Finance Committee Meeting

July 25, 2013
9:00 a.m.

Committee Members Present: Larry Dill, *Chair*, and Clyde Nakaya answered present at Roll Call.

Board Members Present: Randy Nishimura, *Board Chair*

Staff Present: David Craddick, Kirk Saiki, Marites Yano, Dustin Moises, Keith Aoki, Dustin Moises

Chair Dill reconvened the Finance Committee Meeting at 9:12 a.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.

MINUTES
There were no minutes for review and approval for this Finance Committee meeting.

OLD BUSINESS
1. FY 2013 – 2014 Capital Improvement Project (CIP) Budget

Chair Dill acknowledged the recommendation made on the 2014 Capital Budget by Waterworks Controller, Ms. Marites Yano.

DISCUSSION:
Manager Craddick referenced the 2014 Expansion Projects Associated Debt Service Payment graph and explained that the interest was separated out. $1.2M is the interest on the Facilities Reserve Charge (FRC) debt. The FRC debt was based on the 2004 FRC report. If a project was not listed in the 2004 FRC report, the Department used the expansion portion from the 2013 FRC report. Thirty percent (30%) of the Build America Bond (BAB) program or $18M is the expected debt and that $8.9M has been spent.

Ms. Yano confirmed that the SRF loans for $7.6M are for expansion related projects.

Table 2 – The Total column indicated the total cost for each FRC project. The sources of bonds are under the column titled FRC, Bonds, and Water Utility for projects that were built. The FRC % column was taken from the FRC study for the percentage of growth to allocate the FRC expenses. The totals on the far right column are debt finance FRC projects.

Manager Craddick mentioned that in order for the curve on the graph to work, $1.1M of principal must be paid per year which will bring it down to zero in 21 years. The $1.2M in interest at the start and every following year is less. The Board could set aside an amount for principal in the budget. It could either make $1.1M payments if the Department has this amount to avoid the inter-loan.

Chair Dill understood this curve to represent an annual payment of $2.3M which is a total of principal and interest payments.

Manager Craddick explained as the interest goes down there would be more in the fund to pay for principal. The schedule is not a fixed amortization. This plan would fix the interest as it gets paid and subject to payments made on principle will bring down the principal over time.

Table 1 – Summary of the total debt FRC projects – Ms. Yano referenced the total of $17.5M which is the sum of all the debt finance projects (SRF loan $7.6, 2005 Bonds $914,000, & 2010 BAB $8.9M) which is funded by the water utility fund.

The Percentage column represents the allocation of FRC projects. The percentages were taken from the FRC 2004 rate study and the proposed 2013 FRC study. The percentages allocated for FRC projects are being added to the principal payment which was paid.

$3.7M in loan fees and interest from 2005 through 2013 were added to the principal amount that was used in funding the FRC projects. A total of $21M was allocated to FRC projects. The loan fee and interest was paid from the principal amount of $17M. The water utility fund had been servicing these debts all this time.

Ms. Yano explained how much the water utility fund paid for debt finance FRC related projects. As of 2013, $21M was spent ($17M + $3.7M). Reimbursements were made from the 2010 FRC which was deducted from the $21M. To date, $17M of the FRC projects was not reimbursed.

From 2004 to 2013, Manager Craddick elaborated there were 1,800 5/8" meters installed. The FRC credit on the meter was $1,040 which should come from the water utility fund and put into the FRC. $1,040 x 1,800 = $1.9M which did not come from the FRC fund. This amount was being reduced and the FRC fund will have to pay back. If a new fee is approved, the credit would come over to the FRC fund in the future. The fee would be $19,000 not $17,000 to do all the projects.

If funds continue to be taken from the FRC fund, it will never be able to do all the projects. The Department cannot have the FRC fund be continually subsidized by the rate payers because then the rate payers would be paying to get the cheap meter. This was not programmed into the rate study in 2006 and 2011.

Chair Dill inquired why were the other resources of funding not included.

Ms. Yano explained that these loans were borrowed money for expansion projects which has to be paid back. Instead of the water utility fund paying back the loans, it should be the FRC to service the loans. The amount was isolated that related to FRC expansion projects. The loans were a combination of water utility projects and FRC projects. When the percentages were identified, the Department was not aware of how much FRC should be serving the loans of $17M in principal which FRC should be paying back. In 2010 portions of the debt service were being reimbursed in portions. Also in 2010, the credit year to date reimbursement was $3.9M. The unreimbursed funds would be $17.3M ($21M less $3.9M paid to date).

Chair Dill inquired if assuming the meters are all 5/8" meters, can an accurate assessment be done?

Manager Craddick replied revenue could go up by $100,000 or $150,000. Each year the water utility fund pays the salaries of staff who work on the water expansion projects so even this is paid from the Water Utility Fund.

Ms. Yano also identified the 5/8" meters through the Maintenance Prevention Evaluation Technique (MPET) software for Chair Dill.

Table 1 – FY 2014 Budget – showed a reimbursement of $2.5M.

Table 3 – Schedule of Debt Service Payment (SRF, 2005 Bonds & BAB) is reflected in 2014. By using the FRC percentage, calculation of interest and loan fee is allocation to FRC debt service projects that totals $1.2M for 2014.

Table 1 (last row) - Ms. Yano indicated for FY 2014, since $2.5M was budgeted for the FRC debt, transferring to the water utility fund at $1.2M for the loan fee and interest, the difference will be a reduction of the principle and interest payment by the water utility fund as of June 2013. This will bring down the unreimbursed FRC debt finance projects of $14,000 at the end of FY 2014.

As long as the interest is paid, Manager Craddick explained that the principal could be carried down. The $1.2M principal that is being paid down would be added to the $14M which could be $15.2 if the principal is not paid.

Mr. Nakaya suggested the title on the graph be changed to "Debt Balance" instead of "Annual Debt Service Payment" because the debt balance is paying $14M plus that year's interest which is included.

Manager Craddick commented that the interest will be paid on all of the loans whether the money is transferred or not.

The next issue brought up was if the Department was going to charge interest to its self. If the money was in the bank or on replacement projects, this could be a benefit to the Department on the inter-borrowing if the interest is not paid. If the fee does not go up, the principal would to have to be paid.

Chair Dill agreed with Manager Craddick because customers would be subsidizing the expansion if the interest was not paid back within 21 years. Chair Dill would like to see a program where the FRC would pay back the water utility fund at approximately the same rate that has to be paid down by the water utility fund.

Manager Craddick mentioned that the money in the FRC fund could stretch out to two (2) years. As of May 31, 2013, the balance in the FRC fund is $2.5M.
Mr. Nakaya inquired what the net effect would be on the budget if the payment is made.

Manager Craddick verified there would be no effect on the budget to pay the full amount. At the end of the year the fund would be near zero.

Chair Dill inquired if Manager Craddick recommended that the $2.5M not be spent from the Operating budget.

Manager Craddick commented to wait on what the Board does with the development fee through the year. If the development fee is not approved, the $1.2M would be paid. Payments are done in February and August. The bonds all have different payment dates: Two (2) payments a year are made for the BAB. The SRF loans are due at different times and the 2005 bonds have different maturity dates.

From the Operating budget, Chair Dill mentioned that the water utility fund could manage the incoming payments based on the FRC solvency.

Manager Craddick suggested that the Board could agree or approve the CIP budget and could apprise the Board on a regular basis.

If the Board does nothing on the proposed WSDF, then a decision would be made mid-year only on the interest.

Chair Dill recognized other concerns if the Board does something on the WSDF but does not see the projected revenues. Both situations should have a plan.

Manager Craddick explained that the water utility fund can pay on either situation. If the principal amount increases, there is the issue to subsidize the meter fees or to make it as a loan to the FRC account until the money starts coming in. Payments need to be made so that the bond rating is not affected.

There had been some concern about the building. If the Department were to use the building money to take on more debt for the FRC, Manager Craddick questioned why would you take on more debt? If the fee goes up, there can be a retrofit program to make water available for systems that could be added to the FRC as a contingency. A retrofit program can be started once the fees are increased and to use available cash in places where meters cannot be provided.

Table 1 – Chair Dill referenced that the Department should pay $1.207M for the principal payment allocated from the budget that was already passed. The Department plans to spend $2.495M from the FRC fund to the water utility fund.

Ms. Yano confirmed that FRC has funds to pay for the $2.5M transfer to the water utility fund in 2014. As of June 30th there is $2.6M which does not include the estimated revenues to be collected for 2014. The estimated revenue for 2014 on 166 meters would be about $800,000 if the fee remains at $4,600 per meter.

Manager Craddick clarified that if the fee goes up, it may affect demand which may not come in. If the Department only charges for the water people use and if fixture units are used, collection could be less for each meter that is given out if people are not using the full amount allowed under the standard. If people are only using 250 gpd vs. 500 gpd and only charge for the 250 gallons, there is a possibly this collection may be less, assuming that every meter is paying $17,000.

Manager Craddick proposed to adopt the idea that the Department would continue to take the credit from the WSDF and use the $1,040 portion of the fee. If the fee goes up and the collection is made on $17,000, then the subsidy would be $1,900. If the credit is less than $1,900 and it could be dealt with in the 2015 budget.

Ms. Yano recommended doing an annual FRC credit.

Manager Craddick confirmed that based on the recommendation, there would be no impact on the CIP but there would be a chance of running the FRC in the negative as long as interest only is paid. Two (2) things that could happen if the fees goes up: 1) there could be an affect on development which could result in less funds and 2) if restrictions are eliminated, there may be a lot of people coming in and could collect about $3M to fund every year to pay additional interest and principal plus do additional projects.

Chair Dill understood that the FRC projects are financed through the FRC fund and not through the water utility fund in keeping with the user pay principal. As referenced in Table 1, Chair Dill commented that since $2.495M was already budgeted and approved by the Board, would the Department be required to make the $2.495M payment through the FRC fund back to the water utility fund? If the Department is not going to make the payment, could it come back to the Board?

Manager Craddick clarified that it would depend if the Board increases the fee.

It was also understood by Chair Dill that the Board has directed the Department to make the $2.495M payment but that it may not be wise depending on the WSDF.

Chair Dill requested the Department come back to the Board before this becomes an issue to make a recommendation to the Finance Committee for an amendment to the budget. The Board also needs to act on the WSDF.

Manager Craddick agreed to make a recommendation to the Finance Committee for the Board and to be put on the November meeting agenda.

The Department will be closing out the 2013 budget for the auditor. Once the budget resolution is approved next month, it would be good to include the CIP portion.

Mr. Nakaya moved to accept Manager Craddick's recommendation on the proposed CIP Budget with a follow up at the Board meeting in November; seconded by Chair Dill; with no objections, motion was carried with 2 ayes.

Another budget issue discussed was the existing Wainiha well site which has two (2) wells. Deputy Manager, Mr. Saiki explained that Well #1 has a 6" casing with 50 gpm and Well #2 has 10" casings with 200 gpm. The well yield information is not available. There is a potential to upsize both wells. There is a 6" pump in the10" casing in the 200 gpm well. Deputy Manager, Mr. Saiki was not sure if it would be detrimental to the well if the size was increased and there is a possibility of a lot of electrical fit. The bigger well would get the best possible benefit and would rely on a 50 gpm pump.
Mr. Nakaya moved to recommend that the FY 2013 – 2014 CIP Budget be presented to the full Board; seconded by Chair Dill; with no objections, motion was carried with 2 ayes.

At 10:09 a.m., Chair Dill adjourned the Finance Committee meeting.

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