Recessed Finance Committee Meeting

April 12, 2013
2:00 p.m.

Recessed on April 9, 2013, the Finance Committee reconvened on Friday, April 12, 2013, in the Second Floor, Microbiology Lab building. Chair Dill convened the Finance Committee meeting at 2:16 p.m.

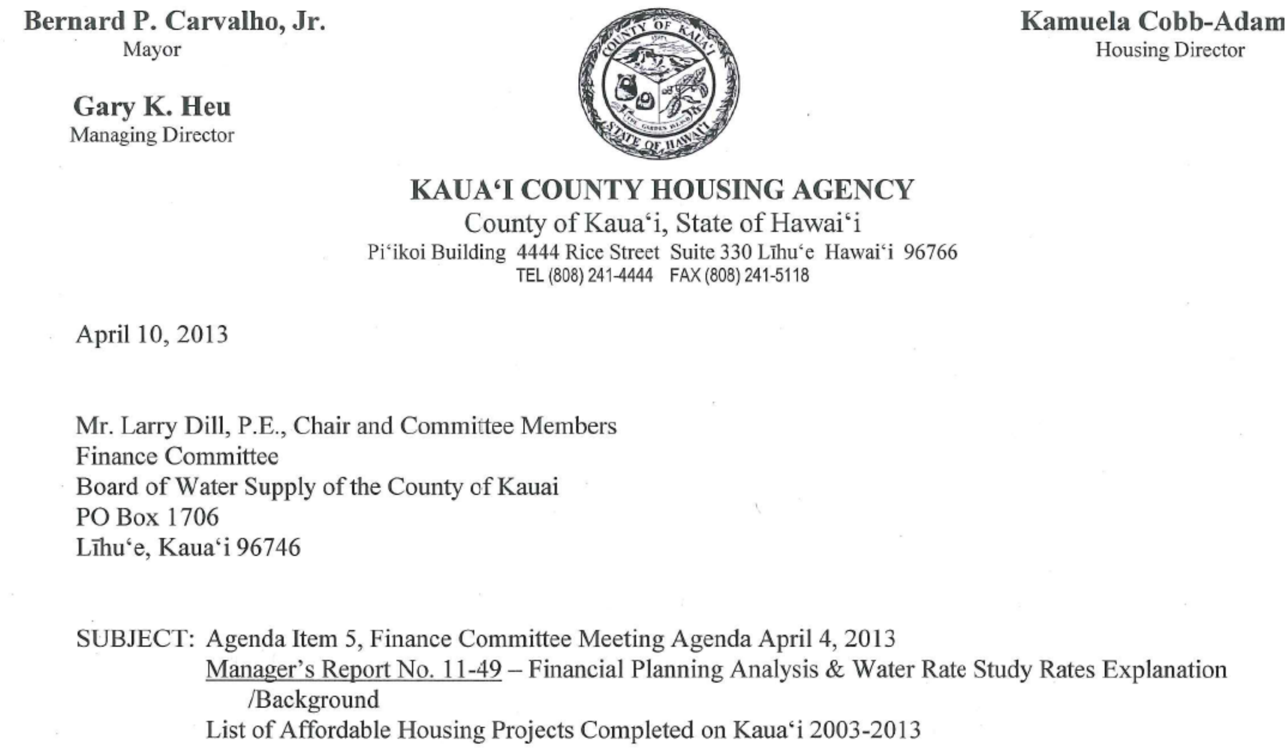
Committee Members Present: Larry Dill, *Chair*, Clyde Nakaya

Board Members Present: Randy Nishimura, *Board Chair*

Staff Present: David Craddick, Kirk Saiki, Marites Yano, Keith Aoki, Sandi Nadatani-Mendez, Joy Buccat, Mary-jane Garasi

CORRESPONDENCE

Mr. Nakaya moved to Receive for the Record correspondence from Mr. Kamuela Cobb-Adams dated April 10, 2013 regarding the list of affordable housing which was requested at the April 4, 2013 Finance Committee meeting; with no objections, motion carried with 2 ayes.



Bernard P. Carvalho, Jr.
Mayor

Gary K. Heu
Managing Director

Kamuela Cobb-Adam
Housing Director

KAUA‘I COUNTY HOUSING AGENCY
County of Kaua‘i, State of Hawai‘i
Pi‘ikoi Building 4444 Rice Street Suite 330 Līhu‘e Hawai‘i 96766
TEL (808) 241-4444 FAX (808) 241-5118

April 10, 2013

Mr. Larry Dill, P.E., Chair and Committee Members
Finance Committee
Board of Water Supply of the County of Kauai
PO Box 1706
Līhu‘e, Kaua‘i 96746

SUBJECT: Agenda Item 5, Finance Committee Meeting Agenda April 4, 2013
Manager's Report No. 11-49 – Financial Planning Analysis & Water Rate Study Rates Explanation /Background
List of Affordable Housing Projects Completed on Kaua‘i 2003-2013

Aloha Chair Dill and Committee Members,

The Kaua'i County Housing Agency (KCHA) provided written and oral testimony on the subject agenda item to the BOWS Finance Committee at its meeting held on April 4, 2013. At that meeting, we were requested by the Committee Chair to provide a list of affordable housing projects completed on Kaua'i within the last ten years. Transmitted herewith is a chart of the projects completed, with the information we have readily available. We regret that we do not have detailed information that could be used to determine fixture unit count for each project; however, building permits may contain that information. Low flow fixtures may have been required by existing codes at the time.

Sincerely,

Kamuela Cobb-Adams
Housing Director

cc: Mayor; County Council; David Craddick

Attachment: Affordable Housing Projects Completed on Kaua'i 2003-2013

EQUAL HOUSING OPPORTUNITY

An Equal Opportunity Employer

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April 12, 2013

Affordable Housing Projects Completed on Kaua'i 2003-2013								
No.	Developer/ Owner	Project Name	Type of Units & Tenancy	For-sale Units	Rental Units	Total Units	Target Group*	Year Complete
1	D.R. Horton-Schuler Division	Halemalu at Puhi	Duplexes	60		60	<120%	2003
2	Kaua`i Housing Development Corporation	Kalepa Village 2	Apartments		40		<60%	2004
3	D.R. Horton-Schuler Division	Ho`okena at Puhi	Multi-family 2 & 3 bedroom condo flats + townhomes (FS)	56	0	56	≤140%	2007
4	Kaua`i Economic Opportunity, Inc.	KEO Emergency Shelter & Transitional Housing	19 emergency + 8 rentals for transitional homeless (R)	0	8	8	Homeless	2007
5	Kaua`i Housing Development Corporation	Kalepa Village - Phase 3	Multi-family 1 & 2 bedroom apartments (R)	0	40	40	≤60%	2008
6	Self-Help Housing Corporation of Hawai'i	Puhi Self-Help Project	Single-family detached 3 & 4 bedroom homes (FS)	41	0	41	50-80%	2008-2009
7	Department of Hawaiian Home Lands (DHHL)*	Pi'ilani Mai Ke Kai (Anahola Residence Lots, Unit 6)	Single-family detached (LH)	80	0	80	*50% Native Hawaiian	2008
8	Department of Hawaiian Home Lands (DHHL)*	Kekaha Project-Self Help	Single-family detached (LH)	20	0	20	*50% Native Hawaiian	2008
9	Department of Hawaiian Home Lands (DHHL)*	Kekaha Residence Lots	Single-family detached (LH)	29	0	29	*50% Native Hawaiian	2008
10	Kaua`i Habitat for Humanity	'Ele'ele I Luna - Phase I	Single-family detached (FS) 3BR/1.5BA, 4BR/2BA	18	0	18	50-80%	2009
11	Kaua'i Lagoons	Courtyards at Waipouli	Multi-family 1, 2 & 3 bedroom apartments (R)	0	82	82	65-120% (amended to 41 @65-80%)	2009
12	Kaua`i County Housing Agency	Kalepa Village - Phase 4	Multi-family 1, 2 & 3 bedroom apartments (R)	0	40	40	50-120%	2009
13	Kaua`i Lagoons	Kamāmalu	Multi-family 2 bedroom condos (FS)	31	0	31	80-140%	2010
14	Kaua`i County Housing Agency	SF Lot Development	Single Family detached (LH)	3	0	3	<120%	2011
15	Kaua`i Housing Development Corporation	Paanau Village - Phase II	Multi-family 1, 2 & 3 bedroom apartments (R)	0	50	50	60%	2012
			Total	338	260	558		

░ government developer

☐ non-profit developer

▓ for-profit developer

* % Kaua'i Median Household Income (KMHI)

BACKGROUND:
At the April 4th Finance Committee meeting, Affordable Housing representatives Gary Mackler and Ms. Barbara Pendragon requested to waive the Water System Development Fee (WSDF). The Department of Water (DOW) does not serve everyone in the county. This was a county-wide benefit. Manager Craddick questioned why would the DOW charge new customers the county's affordable housing program. His focus has been on the use of state or grant monies that the county provides as a credit for the affordable housing.

DISCUSSION:
Chair Dill inquired if the DOW would be providing any waivers.

Manager Craddick was unsure how the DOW would provide waivers.

Chair Dill commented that the DOW could not allow waivers but affordable housing could receive grant money.

Manager Craddick explained that the DOW could allow state money for affordable housing to go towards off sets. The state is paying $1.3M for a 12" transmission line in Kīlauea. Kilauea School will not be changing the meter size. The fire requirement would be part of a longer transmission line between Kīlauea and the water supply. The DOW could allow credits from the state money and would not have for pay for it. The DOW would be able to charge developers or not and would be getting an asset without an expense. Affordable Housing submitted credit language to the Rules Committee which stated that it should be usable for everyone not just for affordable housing. The credit should be limited to the beneficiaries of the grant source provided the system is adequate to give the credit. This would reduce the cost of the meter. The DOW would not be subsidizing this.

Chair Dill questioned who could apply for state money?

Manager Craddick indicated Mayor Carvalho would support the Eleele transmission line project which will be the DOW's No. 1 priority next year. There probably was little lobbing for Kīlauea which the DOW still may get as a project. As long as there is a provision in the rule to direct the money to state beneficiaries, then there would just have to be a state authority to allow use of the credits.

Chair Dill inquired if the DOW requests money for certain projects from the state?

Manager Craddick commented that the only money the DOW received from the state was related to the Department of Education, a hospital, Police Department and the Fire Department. This past session, $100,000 was received for the design on a distribution line for the Hanalei School fire line. Another purpose for requesting money was for expanding the system from the DOW's supply in Kīlauea.

Chair Dill questioned if the DOW is responsible for lobbing for state money.

Manager Craddick mentioned typically the DOW and others would lobby for state funds.

Chair Dill was unsure why there should be an amendment to the rules to allow a county or housing developer to have a special rule to get grant funds to apply for a Facilities Reserve Charge (FRC).

Manager Craddick commented that the developer may not be in the area of the project or have nothing to do with the project but the DOW would still get the state money in the form of an asset. Based on the asset value credits could be allowed provided the system where the credits are requested is adequate.

Chair Dill supported this and would add this to the Finance Committee report for the Rules Committee's response back.

Manager Craddick clarified that this would not be a waiver because the state is paying for affordable housing.

Chair Dill commented that in order to understand and consider the waiver and since the waiver means a subsidy from the remaining customers. With current affordable housing projects, would the Department be able to estimate the cost ramifications.

Manager Craddick indicated the list provided by affordable housing does not provide meter sizes, fixture units or gallons of use. It would be hard to compare what affordable housing did to what the DOW's cost is and what would be waived. The information on the meter sizes could be possibly located from the DOW records. If state money is used, a waiver would not have to be given to affordable housing.

The affordable housing correspondence would be forwarded to the Rules Committee with a recommendation to allow off sets from state funds or other grants that the DOW may get.

Mr. Nakaya mentioned three (3) concerns affordable housing requested at the April 4th Finance Committee meeting: 1) charge by meters, 2) fixture units, 3) waivers according to the level of affordability. If the DOW uses fixture units, there would be a cost to the Department. Affordable housing would not use a 30 fixture unit count but an actual count of fixture units.

Manager Craddick indicated this could lower the total cost which can then be taken from the state funds.

Chair Dill understood that affordable housing could use fixture units to reduce the WSDF cost.

Chair Dill read portions of the affordable housing correspondence as follows:
1) Kaua'i County Code allows a 100% fee exemption for low income households (below 80% median income), and 50% fee exemption for "gap group" households (80% to 140% median income) and would request the same exemptions from the WSDF
2) The fee based on fixture unit counts
3) Multi-family affordable housing projects unit mix based on fixture units counts
4) Request to grandfather in their entirety affordable housing projects that have already paid the current FRCs, and that are actively in process of obtaining construction plan approval from government agencies

Board Chair Mr. Nishimura inquired about Habitat for Humanity.

Manager Craddick commented that DOW currently has a six (6) month phase out and that could go to a two (2) year phase out. A recent comment from Habitat for Humanity requested a two (2) year phase out.

Chair Dill inquired if DOW would grandfather Habitat for Humanity.

Manager Craddick noted Habitat for Humanity would not be grandfathered because they paid the FRC fee. The rules are looking to phase out developments who are not building, the DOW would not phase out developments that are building and moving in.

Chair Dill commented that Manager Craddick could make a general recommendation for affordable housing. A recommendation could be made to the Rules Committee on fixture units.

Manager Craddick was unsure if the Rules Committee needed to decide on fixture units. The Rules Committee could require a Standard Operating Procedure (SOP) and can also add details to the SOP. Table No. 3 allows any of the meter sizes larger than 2” to be charged according to fixture units or gallons needed.

Chair Dill referred to the Department’s recommendation regarding no waivers will be given. The Department could assist affordable housing with other funding resources.

Manager Craddick added that the Department would also assist affordable housing with the framework for offsets with grant monies but suggested to hold off on recommendations to affordable housing at this time.

Chair Dill recommended that when the DOW goes through the next water rates to see how affordable housing could be subsidized. The FRC should be for affordable housing and it could be included in the water rates of existing rate payers. Expansion for affordable housing could be a component with the idea of a benefit for everybody and affordable housing.

Manager Craddick indicated that other water systems do not pay into this if it is a community goal. Other water systems deliver 1/12 of what DOW provides. A possible credit would work which allow the off sets for grant monies. The Rules Committee could add language regarding credits on their recommendation.

Mr. Nakaya questioned the availability of the grants.

Board Chair Mr. Nishimura noted that lately there have been no direct grants. This would mean that various departments (DOW, Public Works, and Mayor’s Office) could apply for water related projects which would have everyone on board for the grants.

Chair Dill understood how the state could support schools but unsure how police and public safely would support affordable housing.

Manager Craddick commented that the Hawai'i Housing Finance Corporation promotes affordable housing.

Board Chair Mr. Nishimura pointed out that at the April 4th County Finance Committee meeting affordable housing is behind with the infrastructure on their projects. The DOW should be included in the affordable housing meetings.

Manager Craddick mentioned that there is no independent study on the administrative charge and whether this is part of the WSDF. Deputy County Attorney Andrea Suzuki would be requested to check to see if this is part of the WSDF or an administrative cost of determining fixture units and project approval. All other administrative charges are done by an SOP (Standard Operating Procedure) or to pass a Board Resolution. Recently, the county increased their late charge to $30.00. The DOW’s late charge is $7.50 for dishonored checks. We changed that simply because the county did there was no Board action.

Manager Craddick mentioned that in the preliminary Finance Committee report if someone provided a wrong number on their total water use they expect or fixture units which the fee was based on, there could be a provision for an expansion fee rate surcharge. This could work the same way with meters smaller than 3”.

Chair Dill is in favor of the concept.

Manager Craddick explained by using the fee schedule, the Deputy County Attorney previously said that once there is a charge, another fee cannot be charged unless the meter size is changed.

Chair Dill questioned why that the amount of the surcharge on the rates is based on 1/60th of the cost.

Manager Craddick commented that this is spread out over five (5) years. 60 = 12 months x 5years

Chair Dill inquired about the language being considered for a period of time in excess of the threshold and asked what if the usage comes back down next year?

Manager Craddick acknowledged this is what the DOW would want then there would be no further charge.

Chair Dill raised a concern on how this would spread this out over five (5) years? Why not four (4) or six (6) years?

Manager Craddick clarified this would be up to the Finance Committee. The reason for the incorrect information may not be a cheating issue people may have simply changed their mind on what they are building.

Board Chair Mr. Nishimura noted it is how people feel with the number if there is a fee.

Chair Dill mentioned if people go over the allotted amount, they should pay 5% of the fee.

Manager Craddick added if people go over the allotted amount and the meter size had to be changed, a fee will be charged.

Chair Dill questioned if someone is within 99% of the meter size and a bump up of fixture units?

Manager Craddick indicated the customer would only pay for the fixture units not for the whole passing to the next meter size. The cost of each fixture unit is $572. Fixture units are not monitored with the rates; gallons per day are monitored. (Example: 100 gallon increment x would be charged 1.5 = 150 x $22.88 (per gallon charge) divided by 60 = $57.20.) If the fixture units are lowered, then the gallons are lowered.

Board Chair Mr. Nishimura suggested that based on the $17,160 WSDF, the history of the gallons used per day be reviewed after five (5) years. If a customer qualifies for credit, the DOW would never be short of money. If the customer is not using the full amount of water, they could be given credit on the full amount, then the "system expansion" can be correlated with the actual water usage in that particular water system. No one can touch the water because it is reserved.

Chair Dill … from the affordable housing development standpoint … (inaudible).

Manager Craddick noted it would be better waiving the high fee than the lower fee.

Chair Dill questioned how would the Department set aside a certain amount of money and how much would be refunded in the future?

Board Chair Mr. Nishimura commented that the expansion system was postponed based on the savings. … (inaudible) … Money has to be spent or returned and questioned what time period will the usage be analyzed. The water rates have a portion that went to population growth for system expansion use. A portion can be used from the water utility fund for expansion projects if it is a result of natural population growth. (Example: Additional Dwelling Unit (ADUs) should take care of family housing. ADU's should qualify for use under WSDF.)

Manager Craddick pointed out this is how developers could be made to pay for changes in water use if you do not get the right number the first time around. This could be taken up with the rules.

Chair Dill indicated the Finance Committee's recommendation is to establish what the cost is and how to recover from the cost without impairing the cost balance to do business.

Board Chair Mr. Nishimura commented that when the system expansion is done, it would be an inherent risk. On the flip side for affordable housing, is there a way to recoup monies when people have homes. If the DOW charges the $17,160 fee plus the credit and gives the fixture rate, at some point should they not be expected to contribute to the expansion fund to make up the difference?

Chair Dill commented that if the customer paid their WSDF according to their fixture units, they would be assessed on usage and not on the maximum on the 5/8" meter unless more water is used. If affordable housing development uses outside funds from the state and the FRC rate of $17,160 is collected and five (5) years later the DOW receives a refund … (inaudible).

Manager Craddick inquired what if the customer paid the fee but moves.

Board Chair Mr. Nishimura understood the fee would be paid through monthly collection but the money would be transferred to the FRC expansion fund.

Chair Dill acknowledged the expansion surcharge would be implemented by 1/60th of the increment which would be reasonable for five (5) years. He understands how affordable housing pays the full FRC and that the funds go back to county housing. Chair Dill's concern is when an owner who is building a small home and waiting to get a refund five (5) years down the road. … (inaudible)

DOW Civil Engineer, Mr. Keith Aoki inquired if the water consumption goes up within or after five (5) years, can the owner be credited for the difference?

Chair Dill explained that this is where the block usage surcharge would be applied. By charging the full rate up front, it would be better for the Department to get the funds up front also.

Board Chair Mr. Nishimura commented the Department is not in a position to consider this at this time. The surcharge block is worth considering but to not use it as part of the WSDF.

Board Chair Mr. Nishimura indicated that the … infrastructure …. (inaudible) … dollar per gallon.

Manager Craddick checked the dollar per 100 gallon increments which came is $57.00/month per 100 gallons for five (5) years to pay the difference (100 (avg. day) x 1.5 = 150 (peak day) x 2288 = $3,432 then $3,400 divided by 60/mo. = $57.00).

Board Chair Mr. Nishimura mentioned that all of the financials for infrastructure are based on 50 to 100 years for pipeline versus storage and transmission.

Chair Dill commented that $57 a month is a good bump for someone's water.

Manager Craddick noted that this would continue if they were able to drop it back down to the average of what they bought, and then it could stop.

Chair Dill questioned if someone cuts their consumption down the next month would this end in a month?

Manager Craddick indicated it would most likely not end in a month because it is based on a year's average.

Board Chair Mr. Nishimura requested the Finance Committee to consider:

1) Before recommendations are made to the full Board regarding the deferral of the rates is for the Department to prove that the fluctuations in the revenue will not exceed the threshold. From the previous finance meetings, the budget has been going up and down in millions of dollars.
2) The Department needs to make a list of projects and to stick with the list during the period when the rates are deferred.

At 3:20 pm., Board Chair Mr. Nishimura exited the meeting.

Chair Dill agreed with the preliminary Finance Committee report to the Board and made comments on the recommendations.

Manager Craddick inquired if the Finance Committee wanted to verify the administrative charge with an SOP and clarified that the Department is not charging per gallon for the admin charge.

Chair Dill commented that because there are more fixture units doesn't mean that the Department is incurring more costs.

Manager Craddick noted that review of a project is not just reviewing fixture units; Mr. Aoki would be reviewing the drawings. This is not going into an impact fee fund it would go into the general revenue fund unless the DOW pays the labor from the WSDF fund. An independent rate study could be done to determine a proper charge in the future.

Chair Dill acknowledged that the more fixture units would require more effort for the Department to process. The $2.00 free is appropriate subject to determination on how to adopt it.

Manager Craddick inquired if the fee, the administrative charges and cancelled checks be part of the regular rates or in a resolution for the Board. The late fee is in the rule already.

1. OLD BUSINESS

v. Phasing – Effect of Phasing

DISCUSSION:
Manager Craddick commented if there was anyone taking developer water that would have to be be replaced back, then the DOW could not phase in. For systems where DOW is taking water from other people then DOW should not phase in the fee. One benefit zone is seen as a problem where there is a phase in unless there was a way to deal with it referenced matter.

Chair Dill suggested rewording the recommendation to see if there is a limited amount of water, then the fee could be phased in. Further deliberations would be with the Rules Committee.

Manager Craddick referred to the estimated expenses on the phasing graph for 2014 through 2017. $3M in expenses is shown but the debt service would be approximately $2.6M, then increases by $200,000 per year. There were no incremental changes the last two (2) years.

If the DOW received more than $400,000 for debt service, the Department would then have money for other things. The debt service would come first. There is a possibility of collecting the minimum $400k.

Chair Dill inquired what the current annual debt service was.

Manager Craddick indicated this fiscal year 14 DOW will be paying principal plus interest on the Build American Fund (BAB). There would be an 8.7% drop in the BAB subsidy until the end of this calendar year. Depends on what happens with the federal government this may be reinstated in FY14.

Ms. Yano said this would affect the 2014 budget year? The BAB subsidy was budgeted at $1.1M which is revenue and the revenue would go down by $88,000.

Chair Dill referred to the total debt service of $6.3M for 2013. For 2014, the debt service is $8.6M which includes the principal payment for the BAB.

Ms. Yano indicated that the first principal and interest payment will be in August at $3.3M, and then the second payment would be in February for $1.4M.

Mr. Nakaya inquired if the phase in will not be recommended.

Chair Dill said unless there are restrictions on use how could phasing be recommended.

Manager Craddick provided an article from the Engineering News-Record Magazine titled “How To Use ENR’s Indexes” as an additional resource for the committee.

6. NEW BUSINESS

Manager’s Report No. 13-40 - Draft FY2014 Budget

a. Draft FY2014 Budget
  i. Operations Budget
  ii. Accrual Budget Format
  iii. Capital Budget
  iv. Recommendation to Board on Rate implementation for first half of FY14

DISCUSSION:

Ms. Yano explained the actual pumping cost period was from April 1, 2012 to March 31, 2013. When the budget was first presented, the data to calculate the power cost adjustment was not available. After Ms. Yano readjusted the calculation for the budget, it came out lower than last year which is 16 cents per thousand gallons of usage. The reason for the decrease in power cost was based on the water rate study which anticipated a higher power cost which was included in the water rate study. Based on the estimated amount and the actual, the DOW charged the difference. Last year 31 cents power cost adjustment was used per 1,000 gallons. The new calculation based on projected and actual data was 16 cents per 1,000 gallons. The consultant projected 74 cents due to a steep increase in 2010.

Chair Dill inquired about the pumping surcharge for Princeville.

Manager Craddick indicated Princeville has a power surcharge and the DOW pays them.
Ms. Yano went over the following line items:

Normal Expenditures decreased from originally $1105M to $879,000. The Health and Dental – Retirees was $850 in FY 2013 to $879 in the proposed 2013-2014 budget, a 3.5% increase based on the trend of actual payroll.

There was a $500,000 increase for Vehicles and Equipment for 2013 – 2014 due to some IT implementation budget.

Miscellaneous Capital & Operating Expenditures are encumbrances during the year that are not fully expensed at the end of the budget fiscal year. Originally budgeted as operating or capital expenditures under each division; once encumbered, these budgeted items are transferred to encumbrances in order to keep the budget rolled over to the next fiscal year for the unspent but encumbered amount. Otherwise, operating expenditures are picked up at actual payments at year end and reset for the new fiscal year.

Manager Craddick explained that Operating Expenditures are not going away, they are taken out and are put into the capital portion of the budget.

Ms. Yano pointed out the Normal Expenditure handout from the April 9th Finance Committee meeting, indicated a drop from the Miscellaneous Capital Expenditures from $3.1M in 2013 to $882,000 in 2014.

From 2013, the Miscellaneous Capital Expenditures under the Operations Budget is $975,000 in 2014 but dropped to $360,000. The notable changes that affected the decrease were the Supervision Control and Data Acquisition (SCADA) expenses encumbered for 2013. In 2014 SCADA will have no new budget. The $200,000 will be encumbered at the end of the year. These are encumbered funds transferred at the end of the year. There was a drop from $1M to $419,000.

Mr. Nakaya inquired why in the previous years it was in the millions and now it has dropped to less than $1M.

The Estimated Payments column budget showed $2M. The estimate to be paid will be $1.8M at the end of 2013. The 2013 – 2014 budget could change again which is a “see-saw” effect.

Manager Craddick inquired that the Watershed Alliance showed zero, should it show $150,000 for 2014? (Tab 8)

Ms. Yano explained the Watershed Alliance will be under Water Resources, a new budgeted item.

Chair Dill mentioned Estimated Payments is $1.8M. Last year there were no estimates only updated information. (Tab 11)

Ms. Yano explained the difference in the net increase/decrease of the budget. FY 2013 beginning of $2.1M plus new encumbrances of $233K less estimated payments of 1.8M would result in a projected decrease to $419K.

Chair Dill inquired if $2,059,715 and the addition of $233,378 in the Contracted/Additions (Deletions) column were Board approved. (Tab 11, page 3)

Ms. Yano confirmed, the $2,059,715 plus $233,378 were encumbrances from the budget Board approved in 2013. The estimated payments of $1.8M at the end of the year can go up or down. The difference will be rolled over into the next fiscal year.

Chair Dill questioned the proposed deletion of $64,000.

Ms. Yano explained that $5,458 was for the Beylik Drilling project which has been completed. This was originally encumbered at $95,000 but when the work order was closed, it came out to $89,543. The $5,458 will be taken out of the budget and will not be used. (Tab 11, page 1)

The $59,000 is a savings from Electrical Savings Device budget for the replacement of the motors for high efficiency motors.

Ms. Yano indicated that the BAB subsidy will go down.

Mr. Nakaya raised the concern if there would be a $2M negative in the current budget.

Manager Craddick clarified if the subsidy goes up, that is good but if it does down, then it means the DOW would get revenue.

Chair Dill referred to the 2013 budgeted Capital Replacement Improvement Projects for $21M. The DOW spent an estimated $10M with a proposed 2014 budget for $15.1M. Chair Dill assumed not as many projects were done this year which Manager Craddick agreed. (Tab 12). Chair Dill inquired that out of the $21M there is $11M remaining and the DOW is pursuing additional projects. In addition there is $4M to the total the proposed at $15M.

Ms. Yano referred to the CIP Reserve Fund, Budgeted and Estimated 2013 column. The amount of $3,441,816 has not been spent to date. This amount can be rolled over to the following year if it is not spent.

Manager Craddick indicated this is a cushion and the Board can pull this number back in to loan to the FRC fund.

Ms. Yano explained that the updated amount of $5,281,607 for the proposed 2014 budget is a catch all account. At the end of the year, the budget will show zero for revenue and expenses but it will actually go to the CIP Reserve account.

Ms. Yano referred to the proposed projects list. The red items are being deleted which were proposed last year in the Contractual (Additions/Deletions) column.

Manager Craddick clarified a redesign of the intersection at the Rice Street & Kapule Intersection will be done for $500,000.

Mr. Aoki added that the DOW would be doing the improvements of the intersection and Kaua'i Lagoons is the developer. The existing lines will be oversized by the DOW.

Chair Dill requested clarification on the New 8” Waterline along Halewili Road, Kaumaulii Highway for $1.5M.

Mr. Aoki explained that the existing Brideswood Subdivision is serviced by an 8” cross county line which is going through someone’s lot and easement due to a leak. The new line is going around the highway and through the Brideswood Subdivision. The DOW will eliminate the cross country feed into the subdivision.

Mr. Aoki indicated the Brideswood Subdivision would benefit from this. There is a 4” PVC line down the highway to Olu Pua Gardens. An 8” main will replace the PVC line and that will abandon the cross country line.

Chair Dill questioned the project for the Omao Micro turbine SRF-Grant for $450K.

Manager Craddick explained what micro turbine is. Instead of having a pressure reducing valve, would be to have power generated equipment that reduces pressure which takes power off the line.

Ms. Yano explained that the $4.8M total proposed budget is a combination of new and prior encumbrances (left over funds).

Chair Dill requested an update on the 6” Main Replacement for Salt Pond.

Mr. Aoki reported that the county will be notifying the Department of the project schedule.

Chair Dill inquired if all the design drawings are ready to go.

Manager Craddick indicated the previous plans for a 12” line was done but was reduced to a 6” line.

Chair Dill indicated the Public Works sewer project needs to be scoped and is being worked on. This may be a combined single project with Public Works.

Chair Dill inquired about the Island Wide Deep Pump Facilities for $300,000.

Manager Craddick commented that there is no program in place to find the pumps that are low in efficiency. This item is in the budget in the event of failure of the deep well pump. Pumps usually have a ten (10) year life.

Chair Dill noted the Capital Rehabilitation Projects on the Summary page reflected a smaller number from $984,000 for 2012 - 2013 and $527,000 for 2013 - 2014. (Tab 13)

Chair Dill questioned the renovation of the administration building and microlab that reflects $250,000 for new projects.

Manager Craddick explained that $250,000 for the renovation of the new administration building and microlab would not be used because it would not be built in a year.
Ms. Yano suggested the carpet could be replaced due to molds in the front office. It is unknown if the mold was in the walls.

Manager Craddick indicated that operations will move to the existing administration building. The existing operations building will be used as a warehouse and covered parking will be available for the shop vehicles.
Mr. Aoki explained that the former Deputy Manager wanted the microlab gutters to be replaced.

Ms. Yano would adjust the budget to reflect $50,000 to replace the microlab gutters and the carpeting that would be ripped off in the front office.

Chair Dill questioned the Repair of the Hanapēpē Well for $100,000.

Manager Craddick understood that there was to be a walk way over the river at the swinging bridge. A DOW vehicle was coming out of the Hanapēpē Well and could not cross the bridge due to high water. Department of Land and Natural Resources (DLNR) will serve notice on this person because there is no permit who built a dam in this location.

Chair Dill commented that the Department of Public Works will not maintain the bridge.

Ms. Yano confirmed that the Emergency Reserve Fund will be in its third year; has accumulated $2.4M and funds have not been spent. The DOW will be adding an additional $1.2M.

Manager Craddick confirmed that the $3.6M meets the Department's goal.

Ms. Yano inquired if the Emergency Reserve Fund would be adjusted every year based on operating expenses.

Manager Craddick indicated funds would be adjusted by $25,000+/-.

Manager Craddick explained that the total debt service of $8M, which is 25% of $8M = $2M; the reserve would be half which is $4M (by taking 50% of the total debt service, the DOW would fund the total debt service at 25%, which means debt service reserve is being funded at only 50% of the funding). The Emergency Reserve Fund would be fully funded in two years.

Chair Dill commented that this is in the proposal and would be implemented in two steps.

Mr. Nakaya inquired what is the goal of the Department.

Ms. Yano verified that the Emergency Reserve fund is 50% of the total debt service with no time frame for a goal.

Manager Craddick commented that this would be another cushion if something would go wrong with the FRC implementation. Currently the CIP Reserve has $5M.

Chair Dill requested to leave the Emergency Reserve Fund alone.

Mr. Nakaya inquired if there are the rules for debt service reserve.

Manager Craddick explained that the debt service reserve is a Board policy. The debt reserve only pays debt service. A portion in next year's fund may be funded from the FRC account because it would have a portion of the annual debt service at $2.5M.

Chair Dill pointed out that based on the Summary page, the budget is down to zero and the estimate is $14M due to not as many projects completed as anticipated. Instead of having a fund balance, now there are reserves to tap into.

Manager Craddick specified that the emergency reserve and the debt reserve should not be tapped into but the Board could if they wanted to but discouraged borrowing. If the Department wants to borrow by showing a $1.5M debt service coverage, an operations emergency reserve, a debt reserve, and that the Department has been faithfully operating, a new debt is added to the reserve (based on the Department's policy). If there are revenue problems (i.e. if the debt coverage falls under the $1.1M minimum), then rates would need to be raised.

According to the policy, if the Department cannot make payments into the reserve fund, six (6) months would be allowed before rates are increased or for jobs to be cancelled. A repeat of 2006 should be avoided when the Department did not pay their debt service which forced the rate increase.

Mr. Nakaya inquired why the Fund Balance budget for 2012 – 2013 went from $16M to $19M but the proposed budget for 2013 – 2014 went down to $14M.

Ms. Yano explained the Fund Balance of $16.9M was the ending balance of 2012. The 2012 ending balance was also the 2013 beginning balance.

The actual revenues and expenditures during the year determine the fund ending balance and this balance is carried over to the next year. FY 2013ending balance is estimated at $14M which can change up or down. The proposed ending balance in the 2014 budget is zero, estimated resources = estimated expenditures. At the end of the fiscal year, the fund ending balance may show a different amount due to variances in actual receipts and actual expenditures including projects encumbered but not paid.

Chair Dill noted that the budgeted fund balance at the end of 2013 was zero on the budgeted numbers. On the capital expenditures, the Department did not encumber $11.2M.

Ms. Yano pointed out that estimated expenditures were lower.

Mr. Nakaya inquired if all the actual expenditures are paid out on the proposed 2014 budget, would the balance be zero?

Ms. Yano referred to the CIP Reserved Fund and explained; what is not spent becomes a fund ending balance. $5.7M will be in reserve. If the money needs to be allocated in an operating expense which is not part of the budget, the Department would need Board approval.
Ms. Yano further explained the 2014 Proposed Budget Fund Balances for 1) General Fund Balance are unencumbered, 2) Emergency Reserve – this is a reserve and nothing was spent and 3) Prior Year Encumbrances are capital expenditures or normal expenditures that are already encumbered which is showed separately as part of the ending balance. $7.1M are funds that are encumbered as part of the fund balance and is off set under expenditures. (Tab 2, page 1.1)

Manager Craddick added that the 50% debt service will be shown on the budget next year.

Ms. Yano noted that the operating expense is projected to go up compared to 2013 at $1.3M.

Mr. Nakaya questioned since $28.6M expenditures was budgeted in 2013, $26.1M was spent but in 2014 it will increase to $30M? Is there a slush fund?

Manager Craddick identified the slush fund are in the vacancies (salaries).

Ms. Yano explained the debt service is up by $2.3M which is a jump from $6.3M to $8.5M.

Chair Dill requested clarification that in 2012 the Department's balance carried $19M, $14M in 2013 but for 2014, the proposed balance is zero.

Ms. Yano referred to the 2013 – 2014 budget amount of zero. The CIP Reserve has $5M but if $3M is not spent in 2013 it becomes $8M. CIP Reserve Fund for 2013 is unencumbered at $3.4M. Out of the $3.4M to date, only $100,000 was spent. (Tab 12, page 1)

Mr. Nakaya inquired how was the CIP Reserve funded?

Ms. Yano explained what is not encumbered will be put under the CIP Reserve Fund.

Mr. Nakaya questioned if $1M is spent where does the ½ million savings go?

Ms. Yano explained that the overall excess funds (revenues and resources, less expenditures) of $3M were not budgeted anywhere but was put under the CIP Fund. A slush fund can be used for any project.

Chair Dill questioned if the CIP Reserve is limited on how the Department can use the funds?

Manager Craddick would need Board approval to use funds from the CIP Reserve. A Manager's Report would be done for the Board which would state that the Department has money and no projects are planned.

Mr. Nakaya questioned the title of the CIP Reserve.

Chair Dill commented that the CIP Reserve is an unappropriated surplus.

Deputy Manager Mr. Saiki commented if the books were audited, would there be a question on the CIP Reserve title.

Manager Craddick referred to the 2007 Replacement Study done and indicated that billions of dollars from projects for Phase 2 will be coming in for Plan 2020.

Chair Dill was curious why the CIP Reserve fund name is not in an unappropriated surplus fund.

Manager Craddick indicated the Department has a high volume of amount of work to be done and went through the first hump. The Department is now in a dip. The next bump up will be twice of what the Department has gone through with $100M in Phase 1. Manager Craddick has expressed for the Board to understand that the Department cannot fund the system replacements that will never go away. If debt funding is kept and pay twice what it costs, the rates will never be high enough. The Department needs to get to steadily get cash funding on what is recurring. If funding can reach to $10M a year, there would be an inflationary rate increase. It has to be an amount where the staff can get the jobs out every year. The staff and the system replacement need to be running parallel. Odd expansion projects can be done once the backlog is over. These projects can be for debt service because they are not recurring jobs.

Mr. Nakaya observed that the revenue projections are conservative. In 2012 the revenues were $19.9M. The estimate for 2013 jumped to $25M which was a 20% revenue build … (inaudible). The bulk is because of the … (inaudible). For 2013 – 2014 there was a minimum build … (inaudible) of ½ of 1%.

Ms. Yano explained that the estimated revenue collection was increased from $24M to $25M. This is based on the year-to-date collections as of March. The 2014 projected revenues is fairly conservative as compared to the $25M estimated collections in 2013.

Mr. Nakaya noted that last year's estimate was budgeted at $23M and questioned if this was in consideration of the rate increase.

Manager Craddick confirmed the $23M was in consideration of the rate increase.

Ms. Yano explained that the SRF for $5M was budgeted in 2013. Partial reimbursements were received; the difference will be carried over in the 2014 budget. (Tab 2, page 2)

Manager Craddick commented that the BAB subsidy would be ramped down.

Ms. Yano added that this would affect FRC and the water utility.

Mr. Nakaya questioned the Miscellaneous Receipts that dropped from $2.5M to $60,000.

Ms. Yano explained this was part of the automatic deposits of water sales which was never part of the budget status report and a one-time adjustment.

Mr. Nakaya suggested Ms. Yano add a footnote regarding the Miscellaneous Receipts on the next updated budget report.
Manager Craddick inquired if the recommendation is still the same to defer the rate increase six (6) months. The Department will have to go to public hearing according to the Deputy County Attorney Andrea Suzuki.

If the Finance Committee recommends to defer the rate, which is the on the agenda to defer, the Department will inform the Honolulu Board of Water. In July the Department will go through the public hearing process. If the committee is satisfied with the revenues and expenses and if the Department does not collect the money that is expected, there are sufficient funds to pay the debt service on behalf of the FRC.

Mr. Nakaya is satisfied with the budget as presented but raised a concern that the budget keeps changing and by avoiding last minute changes mid stream to the budget.

Chair Dill agreed that the budget is reasonable and would make a recommendation to the Board.

Manager Craddick has two issues that are pending: 1) to purchase a water system and 2) the treatment negotiation on the price increase which is budgeted to use 3 million gallons. The final price will be negotiated by June.

Mr. Nakaya would like to keep the budget conservative but asked if the budget will be higher?

Manager Craddick verified that the Department did budget higher.

Deputy Manager Mr. Saiki mentioned that the Department is 1/3 higher than the existing cost.

Manager Craddick added the Finance Committee will provide a rate deferral report for the Board.

Chair Dill indicated the Finance Committee is comfortable with the projected revenues being stable. The capital projects were reviewed and changes to the projects would need Board approval.

The following reports were pending:
1) Recommendation of deferral of rates from July 1, 2013 to January 1, 2014
2) The FRC report will go back to Rules Committee
3) Recommendation on the 2014 operating budget

Manager Craddick informed the committee that the operations budget needs to be adopted by July 1, 2013. The Department would not be able to take on new capital projects until the whole budget is passed. There may be further discussions regarding the new building with the Board. The BAB and FRC accounts will be finalized for the Board by the April 25th meeting.

At 5:10 p.m., Chair Dill moved to recess the Finance Committee meeting to Tuesday, April 16, 2013 at 8:00 a.m. at the Department of Water Board conference Room, seconded by Mr. Nakaya; by unanimous vote, motion was carried.

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