

Workshop

February 24, 2017
9:00 a.m.

Board Members Present: *Chair* Sherman Shiraishi, Laurie Ho, Lyle Tabata, Thomas Canute, Lawrence Dill, Beth Tokioka, Michael Dahilig (*entered meeting @ 9:16 a.m.*)

Staff Present: Manager and Chief Engineer Kirk Saiki, Sandi Nadatani-Mendez, Michael Hinazumi, Eddie Doi, Marites Yano, Keith Aoki, Kim Tamaoka, Val Reyna, MJ Akuna, Deputy County Attorney Mahealani Krafft

Guests: Sudhir Pardiwala, Raftelis Financial Consultant, Hal Parrott, private citizen

AGENDA

There were no objections to the Agenda as distributed.

NEW BUSINESS

1. Financial Management Planning and Water Rate Analysis for Fiscal Years (FY) 2017 - 2021 for the Department of Water

BACKGROUND:

Mr. Sudhir Pardiwala went over the Agenda for the Financial Management Planning and Water Rate Analysis for Fiscal Years (FY) 2017 - 2021 for the Department of Water covering the following topics:

- Study Objectives
- Financial Plan
 - Key Assumptions
 - Revenue and Expenses
 - Proposed Revenue Adjustments
- Rate Design
 - Scenarios Review
- Next Steps
- Q & A

CIP Financing Plan (slide 7)

- Existing bonds will be used to finance the CIP
- Over \$65M CIP to be spent the next 5 years, including this year
- First two (2) years will be funded by the debt and grants

Financial Plan (slide 9)

- In 2019, the Department may not be meeting expenses
- Need to have revenue adjustments going forward

Current Target Reserve (slide 10)

- Build America Bond (BAB) & State Revolving Fund are sitting in the reserves
- These funds are being used to pay for the CIP the next two (2) years

DISCUSSION:

Mr. Dill commented on drawing down from reserves which are distinct from the emergency reserve fund. The reserves include the sum from the debt funding.

The proposed revenue increase in two (2) years to year five (5), should allow the Department to meet expenses.

Proposed Revenue Adjustment (slide 8)

- Need to maintain debt coverage and reserve requirement.
- If revenues are not increased, there will be a loss close to \$1.5M each year, with no reserves left in 2021.

At 9:16 a.m., Mr. Dahilig entered the meeting.

Rate Design

- There are no changes on the rate; they are based on FY2018

Existing Water Rates (slide 13)

- Consultant could not figure out the basis for the existing tiered rate structure
- Agriculture (Ag) has a flat charge
- Bulk of the meters are 5/8" meters

FY 2015 Customer Data (slide 14 & 15)

- Bulk of consumption is in Tier 1
- 62% of the consumption are represented in the first two tiers
- 98% are 5/8" meters
Ag users have different meter sizes; probably not 5/8".
DOW Ag users use 3% of the total water usage
DOW Ag users should have larger meters
Typical Ag users do not use the DOW water

Scenario A Description (slide 16)

- An industry standard is to charge a certain portion of the meter cost based on the capacity of the meter
- Each Tier is based on the 5/8" meter design
- 25% of the current bills are using less than 4 kgal/month
- 60% & 85% of the current bills (annual bills) less than 8 kgal/month
- The percentages are based on rate design & usage patterns
- Average residential customer uses 7,000 gallons and falls within Tier 1 & 2
- Target total revenue needs to be captured by the rate structure
- Rates need to be modified to collect revenues in each Tier

Scenario B Description (slide 17)

- Meter charges based on the usage for each meter size
- This represents the current rate design

Current Tiers (slide 18)

- Important to look at the impacts

Scenario B Tiers (slide 20)

- Represents current rate structure
- 8" meter uses less water than 6" meter (used by the airport)

Scenario A Proposed Monthly Meter Charges – FY 2018 (slide 22)

- 5/8" Meter size Total Monthly Charges = \$21.90, Current Charges + Tier 0 = \$21.55 with a Difference of \$0.35. All other meter charges (service charge) will go down
- 25% of revenue are currently collected. 25% is not the industry standard but is a good number to collect. If the percent is increased, there is more impact on customers who use very little water.
- The 25% compared to the Department's fix cost of 80%.

Scenario B Proposed Monthly Meter Charges – FY 2018 (slide 23)

- Meters in this scenario are using water usage; large meters will reflect big increases
- 5/8" meter charge will decrease by \$4.10 recovered from the large meters; benefit to customer
Costs will be pushed to the commercial users

DISCUSSION:

Mr. Dahilig referred to slide 22 – 5/8" meters shown as predominately residential users. Large multi-family uses 2", 3" & 6" meters. He asked how are estimated meters with high levels of usage actually residential projects vs. commercial projects? Mr. Dahilig requested to see the breakdown (which were not part of the presentation). He said there are a number of disproportionate people in lower cost units if the meter costs are increased?

➤ Mr. Dahilig requested to see the breakdown.

Manager Saiki stated Scenario A is based on meter capacity and Scenario B is based on water usage.

Ms. Tokioka commented on Scenario A and asked will there be details on what this means for typical users or will there be an increase raise of \$0.35? Mr. Pardiwala answered it is only for the meter charge, the \$0.35 is a fixed charge; the usage was not looked at. In Scenario B, 5/8" meter customers will see a \$4.10 reduction.

At 9:43 a.m., Mr. Dahilig exited the meeting.

At 9:45 a.m., Mr. Dahilig re-entered the meeting.

Proposed Rates (slide 25)

- Groundwater (~80% of total water) – will be shown in Tiers 1, 2, 3 in Scenario A and Tiers 1, 2 in Scenario B
- Purchased water (~20% of total water)
- Based delivery cost – constant for all users.
- Peaking cost – reservoirs have to be designed to meet the maximum requirement of distribution lines. The upper Tiers will have higher peaking costs.
- Peaking costs are not allocated equally to the system; it works only for different customer types. Need to look at the usages in Tiers. The customer classes are not differentiated.

DISCUSSION:

Mr. Dill asked why wasn't the peaking cost applied to the lower Ag users? Mr. Pardiwala wanted to make sure Ag rates don't go up too much. Would affordable housing projects with a higher master meter would end up in a higher Tier and would it benefit from this? If the Department wanted to set up for a different rate for affordable housing units, it could be done as an option. Three percent of water is for Ag use.

Proposed Rates (slide 26 – corrected slide)

- By looking at each month separately on how much water is being used, the consultants identified the maximum usage which becomes the average peaking factor
- The system needs to meet the peaking requirements
- Less water are in each of the Tiers and more of the usage reflects at the higher rate
- In Scenario B – Tier 3 & 4 are the same rate

DISCUSSION:

Mr. Canute asked why was the cost of the water higher? Mr. Pardiwala mentioned that 20% is the cost of purchased water.

Manager Saiki commented on Tiers 1 & 2, it is the Department's cost out of the wells. Once the capacity is hit on purchased water, regardless of where it is on the island, it would be for the higher cost.

Comparison of Rates (slide 27)

- Most rates are going down except for the ag rates.

Customer Impacts A & B (slide 29 & 30)

- Red line – Current Total Bill
- Blue line – Proposed Total Bill
- Box – Average usage
- Scenario B – looks at the usage

Mr. Pardiwala recommended Scenario B which reduces the impacts and provides a break to the smaller users. The larger meter users will see some larger bills.

Next Steps (slide 31)

- Finalize financial plan
- Finalize rate structure
- Finalize water rates
- Develop water rate report.

DISCUSSION:

Chair Shiraishi commented on the various tables and graphs if the rates are raised, users will see a reduction in their bills. Mr. Pardiwala restated the larger meters will see increases in their bills. The Board's responsibility is to see if the rates are applied fairly as mentioned by Mr. Dahilig.

Mr. Hall Parrott, private citizen provided is testimony.

Mr. Parrott stated he was projecting off of the budget which is not the way to do the rates. Mr. Parrott took five (5) years (2012 – 2016) which had a 78% variance between the budgeted capital budget and

what actually happened. The capital budget this year was \$24M, but at the end of the year it was \$41M. By streamlining the Department's difference, the Department is going to be at a 92% variance on what is being spent. The rate study is showing \$6M where the capital budget should be. At this point, the Department is at \$1.7M with a few months left which is not going to happen. The consultants are showing \$6M and this is where it gets messed up Mr. Parrott said because the consultants are getting numbers that they are having to work with.

Mr. Parrott used this year's 92% variance because the Department has no expenses. The previous five (5) years showed expenses in the account. If there are no expenses, then the money will shoot up that results with the trend getting worse.

There are other problems and this month's budget has eight (8) missing funding. There are expenses but no budget and a \$2M mistake in the budget is a problem.

So far, DOW has pulled \$24M from the public. The public is facing a \$125M shortfall from the county. Money is shooting up without a good foundation and this is harmful to the public based on the budget.

Mr. Parrott suggested if the Department had a \$5M capital development fund, it could cover the preliminary design and scoping to start. There is \$15M sitting in the Build America Bond (BAB) and \$24M at the end of this year, the Department is sitting on \$39M now. By getting the capital development fund, this money could move over with a position to look at the projects as they come up and decide how you want to finance it (i.e., bonding it could be cheaper). He added what you will not do is have this increased weight that shows up on everyone who is buying water.

Mr. Parrott's written testimony would be provided to the Board.


Ms. Tokioka commented on slide 7 by looking deeper at the Capital Financing Plan. There are a lot of assumptions on the capital budget in not using bond funds and not having access to any grant funds in future years. There could be other options.

Chair Shiraishi said the Board will be looking at the rate study again on the next Board agenda or at a Finance Committee meeting.

ADJOURNMENT

At 10:12 a.m., Chair Shiraishi adjourned the Workshop with no objections.

Respectfully submitted,


Edie Ignacio Neumiller
Commission Support Clerk

Approved,



Beth Tokioka
Secretary – Board of Water Supply

Department of Water, County of Kaua'i
Board Meeting
February 24, 2017
Hall Parrott's Testimony

There are 3 major points covered by this testimony.

1.

"It is not good governance for the Kaua'i Water Department to use the budget process to drive water rates." Over estimations of the Department's ability to plan and construct capital improvements have resulted in inaccurate projections of project costs and timelines. Rate increases based on these inaccurate assumptions has resulted in the accumulation of millions of unspent dollars in the unrestricted cash funds or "profits". These proceeds exceed the historic, and more to the point, current capacity of the Department to produce facilities in a beneficial fashion. What is the point of collecting funds now for projects that might never be built? The Water Department has pulled \$24M beyond expected expenses from water customers. The County needs to overcome a \$120M shortfall. Unions are negotiating a 3 year pay freeze. The utility of higher water costs is unsupported at this time and could accelerate the loss of residents struggling to afford the high cost of the Kaua'i lifestyle.

Department of Water, County of Kauai	
Unrestricted Profit *	
2016 Unrestricted Net Position	38,454,748
2011 Unrestricted Net Position	<u>(14,494,514)</u>
Difference	<u>23,960,234</u>
<u>\$24M taken from the people of Kaua'i</u>	
* Source: Department of Water Audited Financial Statements (online)	

**County of Kauai Department of Water
 For the Years 2012-2016
 Capital Expenditures ***

	Budget	Actual	Variance	Percentage of Variance
2012	38,990,814	11,617,874	27,372,940	70%
2013	32,887,749	6,810,665	26,077,084	79%
2014	37,566,398	7,793,806	29,772,592	79%
2015	42,715,929	4,185,025	38,530,904	90%
2016	30,824,312	9,250,794	21,573,518	70%
Total	182,985,202	39,658,164	143,327,038	78%

* Source: Department of Water year-end Budget Reports (online)

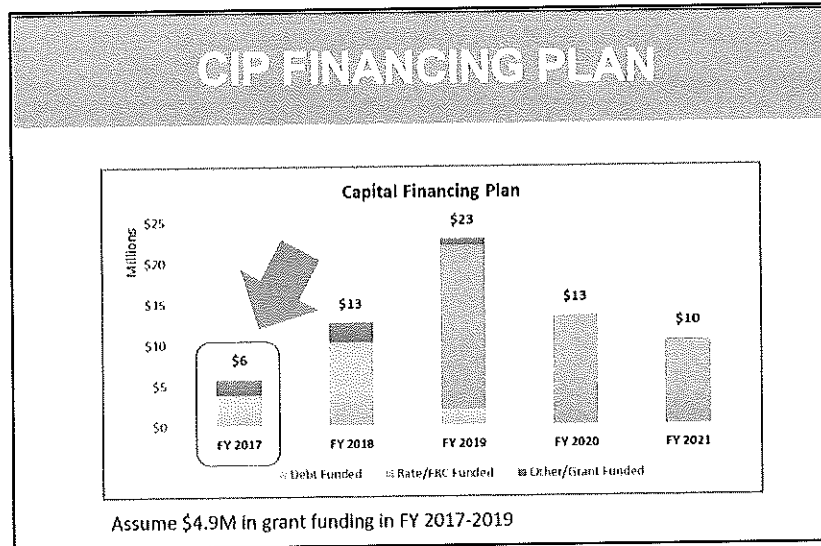
**County of Kauai Department of Water
 For the Seven Months Ending January 31, 2017
 Capital Expenditures ***

	Budget	Actual	Variance	Percentage of Variance
Water Utility Fund	7,551,140	822,011	6,729,129	89%
FRC Fund	8,562,575	33,657	8,528,918	100%
Build America Bond Fund	8,195,825	900,884	7,294,941	89%
Total	24,309,540	1,756,552	22,552,988	93%

* Source: Department of Water January, 2017 Budget Report (online)

The larger variance for 2017 is attributed to a decrease in project construction expenses and highlights the leverage inaccurate projections of this class of expense (i.e. construction expense) have on variance calculations.

Also of interest is the Capital Financing Plan (2017-2021 Rate Study by Raftelis consultants) figure of \$6M for 2017 vs. the Water Department's estimate of \$41,673,497 for the same period.



VS.

County of Kauai Department of Water Year End Budget Projections for Fiscal Year 2017				
	Capital Budget	Actual Expenses	Variance	Percentage
Actual				
For the 7 months ending January 31, 2017	24,309,540.00	1,756,551.38	22,552,988.62	93%
Projected				
Straight-line for year-end June 30, 2017	41,673,497.14	3,011,230.94	38,662,266.21	93%

Actual sourced for January 31, 2017 Water Department Budget Summary (online)

Department of Water, County of Kaua'i
 Board Meeting
 February 24, 2017
 Hall Parrott's Testimony

When the dust settles in July the Department will be sitting on:

\$12 M left in Build America Bond Funds*
\$24 M in unrestricted funds/profit from prior rate increase
 \$36 M and climbing.....

2.

There is a computer glitch or something in the 1/31/2017 Monthly Budget Summary. 11 capital projects have no budget listed, but there is activity in associated expense accounts. This problem shows up over the previous 6 months.



Department of Water, County of Kauai
 Monthly Budget Summary vs. Actual
 III
 1/31/2017

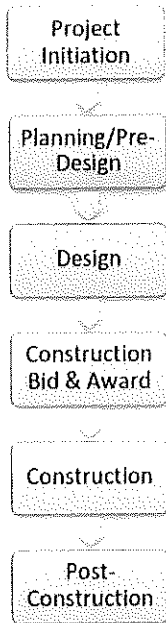
	January				FY 2017			
	Original Budget	Revised Budget	Actual	Variance	Revised YTD Budget	YTD Actual	Variance	Variance %
Capital Projects (See Attached for Details):								
10-20-00-604-120 WU-Eng-10%R-Kilauea 1.0 MG Tank Job 02-06						3,739.66	(3,739.66)	
10-20-00-604-129 WU-Eng-ALLR-11-10 AIN Halewili, Hwy50 to Haka Hale						020.57	(820.57)	
10-20-00-604-148 WU-Eng-12%R-Job 15-7 HE-01&10HanapepeFleefoConn PL						10,254.18	(10,254.18)	
20-20-00-605-120 FRC-Eng-90%E-Kilauea 1.0MG Tank Job 02-06						33,657.12	(33,657.12)	
30-20-00-604-101 BAB-Eng-All R-10-01 Ani-01a Anini & Kalihwai Rd 6-			17,732.25	(17,732.25)		40,444.75	(40,444.75)	
30-20-00-604-105 BAB-Eng-ALLR-09-01 K-01 Kalahoe 1111FT & 1222F-I						4,084.44	(4,084.44)	
30-20-00-604-112 BAB-Eng-ALLR-11-02 PLH-01a Grove Farm Tanks 1 & 2						33,185.10	(33,185.10)	
30-20-00-605-125 BAB-Eng-98%E-02-01 Land for Kukuiohono Tank Site						61,552.30	(61,552.30)	
30-20-00-605-158 BAB-Eng-AIE-11-3 MO-03 Land & Well Acq MolokaaWai						25,300.00	(25,300.00)	
30-21-00-604-114 HAN-Cns-ALLR-PLH-30a-Lihue Basevard Phase I						605,698.17	(605,698.17)	
30-21-00-604-120 BAB-Cns-ALLR-11-10 8IN Wt. Halewili, Kaum to HHale			27,056.21	(27,056.21)		130,618.96	(130,618.96)	

In short, checks were cut against a missing budget. There should be a roughly \$2.5M prior year budget. I am surprised the accounting program will allow checks to be cut. Besides the obvious problems this creates with cash, it calls to question the reliability of information presented in other accounts. If you can't trust one, can you trust another?

3.

A Gratuitous Comment:

Project Implementation Phases



The Department's capital budget is flawed, and using it to justify rate increases is faulty thinking. An annually replenished design fund of \$5M would be a better process. It would cover costs of engineering and scoping projects brought forward by a priority process that matches Department needs with solutions. Prioritized projects would then move thru scoping; design; cost estimates and finance (rate increase and/or bonding) phases until the need of the community supports the cost of the project. Next the vetted projects move into the construction phase. At this point a discrete project hits the books as a construction expense. There are many examples of water districts (see examples on this page) using a phased and prioritized hierarchy. These elements are also present in the Department's Water Plan 2020. But, a 78% budget variance over a 5 year period followed by a 1 year 93% budget variance is an undesirable trend. This bad trend shows no recalibration of previous flawed assumptions. What is the problem? Perhaps the Water Plan has no feedback loop to calibrate current projections with past

Source: The City of San Diego: A Citizen's to the Capital Improvements Program

accomplish some ill-defined objective. Or, perhaps both.

Department performance. Or perhaps there is an abandonment of the 2020 process altogether and numbers are just being plugged to

Source: City of Fort Worth, 5 Year Capital Improvement Plan, Water and Wastewater, FY 2016-2020

