

Finance Committee Meeting

February 5, 2013
3:00 p.m.

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

Board Members Present: Randy Nishimura, Chair, Ray McCormick

Staff Present: David Craddick, Gregg Fujikawa, Marites Yano, Aaron Zambo, Dustin Moises, Keith Aoki, Eddie Doi, Deputy County Attorney Andrea Suzuki

Chair Dill called the Finance Committee Meeting to order at 3:20 p.m.; quorum was achieved with all members present.

AGENDA

Mr. Nakaya moved to accept the agenda; seconded by Mr. Oyama; with no objections, motion was carried.

OLD BUSINESS

Re: a. Water System Development Fee – Report to the Finance Committee

Manager Craddick read portions of the Water System Development Fee (WSDF) – Report to the Finance Committee for the Board and staff as follows:

Page 1 - The report looks at the cost for projects to implement Water Plan 2020 which in turn is based on the community plans as they are currently known. These project costs include planning, land, design, construction and financing costs associated with source, storage, and water transmission pipelines. The study does not cover staff costs in review of individual requests or review of their construction drawings. We have seen dramatic jumps in cost each time the Board evaluates the expansion fee costs. We have seen a steady 9.9% per year increase since 1970. There are many factors entering into this fact. 1. The fee may have been lower due to significant funding being provided for source storage and transmission being administered by “DOWALD” the state Department of Water and Land Development. 2. “ENR CCI” Engineering News Record Construction Cost Index has risen at the rate of 4.6% per year since 1970.

The issue of indexing the fee is a matter of how big a jump is acceptable to the community when the Board wants to reevaluate the fee. The first fee was put in place in 1970 and was \$300 for a 5/8” meter. The fee has been reevaluated about every ten years. There have been large jumps of 2x to 3.3x the previous fee and this is called rate shock. Indexing or increasing the fee according to construction costs would reduce that shock.

By indexing the fee to a construction cost index that is readily available makes the possibility of rate shock for this expansion fee lower in the future. Our recommendation is to use the Engineering News Record Construction Cost Index. This data has been compiled since 1913 and is a universally

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accepted standard. There are other index's that could be used but the ENR CCI is readily available and is updated monthly.

Manager Craddick understands that the Hawaii PUC also allows indexing regulated impact fees.

The following is a summary of costs from the SAIC Needs Assessment Study and Facilities Reserve Charge. The fee is broken up by source, storage and transmission, cost per fixture unit and Cost by gallon. By taking the per gallon charge x 750 gallons peak day demand, which is what the standards are required for max day consumption. The 1.5 ratio x 500 would equal the totals reflected at the bottom of the chart (See Page 2 of 5 Report to the Finance Committee).

Mr. Andrew Baker recently explain the after credit which is the present value of the payments that the new users will pay into the system that are not attributable to the Department of Water's (DOW) costs for expanding the system. The costs would get minused off and is broken up on the Percentage column.

Page 2 - The numbers shown in the WSDF Schedule table have the Credit applied to the source storage and transmission portions of the fee at the same percentage as the costs from the report. The dollars per gallon column is adjusted by two cents in the transmission category to eliminate the rounding error. It makes the per gallon charge x 750 gallons peak day demand required by DOW standards equal \$17,160. The 30 fixture units for a 5/8" meter x \$572 fee equal \$17,160.

It is preferable to list the 5/8" meter size and increase according to the flow ratio or fixture units as defined by the Uniform Plumbing Code or gallons needed per peak day. This issue is being decided by the Rules Committee. Whatever methodology is selected will be a lesser risk than giving the per meter schedule which may cause confusion when the proposed language says meter size according to Department's determination at this time.

DISCUSSION:

Mr. Nishimura questioned the difference between the flow ratio and the fixture unit.

Manager Craddick explained that up to a 2" meter, there is no difference but if the meter is beyond 2" the ratio is not the same and is switched to the average use. Example: On an 8" meter that needs 1 million gallons of water a day, by taking the 1 million gallons of water a day x \$22.30 per gallons equals a fee of \$22 million which is close to the DOW fee that is a cost of \$1.3 million. If a customer needs \$1 million of water that would require an 8" meter, the DOW should be charging accordingly. There are large flow ranges if it goes beyond the 2" meters. Mistakes could be made if the schedule is followed.

Chair Dill inquired if the cost of the large meters is calculated at the meter ratio.

Manager Craddick explained the ratios are followed but are not the meter sizes that the DOW has and unsure why the meter sizes are used. The meter sizes have not been accepted and this report is only a draft. If this is the basis that decisions are made and is not correct, it is a disservice to the rate holders. The consultant may want to use the per gallon charge which is already set. The rules would have to be changed for a customer to understand. The charge would depend on the gallons needed. In the report

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the fix units are a lot closer to what the demand would be than trying to use the different meter size which was done in the past. If an 8" meter is used up to its maximum capacity of \$1.3 million, a well would not be built for that amount.

Manager Craddick referred to the American Water Works Association (AWWA) Standard for Cold-Water Meters on Table 1 Characteristics of Displacement-Type Bronze Meters, Recommended Maximum Rate for Continuous Operations column. The gpm is listed with the ratio and multiplied which matches what SAIC has done.

Manager Craddick explained how SAIC determined the ratio for 2" meters and above. SAIC used the average flow on the meters on the existing sizes.

Mr. Nishimura questioned that SAIC used peak and the other was average in one case.

Manager Craddick mentioned that the DOW does not have standards for the other sizes; only the meter sizes for the single family home. The same ratios could be used by taking 1.5 ratio x 750 gallons on a 3/4" meter. The following columns are listed on the chart (See Page 3 of 5): Size, GPM, Ratio to 5/8" Meter Cost, Range of Fix Units and Yearly Use/365 not to exceed Gallons. Since the 5/8" meter is based on 500 gallons average day the meter cost is \$17,160. 1.5 ratio x 500 gallons equals 750 gallons and by taking the same 1.5 ratio x 750 gallons the numbers will never again match up with the meter charge; even after the 5/8" meter should not be used. The DOW should base this closer to actual use. The number should not be far off by taking the meter charge. The DOW states if the use exceeded , there may be a reason to check what is happening with the meter. The calculation for a 3/4" meter equals \$25,740 ($1.5 \times 750 = 1,125 \times \$22.88 = \$25,740$).

He also commented that an 8" meter can take 1 million gallons of water a day on the DOW's Turbine-type meters. An old Neptune compound meter might work. The flow can be taken through an 8" compound meter. The well would be around the \$1.3 million range. The DOW would not be covering any storage or of the transmission cost. The staff needs to determine if they will charge by fixture unit or by gallon. If the cost is too high, the customer can still build a well themselves. If fixture units are used, there would be an over charge.

Page 3 - The reason for this is that consumption is so varied over the larger meter sizes as to make it difficult to generically assess an accurate fee when looking at just meter size. Currently the DOW arbitrarily use the 5/8" meter times the number of units. If you have a hundred unit affordable house complex applying, the current rules to the new fee the charge would be \$1.75 million for the meter. This complex assuming one bathroom kitchen and washing machine area or about 18 fixture units' times one hundred times (\$572 /fixture unit) would result in a charge of \$1,029,600 which may be a 3" meter. \$257,000 is the charge for a 3" meter if other units are used.

For meter sizes up to 2" the WSDf increases according to the AWWA Standard C-700-95 for Cold Water Meters-Displacement meters, Bronze Main Case Recommended Maximum Rate for Continuous operations gpm flow rate ratio of larger sizes to the 5/8" meter. The fixture unit and gallons the fees are based on range from the Fix units are for the range of use from AWWA Maximum rated flow for continuous operation to fix units for peak flows. The way this can be applied is anyone going over the allowable will be checked for fixture unit compliance.

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DISCUSSION:

Chair Dill inquired how is fixture units applied. By using fixture units, it assumes that all things are off and running at the same time. Mr. Dill also wanted to know if Manager Craddick was aware of sizing purposes on 100 units if it is multiplied by 90% for design purposes.

Manager Craddick commented that this could be applied for sizing the meter. A charge would be made for all fixture units or it would be converted to gpm which is more difficult. The fixture unit fees are associated with the cost than charging by units. The Department is trying to gain an approximation of the anticipation of the water demand on the fixture units.

Chair Dill expressed that it is realistic to assume that every fixture unit would be running at the same time to approximate the water demand.

Manager Craddick explained these are the issues that concern the staff by using fixture units.

Chair Dill thinks the Plumbing code addresses this and if more units come on line the total number gets reduced to be an approximate use for the maximum water demand to establish a Facilities Reserve Charge (FRC).

Manager Craddick agreed that if this is used it would be a possibility.

Page 4 - From the meetings Manager Craddick held in the community recently this is an issue with developers looking at providing affordable housing. Irrigation use and how a pool is filled would also figure into the cost of providing water. From these examples, note the dramatic change in the fee when industry standard demand and flow criteria are used to assess the cost rather than arbitrary "units". Manager Craddick agrees there may be a little more work to assess cost based on industry acceptable criteria for metered water systems. Our consultant says this is a more reliable methodology. Another example is a hotel using a million gallons per day on a peak day that has only enough fixture units for a 6" meter. The cost per gallon is \$22,880,000 million for one million gallons per day peak demand. This amounts to 40,734 fixture units. To make the determination as to which number is correct requires study and application of knowledge. \$23 million is much closer to the Department's costs for the service than to provide the meter for \$1.4 million would be a gross miscarriage of cost. In using these schedules staff discretion must be allowed.

The rules being considered do consider a Water Service Request review charge. This is similar to a building permit fee. The Department is asking for a token amount to be charged at this time until a thorough review of cost can be provided not exceed \$2 per fixture unit, as described in the Uniform Plumbing Code current version, and shall be applied uniformly among all customers.

DISCUSSION:

Manager Craddick had a lengthy talk with the staff and SAIC consultant regarding Fire lines. It is legitimate to charge for a Fire charge but it lacks a study. The Fire lines section will be deleted until a study is completed. The Board had no objections to deleting the Fire lines section.

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Re: b. Needs Assessment Study and FRC revised January 24, 2013

Manager Craddick indicated that the *updated* January 24 2013 report from SAIC is the final report from the consultant.

SAIC, Page 3-5 - Table 3-3 Projected Capital Facility Needs by System Function Through 2030 is a list of all projects that are transmission and includes distribution lines.

Table 3-2 – Projected Capital Facility Needs through 2030 shows the CIP for expansion at \$240.2 million (source, storage and transmission). The CRP and CRPL are replacement projects where the distribution lines are. Manager Craddick clarified that the report stated transmission and distribution throughout the report. SAIC was only looking at transmission line. Someone may have deleted the word “transmission” without looking at what they were actually deleting. The reports included distribution lines which need to be corrected in the report.

SAIC Report, Page 4-1 - The key assumption in the report is that the annual system growth rate is 1.1%. The higher the growth rate the lower the fee. Currently, the DOW is not growing at this rate but this is a number the DOW is using for the rates which are reasonable. Year-to-year variations rainfall and temperature are expected to occur and impact water sales.

There is an assumption that 10% of the CIP will be financed by bonds. Ten percent (10%) of \$240 million equals \$24 million that the DOW would debt finance with this fee. If it goes over, the fee would be lower. The DOW has not financed that amount of money. This assumption is made in order that cost of debt finance is a portion of the CIP that will be reflected in the analysis.

Manager Craddick commented that less the credit component is not only in the AWWA A-1 Manual but it is required by state law. The Board will have to face this in the future when the budget is done. The consultant is suggesting the Board take out of the rates whatever the Credit is and put it in the CIP to make it whole. The reason is because the DOW would not be collecting enough money. The fee is \$2,000 higher that users are being charged. This Credit has to be deducted out which is the present value of the debt service that the new users are paying on distribution line projects.

Manager Craddick further explained that if no new customers come on to the system, the exiting rate payers would have to pay the debt for all the distribution lines. As new people come on the system, they are helping to pay the debt service. The Credit will put a present value on the number of what they will pay over the life of the debt that the existing rate payers will not have to pay. In the report, the Board needs to look at every time a 5/8” meter is issued that a \$1,900 Credit is put towards the expansion fee. Staff costs could be used up with the \$1,900 Credit.

Agricultural meters are not sized on a Fixture Unit basis, the FRC calculation is based on the ratio of meter capacity relative to a 5/8” meter capacity. SAIC used the AWWA Manual M6, Water Meters – Selection, Installation, Testing, and Maintenance.

Data sources for the FRC were updated as follows: Water Plan 2020 Report dated March 2001 and the Board updated the CIP projects costs in 2010, Status of Supply, Status of Storage, and Deficiency Analysis was done in 2006, Summary of Fixed Asset Additions and Retirements for the

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county's Fiscal Years 2008 and 2009, Asset Balance, Account Depreciation for the DOW for Fiscal Years 2008 and 2009, Sources of Funds for Fiscal Years 2008 and 2009, Summary of Mains, Additions and Abandonments for Fiscal Years 2008-2009, Metered water consumption data provided by DOW to SAIC were done in Fiscal Years 2007-2009, and the Engineering News Record and Historical construction cost index values.

The *source* component of the FRC was calculated using the following three-step process:

Step 1. Determine the unit cost for growth-related source capacity, in terms of dollars per gallons per day (\$/gpd) of source capacity.

Step 2. Determine the source capacity requirement per fixture unit, based on 30 fixture units per Equivalent Residential Unit (ERU).

Step 3. Determine the FRC source component per fixture unit by multiplying the unit cost by the source capacity requirements.

SAIC Report, Page 4-4 – Table 4-2 shows the Projects Used to Calculate Unit Cost of Source Capacity. The source projects are listed with the amount and the Percent for Growth and the dollar amount to get the unit cost. The unit cost of \$4.62 was also reflected on Manager Craddick's report but the actual cost is \$4.15 because the Credit was applied. All SAIC data came from the staff and from the Water 2020 plan.

Per the DOW, the standard for single family residential meters is an average day demand of 500 gpd. Because the source of supply level of service is based on the maximum day demand, the capacity requirement per equivalent residential unit is the projected maximum day demand of 750 gpd (equal to the projected average day demand of 500 gpd x 1.5 ratio of maximum day demand to average day demand). This is required and all developers were informed.

The FRC source component is \$115.61 per fixture unit the project of the unit cost of source capacity (\$4.62/gpd) and the capacity requirement (750 gpd maximum day demand per ERU), divided by 30 fixture units per ERU. This equates to approximately \$3,480 for the source component.

The *storage* component of the FRC was calculated using a three-step process:

Step 1. Determine the unit cost for growth-related storage capacity, in terms of dollars per gallons of storage capacity.

Step 2. Determine the storage capacity requirement per fixture unit, based on 30 fixture units per ERU.

Step 3. Determine the FRC storage component for per fixture unit by multiplying the unit cost by the storage capacity requirements.

SAIC, Page 4-6 - Table 4-3 lists of all the projects, tanks, the amount of storage and what percent is for growth and the estimated dollar to do all the projects. The table also provides the dollar per gallon capacity and the dollar per fixture unit.

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The storage day demand is based on the maximum day demand, per guidance from DOW. The storage capacity requirement for a 5/8" meter is 750 gallons of storage, corresponding to a maximum day demand of 750 gpd.

The FRC storage component calculation is \$219.56 per fixture unit, the product of the unit cost of growth-related storage capacity (\$8.78/gallon) and the capacity requirement (750 gallons per ERU), divided by 30 fixture units per ERU. This equates to approximately \$6,600 for the storage component per ERU.

SAIC Report, Page 4-7 – The Water Plan 2020 hydraulic analysis evaluated the transmission systems of all 13 DOW water systems, using projected 2020 water demands. Together with existing facilities, these facilities in the CIP, CRP, and CRPL constitute the transmission facilities required to serve DOW's customers in 2020. In addition, DOW has updated its projection of transmission facilities needed to service customers beyond 2020. Eighteen (18) new transmission projects were added since DOW completed Water Plan 2020.

The transmission component of the FRC is based on the cost of those facilities required to serve the projected 2030 customer base and was calculated according to the following three steps:

Step 1. Determine the unit cost of transmission facilities, in terms of dollars per gallon per day.

Step 2. Determine the transmission capacity requirement per fixture unit, based on 30 fixture units per ERU.

Step 3. Determine the FRC transmission component for per fixture unit by multiplying the unit cost by the transmission capacity requirement.

SAIC Report, Page 4-8 - In Table 4-4 Unit Cost of Transmission Capacity, Manager Craddick explained that the project totals were listed and the total number of gallons would be delivered between 2030 and 2050. This is how the dollar per charge is determined.

In this analysis it was assumed that, on a unit cost basis, the inflation-adjusted cost of transmission facilities required to serve a new development is the same as that required to provide transmission service to existing customers. Accordingly, the numerator in the unit cost calculation was: (1) the cost of the projects in the CIP, plus (2) the inflation-adjusted cost of existing transmission facilities that are not scheduled to be replaced.

Manager Craddick pointed out that SAIC used transmission cost on existing customers which are allowable in the state law.

The denominator in the transmission unit cost calculation was the projected 2030 average demand, in gallons per day, interpolated from Water Plan 2020 data. This demand includes the water demand of existing customers and the water demand of new customers, and it was used because the unit cost calculation was based on the transmission facilities required to provide water service to all customers in 2030. In units of maximum day demand in gallons per day, the transmission capacity requirement per ERU is 750 gallons per day.

The FRC transmission component is \$302.30 per fixture unit, the product of the unit cost of transmission capacity (\$12.09/gpd) and the capacity requirement (750 gallons per day per

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ERU), divided by 30 fixture units per ERU. This equates to approximately \$9,060 for the transmission component per ERU.

Manager Craddick commented that SAIC cited the state law, HRS 46-143(d)(1)(B) for the DOW to consider “the means, other than impact fees, by which existing deficiencies will be eliminated within a reasonable period of time.”

SAIC Report, Page 4-9 – The DOW funds the capital improvements through a variety of sources, including water rate revenues, use of FRC revenues, debt proceeds, use of capital reserves, and other smaller sources of income such as interest income on capital reserves. Debt proceeds are repaid by water rate revenues. Manager Craddick added this is in theory, and not by new users coming on the system.

As described in the Needs Assessment Study and in Water Plan 2020 and confirmed by the DOW staff’s 2006 analysis, there are significant deficiencies in the existing DOW system. These deficiencies will be eliminated through specific capital improvements that are part of the CIP and replacement programs.

An FRC Credit was developed to recognize new customers paying FRCs who will also pay through water rates for:

- Eliminating existing system deficiencies,
- Source and storage repair and replacement projects, and
- Debt service payments on existing facilities

The source and storage components of FRCs were based on the cost of new facilities. However, new customers will pay for a portion of the DOW’s source and storage repair and replacement program in its CRP and CRPL through water rates. An FRC Credit was developed. An FRC Credit was not developed for transmission repair and replacement projects because the FRCs do not include transmission facilities that are being replaced.

An FRC Credit was also developed for the amount of water rate revenue that a new customer would pay over a 20-year period for debt service payments on existing facilities. An FRC Credit recognizing rate-funded debt service payments on existing facilities was developed to avoid “double-counting” (i.e., paying for a facility through rates and through FRCs). As a result of this calculation, it was projected that on a dollars-per-gpd basis, the present value over the 20-year period that should be Credited to avoid “double-counting” is \$3.96 per gpd average day demand. Because the Average Day design standard is 500 gpd per ERU, the Credit is (\$66.00) per fixture unit.

Manager Craddick referred to the additional details of the analysis in Appendix C (Table C-6) and pointed out the Credit for Debt Service charges through 2016. The table shows various projects, farmer’s home loans, bond, pipe lines, Kapilimao Well, and what users are paying to debt service that are not related to system expansion. This reflects what users are not getting Credit on. On Lines 34, 35, 36 and 37 it shows a \$1,980 Credit for the 5/8” meter. The \$17,160 is \$1,980 below the DOW’s cost.

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DISCUSSION:

Mr. Nishimura inquired if the \$1,980 Credit is built in the current DOW rate structure. Manager Craddick explained there is nothing in the DOW's rate structure if the Department is going to do all the projects that are planned. The DOW would have to look into applying this amount. Every year the DOW has about 100 meters (100 meters x \$1,980 = approx. \$200,000). DOW spends more on staff time and reviewing the drawings. If the fixture unit is added a \$2.00 per fixture unit charge, staff costs are not covered. This would be the Board's choice to transfer this to the FRC. If expansion will cover expansion, this portion covers the staff costs for expansion. Staff costs are paid out of the water rates. This could be considered for the next rate study in the future.

Manager Craddick added this would be transferred out of the rates and into the FRC to make the FRC to do all of the projects. This is not part of the budget. The staff payments far exceed the number that would be collected in a year. Mr. Nishimura requested Manager Craddick to provide a written description of his statement.

Mr. Nishimura also commended that Manager Craddick did not represent this at the public meetings. What Manager Craddick indicated at the public meetings was that the water rates were paying for part of the FRC and the debt service.

Manager Craddick explained that the water rates will pay part of the FRC and the debt service if the DOW doesn't increase the rate to pay its share for the debt service. The Board increased the water rates to cover this.

Mr. Nishimura noted that if the rate does not go up, it would not cover the water rates.

Manager Craddick indicated it would not cover the water rates. It would not cover the projects that the DOW wants to do based on the level of debt which includes the \$60 million.

SAIC Report, Page 4-11 – Table 4-7 shows the meter sizes and dollar for fixed units. A number of factors have been identified as contributing to the increase in the FRC. General inflation, as well as construction-specific cost increases are in part responsible, as well as the inclusion of planning, land and design costs in this FRC update. Changes to the requirements for main abandonment were also a source of increased costs. The incorporation of the expense of bond financing a portion of the required system expansion also contributed to the increase relative to the previous study.

The previous FRC was based on a meter size calculation for all customer classes. In this study the FRC is calculated on a per fixture unit basis. There are a number of reasons for this change, including the closer correlation between system demand and fixture units and the fact that fixture unit information is available at time of permit application.

SAIC Report, Page 4-12 - Table 4-8 compares the previous and updates the DOW FRCs with similar charges for other Hawai'i water utilities. None of the other utilities have changed system development charges since the last FRC update. Table C-9 in Appendix C provides a more detailed comparison.

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The Benefit Zone - HRS Section 46-144(2) specifies that collection and expenditures shall be localized to provide a reasonable benefit to the development, and that establishment of geographically limited benefit zones is not required if a reasonable benefit can otherwise be derived. In the case of the DOW's FRCs, the benefit provided to the development is the provision of water service. The FRC is applicable to applicants for DOW water service.

Manager Craddick clarified that the DOW still needs to have a public hearing on benefit zones.

DOW offers FRC offsets for developers who construct DOW approved off-site facilities. HRS 46-143(d)(7) states that impact fee calculations must consider any offsets payable to a developer related to the construction of off-site improvements. For construction of a qualifying source facility, an FRC offset of up to 18 percent of the FRC payment was estimated. For qualifying storage and transmission facilities, the calculated FRC offset amount is up to 35 percent and 47 percent of the FRC payment.

SAIC report, Page 4-13 - Table 4-9 summarizes the maximum FRC offsets recommended for consideration by DOW. The FRC that is paid for source is 18%, 35% for storage and 47% for transmission which equals 100%.

The DOW will have to work with the Rules Committee if a developer builds something cheaper, the DOW can charge them the difference. They would get an offset of the dollar amount and the gallons of what the developer provided. The Rules Committee had previous testimony that will be corrected and reviewed by the Deputy County Attorney Andrea Suzuki. If the rules can state that it is built to standard, this should not be a concern to do it for less cost than the DOW.

SAIC, Page 4-13 - There are a number of issues that should be considered in the implementation of the updated FRC charges.

Impacts to customers must be weighed before rates are implemented. Significant increases in FRC rates can have a material impact on business expansion and community development plans. The current analysis results in between 151% and 373% increase to current FRCs. It is recommended that the DOW Board carefully consider the impacts of such an increase on its service area.

Consider phasing in the full increase of the FRC so affected parties can appropriately adjust to the impacts of the new fee. Conversely, while a longer phase in period allows these affected parties time to adjust, during that period the level of fee collected will be lower than this analysis indicates is required to fund the required level of system expansion. The DOW Board should carefully consider the impact of phasing in the fee over a short or long period.

The credit portion of the calculation, which is calculated based on the expected amount that new customers will pay through their water rates for eliminating existing system deficiencies, source and storage repair and replacement projects, and debt service payments on existing facilities. The amount needed to fund the required level of system expansion is \$66 greater per fixture unit (the amount of the Credit) than the total amount paid per fixture unit. The DOW Board and staff should consider whether or not to implement a transfer from the general fund to the FRC fund

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equal to the amount of the Credit for each FRC paid, to ensure that the FRC fund is able to support the required level of system expansion.

SAIC Report, Page 5-2 – Manager Craddick commented that the assessment of Grove Farm Water Treatment Facility was added to help the DOW decide to purchase the facility. This was not related to the FRC study but was used in the analysis on the treatment plan.

DISCUSSION:

Chair Dill inquired if the Board is free to go through the state law and County Charter to determine the cost of service of FRC since it will have significant increases in FRC rates that can have a material impact on community development plans. The DOW could phase in over a long period of time that would lessen the impacts to the community and customers. Anything that the DOW does would impact the level of system expansion.

Deputy County Attorney Andrea Suzuki clarified that the Finance Committee is free to assess a lower impact fee than what the study recommends. The statutes allow the committee the ability to assess but not mandate.

Mr. Oyama understood that this cannot be part of the rules change.

Manager Craddick added that if the Finance Committee is setting the schedule from the Rules Committee for comments, the Finance Committee can reply to the Rules Committee by approving the schedule and to recommend a phasing in during a period of time. The DOW has been discussing the phase in period during the last two (2) years. In some cases, customers were told there is no water if they cannot pay for it.

Deputy County Attorney Andrea Suzuki added that for a reduction, it has to be across the board for all customers to maintain equity.

Chief of Water Resources & Planning, Mr. Gregg Fujikawa has noticed an increase in meters whether it is due to a customer's anticipation of the rate increase.

Re: c. Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge

- i. Indexing the Schedule**
- ii. Fire charge**
- iii. Administrative Charge**

Manager Craddick read the suggested amended version for Part 4, Section VII as follows:

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 increase 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.
2. The Water System Development Fee shall be determined by the Schedule which

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shows the Price per Fixture Unit, per Gallon and price per Meter and the Percentage for developers.

3. For meter sizes up to two inch the water system development fee will increase according to the flow rate ratio of larger sizes to the 5/8" meter (up to 2").

Yearly use/365 is not to exceed gallons but it does, the DOW is under charging but it can be easily checked. This is covered no matter what the Rules Committee decides.

4. Should the Department use meters different than the Badger meters currently used 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.

Item 5. would be deleted:

~~5. Private fire lines shall pay a Water System Development Fee for the portion of the fee related to storage and transmission cost only for the number of gallons of fire flow required times 0.1% for residential fire flow and 0.5% for detector check installations.~~

Item 6 would be renumbered to Item 5.

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 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.

Manager Craddick indicated these recommendations embody what was taken from Part 4 to go into the rules such as the off sets.

Chair Dill questioned if the Badger meters conform to the AWWA standards.

Manager Craddick commented that there multi-jet meters and single-jet meters. A 3/4" fusion meter has a flow capacity of a 1-1/2" meter. This is under the AWWA C-712 Standard. Manager Craddick would not change the Badger meter but bids could change the meter if it fits in the meter box. The only number that is different from the study is dollars per gallon at \$22.86. By rounding it off to \$22.88, the \$17,160 comes out the same. Two (2) cents was added to the transmission cost.

Manager Craddick indicated a big change in the report was the addition of the storage portion that dropped which was debt financed.

Mr. Nakaya felt the jump from \$4,000 to \$7,000 is quite substantial and would like to see an option of phasing in the cost.

Manager Craddick commented that the schedule be recommended to the Rules Committee but to include a phase in within a period of time.

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Re: d. Review and make proposed changes to Part 5 Section III Water System Development Fee

Manager Craddick recommended that the proposed change to Part 5 Section III of the WSDF is to delete the Fire charge and include the schedule and Administrative Charge which is non-refundable. The Administrative Charge is already included in the rules.

DISCUSSION:

Mr. Dill agreed with the recommendation to phasing in which would reduce the FRC revenue that is anticipated to cover the expansion costs.

Mr. Nakaya proposed phasing in to meet the expansion projects and to raise the cost to \$10,000.

Manager Craddick suggested the DOW has to pay and make a projection depending on what comes in the debt service. This August the DOW will pay the full principal plus interest which jumps up \$1M a year in debt service payment. The last interest payment was in February. Manager Craddick will provide back-up information regarding debt service payment.

Deputy County Attorney Andrea Suzuki raised concerns regarding the phasing in based on equity. For every 5/8" meter that is put in by a customer the impact would be \$17,000 which could be phased in five (5) years. A customer is lucky to pay the fee at year one (1) of \$10,000. If a customer comes in at year four (4) they would have to pay the \$17,000 knowing they would have to pay the higher rate. Deputy County Attorney Andrea Suzuki will research more on the legality of this issue. Deputy County Attorney Andrea Suzuki clarified that the Board can charge less as long as it is maintained equally throughout the phase in.

Mr. Nishimura indicated the concern of customers at the back end would get charged later.

Manager Craddick explained this is because the customer would be getting the full \$1,900 Credit the first year which is required by state law. Mr. Dill suggested the \$1,900 Credit could be phased in. Manager Craddick commented this would have to go back to the consultant to consider phasing in the \$1,900 Credit.

Mr. Oyama suggested the consultant would need to figure out the steps to phase in the Credit.

Mr. Nishimura and Manager Craddick discussed the time frame of getting the \$17,000. Manager Craddick suggested the phase in could be done in one (1) year; first three months to increase the rate to 25% the 1st quarter, 2nd quarter to 50%, third quarter to 75%, and the full rate would be collected at the end of the year.

Deputy County Attorney Andrea Suzuki commented that the customer would feel the phasing in gradually depending on when the customer comes in.

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Manager Craddick read Part V Section III WSDF Fee Schedule and recommended to strike A. Last line, "A Fire charge" and "also."

- A. The WSDF imposed shall be as set forth in the WSDF Schedule, in Part IV of the Department Rules. The WSDF Schedule was created in accordance with a report prepared by an independent consultant as adopted by the Board for the purposes of WSDF assessment. The report calculated the costs associated with water development needs as laid out in the Department of Water facilities needs assessment study entitled "Water Plan 2020" as amended. An administrative charge is required.

Manager Craddick suggested the language on phasing in the schedule could be changed before sending this back to the Rules Committee to consider.

Mr. Nakaya recommended waiting for the legal matters to be resolved by the Deputy County Attorney Andrea Suzuki first.

Mr. Nishimura commended from a utility standpoint, the \$17,000 it is an ominous burden to the customer but once the customer gets the meter and is using water, it is not as ominous. Mr. Nishimura inquired if the customer could be financed partially through additional charges added to the water bill over a five (5) year period. There is the possibility the DOW could finance the rate holder. Would the DOW tack on a carrying charge? These suggestions may require additional rule changes.

Manager Craddick explained that the problem is due to the debt service payments. It would be good once the customers start paying from the payment schedule. But if everyone starts paying from the schedule it could be a problem. Debt service payment is usually on an owner's mortgage. If it is a single dwelling, the owner could finance the developer and the rate could be added to the mortgage payment.

Mr. Oyama inquired about the time frame of phasing in the structure during the whole time period to collect the \$17,000.

Deputy County Attorney Andrea Suzuki recommended that the collection of impact fees nationally is to be reevaluated annually by making adjustments every two (2) to four (4) years. The Department should strive to meet this deadline.

Mr. Nakaya moved to receive Agenda Items 4a through 4d; seconded by Mr. Oyama; with no objections, motion was carried with 3 ayes.

Mr. Oyama moved to strike the Fire charge fee in Part V Section III of the WSDF Fee Schedule; seconded by Mr. Nakaya; with no objections, motion was carried with 3 ayes.

DISCUSSION:

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Manager Craddick commented that the Fire charges in the design standards are required to be built. There is no associated study on the Fire charge. Manager Craddick proposed a very low Fire charge but has concerns that the study on this charge would go up 10 times.

Deputy County Attorney Andrea Suzuki advised that the impact fee needs to have a study attached that was not in the SAIC report.

Manager Craddick indicated there was an independent study on the system for 9,000 residential services and for 400 commercial units that use the same 18 tanks. The numbers were below the cost. There is a concern of not returning the money if it was collected and that it could get contested.

Manager Craddick agreed with Chair Dill that there would no significant impact on the proposals because residents are not required to put in sprinklers.

As originally stated, Mr. Oyama moved to amend and defer the Fire charge until there is enough time to gather additional data for more support; seconded by Mr. Nakaya; with no objections, motion was carried with 3 ayes.

ADJOURNMENT

At 5:04 p.m., Chair Dill adjourned the Finance Committee meeting.

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