

Finance Committee Meeting

August 23, 2011
10:30 a.m.

Committee Members Present: Larry Dill, *Chair*, Raymond McCormick, Randall Nishimura

Board Member: Roy Oyama

Staff Present: David Craddick, Marites Yano, William Eddy, Val Reyna, Dustin Moises, Gregg Fujikawa, Keith Aoki, Faith Shiramizu

Chair Dill called the meeting to order at 11:00 a.m, Quorum was achieved.

Chair Dill along with Committee Members Mr. McCormick and Mr. Nishimura accepted the Agenda by acclamation, motion carried.

MINUTES

Finance Committee Meeting – June 23, 2011

Recessed Finance Committee Meeting – June 23, 2011

Recessed Finance Committee Meeting – June 27, 2011

Recessed Finance Committee Meeting – June 30, 2011

Mr. McCormick moved to approve all the Finance Minutes as circulated with this agenda, seconded by Mr. Dill; by a unanimous vote; motion was carried.

OLD BUSINESS

- a. *Manager's Report No. 11 – 49* – R.W. Beck Report on Financial Planning Analysis and Water Rate Study

Ms. Shiramizu passed out a bi-monthly total chart with the DOW current rates in comparison with the different countries.

Mr. Craddick stated that there were four new inserts provided for this meeting. An updated Manager's Report 11-49 dated August 23, 2011, the SAIC cover letter from Beck followed by 16 pages of the Water Rate Study blocks, and the new comparison chart Ms. Shiramizu passed out.

DISCUSSION:

Manager Craddick confirmed to Mr. Dill that these blocks correspond to the AWWA standards and the base cost and the peaking factor of 1.5 has an extra capacity charge. If everyone would keep their service flat every month then it would end up having a \$3.48 cost of service.

Finance Committee Meeting August 23, 2011

The approach on the hydrant and private service fire charges were changed. The results are equal to the fire protection revenues as a result, this change cost for public fire increased while private fire protection decreased.

Another issue we have to consider is the timing of the rate increase. Currently we have rates going up in Jan and then again in July. We can change to the implementation date to January, like in 2006-2010. We will have to do our budget calculations for the year; we end up having this rate increase half way through the year and it makes the budget calculations somewhat tricky. Manager Craddick suggested the rates to implement in January of 2012 and 2013 implements July. This change would make it easier to calculate the budget especially with the 2%-3% difference in calculating when the consumption for the first half and second half of the year is different.

Manager Craddick passed around the article in the August issue of the AWWA Journal. Our current discussions on the rate study correspond to what is actually occurring with AWWA. The 1.5 coverage ratios that we are doing will only get Double A Bond Rating. To get the Triple A Bond Rate, we have to go up to 260 days rate coverage. If we plan to issue bonds, we might want to get the coverage to that level so the rates would base on what they were. The coverage ratio would be an excess of 2.

Referring to page 001 for 2012, the zero block is staying the same then it goes up to \$3.50. Manager Craddick explained to Mr. Nishimura that we cannot get an average residential bill because we do not track residential use, but instead track by meter size which includes commercial and condos.

Manager Craddick explained to Chair Dill that from the 0-2, everyone gets a minimum bill and that minimum is not changing. When the blocks were shifted, we made a zero block and if you had a meter showing no usage, you would still get a bill. For example Coco Palms 3" or 4" meter is still active with no usage and their average bill is \$1900. The reason being is that they are tying up all the water that is set aside for this property.

Mr. Fujikawa stated to Chair Dill that our Rules state that we cannot double charge the FRC. The FRC stays with the property and in many cases paid at a lower rate and the meter is installed, there are no changes. If you pay an FRC for \$220.00 twenty years ago and you wanted to put the 5/8" meter and the same service connection today, we would have charged you the difference between \$4600.00 and the \$220.00 paid twenty years ago. We lock in the FRC with the parcel. In a situation where the meter service is terminated or abandoned for a certain amount of time, the FRC goes away. Manager Craddick confirmed that this length of time would be two years.

Looking at Page 002, Manager Craddick explained these were the Ag Rates which shows a \$0.15 increase for 2012, 2013, 2014, and again a \$0.15 increase in 2015. Even with the rate increase, it is not proportional to everyone else in 2016 and there is still a \$300,000 per year subsidy of the Ag rates. The next two pages showed sample bills with different consumption rates for the first increase in 2012.

Chair Dill questioned in the 2011 column blocks, there is an \$0.80 jump in the first block to the second block. The second block to the third block has a \$2.00 jump and the third block to the fourth block has a \$0.25 jump. Manager Craddick explained that with the logic, there was no apparent reason other than there was 2% of the services that were way out there. In the first block, we are trying to capture a majority of the cost of service and the extra blocks we are trying to get the extra base capacity for the peaking factor. We are covering the cost of service before tending to the third block. The fourth block

Finance Committee Meeting August 23, 2011

are mostly used by CPRs. The majority of the complaints came from when the block shifted and consumers had CPR units with one meter. One 5/8" meter was used for 5 houses instead of installing more meters this pushed them into the fourth block threshold. If the meter produces the water and there isn't any grumbling, we let it go at the minimum meter size. The problem is that we have meters that do not register correctly after a month or two so we are constantly changing the meters out. With the FRC we have a way of determining the meter size by the fixture unit during the application time. That's why we have the FRC as a down payment when you subdivide and the balance when the building permit is received.

Mr. Fujikawa explained that we do not have the capability to attest and proceed on the creation of CPR units correctly. We assist them when they actually try and get a water meter or a building permit to build on that particular CPR.

You pay FRC three ways:

1. When you create a lot by subdivision.
2. When you ask for a water meter for water service.
3. When you apply for a building permit for a unit via single or multifamily unit.

Manager Craddick stated that the service charge covers all of the meter expenses and customer service expenses.

On Page 004, Chair Dill questioned to why the Agricultural Rates are not keeping up with the regular consumer rates as far as the percent increases? Manager Craddick explained that R.W. Beck used the same methodology the Board used since the rate increase in 2006 kept with the same tracking. The logic is not certain on the discussion back then. Chair Dill emphasized that we need to make sure we understand why and how much we are subsidizing for AG. 1/10 out of 4 is Ag customers. We have seen a lot of time shares that are getting AG rates and what we did was we went through everyone that had AG rates and compared the acreage to the amount of water they use and the ones that were not using that much water we tried to go out and get a visual inspection. Our GIS system allows us to see like google earth. The AG rates consumers get a higher service charge rate of \$15.

Chair Dill encourages the DOW philosophically to justify the agriculture that is being applied. Mr. Nishimura stated that the rate holder should be the one responsible to explain what or how they are doing agriculture. Manager Craddick explained if the subsidy is \$300,000 with the increase, the income is still less than 2%. It is following the volume and not the cost. Ms. Yano added that Line 35, Page 002 the meter service charge goes up in 2014 to make it uniform with the standard consumer's service charge.

Deputy Manager William Eddy explained that the Ag theory is based on the spacing versus the consumer's meters. The Ag meters in rural areas with the meters spaced out farther as opposed to residential meters are close together. It requires an increased effort for meter readers to catch the AG meters since the spacing is farther.

Mr. Nishimura said that if we had a percentage based upon the cost of service, which would be more appropriate. The first block should register the rate and the second and third block would show the true AG.

Finance Committee Meeting
August 23, 2011

Manager Craddick recommended a wording change in the rule to implement the first block to apply to everybody unless they show that they have no house. It would be a lot easier to justify this to the general public as to the reason why they are paying the same as everybody with the first block.

Cost wise, Chair Dill suggested to check with planning on dwelling and to check on hybrid rating.

Manager Craddick explained that Page 005 shows revenue tests to see if the rates that is being proposed is actually going to generate the revenue that they expected to generate. The difference on the bottom is about 1%. The difference measurement is the calculation of what you will get versus the proposed rate increase. On page 005, Line 34 shows Annual Revenue of \$3,249,000. Mr. Moises explained that it shows the percentage increase from the previous year.

On Page 006, Line 116, Mr. Nishimura asked Manager Craddick what is the Adjustment Factor. Going back to Page 89 to Scenario 10B, Line 31, we needed \$1.82 Million in 2012 we need an additional of \$1.082 Million in addition of the \$22.9 Million from the total revenue that this is based on the current rate we have right now. It is the difference between the revenue required and the current collections we are collecting with the current rates. Line 33 shows our Total Revenue Required which we needed the additional \$1.082 Million to come up with the \$24 Million. That is the number they used to calculated this particular year in 2012. Chair Dill still explained that Page 006 Line 119 shows \$20.4 M.

At 12:18 p.m., Chair Dill the Finance Committee Meeting to a recess.

Chair Dill called the Finance Committee Meeting back to order at 12:22 p.m.

Since the ending balances did not match with Scenario Option 10B, Manager Craddick suggested providing the Board with the 10B sheet that R.W. Beck used to tie into the Block Rates in correlation to Page 006-16. This will be provided in the next Finance Committee Meeting.

In addition, Chair Dill requested for the DOW to come back with findings as to what is the correlation between Page 6 and 10B and what the arbitrary basis as to how we arrived to the proposed AG Rates. Ms. Yano confirmed to Chair Dill that the AG Rate is 50% of the general rate and has been consistent since 2008.

At 9:22 a.m., Chair Dill moved to recess the Finance Committee meeting to 2:00 p.m. Friday, August 26, 2011, with no objections, motion was carried.

mjg