# Finance Committee Meeting

April 10, 2012
9:30 a.m.

Committee Members Present: Larry Dill, *Chair*, Clyde Nakaya, Roy Oyama

Absent/Excused:

Board Members Present: Darryl Kaneshiro, *Vice Chair*, Randall Nishimura

Staff Present: David Craddick, Andrea Suzuki Deputy County Attorney, Carol Beardmore, William Eddy, Marites Yano, Gregg Fujikawa, Val Reyna, Sandi Nadatani-Mendez, Joy Buccat

Guests: Trae Menard, Kauai Watershed Alliance, Allan Rietow, Kauai Watershed Alliance, Melissa Fisher, Kauai Watershed Alliance, Michael Loo, Princeville Utilities Co.

**AGENDA**
Mr. Oyama moved to accept the agenda as circulated; seconded by Mr. Nakaya; motion was carried.

**NEW BUSINESS**

*a. **Draft Budget 2013***
DISCUSSION:
Manager Craddick stated guests were present from the Kauai Watershed Alliance for the 2013 Draft Budget.

Chair Dill suspended the rules for Mr. Trae Menard's testimony.

***Mr. Trae Menard with the Kauai Watershed Alliance presented his testimony.***

Mr. Menard works for the Nature Conservancy of Hawaii and has been the Coordinator for the Kauai Watershed Alliance since 2005. The Kauai Watershed Alliance has been protecting the core of the watershed where the majority of the rain falls on the island and recharges the aquifers and streams. Pigs and goats destroy the vegetation, trample and dig up the soil, expose it to erosion and prevent water from infiltrating the soil and recharging the aquifers and streams.

Mr. Menard mentioned invasive plants invade the forest, displace native and invasive plants such as strawberry guava. The strawberry guava use 27% to 53% more water than the surrounding native Ohia forest. Climate change is another threat the watershed faces. Science is projecting a decrease of 5% to 10% rainfall on the Leeward sides of the island. A five-mile fence was constructed which connects Wainiha Pali, owned by McBryde Sugar Company and the Blue Hole Pali. These areas are impassable by feral animals due to their steepness. The fence encloses about 2,000 acres of the summit of

Waialeale, the highest rainfall area on the island. Another fence was constructed from Pali to Pali in Wainiha Valley. The fenced off area protected 4,500 acres of the upper valley of Wainiha. The animals will need to be cleared out of these areas where none are left. Fences will be maintained to keep the animals out for the future.

Mr. Menard added 90% all the animals have been eliminated in the Alakai plateau portion of 2,000 acres. There have been 62 pigs and 41 goats removed with about 20 animals left. Animal removal operations will start in the valley portion starting in June and will be completed in a year. When this is done, the longer-term vision for Kauai and the state was outlined in the Governor's plan, "The Rain Follows the Forest," which was released in November. The plan by the Department of Land and Natural Resources to fence off and remove the ungulates and control the weeds in 90,000 acres statewide will double the protected area. This plan will be accomplished in 10 years. Kauai has 25,000 acres of the priority watershed areas.

The goals for the Kauai Watershed Alliance is to continue fencing off more of the areas of the Alakai and then moving out into the eastern flanking Palis such as Blue Hole, Eleele Ula, and Grove Farm. There is a tentative agreement to continue working in the Alakai to construct more fences and remove animals from 3,000 to 5,000 acres. The overall plan in 10 years and 25,000 acres on Kauai will cost and between $22 million and $25 million. Next year it is expected that $800,000 will be needed to continue managing the areas which were fenced off and to begin scouting more fence lines in the Alakai. The Kauai Watershed Alliance has accomplished a lot the last five years of operations.

<u>DISCUSSION</u>:
Manager Craddick inquired if the $150,000 matching funds required help. Mr. Menard stated the county money is significant which can be used to match federal money. If the Watershed Alliance receives state, county or private money, it can double or triple the money by putting it out and then being able to apply for grants and acquire federal money. The county money is used to supplement a lot of the money the Watershed Alliance is pulling in from the feds and the state. This would be funding for weed control and animal control which are on-going battles. If the money is received early during the year, the greater chance it can be matched and tripled with federal and state money.

Chair Dill asked Mr. Loo to expand on the Kauai Watershed Alliance mission and how it helps to further the mission of the Department of Water (DOW). Mr. Loo stated their company has been a part of the Kauai Watershed Alliance since inception. Their company is owned and operates a water company with their resources. Along with the DOW and large landowners is to preserve as much as possible with the help of the Nature Conservancy. The Nature Conservancy is helping to reach out to other government entities and other private entities to help preserve watershed. Some of the other alliances on the other islands are on private property and in different sectors.

Mr. Loo added if water is not preserved, there will be problems in the future and if the land is not preserved, the water will go away. He added if the DOW is going to raise rates, to put a little aside for preservation of the resource.

Mr. Rietow, Field Representative for the Nature Conservancy is the Coordinator for the Watershed Alliance. His handout summarized a statewide history of the Kauai Watershed Alliance and alliances across the state. He read the mission as follows: *"The mission of the Kauai Watershed Alliance is to* *protect, preserve and manage our valuable watershed resources for the benefit of our residents, communities and all future generations through the concerted efforts of our members."*

In closing, Mr. Loo added they are in the water and wastewater businesses which is often unappreciated. Preservation for this resource goes beyond most people. This is coming into focus with the legislature because there is pressure on this resource like development, expansion and reduction of agriculture.

Mr. Rietow provided member names of the alliance as follows: The Department of Hawaiian Homelands, Alexander & Baldwin, Lihue Land Company, Grove Farm, State of Hawaii, Kauai Ranch, Princeville Corporation, Hanalei, Namahana Farms, National Tropical Botanical Garden, Kamehameha Schools, Jurassic Ranch and the Kauai Department of Water. The originators of the alliance are Ernie Lau, who was the predecessor of Manager Craddick, Alvin Kyono and others.

Chair Dill previously chaired the Kauai Watershed Alliance when he was in Princeville. He vouched for the efforts of the alliance and the good work they do. The Kauai Watershed Alliance should be proud of the way they managed their funds and leveraged their funds when compared to the other partnerships across the state. They have a wonderful track record to show what they have accomplished with their results and he fully supports their efforts.

*(5-minute Recess)*

Chair Dill called the meeting back to order.

Manager Craddick highlighted the handout on the budget that deals with the Kauai Watershed Alliance on the Summary Page titled, "Report to the Finance Committee, Proposed Fiscal Year 2013 Budget." He stated after the budget is reviewed, any requested changes and approval are required by June 30, 2012. Revenues of $34.8 million incorporated a 22-4/10 % rate increase which was approved by the Board since January 1, 2012. This is the biggest change in the income. The previous budget used the current rate increase for half a year. The next increase will be in January 2013. The R. W. Beck study had the rate increase to begin July 2012 and not January.

Miscellaneous Income reflects $1.98 million for debt requirements of the BAB, SRF, and another bond debt from the FRC account to pay for expansion-related projects keeping with the user-pay principal. For the FRC portion, the transfer out will go into the water revenue fund.

The Water Service Revenue is $24.3 million based on the January 12th financials and the revenue from approved increases was used to prepare this budget. This requires a 0.8% increase in consumption which may not be realized. This year there has been no increase in consumption and there has only been a drop in income because of the rate increase. The financials were prepared based on the January financials which the Board received at the last Board meeting. Going through the budget, there will be newer updates to see whether the Department is getting any additional income from the rate increase in January. There is no rate increase in consumption and if this happens, the Department will not be meeting this number by year end. Manager Craddick stated if the amount is not a significant amount, the amount will be left alone.

Mr. Nakaya questioned what does 0.8% equate to in dollar amounts? Mr. Craddick explained 50% of the DOW's consumption is in the lowest block rate and there is 0.8% listed. In the higher blocks, there would be some percentage increase but he is not sure what block it falls in. Fifty-two percent of the consumption is in the lowest block rate. By taking the consumption of 4.2 billion gallons, and take 0.8% of that, then divide it by a thousand x (times) 320 equals a rough number. Ms. Yano will prepare the dollar amount if it does not get the 0.8% increase in consumption. Manager Craddick's estimate equaled about a quarter of a million dollars.

The expenditures and salaries are budgeted to $40.1 million above last year's budget. Positions which were vacant are now getting filled. This increase includes fully funding employee retirement and medical costs which the DOW have not been doing for over a year and is part of the normal budget cycle. There was no big increase in the previous year. DOW is seeing increases and is being fully funded. Up until two years ago they were fully funded. Last year there was an adjustment. The DOW is more than one full budget cycle and not showing as increases in the budget anymore.

Manager Craddick explained electric costs are expected to rise and operational costs are lower due to inclusion of exercising the Waiahi Treatment Plant purchase option. From the operating budget, $1 million was cut. The budget states $5 million. Ms. Yano stated it is $6 million but in the paper, Manager Craddick read it at $5 million which there is a question about the land. It does not change the budget summary. Mr. Nishimura requested to see how Manager Craddick came up with the numbers. Manager Craddick stated this assumes the transaction to be completed by December and a contract in place to operate the facility until the end of the fiscal year. Next year there is another half million in savings which appears to be $1.5 million per year but is actually less because it was budgeted the half million in case the DOW needs to use the facility at full capacity of 3 million gallons a day.

Typically half a million is never used from the budgeted monies. The $1 million in savings would occur in 2019 when the agreement terminates with the facility being turned over to the Board. For clarification, if the DOW brought it out, it would not be turned over to the DOW. The facility would be turned over to the DOW with the land at no cost. The DOW would have paid all the costs during those remaining years.

Mr. Nakaya inquired if Manager Craddick discussed with Grove Farm the purchase, or is the DOW going to accept $6 million, or will Grove Farm sell it to the DOW for $6 million. Manager Craddick stated Grove Farm does not have a choice. The agreement is fixed on what the DOW is paying. The DOW is paying two-thirds of the capital cost with a remaining payment of $4.8 million. This includes a buy-out clause at anytime. A letter would be sent to Grove Farm stating DOW would like to exercise the option to buyout. The DOW has 90 days to discuss the price. If Grove Farm rejects the option to buyout, there is a process for going to court and getting an appraisal which revolves around the purchase price of the land. The Board previously made a motion that the land be given with the plant. The final agreement was signed by the Board Chair without Grove Farm giving the land and the land had to be purchased. It did not go to full term which explains the extra money.

Manager Craddick explained the DOW does not pay for the land. Whatever the land costs is something extra the DOW is paying and is included. He estimates that $1.5 million in total would be saved on the purchase price. Another consideration is what kind of other jobs the DOW could be doing with the $6 million without having a rate increase.

Mr. Kaneshiro questioned if the DOW buys out at the end of 2019, would the savings be $6.3 million which includes operating costs? If the Board does not want to do this, the budget will jump another $1 million and the capital program will drop by whatever the purchase price is. This year the DOW assumed the operation would continue for six months and only had to continue for 90 days if the DOW moved to July 1st. If the DOW does not reach an agreement in 90 days, there is a provision to mutually extend the 90 days. Manager Craddick asked the Board for approval to move forward with this project as part of the budget proceedings. Ms. Yano stated assuming the DOW buys the Waiahi Treatment Plant, the water purchase is cut by 50%. The budget is now $1.1 million for 2013. Manager Craddick added the budget will run at 3 million gallons but actually runs at 2 million gallons. The other half million saves on the budget, but it does not save the DOW dollars because it is never spent that way.

The budget was cut by $1.2 million and adding all the expenses, the DOW could take over the plant which would be contracted. The next year, the DOW could operate the plant with operational costs of $200,000 or $300,000. The numbers were taken with what is costing Grove Farm to run the plant. If the DOW bids goes out, there would not be a higher price than what is costing Grove Farm to operate the plant. If more than one company bids for the plant, the price may be lower. If the DOW puts it at the current price, this would be a maximum. The DOW would take the chemical and electrical costs.

Ms. Yano referred to Tab 10, Item No. 55, page 7 (Purchase of Water) which states 3 million gallons per day at $2 per 1,000 gallons as the purchase price. Mr. Kaneshiro asked if the DOW is still going to sell it for five-something per 1,000 gallons. Manager Craddick stated this portion is already in the budget. The water that is sold is part of the consumption and comes out of the treatment plant. The revenue portion is not going to change by buying the plant. Expenses will need to be cut. Manager Craddick noted the operating costs would have to be increased by $0.75 million dollars this year if the buyout of the plant does not go through. The revenues for capital projects come from the bonds, revenues, SRF loans and FRC charges and reserves from previous years. The DOW is spending down the remainder of the BAB. There is a small percentage in FRC in the DOW's existing contracts which are being completed. BAB projects are expansion-related projects but the bulk are replacement projects.

There is $16 million in the utility fund from the beginning balance and revenue that the DOW has over income. The Work-in-Progress money is encumbered on existing contracts which will be spent down next year. There is $3 million for the Grove Farm replacement tank and $5 million for the portion and the Yamada tank are not related to expansion. They are all part of the BAB projects. When these projects go to bid, the BAB projects are dollar funded because there is still debate of which ones will come up first. There is a possibility of receiving grant funding. SRF are grant funded. The Nene project is high on the list but is non-grant funded. The treatment plant is the most controversial because if the DOW pays this, there will be less money for other projects. Depending on how much is saved, those projects would have to get deferred. The expansion-related portion of the new building is $2 million but nothing for the replacement portion of the building. The DOW would be $4 million short if the new building is done this year. Manager Craddick stated there isn't anything if they do the extra section where the pipeline ended off going across the iron bridge. The state would have to move the DOW's 16-inch line. If this is expanded to 24-inch, it would cost between $1 million and $2 million. This design-built project is not in the budget yet.

Ms. Yano explained the 15 sections of the budget on Tab 6, 7, 8, 9, 10, 11 and 12. Tab 2 is the summary of all sections. Under Major Expenditures are salaries, normal expenditures, debt service and equipment, miscellaneous capital expenditures and fixed costs. Tab 11 is Contract Expenditures / Capital Expenditures, Tab 12 is Replacement and Rehabilitation Projects, Tab 14 is FRC and Tab 15 is Building America Fund Projects.

Revenues are based on the current water rates. The new water rates are based on the R. W. Beck study. Estimated revenues are $34.8 million which is a 4/10% increase. Reimbursement is included from the FRC and the debt service requirement is $1.98 million. Tab 3 is Miscellaneous Income, a combination of interest income, service charges, other receipts received from the state. The major portion is the water sales and service charges.

Manager Craddick asked Ms. Yano if the Emergency Reserve Fund is $2.4 million. She explained the $1.2 million listed is the 2012 Emergency Reserve Fund which will be transferred into the Emergency Reserve Fund, a new budget item. Manager Craddick stated 25% of the $13 million is less than $3 million and the DOW has $2.4 million and the next year would be less. It would be around $1 million or less than a million dollars to fully fund. Ms. Yano noted the new policy under the Emergency Reserve Fund is changed based on the operating facilities revenues. Originally 25% was budgeted for operating expenses. Manager Craddick stated that is about $13 million and 25% is around $3 million. If the total is $2.4 million, then there is only $0.6 million to put in to fully fund for next year. Ms. Yano stated next year this can be adjusted on the next budget.

Manager Craddick added the operating cost total is based on the previous year's audit. For this year's audit it is the operating cost less depreciation. The operating costs in the audit have been flat for the past three years (around $13 million). The rest is debt service which is a big number in the capital program. Most of the salaries budgeted end up getting capitalized at year end including some of the operating budget if there are capital projects. Even though the DOW has to fully budget for salaries, it does not end up getting charged to operating costs at the end of the year when the audit is done. Cash budgeting is currently done.

Mr. Nakaya stated the contracted capital expense of $2.299 million on Tab 11 shows all itemized encumbrances for 2012. Ms. Yano stated this number might change depending if the DOW has something in the 2012 fiscal year.

Mr. Nishimura commented that salaries for two additional positions have been approved in the Table of Organization for the Purchasing Agent and Accountant II for billing. He asked if the Accountant II was a temporary position and if one position can be dollar funded with one of the other positions that was not fulfilled. There are 67 positions that are filled. If the Accountant II position is going to be temporary, he would like to dollar fund water resources since they took one, and it looks like it was put back. Mr. Fujikawa clarified it was the engineering position which is still the position Mr. Nishimura wanted to terminate, but it is still listed. Manager Craddick stated this position is dollar funded because Mr. Keith Aoki wanted to get a CE 4 versus a CE 2.

Ms. Yano referred to the details for Operations, Tab 10, page 3 on overtime. Mr. Reyna indicated about $200,000 for this year was spent for overtime and $220,000 from last year. Manager Craddick explained the overtime will be paid back by the contractors due to a lot of tie-ins and inspector time. There is a possibility of not having many tie-ins this next year and the overtime may go down. The revenue in the budget would be under Tab 3, Miscellaneous receipts which indicates $60,000 for next year and $60,000 for this year. Ms. Yano indicated the billings are current on the previous year because they were holding work orders that were behind. Mr. Nakaya questioned the $250,000 in overtime which only $60,000 is being collected (less than 50%). Mr. Reyna explained a lot of overtime in Operations was overnight work for repairs for the Water Plan 2020. Some repairs were for customer call ins or Police Dispatch call ins. Seventy percent of overtime would be for regular repair. Maintenance and is not reimbursable. Mr. Nakaya figured from $250,000, $70% is over $175,000 and the remaining is reimbursed. Manager Craddick stated the overtime is due to the SCADA system not operating and there is a lot of the plant operations staff who continually run overtime to pumps. The tanks, wells, expansion-projects and tie-ins were not as many as last year.

Mr. Reyna explained $173,000 was spent on overtime on previous actual overtime expenditures for operations in FY 2010. In FY 2011, $222,000 was spent. The $250,000 is in line with what was spent the past two to three years. This year it is higher because they did an Amfac shaft. Ms. Yano added a combination of repairs is an expense. Some of it is capitalized into the jobs that are worked on and the rest are billed to consumers who request these jobs. Mr. Kaneshiro stated the DOW can budget less for overtime. Other departments may need some funding.

Ms. Yano referred to Tab 4, page 4 (Normal Expenditures Summary) which went from $904,000 down to $430,000 (See Tab 8, page 3). Tab 8, Item No. 27 page 1 (Water Resources and Planning) shows quantity. Ms. Yano referred to Tab 8 and noted out of the $904,000, $500,000 is in the water resource plan.

Mr. Nishimura thought the Watershed Alliance was $75,000 that was encumbered and $75,000 for this year. Ms. Yano explained DOW has been paying the Watershed Alliance $50,000 yearly in increments of $75,000. The last $75,000 has not been paid and what was budgeted in 2012 will be rolled over into 2013. This budget would be used and put under Tab 11 (Encumbrances). Manager Craddick further explained the DOW requires the matching funds. Halfway through the year they can get the match for at least half and the last half of the year, until their budget year closes. They do not have the other portion to match. The DOW usually does this until the end of August to get the match completed and a payment is made.

Manager Craddick spoke on the rainfall study which was $80,000 for the first year, $70,000 for next year and $10,000 should be minused from the $80,000. Mr. Nishimura wanted to know why the rest of the money was only $500,000 and the DOW has the reserve which should be cut. Mr. Nakaya is looking at11.3% against 11.4% and against the 13.7% which is almost 16%. He would like to reduce the normal expenditures budget. Mr. Nishimura stated if the DOW has not required the $1.5 million over the last year was it reasonable. This is almost 15% of the normal expenditures budget. There still is the operating reserve that the DOW can fall back on in a true emergency. Mr. Nishimura expected the gap to be smaller. He feels if the rates are increased, budgeting is off by 15% which translates into hard dollars for the rate holders.

Ms. Yano referred to Tab 5, Item 2, page 2 (County Service Charge) which indicates a big increase on the DOW's contract. DOW bills the county but is also expensed in the books. The $1.4 million was taken from the R. W. Beck study, the new water rates, which are based on old hydrants. Mr. Kaneshiro asked why the number jumped up. He feels with all the new lines being put in, the DOW is adding new hydrants and not minusing off the ones that are being taken out of service. Ms. Yano asked if this is actually another $0.5 million increase in the normal expenditures which is not really a capital expenditure. It is recorded as revenues coming in and expenditures going out. Mr. Nishimura would like to see the budget and the estimate numbers come closer in line with each other. If the DOW keeps overstating, it will keep pumping up the water rates.

Mr. Nishimura needed clarification on the 2012 encumbrance if the $2.3 million is only capital or normal expenditures. Ms. Yano referred to Tab 11, (Normal Expenditures). Item 24 is Maintenance Agreement and Item 27 is Contractual Services (See page 1 and page 2). The 100 series are capital accounts at $400,000. Manager Craddick asked if the water use and development plan is going to be capitalized. It is shown as expense because the Department is not sure what intrinsic value it might have to the DOW. This is more of a legal requirement.

Mr. Nishimura referred back to the water rates. Some items are being expensed out and then capitalized later. The water rates are shown as normal expenditures which inflates the water rates unnecessarily. He wanted to know why the rate holders are getting charged at the full brunt of these capital items.

Manager Craddick commented it is tough to take out a loan on the water use and development plan. If there is a recurring expense, typically it does not make sense to borrow money for it. The Water Department's recurring expense are pipelines. Ms. Yano stated the water use and development plan are not going to be capitalized but the expenditure will be amortized later. This would depend on how many years estimated it is going to be used. The expenditures are spread out in longer years instead of just this year. It is shown in the 2013 budgets and 2012 budgets because the funding is needed this calendar year which will be paid. The phone system could be leased but in the long run, the Department would end up paying some percent and costing more.

Manager Craddick indicated there will be changes in the capital projects. There are 19 projects that affect the bond. Mr. Nishimura mentioned an outstanding balance of $19,000 million and asked if some have been encumbered in Tab 15. Manager Craddick stated the new building may begin the next fiscal year. The money will be spent if it is all encumbered. There are two tank jobs which should be reflected in this fiscal year budget. The three years of the bond could probably be around $10 million to $12 million which are not spent yet but should all be encumbered.

Manager Craddick indicated $2 million is included in the budget. The projected $4 million is not in the budget because the DOW can get SRF money for it. The DOW can get the photovoltaic system with grant money which is being worked on. The number of customers was projected to 2050 compared to this year which is a 30% increase. It was justified by charging 20% or 30% of the building to the FRC fund and the balance would be paid by existing customers. With existing customers, the DOW can go to the SRF fund. The SRF staff could give grant monies for the photoval tank system on the building. This would add to the debt service. The R. W. Beck rate study planned projects are SRF funded at $3.5 million next year. There is nothing being projected as SRF funded because we do not have any agreements with them yet. Manager Craddick stated Mr. Dustin Moises will be completing drawings and will present it to the Board on how this will be funded in December 2012.

Chair Dill referred to Tab 2, page 3 and stated the number of positions shows an estimated 67 positions. He questioned if the 67 should be 91. He also stated there are 36 vacancies and 12 should be negative (12) which carries throughout the other pages on the budget.

Mr. Nakaya referred to the expenditure for the salaries for 15 engineering positions at $933,000 if it is going to drop to $50,000 compared to the previous budget. For 2012-2013 there are 15 position at $883,000 which is a decrease of 50 %. The total salaries of $916,000 are in Tab 2, page 3. Some of these positions were funded for nine months stated Ms. Yano. Manager Craddick stated the budget will be ready for approval by the full Board in June.

Manager Craddick will have changes in the capital program. Mr. Nishimura requested to have a subaccount in the budget that delineates that portion so it is not spent for something else.

Mr. Nishimura noted the reserve is separate from normal payments. An emergency reserve is like the operating reserve only for emergencies. He prefers to set aside the monies for the debt service as a separate line item as opposed to calling it a separate reserve. Manager Craddick stated the emergency reserve is a separate line item, the debt service payments (Tab, page 1). There is no reserve associated with that. The DOW has a half a year reserve to set it in a reserve account. On the debt service, out of $6.5 million, $1.98 million comes from the FRC account to make up the total amount. The $1.9 million is for FRC debt service. Debt service is a separate reserve item that is reserved for half the amount. Each year is budgeted the full amount. There is half a reserve at all times and each month 1/12$^{th}$ is put in. During the year, there is a full $6 million number. On the same month, payment of half of it is out of the debt service. The purpose of this month is an operational reserve, not a debt service reserve. Previously discussed, the DOW was doing 25% of the entire budgeted amount which would have given a bigger amount or a little less. A Board member wanted to separate the debt service which would set aside some extra money. Manager Craddick stated if the debt service is not paid, it will give a warning at a minimum of six months notice. This would not be an emergency situation. If the project moves ahead, some projects should be set aside in order to fund them.

Ms. Yano mentioned the BAB subsidy is $1 million for the year but 30% was set aside for FRC (Tab 14). FRC is paying part of the BAB debt service. Manager Craddick added the total debt service, 35% of the interest of the subsidy and divided it again. Mr. Nishimura referred to Tab 3, page 1 (Debt Service Payback). Manager Craddick stated the debt service payback is going to the General Fund from the FRC to cover debt service on the SRF projects, the 2005 bond and the 305 BAB portion.

Mr. Nishimura commented that if the BAB subsidy is added and the debt service payback which is $2.6 million more than the 25%. Manager Craddick stated 50% stays in the budget the whole time which is done with previous bonds, not just the BAB bond. Manager Craddick explained funding is spread out over two or three years. Instead of using the funds to pay debt service, the subsidy can be taken and put into the reserve fund and within two or three years it would be close to funding the BAB portion. With the SRF portion, the 2005 and 2001 bonds, the DOW would figure out where the money is coming from. When new borrowing is done, the initial payment goes in at the start.

**<u>Adjournment</u>**
The Finance Committee meeting adjourned at 12:11 p.m.

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