credit impact of the aforementioned change, as described in detail below.

When considering the impact of the proposed change to the Policy on the County's general obligation credit rating and broader credit strength, it is important to note that with or without the proposed change, the total amount of transfers and loans and transfers under the Policy is also separately capped at the amount of "general obligation bonds, state loans, or notes authorized but not issued by the County" which is referred to hereinafter as "authorized but unissued general obligation debt." We view the authorized but unissued general obligation debt as a material credit consideration. We do not view the fallback Policy cap as a meaningful credit consideration.

One of the most fundamental aspects of evaluating the creditworthiness of any bonds involves a comparison of the total amount of debt and other obligations secured by the pool of resources pledged to the repayment thereof against said pool of resources. The 'pool of resources' securing the County's general obligation credit is the full faith and credit of the County, including an obligation to levy ad valorem taxes without limitation as to rate or amount on all real property subject to taxation by the County. The 'debt and other obligations' secured by this pool of resources expands beyond, but includes, all of the County's general obligation bonds, state loans and notes (hereinafter, "general obligation debt"). Ignoring refunding transactions which aren't relevant for purposes of evaluating the impact of the proposed Policy change, this means that the issuance of additional general obligation debt is among the most direct and significant credit considerations that the marketplace and rating agencies will undertake in connection with an evaluation of the creditworthiness of the County's general obligation credit. Likewise, even prior to issuance, the authorization of general obligation debt alerts the marketplace and rating agencies that the County is able to, and presumably intends to, issue additional general obligation debt, and is itself a meaningful credit consideration. In other words, both the amount of outstanding general obligation debt and the amount of authorized but unissued general obligation debt are material credit factors for purposes of evaluating the creditworthiness of the County's general obligation debt.

On the other hand, the Policy relates to cash flow management and using available cash on hand to provide flexibility as to the timing and amount of issuance of future general obligation debt. The Policy does not authorize additional general obligation debt and, because it is separately capped at the amount of authorized but unissued general obligation debt, could not reasonably be interpreted to require the authorization and issuance of additional general obligation debt. As such, while we cannot speak for the rating agencies, we view the Policy itself as having minimal real-world impact on the evaluation of the creditworthiness of the County's general obligation bond credit rating for so long as the amount of transfers and loans permitted thereunder can never exceed the amount of authorized but unissued general obligation debt. The foregoing notwithstanding, the Policy does result in temporary, short-term reductions to the County's liquidity position; due to the inherent reimbursement focus of the Policy, while we cannot speak for the rating agencies, we do not view these inherently short-term changes as particularly material.

Yours Truly,
Team Katten

BFED Committee

From: Janina Agapay <Janina.E.Agapay@co.maui.hi.us>
Sent: Monday, April 8, 2024 12:41 PM
To: BFED Committee
Cc: Lesley Milner
Subject: (BFED-1)(FN-6)
Attachments: (BFED-1)(FN-6).pdf

Hello,

Please see attached correspondence from Department of Finance.

Thank you,

Janina Agapay

County of Maui

Budget Office

(808) 270-7836

Janina.E.Agapay@co.maui.hi.us