Finance Committee Meeting

July 22, 2013
2:00 p.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, Val Reyna, Fay Tateishi

Chair Dill called the Finance Committee Meeting to order at 2:09 p.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

DISCUSSION:

Manager Craddick reported that there were five (5) changes as follows:

Tab 12, Page, 12-6: $250K was deleted from the WK-25, Kūhiʻō Highway, Papaloa Road 16" replacement pipeline. The state will pave the highway because they could not wait for the Department of Water (DOW) to do the project.

Tab 12, Page 7, 651: $450K was added for the design on the Amfac Shaft (Contract No. 466, Job 06-01) and pipeline to feed water to the nearest tank renovation. The final report was submitted to the Department of Health (DOH). Restrictions were from the Waimea system a year ago.

Tab 12, Page 9, 698: $11,465 was deleted on the Eleele Luna Subdivision which Habitat for Humanity is working on. Funding was over the amount that was needed and the job is completed.

Tab 13, Page 7, Contract No. 557: $199,592 was moved on the Kōloa Well Motor Control Center (MCC) Improvements. HE-03 Hanapēpē Well is currently being worked on.

Ms. Yano explained that when the $199,592 was first presented under the Contracted Additions/Deletions column it was moved to the Estimated Payments for FY 2013 column. There was no change on an existing contract. Payment information will not be available until June.

Tab 14, Page 5: $50K was added to the Land Acquisition, Kōloa D site which is a 50 year agreement lease with Grove Farm ending August 6, 2013. Grove Farm charged the DOW $5.00 per million gallons of water.

Manager Craddick clarified when the 1963 agreement was made; the then Manager said the negotiations to purchase the site were at an impasse and the Board should condemn the land. A month later, GF presented the Board with an agreement to lease the land. DOW would have to pay approximately $1600 a month. Manager Craddick has asked Grove Farm to extend the agreement until the DOW has a solution. The DOW should own all well sites and storage sites. Manager Craddick confirmed that $50K is the price per square foot on improved ag land and that the source is coming from a well on the side of a hill. During negotiations, if the land was sold at $100K then the budget would have to be adjusted.

Mr. Dill concurred that the land cost is between $40K to $50K and that an appraisal would have to be done.

On the land acquisition for Kōloa F, the DOW may have been paying the $5 but there is no agreement. Manager Craddick indicated the DOW has tried to get the well since it has been used and that this land acquisition site is on the budget.

Three (3) land acquisitions that are state wells have not been turned over to the DOW: Waimea A, Kekaha (either A or B) and Moloa'a.

Tab 15, Page 3 Drill & Test, Kīlauea Well #3: PuuPani was bid out. Manager Craddick found a 1995 report by a consultant for Brewer which indicated PuuPani was not a good site to drill on. Similarly, the DOW consultant also said that the PuuPani site was not a good site to drill. The 1995 report suggested three (3) sites with two that were further inland from the existing Kīlauea well but recommended the Moloa'a site. To get the Moloa'a site would cost $11M for a pipeline to get into Kīlauea. More information is needed on the other recommended sites and if there is access further inland. Manager Craddick could not justify spending $750K when two different consultants did not recommend PuuPani.

Wailua Homesteads Well #3 or #4 (SRF) was the last well the DOW worked on but was not able to get any water.

There may be better chance of success on the Napili series of volcanic formation land which is more inland. The property is owned by John & Marilyn Wells Trust. Manager Craddick has begun written communication with the Wells Trust to discuss the land. The Wells Trust is also a horizontal condo. $750K is still budgeted for Kīlauea Well #3 until a location is determined to drill on and to get access to the site with an option to purchase. The site originally proposed was given to the DOW as part of a tank site which was a piece of a CPR unit condo on 1900 acres.

Tab 15, Page 3: Line item "Hanalei" was struck out but Manager Craddick made clear that the project is Wainiha not Hanalei.

Board Chair, Mr. Nishimura inquired since the Hanalei job was cancelled was it due to the ongoing negotiations with the Department. If so, why was it being taken off?

Manager Craddick commented that the Hanalei job is not ready and that $750 would be added. The job would be drilled in the next fiscal year because there was money only for one (1) well.

Mr. Moises explained that the job should have been listed as Hanalei <u>or</u> Wainiha in the line item. H-8 should also be struck out which identifies Hanalei. Line item Hanalei/Wainiha Well is one design contract. The project name on the line item was never revised. At one point, both of the wells were to go out at the same time. Wainiha Well continues to be ahead of Hanalei.

Manager Craddick noted that no money would be needed this year to drill a test well in Hanalei because the plans will not be done this year. This is the 3rd time the well site was moved. Another location is being considered which is in state conservation land. If a test well is drilled on this land, the Department does not want to get stuck with land issues because the pipeline crosses another property and this issue is currently being resolved.

Chair Dill referred to the chart on the 2014 Expansion Projects Association Debt Service Payment for Varying BAB Expenditures SRF payments Fixed at $1.577M.

If the Department did not do any BAB, SRF and other bond payment for expansion, there would be $1.5M in total debt service payments to make which could go down. This would depend on the BAB money ($10M was used) and a $2.2M debt service from the expansion fund. The consultant was told the Department would go up 30% ($18M). The debt service would be $2.66M of the annual debt service payments.

The current Water System Development Fee (WSDF) was based on a level of 30% and on the projects being done. There is no guarantee of collecting the money to pay the debt. The debt should be used for a project what will be done soon. $750K will be used on the well for drilling and testing only.

Mr. Aoki indicated that Wainiha Well #4 has storage and transmission restrictions and could be dollar funded. This could be a future source when it is known what the well can produce.

Mr. Moises acknowledged that Wainiha Well #4 will be advertised the beginning of August.

At this time, Manager Craddick did not have an answer on Mr. Nakaya's inquiry of what the issues are on storage and transmission.

Mr. Moises clarified that the Wainiha project currently in construction is rehab of an existing old steel tank but will not eliminate the storage system and will not increase any capacity. There would be no place to put a tank. The well is at the pump house (booster station) at the bottom. The tank

elevation could possibly fit a 250,000 gallon tank on Robinson land. There would be a risk on the Robinson land because it is close to the stream and may need condemnation.
Mr. Aoki commented that the Hā'ena area has a restriction based on storage but source was not great. He suggested checking with Water Resources & Planning. Wainiha was has two (2) separate well sites, one on each site.

Manager Craddick noted that on the next increment of water supply, the earlier the well is drilled the better chance planning for the well production is accurate verses a guess.

Mr. Moises verified that the well project is ready to be moved on this fiscal year.

Chair Nishimura inquired if the Department knows if there are excess capacity available if the pumps are increased. Both Manager Craddick and Mr. Reyna would have to check on the excess capacity availability on the two (2) existing wells. This could cost less since there is water.

On the existing site, there is no drainage easement away from the site which Manager Craddick indicated. The well flush water ends up in the middle of the street which goes down the county drain down the road which has been a problem. This issue is being worked on with Public Works.

Tab 15, Page 3 - The Grove Farm tank is dollar funded and is the only source of fire storage for Kaua'i High School. Adequate fire flow is needed for the school. Currently the Grove Farm tank is in design and would go into construction in 2014.

Chair Nishimura questioned if the 24" pipeline could feed into Kaua'i High School?

Manager Craddick stated there is a possibly to tap into the 393 system but it only has a 6" line. There could be more line needed to get it to the Grove Farm tank. The time and cost factor was not available because the length of the line was not available during discussion. There is a line that comes off the 24" line that feeds near Chiefess Kamakahelei Middle School which could go to the Grove Farm tank with a regulator.

Tab 15, Page 8, Line 237 - The Grove Farm tank estimated payment is $198,000 (encumbered) and will be paid off at the close of FY 2013.

Ms. Yano has been working to get the expansion fund projects on the SRF loans. Money was taken out from of the FRC account to pay for SRF loans. When the Department got the SRF reimbursement, the money went into the water development account. Ms. Yano's study is determining on all of the SRF loans the sources of where funds came from and when it is used to pay for the projects. When the study is done, some of the SRF loan process may go back to the FRC account. When the projects started the water utility fund did not have any money. The FRC fund is currently running out of money.

Manager Craddick explained that the last study did not mention how debt service was added.

The Board could ratify what actions were taken by the previous controller or get it in line with the expansion fund. Once the loan proceeds are straighten out, the Board would get the study. Action

could be deferred based on what money will be for the loans or to bring it in line with the policies and have the money coming out of the fund to pay for the debt service.
There could be a delay with the sewer line on the building which could holdup this project also. Grove Farm may want the Department to do a study on the wastewater plant which could also be delayed.

Chair Dill and Mr. Nakaya inquired on how the Department discovered that the water utility fund may need to be allocated to the FRC account.

Chair Nishimura understood that the SRF funds could only used for water utility replacement and could not be used for expansion.

Manager Craddick agreed that information is true. The state gave the loan funds which the auditors went over and the decision was that if there was a dual purpose expansion projects could be funded. The state DOH had no problem as long as the Department would repay the loan.

Ms. Yano mentioned how expansion is interpreted and how the state interprets expansion. The Department's projects passed the SRF loan requirements because expansion was interpreted differently than DOW and the state still agreed to give the loan.

CIP is expansion and Capital Replacement (CRPL) has some expansion as explained by Mr. Moises. DOH recognizes replacement with some expansion is okay. When a tank is done in the middle of nowhere, that would be expansion which would not be allowed by the DOH. Funding could not be moved around by the DOH.

Ms. Yano mentioned in 2010, the Department began working with the auditor with some adjustment by charging the debt service interest expense under the FRC. Previously the debt service interest expense was from the water utility budget. By working with the auditor on the FRC expansion related projects, the auditor adjusted the interest expenses. Instead of the interest expense all charged under the water utility there were interest expenses that were paid from the FRC fund. The FRC reimbursement line item is under the water utility budget for projects designated as expansion. Ms. Yano verified that some of the SRF expansion projects were funded with FRC funds.

Manager Craddick added that all of the 2005 Bond proceeds were expansion projects expect for the initial payment of $143,000 that was given to Public Works for the drug rehab center at Salt Pond. Public Works reimbursed the Department which went back into the bond fund. The 2005 bond proceeds balance went to Piwai tank for expansion.

FRC PROJECT LISTS

RECEIVED FOR THE RECORD

JUL 22 2013

SRF LOAN NO.	PROJECTS FUNDED:	FRC %	BONDS	WATER UTILITY	FRC ALLOCATION
DW 400-0001	DESIGN ALLOWANCE				
DW 400-0001	Job WK-42 STABLE 1.0 MG TANK & CONNECTING PIPELINE	100%		1,565,660	1,565,660
	PHASE I (WATERLINE D-1) WATERLINE ALONG KAEHULUA ROAD AND JOB NO.				
DW 400-0001	04-02, WK-14, PHASE 1 (WATERLINE B) WATERLINE ALONG APOPO ROAD	100%		3,395,739	3,395,739
DW 400-0001	PHASE II, OFFSITE WATERLINE ALONG KAAPUNI ROAD FOR STABLE TAK,	100%			-
DW 400-0001 Total				4,961,399	4,961,399
DW 406-0001	JOB 96-4 KAPILIMAO VALLEY WELL, PHASE 2B, KEKAHA	75%	453,868	345,494	599,521
DW 406-0001 Total			453,868	345,494	599,521
DW 406-0003	KW-25 JOB NO. 05-03 KAPILIMAO 0.5 MG STORAGE TANK	100%		3,886,318	3,886,318
DW 406-0003 Total				3,886,318	3,886,318
DW 410-0001	JOB 97-1 DAMAGE REPAIRS TO KOKOLAU TUNNEL	100%		1,549,916	1,549,916
DW 410-0001	JOB 97-1 DAMAGE REPAIRS TO KOKOLAU TUNNEL	100%		343,918	343,918
DW 410-0001 Total				1,893,834	1,893,834
DW 413-0002	WK-21 JOB 98-33 WAILUA HOMESTEADS WELL NO. 3 (CON 345)			-	-
DW 413-0002	WK-21 JOB 98-33 WAILUA HOMESTEADS WELL NO. 3 (CON 418)			-	-
DW 413-0002 Total				-	-
DW 413-0006	WK-03 JOB 97-11 16" WATERLINE REPLACEMENT ALONG KUHIO HWY, FROM LEHO DRIVE TO NORTH PAPALOA ROAD, WAILUA (CON 330)	33%	17,350	132,550	49,962
DW 413-0006	WK-03 JOB 97-11 16" WATERLINE REPLACEMENT ALONG KUHIO HWY, FROM LEHO DRIVE TO NORTH PAPALOA ROAD, WAILUA (CON 446)	33%	1,467,131	2,334,093	1,266,948
DW 413-0006	WK-03 JOB 97-11 16" WATERLINE REPLACEMENT ALONG KUHIO HWY, FROM LEHO DRIVE TO NORTH PAPALOA ROAD, WAILUA (CON 454)	33%	-	198,721	66,234
DW 413-0006 Total			1,484,481	2,665,364	1,383,143
					-
SRF LOAN, Total			1,938,349	13,752,409	12,724,215
2005 Bond Proceeds					
	Job HE-11, Lele road to Salt Pond road, 6 inch Main Replacement	100%	143,623		143,623.20
	Job WK-08 & WK-15, Kapaa Homesteads Tank & Hardening Shelters @ Mal	100%	2,707,248		2,707,247.58
	Job 02-14, Kapaa Homesteads .5MG Tank and Kapahi 1.0MG Tank	100%	152,353		152,352.54
	Job 02-02, Omao .5MG Tank & Connecting Pipeline	100%	401,056		401,056.43
2005 Bond Proceeds, Total			3,404,280	-	3,404,280

loan paymnets calculated until FY 2013. Effective 2014, FRC Debt Service Requirement (DSR) will be paid from FRC funds.

Mr. Moises acknowledged that the DOH does fund some of the CIP because they recognize that a system deficiency is not expansion. If a tank is put in Wainiha, even if the storage has a deficiency, DOH might fund it for SRF purposes. For Kapilimao Valley Well, 25% was deficiency, 75% was expansion and 100% was for storage.

Chair Dill questioned if the auditor had a different perspective on what expansion is from DOH?

Manager Craddick explained the auditor, because it was an expansion project and it is the auditor's duty to make sure DOH is aware talked to DOH. DOH could have said this was an expansion project and that the Department would have to pay back the whole loan. This would have been a worse case circumstance. DOH saw this as hybrid between expansion and replacement. The expansion projects by FRC could be better planned through a policy for the review of the Finance Committee.

Chair Nishimura requested to see the policy first because he noticed that repairs are being charged to the FRC. He asked why are repairs an expansion for the Kokolau?

Manager Craddick clarified that Kokolau is part of an expansion but had to be repaired and to restore it as a source.

Chair Nishimura questioned if Kokolau was properly maintained and refurbished, could all of the money be considered capital improvement?

Manager Craddick clarified by that Kokolau would be considered capital improvement because the source was lost due to ground water under the influence. To get it back on line, after being dropped as a source it would be added as a source. If the source is brought back on line, it will service to eliminate the restrictions on water which will allow new customers. Kokolau was replaced with other wells after it was lost as a source. More research could be done to determine what wells were drilled to make up the deficit.

The Department's consultant recommended that Kokolau would not be worth putting in water treatment there because it would cost more than alternate sources. A feasibility study was previously done by AE Com. A positive benefit cost ratio was the Kalāheo project which is subject to getting the source back.

Mr. Nakaya inquired if the Finance Committee could make a decision today because this could affect the FY 2013 – 2014 budget.

Manager Craddick offered that changes to the capital projects would not affect the Operating budget.

Ms. Yano suggested that the Finance Committee approve the CIP projects.

Manager Craddick explained that the transfer of funds to the water utility budget to pay the debt service is already budgeted. He does not see a change in the Operating budget and that the water utility could pay more in debt service if required. The only change would be to reduce the CIP reserve and to put money in the FRC account that was previously borrowed by the water utility fund.

Chair Dill would like to see how the CIP could be worked out. This may have to go back to the Board level to amend the Operating budget. He questioned if there is no current policy what is this being checked against? Chair Dill suggested that the Department be consistent in allocating the cost because the Department has already established the water rates and the WSDF.

A capital policy should also be established with these issues. Manager Craddick agreed to draft a policy because in 2000 the consultant, R. W. Beck recommended for the Board to do a policy also.

The new building was discussed with Chair Dill pointing out the need for the new building. The new building was budgeted for $2M to $4M and should be addressed as a specific item with the full Board. Chair Nishimura suggested the new building be left with the Finance Committee.

Mr. Nakaya moved to recess the Finance Committee meeting to Thursday, July 25th at 9:00 a.m. to obtain further information from the Department; seconded by Chair Dill; with no objections, motion was carried with 2 ayes.

At 3:26 p.m., Chair Dill recessed the Finance Committee meeting.

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