Recessed Finance Committee Meeting

August 26, 2011
2:00 p.m.

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

Staff Present: David Craddick, Marites Yano, William Eddy, Gregg Fujikawa, Faith Shiramizu, Deputy County Attorney Andrea Suzuki

Recessed from Tuesday, August 23, 2011, Chair Dill reconvened the Finance Committee Meeting to order at 2:04 p.m., Quorum was achieved with one item of business for discussion.

OLD BUSINESS

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

DISCUSSION:
The Finance Committee members were given in advance an enlargement of Page 005 and 006 dated 8/24/11. Manager Craddick passed out two graphs to the committee members. A line graph showing the Cumulative Percent Rate Increase/Year and a pie graph showing the AWWA U.S. Water Rate Structure.

Manager Craddick explained that in 2010, this Water and Wastewater Rate Survey has 380 water facilities that participated in this survey nationwide. Their yearly cumulative percent rate increase shows in red, Kauai Department of Water is shown in blue, and the green is the CP Index. After 2010, it is projected based on the proposed rate increase which clearly shows that we have not kept up with our peers, but definitely moving in the right direction. The pie chart shows a comparison of the type of rates we are utilizing, but we are not out of the norm here.

The differences in the percentage of revenues that are generated and comparing that with the previous year. Chair Dill stated that the problem we had the last time is tying the break down to Scenario 10B. The predicted requirements for 10B versus what Page 005 would show.

Ms. Yano explained that we were trying to interpret the difference between Line 8 on Page 89 against the worksheet Page 005. The revenues required for fiscal year 2012 on Page 006, Line 119 compared to Scenario10B. The $19Million is the Water Sales, the $24 Million on Page 89, Line 33 on 10B shows the other income added in which justifies lines 10 through19. Only line 8 is being factored into the new worksheet. So the additional $1 Million is the additional rate increase from the new rates. It is a revenue test is using the 11.2% rate increase; we would get to the $20 Million revenue required. The $19 Million on Line 8 plus Line 31 Total Revenue Required of $1.08 Million, we get a total of $20.4 Million revenue required shown on Page 006, Line 119.

Ms. Yano explained to the committee that R.W. Beck revised Page 005 and 006 to show a dollar amount in the zero block. Chair Dill questioned what the meaning of Line 118; Page 006 the adjustment factor. The explanation to this was that the 3% adjustment factor was used in addition to the leak rebates based on historical and not actual. The 5.5% is accounted for the adjustment factor and the leak rebate. The revenue test is to show that if we use these rates, are we coming up with the requirement that we need. This is where the new table comes in and it shows that the rates are rounded up instead of decimal numbers; they come up with a difference on Line 16so the rates they came up with is okay.

Mr. Nishimura stated that he was under the impression that the leak adjustments was taken out and Footnote 1-Revenues from the public fire protection system. Also, that the total cost was compared to what is required for the additional revenue needed.

The fixed amount per hydrants is shown as an offset on our side one Line 43 Page 90 under County Service Charge Operating expenditures. Mr. Nishimura stated that it shouldn't be shown as a revenue request; it should be on Line 47. If we are taking out of the revenue are we including in our cost? Chair Dill confirmed that Line 13, Page 89 shows that it washes out.

Ms. Yano explained to the Board that while deliberating with Manager Craddick about the rate increase, we may find out that we have more money than what is anticipated at the end of the year. Instead of implementing these new rates now, we can delay one half of the increase until January 2012. Ms. Yano passed out a worksheet to the Board and the DOW Staff showing the effects on delaying one half of the rate increase for 2012 to 2013. This proposal in comparison to Beck was nothing in 2016. We are now moving half of the rate increase forward 2014, 2015 and so on for any individual year to 2016. It ends up reducing the amount of cash and reduces the amount of coverage we anticipated to make, but we will certainly be okay cash wise. In delaying this will probably not hurt us.

For the sake of our customers, Chair Dill favors the idea of deferring the rate increase even though the amount is higher. There is still concern to the indemnification this will have on our debt service ratio. Manager Craddick explained that we would be in good shape and there will be enough money to cover our debt for a couple of years. This would jump straight in the third year when we will have to start paying principle plus interest for our BAB Bonds.

Mr. Nishimura also expressed his concern with the numbers. Having a 25% discrepancy .Mr. McCormick also expressed concerns regarding the need of new scenarios. Ms. Yano added that with the beginning balance that was forwarded in 2012, you have to take in consideration of all the encumbered CIP projects of $1.6 Million that was forwarded from 2011; the Capital Rehab CRP Projects was $672,000 plus $800,000 Water Utilities that was encumbered. Approximately $3 Million was not paid in 2011. The ending balance for 2011 is estimated.

Mr. Nishimura explained to Chair Dill that the encumbered amount carries from year to year and if the accounting system is consistent, it is a matter of where the money is "in the system." If that beginning balance is incorrect by $4 Million and "committed," and it is unexpended the fact is there is a discrepancy between that, which is almost 20% of the whole rate increase. It would be easier to approve a 30% increase and go forward than approving a 49% increase, then hold back. In fairness to the rate holders, that gives too much slop for the Department.

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Chair Dill suggested we bump the beginning balance on Line 2 Page 89 to $16 Million and the 2011 column on Line 62 and 63 accordingly. Ms. Yano explained that Line 62 and Line 63 shows an estimated payment of $3.84 Million and $1.58 Million, but the actual payment made in 2011 was $2.78 total. The difference will show up in 2012 and will offset the beginning balance that is forwarded. To understand Ms. Yano's worksheet the column under the date is Beck's proposal and the DOW proposal is in yellow. Page 89, Option 10B, Line 26-31 shows additional revenues with these rates, the total would still be $1.08 Million.

With the Ag Rates, comparing the right hand column on Page 003 is less than 9% and Page 004 is increasing at an average of 10%. Manager Craddick said that we really need to find out how many houses are in each tax map key that gets the Ag rates which would give us more information. When we do that, we can make a sensible recommendation to the Board because right now the reason for having it half of the other rates is not reasonable. Chair Dill mentioned that previous conversations referred to a hybrid rate that could be dealt separately by Rule Changes. Chair Dill expressed that he is comfortable with moving forward on the same amount of subsidies happening today, as long as the Manager or Ann from R.W. Beck can justify to why the customers are still subsidizing the same Ag rates prior to the proposal. Manager Craddick explained that the total amount for Ag is $338,000 so we are subsidizing the rate by 50% so it is consistent.

Manager Craddick suggested to Chair Dill to use the worksheet handed out as the Department's recommendation to the Board. The numbers on Line 77, on Page 90 will drop a little bit, but if we defer half of the increase, the debt ratio would be 1.2 instead of 1.4.

Mr. McCormick motioned to accept Scenario 10B and move Rate Table 4, Page 001 and Page 002 to the full Board dated August 5, 2011 Page 7 of 31, seconded by Mr. Nishimura; by a unanimous vote, motion was carried.

Chair Dill adjourned the Finance Committee Meeting at 3:20 p.m.

mjg