Recessed Finance Committee Meeting

April 9, 2013
2:00 p.m.

Recessed on April 4, 2013, the Finance Committee reconvened on Tuesday, April 9, 2013, in the Second Floor, Microbiology Lab building. Chair Dill convened the Finance Committee meeting at 2:10 p.m.

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

Board Members Present: Randy Nishimura, *Board Chair*, and Mike Dahilig *(arrived @ 2:35 p.m.)*

Staff Present: David Craddick, Kirk Saiki, Marites Yano, Keith Aoki, Val Reyna, Dustin Moises, Jeff Mendez, Sandi Nadatani-Mendez, Joy Buccat, Carl Arume, Mary-jane Garasi, Deputy County Attorney Andrea Suzuki

OLD BUSINESS *(continued from April 4, 2013)*

Re: *Manager's Report No. 11-49* – Financial Planning Analysis & Water Rate Study Rates
v. Phasing

DISCUSSION:
Manager Craddick presented a PowerPoint table and graph reflecting the FRC balance, revenues and expenses from the Department of Water (DOW) audit. The revenue jump is between current and approximately $3M if the fee is implemented at one time. The graph depicted the FRC collection from 1990 to 2013. The year after a new fee went in DOW collected 90% in revenue over the previous year.

In the 2001 column, the FRC balance was $5.9M by adding the revenue and subtracting the expense which gave an FRC balance for 2002. The FRC collected cash, interest, and the Build America Bond (BAB) subsidy which were revenue items. At the bottom of the chart were the expenses from Lines 13 to 18.

Manager Craddick mentioned that the projects were missing on the graph but are being worked on. The concern is with the end of the year balance and not the start of the year balance.

DOW Waterworks Controller, Ms. Yano noted that the beginning balance at the end of the year deals with the accrual portion of the interest and the liabilities for projects that are to be paid. The actual revenue and expenses and the ending balance on the bottom of the graph does not match the beginning balance. At the top of the worksheet are the audited portions which show the accrual portions of the revenues and expenses.

Manager Craddick mentioned that the ending balance shows the cash. The graph can be shifted over one year to get the beginning balance instead of the ending balance.

Ms. Yano indicated liabilities do not mean they were paid. The balance forward does not match up.

Manager Craddick commented that the graph needs to pick up the collections, interest and expenses but the audit does not give this information. How much the DOW owes on projects was not available on the graph.

Chair Dill questioned why doesn't the end of the year balance carry forward to the beginning of the year balance to the next year?

Manager Craddick explained that it is the end of the year balance and not the beginning of the year balance and the graph would need to be corrected.

Mr. Nakaya questioned why was the 1995 column showed the end of the year balance and on the top showed $3.3M but the bottom half shows the beginning balance?

Manager Craddick clarified it is not the beginning balance. Whether he puts the beginning balance or the ending balance on the graph, it will shift the upper graph by a year.

Chair Dill requested to see the ending balance at the beginning balance for 1996 at the bottom of the graph.

Manager Craddick commented that this will only shift over one year. Instead of having the ending balance, the graph shows the beginning balance and what goes on during the year.

Board Chair Mr. Nishimura observed if there is no money, how will you pay for it? The revenue has to exceed the expenses and the timeframes are off by a year.

Manager Craddick explained the only timeframe that is off by a year is the balance. The revenue line and expense line are what they are for the year. Plus or minus in a year does not change the balance on the account but the graph should be corrected.

Board Chair Mr. Nishimura questioned what is the year where the FRC balance is below the revenue and expenses? How will this be paid with the expenses when the balance is consistently below the expenses?

Manager Craddick explained that this is the balance in the account and not what has to be paid. If the revenue line exceeds the expense line would mean the DOW would be in good shape.

Mr. Nakaya observed that for the last three years 2013, 2014 and 2015, the expenses are higher than the revenues.

Board Chair Mr. Nishimura inquired if the common resources are the combined FRC balance line and revenue line.

Manager Craddick explained that the FRC balance line is the beginning of the year balance.

Chair Dill referred to the last segment on the graph which showed the expenses were flat and the revenues are increasing. Why isn't the balance increasing?

Manager Craddick explained that the projection flattens off.

Chair Dill observed that the revenue is increasing. The last expense line is flat from 2016 to 2017. He questions why is the balance decreasing?

Manager Craddick commented that there is no exact audit numbers they are estimates for 2016 and 2017.

Ms. Yano clarified that after 2014 are projections. The beginning balance was left out. The projection was only on the projected revenues and projected expenses. This explains why the balance was lower than the revenues and expenses. The balance was not projected because the amount in the account was unknown.

Chair Dill observed that the balance was projected based on the graph and inquired that the FRC balance should automatically follow the revenue and expenses.

Ms. Yano explained that portion was left out of the table but not on the graph.

Chair Dill questioned if the purpose of the presentation was to show the committee the FRC balance?

Manager Craddick explained that the phasing will show the effect on the revenues and not on what the balance is.

Chair Dill observed that the declining FRC balance, a red flag, on the graph does not an accurately reflect the FRC balance.

Manager Craddick will correct the ending balance which should be the beginning balance to carry forward.

Board Chair Mr. Nishimura commented that the only numbers that matter is the FRC balance as to whether to entertain a phasing plan. It doesn't matter what the revenue and expenses are. What matters is there are sufficient balances to cover the expenses. The FRC balance is in relation to the following year's debt obligations.

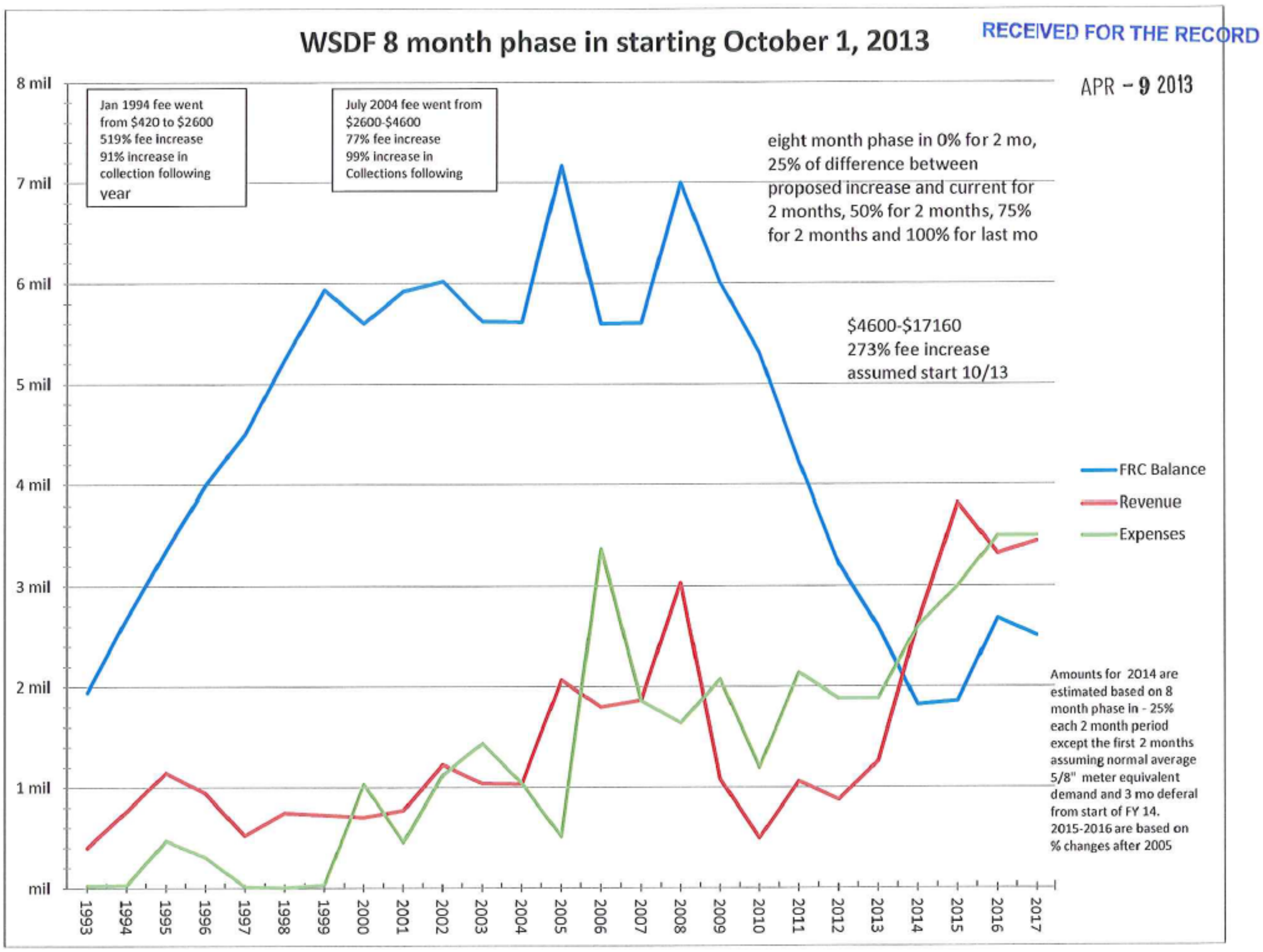
Chair Dill would like to see annually the revenues at least meet the expenses which would give a stable FRC balance.

At 2:35 p.m., Mr. Dahilig enters meeting.

Manager Craddick will work on correcting the balance portion.

Effects of Phasing

BACKGROUND:
Manager Craddick explained the effects of phasing on the revenues. The committee packets contained two (2) graphs: 1) Water System Development Fee (WSDF) 8 month phase in starting October 1, 2013 and 2) WSDF assume full amount starting July 1, 2013.



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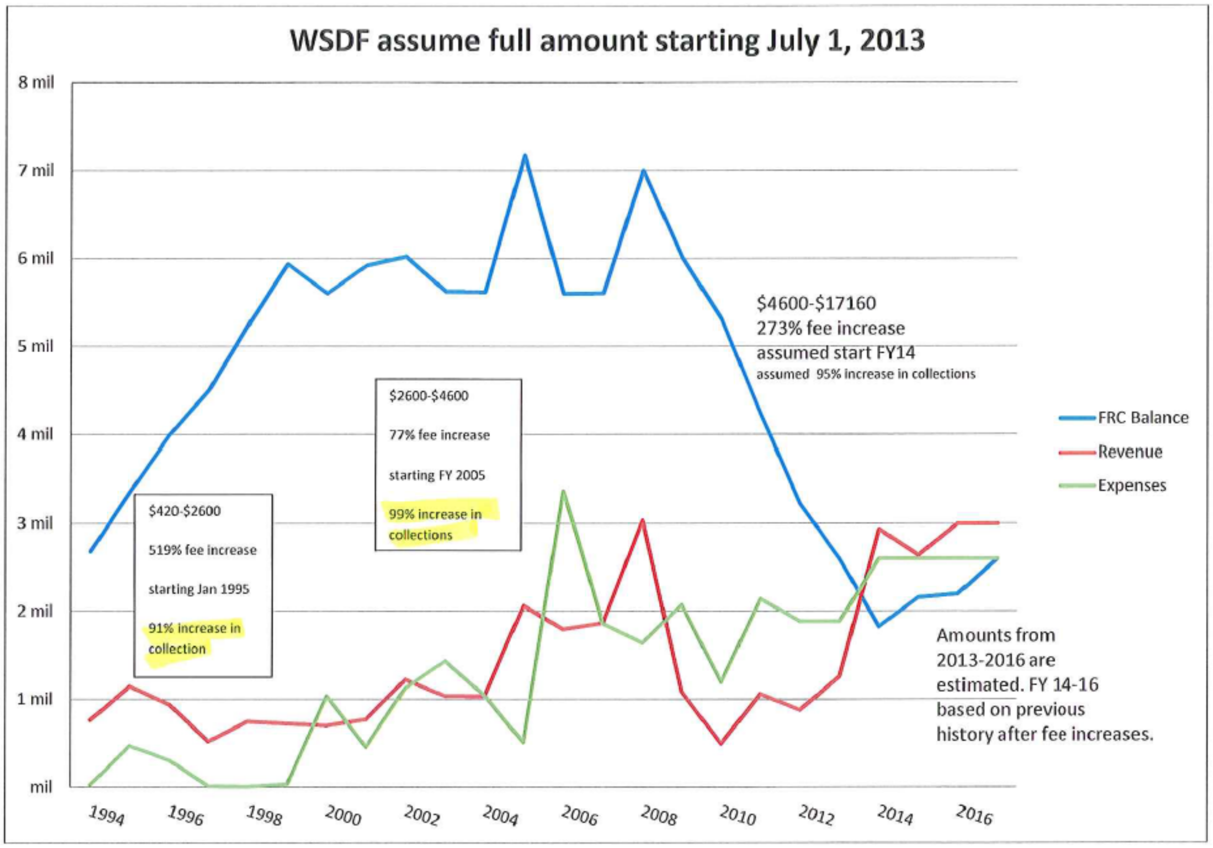

In 2004, the revenue was compared to after the rate increase went in the year before. Ninety-nine percent (99%) was collected from the year before. In 1994, 90% more was collected. In the no phase graph there is a 95% jump which is the average between 91% and 99%. In 1994 there was a 500% increase in the fee from $420 to $2,600. This exceeded the increase that the DOW is proposing. Previously there was a 77% increase in 2005. Manager Craddick expects a 95% increase is reasonable.

In the phasing graph, Manager Craddick took the revenue and divided it by the dollars for a 5/8" meter which were added up and calculated an average for all the years between the rate increases. The graph reflected the number of meters equivalence from 1994 to 2004. There are 327 meters from 2004 to 2013.

Manager Craddick explained two scenarios in phasing:

1) The phase in would start on October 1, 2013 if the fee is approved and if the rules are in place. Starting two (2) months later if the fee is approved, the increase will be 25% of the difference between the proposed fee of $17,160 and $4,600 which is $3,140 plus the current fee of $4,600 which equals $7,740. Two (2) months later or February 1, 2014 the fee is increased to 50% of the difference between the proposed fee of $17,160 and $4,600 which is $6,280 plus the current fee of

$4,600 which equals $10,880. Then two (2) months later April 1, 2014 the fee is increased to 75% of the difference between the proposed fee of $17,160 and $4,600 which is $9,420 plus the current fee of $4,600 which equals $14,020. Then two (2) months later on June 1, 2014 the fee is increased to 100% or $17,160. This would happen as a one (1) year phase in one fiscal year. The staff can check if a customer makes a change from a 5/8" meter to a ¾" meter. The customer will be charged the difference of the meter size which is kept within one year.

2) When the rule is passed, immediately charge 25% more. At three (3) months, the same fee is applied until October 1st. Until the last three months, the full rate is charged which would not change the income. The income would only shift from a month or two.

Manager Craddick took 300 which was broken up by the percent of time out of the year which gives the number of meters. Some people may try to come in at the lower rate because they will think they are getting a deal with anything less than $17,000. By phasing is not going to cause the number of meters to drop at the end of the year. Only 95% in revenue will be collected.

Chair Dill requested more historical information on the 300 number.

Manager Craddick took the sum of all the numbers on the graph and divided it by the number of years which goes back when the fee was $4,600. From 1994 until 2013 the numbers average at 300. The 600 number was the housing boom in 2008. In fiscal year 2005, the fee was implemented July 1, 2004.

Chair Dill commented on the change in the fee, did not make a difference in the number (columns Q, R & S) which stayed up which could be a reflection of the economy.

Deputy Manager Mr. Saiki mentioned if homes are built to make money, no one cares how much the fees are.

Chair Dill acknowledged that 300 meets the revenue to get the expenses which is the breakpoint.

Manager Craddick commented that the Board has to balance community acceptance in getting the revenues should be been dealt with two years ago. If the Board is comfortable with phasing at 250 or 300 and to get more than 90%, the DOW will probably collect more money up front. This is Manager Craddick's recommendation. The DOW needs to be careful not to give away water that will have to be replaced at a higher rate than what is being given away.

Construction Project Management Officer, Mr. Moises questioned what are the current FRC meter numbers?

Manager Craddick explained the number of meters estimated by the end of the year would be 274 which is from the budget.

Mr. Moises noticed from 2010 there was an initial rush to get meters.

Manager Craddick agreed there was an initial rush to get meters but it lulled off. Then there would be a second rush to get meters.

Mr. Moises commented that Civil Engineer Mr. Aoki and Chief of Water Resource & Planning Mr. Fujikawa would attest that construction would have numerous meter laterals for construction. He questioned how was the phasing factored into this next year?

Manager Craddick commented that 300 meters is estimated and logical for the next year.

Deputy Manager Mr. Saiki mentioned there is a trend that will go up, then a next couple of years later it will be negative from the previous year, then it goes up again.

Manager Craddick indicated one has to be comfortable with the decision that phasing equals continued demand. If the fee is put in all at once, then more revenue will be generated. But the collection of revenue would be less with phasing.

Mr. Dahilig commented that in order to use the revenue, people have to put in a meter. There are 15 out of 17 systems on restrictions. In order to maintain the flow of revenue coming in, actual people would have to pay the fee and put in the meter or the DOW has to refund the money. If the system cannot accommodate them, why would people come in early to take advantage of the deal?

Manager Craddick indicated the DOW could take the restrictions off in more places. That may be the issue if the DOW is going to have one benefit zone. The DOW cannot offer a benefit zone unless the fee is put in full.

From a planning standpoint, Mr. Dahilig is surprised if permits that were passed shows a demand drop of 200 5/8” meters annually.

Manager Craddick explained 100 to 150 meters are at the 5/8” equivalence.

Mr. Dahilig commented that in order to keep the cash flow, the meter has to be dropped. From this model, people can pay the FRC but the DOW cannot give you the meter now. Applicants that come to the Planning Department cannot drop the meter because they cannot get a clearance from DOW. If the numbers of meters are relied on, then meters need to be dropped.

Manager Craddick explained this is not based on the number of meters installed. This is a combination of meters installed and lots created.

Chair Dill questioned until there is a rule change and if someone is going to build a house in 10 years and gets a deal, can they pay for the FRC now?

Mr. Dahilig commented that the FRC can be paid now, but as the FRC goes up, people may squat on the meter. They need to get the clearance to connect and have the resource. He asked if the DOW is yielding people from dropping meters.

Mr. Dahilig advised Chair Dill to step back because there is not enough water that is being approved.

Manager Craddick agreed that the restrictions need to be loosened up to produce revenues. The DOW continues to give out meters even if there is no water.

Mr. Dahilig added if the DOW does not have the water people may be encouraging squatting for 10-12 years.

Manager Craddick explained that the way the rule is written for new meters from now and in the future. If people do not put in a meter, the fee will go up or money will be refunded.

Mr. Dahilig questioned the annual fee and if the money can be collected for expansion projects?

Manager Craddick explained that if the fee goes in, the BAB has $20M and can be used and does have to wait to collect it. The money is available to spend on projects.

Mr. Dahilig does not see the CIP projects happening.

Manager Craddick commented that the affordable housing cannot drive the projects and the Department has to reassess to look at the areas that are inadequate for everyone not just affordable housing.

Mr. Dahilig mentioned by looking at the 5/8" meter and the 200 residential units coming on line every year would be what is needed to sustain the model.

Mr. Nishimura questioned if the DOW can develop 200 5/8" meter equivalence in source, storage, and transmission in a year?

Manager Craddick calculated 200 meters x 750 million gallons a year = 150,000 gallons a year that can be developed in a year. The Department would need to shift the monies to get revenue.

Mr. Dahilig's concern for the rules is if there is a drop requirement on a certain amount of time and if a person cannot drop a meter because there is no water in the system but already came to pay for their FRC, the DOW would have to pay refunds. This would drop the balance of the fund. If there is no water available, then this would the DOW's fault. There is a balancing element of squatting on a meter or keeping the balance high and one of the other needs to give.

Manager Craddick commented that if there is a place where the meter cannot be dropped and there is no water or the DOW cannot build it, the DOW cannot take the money. Restriction means short of storage or short of source which is by standards living off of other people's peak demands.

Chair Dill questioned if the restrictions were lifted by implementing the phasing in to arrive at the 100% cost or immediately going to the 100% cost, would this cause a significant bump on the FRC applicants?

Manager Craddick noted two biggest systems are in Lāwaʻi/Omao/Koloa that use water from Kukuiʻula and Līhu'e/Kapaʻa with Grove Farm water. A single hotel can take all the water which could happen. Manager Craddick does not know if there could be a phase in every system in those areas and to have a reduced fee.

Chair Dill inquired if the rules can propose changes to discourage squatting.

Manager Craddick indicated discouraging squatting is covered in the rules.

Mr. Dahilig raised another concern on situations of taking a fee and knowing that it is for water in the future that is not on line yet. This may go stale in time to discourage squatting for the meter and to pay for what is fair. The Department may have to pay out if it is not diligent in keeping up with system expansions to actually have people drop their meter. One of the proposals is taking the meter reservations and holding on to the fee reservations by paying the minimum charge. It might be wise to look at this if a family wants to expand a house and fixture units by adding in an ADU for their grandparents. The Department may have to look at folding in expansion being paid out of the monthly fee versus looking at this fund for expansion only. If people are not going to be able to drop their meter as a cause of the DOW's inability to provide the actual water and the rule is if you are not going to drop the meter, then it becomes refundable or they pay the difference. Refunds may be taken out of the system which is artificially pumping it up and dropping it down again. If the revenue model is based on "X" amount of intake and in the rule to start kicking people out, this may not be reflective of what would happen financially.

Manager Craddick explained that the DOW would not be kicking people out because there is no water, but only if they are not ready to put the meter in. As stated in the past by Deputy County Attorney Andrea Suzuki, the fee cannot be increased.

Mr. Dahilig commented that the CIP budget must be harmonized to match the projects along with demand.

Manager Craddick agreed that this has to be done. $60M worth of work has been done.

Mr. Dahilig noted that the presumptions which are folded into the model have to align with the CIP elements. Mr. Dahilig wants to make sure the rule changes does not become a hindrance to the Finance Committee who are relying to maintain the revenue and the fund balance.

Manager Craddick does not foresee people coming back for their money. It would be the DOW giving back money to them because they are not ready to drop their meter.

Mr. Dahilig acknowledged that would be the rule change to inhibit squatting. Mr. Dahilig inquired if the model of revenue should even be looked at this time?

Chair Dill inquired how many meters are dropped in a year.

Manager Craddick indicated there was an increase 150 meters that are dropped in a year. The actual 5/8" meters dropped currently is 154 with a difference of 30. Based on the accounts, there are 150 more than last year.

In a recent meeting, DOW Chief of Water Resources, Mr. Gregg Fujikawa has said there has been no rush of people coming in for meters and his crew has been working overtime to avoid increasing staff. Manager Craddick does not want to be accused of not giving meters out now.

Chair Dill acknowledged the correct amount of the fee has been determined to be $17,160 but have not determined phase in. Regardless of the decision, even with phasing there would be more applicants coming in.

Chair Dill raised the following questions, when the CIP is planned, what projections should be made? The DOW does not want to get into trouble with Planning on phantom numbers or to refund money. Does the DOW match the CIP with funds available?

Manager Craddick is not concerned with refunding money due to water not available. People have one year after the system is ready to put the meter in. Once an amount is collected, the DOW would have to do another methodology. Previously, Mr. Dahilig insinuated instead of having a power surcharge is to have a FRC surcharge only if the meter is in.

If the wrong information was assessed by the number of fixture units or the number of gallons used or families grow. With assigned fixture units, the water can be tracked. If the water goes over the amount a period of time, then they get a surcharge until the water comes down or if they continue paying it until the DOW collects the difference in the fee.

This would be work for accounting due to the tracking of every single meter issued. This would be a concern with people who do not give the correct information from the beginning. The computer would give list and if it is on rule there would be a notification to let people know the usage was "X" amount and three more months at this level, then they would get hit with the fee.

Chair Dill questioned what is the goal for $2.5M?

Manager Craddick recommended that $4M a year is needed. The debt service would be $2.5M and more is needed and not just to pay the debt service.

Chair Dill requested Manager Craddick to correct the graph before a decision is made.

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AWWA C701-07 Standard for cold water Turbine type meters
ALL FLOW RATES IN GPM
-- indicates no standard

	size in inches	maximum rate for continuous duty											
		horizontal type	max day use in gallons	maximum Fix units	WSDF if fully used	vertical shaft	max day use in gallons	maximum Fix units	WSDF if fully used	in line	max day use in gallons	maximum Fix units	WSDF if fully used
	3	**175**	252000	10,080	$ 5,765,760	**220**	316800	12,672	$ 7,248,384	**350**	504000	20,160	$ 11,531,520
	4	**300**	432000	17,280	$ 9,884,160	**420**	604800	24,192	$ 13,837,824	**650**	936000	37,440	$ 21,415,680
	6	**625**	900000	36,000	$ 20,592,000	**865**	1245600	49,824	$ 28,499,328	**1400**	2016000	80,640	$ 46,126,080
	8	**900**	1296000	51,840	$ 29,652,480	--				**2400**	3456000	138,240	$ 79,073,280
eq meters	3			336									
	4			576									
	6			1,200									
	8			1,728	29,652,480	check							

AWWA C702-01 Standard for cold water Compound Type meters
ALL FLOW RATES IN GPM

	size in inches	maximum rate for continuous duty				
		horizontal type	max day use in gallons	maximum Fix units	WSDF if fully used	
	3	**160**	230400	9,216	$ 5,271,552	
	4	**250**	360000	14,400	$ 8,236,800	
	6	**500**	720000	28,800	$ 16,473,600	
	8	**800**	1152000	46,080	$ 26,357,760	
eq meters	3			307		
	4			480		
	6			960		
	8			1,536	26,357,760	check

AWWA C704-08 Standard for Propeller Type meters
ALL FLOW RATES IN GPM

	size in inches	maximum rate for continuous duty				
		horizontal type	max day use in gallons	maximum Fix units	WSDF if fully used	
	3	**250**	360000	14,400	$ 8,236,800	
	4	**500**	720000	28,800	$ 16,473,600	
	6	**1,200**	1728000	69,120	$ 39,536,640	
	8	**1,500**	2160000	86,400	$ 49,420,800	
eq meters	3			480		
	4			960		
	6			2,304		
	8			2,880	49,420,800	check

Manager Craddick discussed the AWWA Standard handout for cold water Turbine type meters and Compound type meters (Type 1 and Type 2). The Propeller type meters are not put in individual services, but if a service takes fire flow or potable use, this meter could be used. There are a number of meters sizes. Depending on peak demands, 3” meters (900 fixture units) can be used. The maximum charge for a 3” meter is the use of the full number of fixture units.

At 3:05 p.m., Mr. Dahilig exits meeting.

From the different options, it is not wise to put in something based on average use the meters sizes.

Manager Craddick would recommend the language but understands the need to have language to show the peak gallons and the fee on the maximum number of meters size that can be used. System standards and 5/8” meters are based on max day.

Manager Craddick shared Mr. Fujikawa’s concern of listing all the meter types is confusing. The Compound meter would be commonly used. If a table is put in, it would be limited to Class 1 or go up to a Class 2 because it would be higher with a peak of 900 gallons per minute.

Chair Dill questioned the staff regarding negotiating with developers or applicants to establish a lower but justifiable number through engineering.

Manager Craddick commented that the staff would be expected to make a recommendation before a final determination. There are a total of 199 meters in the system now.

Manager Craddick agreed to prepare language to be included in the schedule with a possible phrase such as "these are maximum type meters that use compound meters or the applicable AWWA standard."

NEW BUSINESS

Manager's Report No. 13-40 – Draft FY2014 Budget

a. ***Draft FY2014 Budget***

DISCUSSION:
Manager Craddick explained the expenditure on salaries which show discrepancies. The amount of $393,839 is between this year's salary and last's year's salary. From that amount, $249,000 is for the 5% "snap back." If the difference is minused off, then there is a $144,626 which is a 2.66% difference. The Chief of Ops position can be put in or not if the position is deleted, then another number will drop. There was discussion if the construction project manager was a reallocation and approved last year. If it was approved last year, it needs to be corrected. The Temporary Assignment and overtime is left which is at .14 of the budget. If this is taken out, the budget will be less than last year.

On the Normal Expenditures chart, the Departmental Fixed Expenditures were the result of the rate increase going up at $163,104 and the hydrant charge which no monies were collected. The ERS and FICA were changed because of the added salaries that were put in.

Manager Craddick explained that the $255,000 increase for the EUTF - Retirees (OPEB) was based on the 2012 valuation study done by the AON Company.

Manager Craddick added that the $140,000 is discretionary.

Ms. Yano referred to the updated budget changes dated April 9th and clarified Mr. Nakaya's question on what if the rate increase is implemented on July 1st.

Mr. Nakaya commented the budget shows the rate increase for July 1st.

Chair Dill questioned why did the estimate change over $1M?

Ms. Yano explained this year's revenue worksheet estimates were changed. Tab 3, Page 1 in the estimated column; an estimated increase of $2M in the revenue collection for this year was based on the actual revenue year-to-date reports. This was increased from the previous worksheet. The $1M estimated increase in the proposed column reflects a tentative effective date change of a new water rate from 6 months (January, 2014) to 12 months (July 1st 2013).

At 3:45 p.m., Chair Dill called for a 5 minute recess

At 3:56 p.m., Chair Dill reconvened the meeting.

Mr. Nakaya requested Ms. Yano to explain if the Health Plan cost increased under Normal Expenditures (Health Plan - Retirees (OPEB)) which went from $850,000 to $1.1M.

Ms. Yano clarified that it was based on the FY 2012 actuarial valuation done by AON Company. The DOW is paying a portion of the active employee's future employee retirement benefits and health benefits of retirees.

Manager Craddick commented that the fund is underfunded statewide by a few billion dollars.

Each agency is trying to catch up with the current liability costs. However, DOW's liability is not reduced just more money is set aside and the auditor tried to cancel it off as a reduced liability. The payments made into the fund are invested. If the interest rate goes up, the liability will be less but if the interest does down the liability could be more than what is currently shown. AON Company has an actuarial study of the retiree fund. If the DOW is going to fully fund its share to catch up, it would take 14 years to be fully caught up.

Chair Dill mentioned that the county's old benefit contributions will decrease this year.

Ms. Yano commented that the benefit contributions decreased from $1M in FY 2012 to $850,000 in FY 2013 provided last year in the actuarial valuation by AON Company.

Chair Dill mentioned the county has kept current on all of their contributions and inquired if the DOW is not current with contributions.

Ms. Yano explained that the DOW is in line with the county contributions.

Chair Dill inquired what the catch was.

Manager Craddick clarified keeping current is with regard to the catch up of contributions.

Ms. Yano commented that future benefits are amortized 25 years or 30 years. Every year, the DOW pays a portion of this. When new employees are hired, Fiscal adds the benefits to the future value then it is amortized again 25 years which the DOW pays yearly.

Chair Dill was confused as to why the county contributions would be going down significantly from last year, but the DOW's contributions keeps going up.

Ms. Yano questioned Chair Dill if the county decreased their estimate this year?

Chair Dill commented currently it is budgeted less than last year based on the actuarial that were received.

Ms. Yano explained that these are estimated contributions and actual payments made to the state were based on the valuation study. The contributions were also based on actual DOW salaries.

Chair Dill questioned why would it be significantly different and if this was coordinated with the county?

Ms. Yano clarified that the estimate was not coordinated with the county but the actual payments are coordinated with the county. The evaluation study was done two (2) years ago and will end FY 2013.

Chair Dill requested Ms. Yano to check with Mr. Ernie Barreira, the county Budget and Purchasing Director regarding the reason why there was a difference with the contributions going down with the county compared to the DOW's projections increasing.

Manager Craddick inquired with Chair Dill if the county had a 15% reduction of work force through retirements in the last four (4) years.

Chair Dill acknowledged that he did now know and inquired if there would be proposals to change how the health benefits are paid? Will it be 60%/40% compared to a 50%/50% share?

Ms. Yano confirmed the health benefits were based on a 50%/50% share.

Ms. Yano explained the CIP Reserve Fund of a $3.68M increase is a catch all account. Whatever is not budgeted will go to the CIP Reserve. If there is an increase in projected revenues it will all go into the CIP Reserve Fund.

Ms. Yano also noted that the six (6) months projection in the water rate increase will show a $1.1M increase.

Mr. Nakaya commented that the rate increased effective January 1, 2014 would be the end result.

Chair Dill did not expect to see this in the CIP Reserve Fund.

Manager Craddick mentioned the end balance of zero (0) could be shown in a different place.

Chair Dill questioned if the rate is increased, he thought the DOW would generate additional revenue of $4.119M which Ms. Yano agreed.

Chair Dill inquired why was the CIP Reserve Fund going to increase to $3.68M?

Ms. Yano increased the estimated revenue receipts. On the other SRF Allotment, there was an actual reimbursement submitted this year that was put in the FY 2014 budget which may be received this year. This does not affect the CIP balance because if it is received this year, it would affect the ending balance and would be rolled over to the beginning balance for 2014. This would decrease the receipts in 2014 and would not have any effect on the CIP Reserve at this time.
Ms. Yano also added that on the original worksheet for the FRC debt service, $166,758 was entered instead of $1.606M.

Mr. Nakaya requested clarification on the Vehicles and Equipment increase of $.50M.
Ms. Yano provided an explanation on the Vehicles and Equipment which were broken down by divisions. The IT Master Plan was incorporated as part of the increase of which $633,000 went into capital expenditures.

Mr. Nakaya questioned why the Accounting Software decreased by $150,000.

Ms. Yano explained the decrease from $268,000 in FY 2012-2013 to $102,000 for FY 2013-2014. In 2013, $150,000 was budgeted for accounting software. The accounting software hopes to be awarded in this FY 2013; therefore is no longer shown for FY 2014. Any items that were listed as a decrease meant the items were already spent or encumbered.

Chair Dill inquired if anyone was budgeted to support the IT Master Plan.

Ms. Yano pointed out that this was listed under salaries.

Mr. Nakaya questioned how many vehicles are the DOW supporting for $315,000.

Manager Craddick commented that a vehicle cab is very rusted, it leaks, is over 15 years old and close to 100,000 miles.

Mr. Nakaya inquired on the reason for the baseyard security equipment for $15,000.

Mr. Reyna explained that the entire baseyard will have security cameras which is part of the equipment. $20,000 is a contingency under Board Policy #3.

(*Note: Portions of the following HR position number discussions were inaudible.)*

Manager Craddick was unsure why the Board needed to be involved with the HR position because no funding is involved. The job dues are still being done and the position was not taken away from the DOW. It would be up to Department of Personnel (DPS) to move the person to HR. The Board would not have the funding because funding was provided via the fire hydrant charge. There may be a document with the Mayor's signature found later stating that the DOW or the Board was not informed of the position number being taken away.

DPS countered that and providing services from Finance, HR, Police and Fire protection. Without doing any accounting there was a presumption of coverage of expenses. When the Board said DPS could take the position but would not give any money, then DPS decided to take the position number but not the person or the work duties.

Chair Dill requested more time to review the budget.

Manager Craddick noted that the operations budget needs to be done by June 30th. The capital portion does not need be done by June 30th except if new jobs are awarded by the beginning of the year. By the April 25th Board meeting, the decision to approve the rate increase is needed to be brought before the Board by July 1st. The Finance Committee has been moving along rapidly on a decision for the Water System Development Fee (WSDF). A Rules Committee meeting is scheduled for next Tuesday, April 16th.

Deputy Manager Mr. Saiki inquired if the rate increase was being tabled?

Chair Dill commented the decision is do the rate increase by July 1st or January 1, 2014 needs to come before the April 25th Board meeting.

Manager Craddick explained the DOW has to inform the Honolulu Board of Water before May 1st.

Chair Dill noted a recommendation should be done next week.

Mr. Nakaya understood that when the water rate increase was approved the last budgeted year, there was suppose to be a need if projects were lined up. Based on the capital replacement program and the capital rehabilitation it showed a decrease. Mr. Nakaya would defer the rate increase because the budget (dated March 28th) reflects no increase at all.

Manager Craddick recommended deferring the rate increase in six (6) month increments. If things are moving along to get the FRC in by October, then two months ahead of time tell the Honolulu Board of Water Supply by November 1st .

If the Board approves the WSDF, the recommendation will be reviewed by the Small Business Review Board, then back to public hearing. It would take two months to complete and by January1st it would be in place. At that point, another deferral can be done the rest of the year depending on Manager Craddick's revenue projections on the FRC and Mr. Dahilig's planning subdivision issues. This is based on the community plan and Manager Craddick was unsure how much is needed to be rezoned to order to implement.

Chair Dill mentioned that Ms. Yano shared how the actual revenues were due to the rate increase and is exceeding the DOW's expectations.

Ms. Yano commented that the DOW is receiving close to $2M in FY 2013 higher than projected. This is because of the adjusted estimate receipts in the current worksheets. This was due to a combination of increased water usage plus the rate increase.

Chair Dill questioned if the budget is $2M ahead of schedule because the water usage is ahead of schedule and not on the number of customers.

Ms. Yano did not have statistics based on the number of customers. It was based on actual consumption.

Manager Craddick commented that if the FRC does not go in, the DOW would have inter-fund borrowing to cover the debt service. The last $20M has not been awarded on BAB jobs. The funding cannot be readjusted.

At the last Board meeting, the possibility of losing BAB subsidy money was discussed, with the sequestration everybody would lose a percent, unless Congress looks at only those that did not comply will lose and those that did comply will not lose. This could be done and still get the amount of reduction.

Chair Dill would recommend to the Board the rate increase implemented on January 1, 2014. Written communication to the Board would be needed.

Deputy County Attorney Andrea Suzuki commented when the Board adopted the rates, the rate schedule was also adopted up to 2014. The full rate schedule already went through public hearing with the option of deferral that was accepted by the Board.

Chair Dill commented that the rate can be deferred but it cannot be accelerated.

Manager Craddick questioned if the increase was re-implemented, could this go to public hearing? (Example: What if the rate was deferred the full year? There would be nothing before 2016 and this year would be pushed back to 2016.)

Deputy County Attorney Andrea Suzuki made a side note and suggested putting any changes in the schedule and not in the rules. Under the Hawai'i Revised Statutes (HRS), rates have a different procedure than in rule changes and would not have to go for a public hearing.

Manager Craddick added that the Board needs to act on this first before anything is printed on the customer's bills.

Chair Dill inquired if the Finance Committee can recommend to the full Board the rate deferral. How can the Board act on this before acting on the budget?

Manager Craddick and Chair Dill will prepare a committee report which would be on the April 25th Board meeting agenda.

Manager Craddick also added that next year meters will need to be replaced from 2008. In 10 years, the meters will be no good.

Ms. Yano will update the budget for the next Finance Committee meeting.

At 4:50 p.m., Chair Dill moved to recess the Finance Committee meeting to Friday, April 12, 2013 at 2:00 p.m. at the Department of Water board conference Room, seconded by Mr. Nakaya; by unanimous vote, motion was carried.

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