Finance Committee Meeting

April 4, 2013
2:00 p.m.

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

Board Members Present: Randy Nishimura, *Board Chair*, and Ray McCormick

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

Guests: Gary Mackler, Kaua'i County Housing Agency; Barbara Pendragon, Kauai County Housing Agency; Dale Shimomura, Hawai'i Government Employees Association; Stephen Spears, Kaua'i Habitat for Humanity, Royce Kawabata, Grove Farm Representative

Chair Dill called the Finance Committee Meeting to order at 2:10 p.m.; quorum was achieved with two members present.

AGENDA

Mr. Nakaya moved to accept the agenda; seconded by Chair Dill; with no objections, motion was carried with 2 ayes.

MINUTES

Mr. Nakaya moved to approve the Finance Committee meeting minutes of January 22, 2013 and February 5, 2013; seconded by Chair Dill; with no objections, motion was carried with 2 ayes.

OLD BUSINESS

Re: Manager's Report No. 11-49 – Financial Planning analysis & Water Rate Study Rates

a. Needs Assessment Study and FRC revised January 24, 2013

No changes

b. Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge

i. The Schedule

BACKGROUND:

Manager Craddick commented that at a previous meeting, it was recommended to remove the fire charge portion from the schedule because there was no study.

DISCUSSION:

Chair Dill indicated there was no adequate supporting information to justify the addition of a fire charge to the schedule and this should be tabled to a future meeting.

Manager Craddick previously spoke with the consultant who could not make any recommendation on the fire charge for private fire water systems and recommended withdrawing the fire charge.

Manager Craddick explained that the fire hydrant system for the county has no charge. The developers pay for putting the fire hydrant on the distribution system. There is no charge or putting capacity on the transmission lines.

At 2:14 p.m., Chair Dill suspended the committee meeting to hear testimony from the public.

Mr. Gary Mackler, Housing Development Coordinator and Ms. Barbara Pendragon, Housing Planner provided their testimony.

Mr. Gary Mackler and Ms. Barbara Pendragon provided written testimony on behalf of Housing Director, Mr. Kamuela Cobb-Adams. Mr. Mackler and Ms. Pendragon expressed their concern on the proposed fee increases affecting the production of affordable housing on Kaua'i. The Housing Agency works with a target population which is at the lower end of household range of income. The Housing Agency works with federal grant programs that are income restricted to 80% below median. The Housing Agency serves households up to 140% of the median income.

During the past 38 years, the Housing Agency produced 2,000 affordable housing units. Recent projects include: Kalepa Village in Līhu'e and the Paanau Village rental project in Kōloa. The Rice Camp Senior project will be developed in the future in Līhu'e.

The Housing Agency works with non-project organizations such as the Kaua'i Habitat for Humanity who serves low income target families for home ownership.

The financing to develop affordable housing is limited and competitive. In working with private entities, the Housing Agency works to bring private funds and leverage with public and private resources.

Mr. Mackler referenced the written communication regarding the example of fee exemptions currently available under the Kaua'i County Code. The fee exemptions include: the building permit, electrical permit, plumbing permit, wastewater sewer capacity and environment impact assessment fees.

The Housing Agency is also assisted with the State of Hawai'i that allows exemptions for affordable housing to claim this waiver for non-profits, consultants and contractors.

Mr. Mackler requested consideration from the Finance Committee for *exemptions* for affordable housing projects to serve low income households and for the occupants for relief from the proposed fees or *possible waiver*.

Ms. Pendragon inquired how the committee would evaluate fixture units for multi-family homes and what the current standards are for 30 fixture units. The Universal Plumbing Code is higher than other counties. Maui County has used the actual fixture unit count for low flow fixtures since 1993.

Affordable Housing has a mix of unit sizes. Maui County does fixture counts for each unit. They total this up and look at the meter size which is needed based on the flow. Ms. Pendragon requested the committee to review this for equability and relief.

The City and County of Honolulu adopted the standard dealing with federal codes.

Projects in the process of being developed that prepaid the FRCs will begin construction soon. Ms. Pendragon requested that the *FRC fee be grandfathered* for these projects.

Mr. Mackler mentioned that the Kaua'i Habitat for Humanity will be developing the Eleele Luna project which will create 48 buildable lots for their self help building program. The Housing Agency has supported their projects for many years and received resources to support this development. The Community Block Grants received are for off-site infrastructure, water line upgrades, sewer upgrades, and roadway improvements. The Housing Agency has been assisting the Kaua'i Habitat for Humanity in constructing a detention basin with the Economic Initiative Grant. The Housing Agency is also providing them with $2M for home investment partnership funding programs for site work on the next increment. The FRC payment for the 170 units has been paid. This program supports all the units for Phase 2A & Phase 2B.

Mr. Stephen Spears with Kaua'i Habitat for Humanity clarified that 18 homes have been completed.

<u>DISCUSSION</u>:
Mr. Nakaya clarified that the Housing Agency’s areas of concern are:
1. Exemptions
2. Existing projects
3. Fixture unit fee increases

Ms. Pendragon requested that rather than basing the Water System Development Fee (WSDF) fee on 30 fixtures per dwelling unit, to base the fee on the actual fixture unit count which would be a lower price for affordable housing. The units are smaller (3 bedroom, 1/1-2 baths or 2 baths; 2 bedroom, 1 bath; or 1 bedroom, 1 bath).

Manager Craddick mentioned that the Department of Water (DOW) was exempt from building permit fees five (5) years ago. The DOW paid close to $1M in fees to the county. The fees that the county is waiving may be going into the county fund. If the county wants to waive the fees and provides the missing money for the DOW, the Rules Committee could consider waiving the fee. Another way to do it would be to use credits funded from resources outside the Department.

Chair Dill acknowledged that the Finance Committee would make the recommendation to the full Board. The Finance Committee is strongly considering assessing the WSDF on the basis of fixture units at the option of the applicant. It will be a challenge for the DOW to find ways to make the waiver work.

Chair Dill requested that Mr. Mackler provide a list on the number of affordable units for the past ten (10) years and the next ten (10) years. Then the cost could be analyzed and the waivers can be considered. Mr. Mackler agreed to provide a list starting from 1975.

Manager Craddick added that years ago, several affordable projects in Kapaʻa were dropped after $60M was already spent. Affordable projects were switched around from place to place which was not helpful for the DOW.

Mr. Mackler explained that several sites were state sites and identified development potential near Mahelona and near Hanalei Heights. Those parcels will be developed later because they are part of a larger master plan. There was a request to direct water line facility improvement in this area. The county recently purchased Lima Ola, a 75 acre parcel which will be the next major project for the Housing Agency.

The lands in Kapaʻa may be developed later which are good sites for senior rental housing that ties in with the hospital. Mr. Mackler explained that this will be a six (6) phase project. The site work for the first phase will start in 2016 at the lower part of the site, close to the Hale Wili Road.

Board Chair Mr. Nishimura requested Mr. Mackler to consider the timeline of the 75 acre parcel regarding infrastructure. Board Chair Mr. Nishimura mentioned it would take 5 years to generate the infrastructure and questioned if the Housing Agency provided the master plan to the Department.

Mr. Mackler explained that the master plan would be available in a year.

Board Chair Mr. Nishimura would like to give the Housing Agency the water but the time frame needs to be considered. Most of the funding would be spent providing the water from the bottom of the site, just for the first phase.

Mr. Nakaya moved to Receive for the Record correspondence from Mr. Kamuela Cobb-Adams, Housing Director dated April 2, 2013; seconded by Chair Dill; with no objections, motion was carried with 2 ayes.

Bernard P. Carvalho, Jr.
Mayor

Gary K. Heu
Managing Director

APR - 4 2013

RECEIVED FOR THE RECORD

Kamuela Cobb-Adams
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 2, 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

The Kaua'i County Housing Agency (KCHA) wishes to express its sincere and grave concern regarding the adverse impact of proposed Facilities Reserve Charge/Water System Development Fee (FRC/WSDF) increase on affordable housing development on Kaua'i. As developers ourselves, and as facilitators of affordable housing development by other entities on Kauai, we are familiar with typical affordable housing units developed on Kauai, and the parameters under which water service is obtained and provided.

We have the following concerns regarding your study and your proposed increase, and request the following consideration for affordable housing projects.

A high FRC/WSDF will discourage the construction of affordable units. Typically there are three types of affordable housing developers on Kaua'i: (1) government, (2) non-governmental non-profit housing providers, and (3) for-profit housing developers. The bottom line for all of them is the total cost per unit, which cannot be passed on to the homeowner/tenant in housing price or rent, because it is restricted relative to the target household income. Financing for affordable housing is very limited. If the cost per unit is higher, fewer affordable units will be built. 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) for projects meeting the standards for affordable housing projects of the County Housing Agency, for building, plumbing and electrical permits, and Environmental Impact Assessment Fees (please see attached certification form). **We request the same exemptions for FRC/WSDF for qualifying households in affordable housing projects as determined by the Kaua'i County Housing Agency.**

An affordable housing unit is not a typical 30-fixture-units per house. We do not see a clear reference in the report as to how to calculate Fixture Units (FU), but we believe that the majority of affordable units do not have 30 FU per dwelling. The majority of units are 1 to 4 bedrooms, with 1 to 2 bathrooms, and we assume that (at best) all units have a clothes washer, a dishwasher and two hose bibbs, though many do not. We estimate by the Uniform Plumbing Code that these affordable housing FU range from 19.5 FU to 27 FU. Using low-flow water Fixture Unit counts like Maui County's Department of Water, these numbers fall to 15.5 to 21 FU. In general, affordable housing units are unlikely to add fixtures after the fact, or must do so with proper permitting (for rentals and condos).

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Mr. Larry Dill, P.E., Chair and Committee Members
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Multi-Family affordable housing projects' unit mix. Because affordable multi-family projects typically have a larger number of smaller units, collectively they tend to have a lower total FU count than an equivalent number of single family units, and substantially less than an average of 30 FU per dwelling. The proposed fee study calculates FRC/WSDF for multi-family projects by meter size and by housing unit count, and chooses the larger fee. Since FU are unlikely to be added to a multi-family project without permits, **we believe that a more accurate treatment of FRC/WSDF for affordable multi-family housing would be based on actual project fixture count, with a differential due for later additions.**

Prepaid FRC's and Impact on Affordable Projects in Process
Affordable housing development takes a long time on Kaua'i, and costs continue to escalate throughout the process. An affordable housing developer's capacity to secure financing, manage development (particularly self-help) and conclude sales frequently necessitates phasing of a project. Obtaining permits for affordable housing development can be lengthy, with the construction start dates slipping away like the end of the rainbow. FRCs prepaid in anticipation of timely subdivision construction starts now are at risk of rising dramatically and causing entire affordable housing projects to halt. **We request that you 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.**

We recognize the significant amount of work done by the Department and the Board in considering the factors involved in the FRC update, and understand the intent of having the costs covered by the developers. But we also recognize the inability of affordable housing to bear additional costs without a reduction in the number of units built. In the adoption of you updated fee structure, we ask for your consideration of the above highlighted requests.

Sincerely,

Kamuela Cobb-Adams
Housing Director

cc: Mayor; County Council; David Craddick

MEMORANDUM

TO: DPW Building Division, DPW Wastewater Division; Planning Department

FROM: KAMUELA COBB-ADAMS, Housing Director, Kaua'i County Housing Agency

SUBJECT: Fee Exemption Claims for Affordable Housing Project

DATE: April 3, 2013

As a part of its duties under Section 2-1.16 of the Kaua'i County Code, the Kaua'i County Housing Agency develops or contracts for the construction of affordable and workforce housing and/or lots within the County of Kaua'i. The Housing Agency also facilitates the development of qualified affordable housing projects by others, such as non-profits, and private developers providing affordable, workforce or employee housing required by ordinance.

In order to facilitate the permitting of County-sponsored and other affordable housing projects, the following form is completed to summarize the status of fees associated with permitting of affordable housing projects (see attached supporting documentation, if applicable), and fee exemptions to which the developer may be entitled . Please contact the Housing Agency at 241-4432 with any questions or concerns.

Project Name: _____ **Tax Map Key:** _____

Building Permit # ___ **Zoning Permit #** ___ **Subdivision #** _____

Owner of Parcel: _____ **Developer of Project:** _____

Number of units in project: _____ **Number of qualified affordable housing units in project:** _____

Target Income Group(s): _____ **% KMHI**

Type of Development: _____ **Is this an ADU?** ☐ yes ☐ no

Number of Units Being Permitted as affordable housing units: _____

Accessory buildings and other structures:

☐ Administration Building ☐ Maintenance Building ☐ Laundry Building ☐ Storage Building

☐ Trash receptacle enclosure ☐ Solar Hot Water ☐ Other _____

The Kaua'i County Housing Agency hereby certifies the above project is being developed as an Affordable Housing Project pursuant to Section 2-1.16 of the Kaua'i County Code:

By ______________________________

KAMUELA COBB-ADAMS
Housing Director

APPLICABLE FEES: **(Fees are generally payable prior to Building Permit approval by the applicable agency, except Plan Review Fee is payable at time of building permit application)**

DEPARTMENT OF WATER: There are no exemptions for affordable housing for the Facilities Reserve Charge (FRC) or water meter fees. The Department of Water will determine the fees due during the subdivision or building permit process. If fees have been previously paid in conjunction with past development, developers may provide proof of payment or satisfaction to expedite building permit review.

DPW Building Div.:

Building Permit Fees:

- ☐ Exempt pursuant to KCC Section 12-2.2 (19) Amending Section 108.1(1)– COK facilities (except Dept. of Water)
- ☒ Exempt pursuant to KCC Section 12-2.2 (19) Amending Section 108.1(2) of the Building Code – low income housing projects pursuant to KCHA affordable housing program, 100% of fee exempt for __unit
- ☐ Exempt pursuant to KCC Section 12-2.2 (19) Amending Section 108.1(3) of the Building Code – gap household projects pursuant to KCHA affordable housing program , **50% of fee exempt for 1 unit and solar hot water**

Building Plan Review Fees:

- ☐ Exempt pursuant to KCC Section 12-2.2 (23) Amending Section 108.5(1) – COK, its agencies and contractors (except Dept. of Water)

Electrical Permit Fee:

- ☐ Exempt pursuant to KCC Section 13-2.3(4)(A) COK, its agencies and contractors (except Dept. of Water)
- ☒ Exempt pursuant to KCC Section 13-2.3(4)(B) low income housing projects pursuant to KCHA affordable housing program, 100% of fee exempt for__unit
- ☐ Exempt pursuant to KCC Section 13-2.3(4)(C) gap household projects pursuant to KCHA affordable housing programs, 50% of fee exempt for **_1_unit and solar hot water**

Plumbing Permit Fee:

- ☐ Exempt pursuant to KCC Section 14-2.6(d)(1) COK, its agencies and contractors (except Dept. of Water)
- ☒ Exempt pursuant to KCC Section 14-2.6(d)(2) low income housing projects pursuant to KCHA affordable housing program, 100% of fee exempt for ___unit
- ☐ Exempt pursuant to KCC Section 14-2.6(d)(3) gap household projects pursuant to KCHA affordable housing programs, 50% of fee exempt for **__1_unit and solar hot water**

DPW Wastewater Div.: **WTC (Sewer Capacity) Assmt:**

- ☐ **NO EXEMPTION $ __________ fee due and payable**
- ☐ 100% Exempt pursuant to KCC Section 25-12.3(b) for __ unit - Pursuant to County's affordable housing program, housing project affordable to low-income households
- ☐ 50% Exempt pursuant to KCC Section 25-12.3(c) for _1_ **unit and solar hot water** - Pursuant to County's affordable housing program, housing project affordable to gap group households
- ☐ Previously paid in conjunction with _____ (attach copy of receipt of payment)

DPW Wastewater Div.: **Sewer Connection Fee:**

- ☐ **NO EXEMPTION $ __________ fee due and payable**
- ☐ Exempt pursuant to KCC Section 25-11.2(b) (No sewer connection charge for County, State or Federal Agency - County is owner/developer of property)
- ☐ Exempt pursuant to KCC Section 25-11.2(c) (part of a subdivision in which developer or subdivider constructed sewer collection system & lateral Subdivision #S-_____)
- ☐ Exempt pursuant to KCC Section 25-11.2(d) (Connection charges credited pursuant to KCC Section 25-9.4; developer installed lateral)
- ☐ Exempt pursuant to attached Resolution No. _____ of the County Council
- ☐ Previously paid in conjunction with _____ project (attach copy of receipt of payment)

PLANNING: EIA Fee:

- ☐ **NO EXEMPTION $ __________ fee due and payable**
- ☐ Exempt pursuant to Chapter 11A-2.1(3) (Government sponsored housing projects)
- ☒ Exempt pursuant to Chapter 11A-2.1(4) (Privately developed low-cost housing in accordance with Kaua'i County Housing Agency Standards)
- ☐ Previously paid in conjunction with _____ (attach copy of receipt of payment)

PLANNING: Park Fee:

- ☒ **NO EXEMPTION - $ _________ fee due and payable**
- ☐ Exempt pursuant to attached Resolution No. _____ of the County Council
- ☐ Previously paid in conjunction with _____ (attach copy of receipt of payment)

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

Testimony of Mr. Dale Shimomura, Hawai'i Government Employees Association

Mr. Dale Shimomura commented that the Clerk Typist position on the budget is being three month funded. This was the same position slated for reduction last year that Mr. Gerald Ako testified at the March 21st Board meeting. The Clerk Typist position is Civil Service and is bound by contractual provisions regarding reduction in force and layoffs. Mr. Shimomura would like this taken into consideration and to avoid what was done last year.

At 2:37 p.m., Chair Dill returned to the Board meeting agenda.

b. Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge

ii. Indexing the Schedule

SECTION VII - WATER SYSTEM DEVELOPMENT FEE

1. The Water System Development Fee will be raised or lowered each year according to the percentage increase or decrease in the Engineering News Record Construction Cost Index change over previous year index held as the base. This shall not increase more than four and one half percent average per year determined from the effective date of this rule.

BACKGROUND:
Manager Craddick revised the language "increase" to "change" over the previous year index held as the base indicated in sentence #1.

Manager Craddick reported that once the schedule is set, if the WSDF yearly fee goes up or down and depending on whether the Engineering News Record goes up or down, anything over 4-1/2% would be capped. This has been the average since 1970 until present. The WSDF would start when the rules becomes effective. The WSDF could be changed each year from each month, then at the anniversary of the rule. Other water boards do not have automatic (inaudible) adjustment to the FRC.

DISCUSSION:
Mr. Dill commented that it would be good for the WSDF to reflect the current cost of the system without having to do a drastic change every few years.

Manager Craddick indicated that the Engineering Index is nationwide. The Hawai'i Index fluctuates a lot and is not available on a monthly basis.

Mr. Nakaya inquired why there is a cap on the decrease.

Manager Craddick explained from previous years there were no decreases.

Chair Dill suggested leaving sentence #2 the same so there is no limit to the decrease and to not cap the decrease; only cap the increase at 4%.

Chair Dill and Mr. Nakaya recommended capping to protect the DOW customers.

2. The Water System Development Fee shall be determined by the following Schedule:

	$ per Fixture Unit	$ per gallon	$ per 5/8" meter	PERCENTAGE*
SOURCE	$104.00	$4.15	$3120.00	18%
STORAGE	$196.00	$7.86	$5880.00	34%
TRANSMISSION	$272.00	$10.87	$8160.00	48%
TOTAL	$572.00	$ 22.88	$17160	100%

*Percentage is used when developer provides some portion of source, storage or transmission capacity.

Manager Craddick commented that the committee is debating how the schedule will be done. There is a fee per Fixture Unit per gallon and a fee for the 5/8" meter.

The percentages are broken up for source, storage and transmission. The percentages would be used with the offset when the developer provides some of the facilities. The developer could reduce the fee by up to that percentage if they did source, storage and transmission according to standard totaling 100%. No matter what the Rules Committee does, the fee is covered in the schedule.

The fee ramps up according to the meter size ratio in the American Water Works Association (AWWA) C700-95 for Cold Water Meters-displacement type, Bronze Main Case (Badger meters) which the DOW currently have.

3. For meter sizes up to two inch the water system development fee will increase according to the AWWA Standard C-700-95 for Cold Water Meters-Displacement type, Bronze Main Case Recommended Maximum Rate for Continuous operations gpm flow rate ratio of larger sizes to the 5/8" meter which is as follows:

SIZE	GPM	Ratio to 5/8"	meter cost	FixU Range of use	Yearly use/365 not to exceed Gallons
5/8 "	10	1	$ 17,160	0-30	500 gallons
3 / 4"	15	1.5	$ 25,740	31-50	1,125 gallons
1"	25	2.5	$ 42,900	51-124	1,875 gallons
1 ½"	50	5	$ 85,800	125-250	2,750 gallons
2"	80	8	$137,280	250-700	6,000 gallons

Manager Craddick stopped the meter size at 2" because people can go over the amount of water allowed. In those cases the column Yearly use not to exceed Gallons and the Fixture units Range of use would be used with individual meter sizes that are larger than 2".

4. Should the Department use meters different than the Badger meters currently used by the Department, this same methodology will be used for other meters approved by the Department. For meters larger than 2" the methodology for determining the Water System Development Fee shall be as required in Part 5 of the rules and regulations.

BACKGROUND:
Manager Craddick mentioned if the DOW stop using the Badger meters, the same methodology will be used with the same flow ratio. If other meters have a larger flow, the flow ratio would be taken in comparison of the 5/8" meter to determine what the fee would be. If an applicant goes over a 2" meter, the staff must be given latitude to determine the fee by fixture units. The alternative would be to have the developer build it but would like to stay away from that recommendation.

The consultant determined the fees beyond 2" meter with the flow ratio and beyond that they went with the meter size ratios. The consultant came up with 1.9M gallons of water per day for an 8" meter. An 8" meter can take 1M gallons day of water. 1.9M gallons of water per day would not cover the DOW's cost. By taking 1M gallons of water per day x per gallon charge would equal $22M which is close to the DOW's cost. The Rules Committee would have to deal with this in the schedule.

DISCUSSION:
Mr. Nakaya questioned Schedule item #2, the dollar per fixture unit. If the Rules Committee decides on the actual number of fixtures, it would cost $572 per fixture. Based on 15 fixture units for affordable homes, it would cost $8,500 compared to $17,600 on a 5/8" meter.

Manager Craddick added affordable homes may be restricted to 250 gallons per average day use if the fixture units dropped. The 500 gallons per average day would be used at full capacity for 30 fixture units. If affordable housing goes down to 15 fixture units, then the number would have to change and language could be added the rules.

Manager Craddick indicated that the Department would have to track average day use to see if it goes over the allotted gallons. If water use goes over the allotted amount of water, the developer or user would have to pay an additional rate that would go to the development fee fund. The average day use column is based on the schedule.

Deputy County Attorney Andrea Suzuki commented that an added rate block would be added.

Board Chair Mr. Nishimura expressed the following questions: why is the last column an average and not based on the max day rate. If the FRC is based on the cost of max day, why is there a change to average day? When comparing cost, why use max day?

Manager Craddick explained that the billing system does not track max day. By downloading the meter usage by the year, the peak day can be found. There could be a lot that would exceed the 1.5

demand factor in the standards. The year's use can be divided by 365 days and we would get a number but not the peak use. The max day can be tracked system wide but not on daily use.

Chief of Water Resources and Planning, Gregg Fujikawa, commented that changes in the fee should be simple. If the change is too complicated, it can be confusing to the staff as well as the public.

Manager Craddick indicated there are about 199 2" meters and the Department may have to spend a day to determine the fee. If the fee is set and if someone is using over the amount allotted and if the meter is undersized, this could cause problems. There is no mechanism for catching people using over the amount of water they were "allotted". If the water use goes up, the Department would need to look at the rates. It would depend if the Rules Committee is comfortable to use the schedule as a methodology to correct what is done wrong now. To determine the fee for the larger meters would not be simple because developments vary.

Chair Dill commented that this lacks specific criteria.

Manager Craddick noted that the schedule shows the fixture units or the gallons per minute. Methodology will need to be determined for sizing the larger meters.

Chair Dill questioned what happens if someone applies for an application on a meter larger than 2"?

Manager Craddick explained the Department would have to look at that person's water use and to make the best estimate based on their water use. The Rules Committee would have the specific criteria. The schedule could be used with whatever the Rules Committee comes up with.

Board Chair Mr. Nishimura inquired if the Department has specific language by the criteria to propose to the Rules Committee if the meter will go beyond 2".

Manager Craddick does not think the meter size stops at 2". The language is by meter size now and would have to determine methodology. The Department could propose amended language to cover the larger meter sizes for the Rules Committee to consider.

Manager Craddick recommended using fixture units. Many Affordable Housing units would typically have meter sizes over 2". Per unit is a large number if a person is not using the large amount of water they are charged for and the water is not used. Another issue is how to catch a person who gives the incorrect information or simply changes their mind after paying the fee.

Chair Dill said he was comfortable with Item #3.

Board Chair Mr. Nishimura inquired if the Finance Committee could come up with language in Item #3 which relates to the charge for persons that give incorrect information or change their mind. It deviates from the charge and the Rules Committee may consider waivers.

Manager Craddick suggested that additional rate blocks could be dealt with proposed changes but there would have to be another rate study done.

Chair Dill questioned if the schedule could extend to have another column for larger fixture units. A separate effort can be determined with an additional block for people who use additional water that they projected.

Board Chair Mr. Nishimura commented on incorporating a 4th, 5th, 6th block to the rate schedule. There has been resistance of the rate holders subsidizing a portion of the FRC. Board Chair Mr. Nishimura suggested reviewing the rate and the FRC in combination. The Department is already considering delaying the water rate increase for this fiscal year to January 2014. With the dollar impact unknown by maintaining the increases and the surplus could be used as the subsidy from the WSDF. Starting from scratch would give the Department a better product to offer temporarily.

Deputy County Attorney Andrea Suzuki heard a comment from the public who wanted to incorporate the rate into the fee but quickly changed their mind when it was his rates. There could be a general misunderstanding on what the impact fees are.

Manager Craddick indicated there have not been many comments to increase rates except from developers.

When the FY 2014 budget is reviewed, a graph will show what was collected, expended and what funds are in the bank. The DOW will make the debt service payment in August of 2013 but may not be able to make the debt service payment in March of 2014. The FRC payment may not be made if the fee does not go up. To do a complete rate and FRC study would be the Board's choice.

Chair Dill is comfortable with $17,160 which is an actuate reflection of the expansion costs. He understands the proposal of funding through the rates.

Chair Board Mr. Nishimura mentioned that part of the rate increase would take care of the debt service to consider delaying the increase on the water rates if the FRC is increased at $17,160. If the Department goes forward with the water rate increase, the Department will have the income. It will make implementation of the full FRC easier to delay a while. This would soften the impact of the FRC and give the Department time to start at $12,000 or $14,000.

Manager Craddick commented on the subsidy for large developments by "affordable" projects. If fixture units are used then the subsidy is stopped, collection will be less with fixture units, but will be more closely aligned with the water usage. The fee would go down by using fixture units and charge less to applicants who are using less water. Delay of implementation could force water rate users to pay for the development fee. If temporary borrowing is done, the Department may never catch up until the study is redone. The Honolulu Board of Water has a limit of 20 fixture units (a 1 bathroom home provided by HONSADOR is 18 fixture units). There is a low water use provision in the rules for developments that cannot change a low flow toilet that is built into a structure. Only low flow toilets have been available to purchase since 1993. If people are putting in low use fixtures, the schedule can be fixed to reflect low flow fixture units. Manager Craddick indicated that a typical 3 bedroom, 2 bath would equal about 30 fixture units.

Manager Craddick commented that phasing in could be considered with the Finance Committee.

Deputy County Attorney Andrea Suzuki said the Board would have to analyze the financial impact on the reduced fee.

Manager Craddick explained that the analysis of the financial impact would be done when the Rules Committee deals with the person receiving all the water and who would pick up the difference with phasing in. Phasing in can be done with restrictions until the fee is up to the full level.

Mr. Fujikawa commented that there are 15 restrictions in either source or storage.

Chair Dill questioned deferring the FRC to July 1st 2014 or to implement it July 1st, 2013.

Manager Craddick indicated that the water rate increase could be deferred the whole year. The Department has sufficient funds if there is a shortfall. If the Finance Committee and Rules Committee make a decision by the next month, the implementation would not be completed by July 1st. There would not be enough time to go to the Small Business Review Board (SBRB) and to do a public hearing. Between July 1st and January 2014 would be the earliest time to implement the FRC.

Mr. Nakaya inquired if there could be an 11% increase in the rate and to defer the FRC to next year.

Manager Craddick explained that the FRC fund will be bankrupt next year. If wholesale borrowing from the FRC from the rates is done with tracking, the Department may never catch up. Money was taken from the FRC fund when the water rates were slow going up in 2006. Had the rates not gone up in 2006, the Department would not have been able to pay the debt service payments for the following year. Rate payers need to be informed on the possibility water rate increases would be used to give lower cost meters. This would require new community meetings plus there may be a lot of resistance to the rates being used that way.

Manager Craddick had no recommendation on phasing in until the Rules Committee considers if one developer is able to take all the water.

Chair Dill questioned if the Finance Committee could propose that one person could not take more than 50% of the remaining available capacity.

Manager Craddick commented that the proposal would be a Rules issue but they could make that recommendation.

Deputy County Attorney Andrea Suzuki emphasized that the Finance Committee's decision does not rest solely on what the Rules Committee does. It depends on the entire financial impact. It may be SAIC who could guide the Finance Committee on phasing.

Manager Craddick commented that phasing in the consultants comments meant phasing out of the old fees; not phasing in the new fees. In the rules, it was for phasing out individuals who paid the fee and did nothing in reliance.

Board Chair Mr. Nishimura recalled that Manager Craddick made the proposal to the Rules Committee to phase out the old fees.

Manager Craddick acknowledged that he did make the proposal, but the Rules Committee made a recommendation to not consider phasing. The Rules Committee did not say phasing out of the old fees they only indicated returning previous payments which could be made clearer.

Manager Craddick commented that SAIC was asked to answer a public comment regarding phasing in the old fees not phasing in the new fees. SAIC's response to that person's question was who is going to pay for phasing in. Would it be for the people who come in later to pay for people who come in earlier?

Chair Dill believes the $17,160 is the actual cost and the Finance Committee should recommend implementing this to keep up with debt service payments.

Manager Craddick mentioned the DOW could forego new projects and not do the WSDF but if we need to remove the restrictions it may not be possible. To get over the restrictions is to increase the fee or to increase the rates. To have a blend of these would require a new study. This would allow removal of some restrictions but not may not be enough to make the debt service.

Manager Craddick indicated that the proposal from SAIC is sustainable. Once the fee goes up, the question will be if the DOW will see a big drop off in meter requests.

Manager Craddick proposed a four month phase in at 25 % of the difference in the 1st month, 50% the second month, 75% the third month and 100% on the 4th month. There may continue to be a big rush of people who do not make it at the $4,600 fee. There may be enough money to overcome a vertical downward drop in the FRC fund.

Manager Craddick takes responsibility for this delay because the Department had been working on this since early 2010 and did not get a finished proposal to the Board until January of this year.

Chair Dill questioned item #3, Section VII if the various water meters could be added under fixture units?

Manager Craddick explained that the fixture units and gallons may have to be used together. The flow ratio cannot be used because it ends up with the $1.3M for an 8" meter and there are too many meter differences or different types of meters and differing flow ranges.

Board Chair Mr. Nishimura suggested the Department determine language for the Finance Committee to consider for the larger meters.

Mr. Nakaya acknowledged that the Finance Committee agrees with the numbers in item #2 for meters up to the 2" meter and how to deal with the larger meters.

<u>5. The administrative charge for review of Water Requests is $2 per fixture unit as defined by the Uniform Plumbing Code latest edition. This same definition for fixture unit will be used for the</u>

schedule above as adjusted by Department staff for low flow devices which are built as part of the structure and are not easily changed to high flow devices.

Chair Dill agreed that the $2 per fixture unit is reasonable for the 3 bedroom, 2 bath with 30 fixture units with a $60 charge for permit review.

iv. FRC Credit

BACKGROUND:
Manager Craddick explained that the FRC Credit deals with the $1,900 that the fee is reduced by. This is a legal requirement of state law based on system deficit and debt service for existing service. When new people come on to the system which will help to pay the debt service we reduce their development fee by the present worth of the debt service payments contribution they will make over the life of the existing debt. The committee could recommend taking it out of the water rates when reviewing the budget and put it back into the development fee? Second choice is in kind payment. The staff time in administering the projects is not paid out of the development fee. The administrative charge would need to be reviewed to cover full staff time and to make the budget. The $1,900 should be taken out of the rates and put into the development fee. All existing customers would pay the $1,900 credit to put back in the development fee fund. This was not planned for in the rates and a new rate study may be needed to do this.

v. Phasing

BACKGROUND:
Manager Craddick previously suggested to the Finance Committee to keep phasing less than one year. This would cancel out the big rush to get meters now because there may be a lull later. If a short phase in period is done, the rush may continue on with the continuing increasing fee.

DISCUSSION:
Chair Dill was in favor of phasing in at 8 months.

Mr. Nakaya commented that an increase is substantial and is in favor or phasing and would like to see a financial impact first.

Manager Craddick would provide an estimate on the average number of meters the past five years and what would happen by phasing.

Chair Dill suggested that the Finance Committee can adopt phasing to limit the remaining capacity an applicant can take. This would be brought up to the Rules Committee.

vi. Fixture Units

BACKGROUND:
Manager Craddick mentioned the questions that were raised by the committee on fixture units on whether an assumption is made that all fixtures are used at the same time. The answer is: they are not assumed to be used at one time.

vii. Debt Service

BACKGROUND:
Manager Craddick referred to the debt service schedule on the item titled, *2010A Taxable General Obligation Bonds – BAB* which is a generic 30% FRC. Twelve (12) out of 20 remaining projects could be expansion related projects. The totals reflected on the debt service schedule would be correct.

c. Community Response from Water System Development Fee (WSDF) presentation

BACKGROUND:
Manager Craddick noted that there were some responses from the community.

Board Chair Mr. Nishimura suggested that Manager Craddick reference the public's concern regarding what option 1 is.

Manager Craddick will be transmitting the community's responses to the Rules Committee.

Manager Craddick will provide information on the following at the next meeting:
1. How to address the larger meters (item #3 under the Schedule)
2. What are the financial impacts of phasing (V Phasing)
3. Expansion related projects
4. Propose language to the Rules Committee to cover other meter sizes by using fixture units
5. Estimate the average number of meters over the past 5 years on what was collected and what would happen if phased in for a period of time
6. Will prepare all written responses from the community's questions regarding WSDF (item #d)

At 4:00 p.m., Chair Dill called for a 5 minute recess.

At 4:12 p.m., Chair Dill reconvened the meeting.

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

BACKGROUND:
Manager Craddick clarified that if the Department implements the fee increase on July 1st with the current budget, additional revenues would be between $700,000 to $800,000. $2.5M is needed each year to pay the additional debt service. Even if the fee increase is implemented, there may not be enough funds to pay debt service but this is what the consultant is recommending. Even with the fee increase in July 1st (which is not possible), the $700K - $800K is the projected increase the Department will collect. If the fee increase went in July 1st, the Department would drop to less than $1M in the account.

Manager Craddick referred to the Annual Operating and Capital Improvement Budget shows all the money coming in. The second chart shows the entire budget for the whole operation. The debt service is not an operating expenditure. This is a capital expenditure that will be taken out of available revenues including the development fee.

The DOW Cost less Depreciation graph shows $13M on what the DOW is expecting for operating cost this fiscal year. If the debt service is subtracted, there would be $2.0M left.

a. ***Draft FY2014 Budget***

BACKGROUND:
Manager Craddick indicated that the Debt Service Reserve will be fully funded at $2.1M within two years. The Board did not approve a time frame for the debt service reserve. There should always be 6 months of the debt service in the fund and 1/12th would be paid into the fund until the last payment. Annual debt service would be $8.5M. The Emergency Reserve would have 25% of the previous years operating cost less depreciation. The benefit retiree payments were unusually high last year but should come down this year. The equipment expenditure is high due to the implementation of the IT Plan. The Department took the consultant's recommendation to the Board which will be implemented. The IT Plan will be presented at the April 25th Board meeting for approval.

DISCUSSION:
Chair Dill questioned why were salaries greater by $1M?

Manager Craddick explained that salaries are being higher because of reimplementation of a 5% reduction covered which would begin to be paid back next year. There are less vacant positions and some employees will get back pay for 12 months due to reallocations.

Mr. Nakaya requested clarification on $700,000 in salaries budgeted in the prior year and implications if no hiring was done.

Manager Craddick explained that the Fiscal Division will be reorganized. The Billing Division will receive back pay from one year ago once the reallocation is done.

Mr. Nakaya inquired what was the average trend regarding increasing or decreasing water usage per year.

Manager Craddick explained there was a 4.8% increase in the water consumption which produced additional income.

Ms. Yano clarified that the Total Projected Water Sales was estimated at 4.3B this year. Water consumption will go up. Last year's actual water use was 4.1B.

Ms. Yano explained the highlighted line item for Vehicles & Equipment for $803,900 on page 1 of the budget. A corrected change was done from the previous draft budget that was submitted. The prior submission amount was $653,900.

Manager Craddick commented that the operating part of the budget is due by June 30, 2013. The capital portion for this year could continue past the end of the fiscal year. New projects would be held up if the Board did not approve the capital budget but would not affect existing projects because the funds are already budgeted or encumbered. New projects may not start in July until a capital budget is approved. The Board may need more time to review the operations budget.

Manager Craddick suggested the Finance Committee make a recommendation to the full Board whether to implement the rate increase on July 1st or to defer the rate increase to January 2014 at the April 25th Regular Board meeting.

Manager Craddick clarified that the financial impact would affect the budget by bringing in $700,000 to $800,000 from FRC into the budget.

By the end of the year, the FRC fund would be $1.25M short if the increase is not implemented. Inter-fund borrowing from the operations fund may need to be done by next March.

Mr. Nakaya questioned the financial impact of the increase with other projects.

Manager Craddick commented there would be more money to spend on the capital budget on other projects. If the Department continues doing replacement projects, the Board could go with the rate increase without running out of projects.

Chair Dill and Mr. Nakaya required more time to review the rate increase and FRC and could make a recommendation to the Board meeting on April 25th.

Ms. Yano will prepare the projected revenues based on a 12 month rate increase.

Ms. Yano explained that the Existing Encumbrances that are being paid throughout the year and any new encumbrances for this year are carried forward to 2014.

Mr. Nakaya questioned the miscellaneous line item which was budgeted at $3.1M for 2012-2013 and proposed at $882,499 for 2013-2014.

Ms. Yano indicated that the budget decreased under Operations from $975,000 to $360,000.

Manager Craddick inquired if the capital items were moved to the capital budget.

Ms. Yano explained that $200,000 is for SCADA which was taken out to be used for 2013.

Manager Craddick explained that there were big projects that will not be done until next year. If the projects are not done by the end of the year, they will be carried over and the number will bump up.

Manager Craddick confirmed the budget was collaborated with all of the division heads.

Chair Dill recessed the meeting to reconvene on Tuesday, April 9th at 2:00 p.m.

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