Recessed on June 23 and 27, 2011, the Finance Committee reconvened on Thursday, June 30, 2011, in the Second Floor, Microbiology Lab Building. Chair Larry Dill convened the meeting of the Finance Committee at 9:06 a.m.

Committee Members Present: Chair Larry Dill, Mr. Randall Nishimura and Mr. Ray McCormick

Board Members Present: Mr. Daryl Kaneshiro and Mr. Roy Oyama

Staff Present: Mr. David Craddick, Mr. Gregg Fujikawa, Ms. Marites Yano, Mr. Dustin Moises, Mr. William Eddy, Mr. Keith Aoki, Ms. Joy Buccat, Ms. Sandi Nadatani-Mendez, Deputy County Attorney Andrea Suzuki

Guests: Ms. Paula Morikami, Office of Boards & Commissions

OLD BUSINESS *(continued from June 23 and 27, 2011)*

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

Manager Craddick said they had corrected the summary sheet and updated the rates on the Option #9 so that the rates are all now based on 10K gallons. Ms. Yano added that the Emergency Reserve Transfer was capped at $6M for the 5 year period except in Options #9 and #10, which were capped at $4.8M.

Chair Dill verified that the new tables just handed out also conform to the information on the summary table. Manager Craddick said as far as the Department's recommendation, even though the rates are higher, the Department will be able to do more projects if the Board gives them more money. They wouldn't leave the ending balances the way they are; we would come back with more projects to put on the project list.

Chair Dill asked which of the Option 10's, A, B, or C, is the Department leaning towards? Ms. Yano said 10 B. Mr. McCormick wanted to know what the primary reason was they selected 10 B. Manager Craddick said it would give more money for projects; the Board's concern is whether the FRC rates will collect enough money to reimburse the Water Utility Fund and if that money comes through there will be extra money to spend. Chair Dill asked if all the projects were identified in the 2020 plan, Manager Craddick said they did update the 2020 plan and there are a few additions to it.

Chair Dill said line 75 in Option 10 B, note 13, the ending balance target which is based on 25% of revenues is $7.7M. Ms. Yano concurred. Chair Dill said it is 25% of the $37M on line 33. Ms. Yano said Operating Revenues are line 21 and the total ending balance is line 74 so we are meeting the target; it is a comparison between 74 and 75. Chair Dill said there was a concern in the past which looks like this addresses by having an emergency reserve fund but also having working capital available.

Chair Dill said comparing 9 B to 10 B, the difference would be that there are more funds available to do more projects. In 9 B, we would prioritize the projects that we would do. Manager Craddick explained that in the other, they wouldn't be able to really do anything until they find out what happens with the FRC. Once they find out what happens with the FRC and what monies are coming in then the Board would be able to go back and ask if they really need this much in reserve; hopefully the answer would be no and that would make more money available for more projects.

Chair Dill recalled that in considering the operating budget, a concern was that the budget showed they were upside down and asked how that was addressed or projected in these rates. Manager Craddick said they had not taken it from the budget and plugged it into here. Chair Dill asked if the Department had committed to reducing expenses by $2M. Manager Craddick replied no, it was just a historical look at the budget; there seems to always be about that much money left over every year, and in recognizing that fact, they took it out so it would not show as part of the revenue requirement.

Ms. Yano said the $2M adjustment was a decrease in the budget and expenses; they have more-or-less been saving $2M. Chair Dill asked if that had been reflected in all the tables they had received to date. Manager Craddick said yes. Chair Dill commented that he had never done a budget like that before. Manager Craddick explained that much of the engineering charges, special projects and their labor get taken out of the operating budget and put into the capital budget by the auditor at the end of the year. The budget is a cash review, not an accrual review. The audited numbers show the operating expenses around $13M even though more than that is collected.

Chair Dill stated that note # 7, which covers vacancies, capitalized expenses and reflects the historical trend, is a vague description for a big number. Manager Craddick said it was not really vague; it doesn't give a dollar amount but it includes capitalized expenses in there.

Mr. Nishimura understood the Department's desire to be given more flexibility to do more capital projects, but in line with the anticipated FRC increase, he would opt for option 9 B where they met all the goals and targets. He further suggested one of the goals for the department would be to save money to fund capital as opposed to increasing revenues in order to raise capital.

Mr. Nishimura said if you combine the Water Utility Fund Ending Balance with the Cumulative Emergency Fund you have roughly $7.47M in total resources available which represents almost 36% of operations. In the last column in table 9 B, if you add the $6M and the $1.47M you get $7.471M. Line 48 shows $20M in Total Operating which is over 33% to cover the operations and that should be an acceptable amount to cover the unanticipated requirements.

Chair Dill stated that of the $7.471M, $6M is the emergency fund which the department would have to come back to the Board for approval before touching. The $1.47M is discretionary so that money is available. The challenge is if they only save $2M there will not be any additional projects they could do without the Board's approval to tap the emergency fund.

Chair Dill asked if there would not be a savings with reading the meters and billing every 2 months. Manager Craddick said the savings would be only with postage.

In discussing the option of monthly billing versus bi-monthly billing, Ms. Yano said it would cost over $1M to reconfigure back to a bi-monthly billing program since the Honolulu Board had already put the monthly billing system into place. Manager Craddick said since they are looking to eliminate the leak rebates, monthly billing would catch high consumption much quicker which is related to customer service.

Mr. McCormick said Option 10 B would give them more flexibility for projects which was important because once you start cutting back on capital projects you are always behind. The less money for capital projects keeps us from being modern and moving forward.

Chair Dill compared revenues in Option 9 B and 10 B and by 2016 they will generate $35.4M in 9 B and up to $37.8M in 10 B with the average monthly bill going up about $60 per household per month for one billing cycle. Manager Craddick pointed out that was not the average household. Mr. Nishimura pointed out that this was based on the 5/8 meter at 10K gallons; the average household bill, based on the Water Department numbers, average consumption is closer to 16K gallons per month which is why they went to the minimum charge of the blocks. Manager Craddick said the number in the block is used based on the performance indicators nationwide; 14M is the number they use for services that do not have water saving devices on them. If you go to water saving devices then it is around 6.8K gallons per month, down from 7.5K gallons per month.

Questioning the big difference from those numbers and the 16K gallons a month, Manager Craddick said the 16K is based on every 2 months so there is only a 1K gallons difference. We haven't projected out what the average income would be but the national average for the water bill is around 1% of the average family income; it is about .8% comparing it to the current average family income on Kaua'i. We are definitely below that indicator even at the end of 5 years on the 10 B option, as far as affordability.

Ms. Yano said the fund ending balance at the end of 5 years provides an option as the CIP portion is a 50/50 proposition of cash and loan. Mr. Nishimura asked if this was CIP or all Capital projects, because rates are not supposed to fund CIP. Manager Craddick agreed and said they probably should not have used CIP but rather CRP as noted at the top of the tables.

Mr. Nishimura said 10 B shows $18M coming out of cash and $10M being financed. Manager Craddick agreed noting they were estimating there. If they start collecting the full amount from the FRC to fully reimburse the Water Utility Fund, the Board will be faced with 2 choices: cutting the rates or put more projects in to use the money up. Manager Craddick said they would like to get the cash funded portion pretty close to $10M and not have to borrow any money for these replacement projects. Mr. Nishimura asked how they would take the monies collected in the FRC and use it for capital replacement. Manager Craddick said right now they were still funding the salaries out of rates; it does get capitalized but it still is coming out of rates. If the FRC is collecting enough money to pay all the salaries of the expansion related projects that would be another $350K that could come out of the rates and go over to the FRC.

Chair Dill asked about the replacement projects currently not included that could also be funded. Manager Craddick said the majority of the 2020 list was replacement projects such as the undersized fire lines.

Chair Dill asked the Committee Members for a motion or recommendation.
Mr. McCormick moved to approve option 10 B and refer it to the full Board, seconded by Mr. Nishimura for discussion purposes; motion carried 2:1 (nay – Nishimura)

Mr. Nishimura stated for the record that a 34% rate increase was high enough but going to 44% was a lot for consumers to bite off. Mr. Nishimura recognized the need to continue to catch up on these projects and asked the Board that, when the time comes, if they are unable to keep up that they defer rate increases. Mr. Nishimura suggested they start a study on the FRC with the Department making a preliminary recommendation and providing the Board with the most recently updated information.

Manager Craddick said that aside from the schedule and the rate itself, there is a list of rule changes. They could look at stopping charges on subdivisions that are going to build all the improvements in advance. If the subdivision is going to build the improvements, the Department would not be collecting FRC from them anymore. The Board might want to look at some language where we phase out paying subdivision time. Currently, if a subdivision doesn't go forward they get whatever the rate was 30 years ago for the facilities reserve charge and by the time they start building that service line may not even by of any use anymore. All the rate payers are paying for the depreciation on that service line. A change to the rules would be to collect at subdivision time. Those rules would be a big change in the way we do things if we collect at subdivision time. Chair Dill asked what if they don't pay the FRC up front and years down the road........... Manager Craddick said they would still pay at subdivision time but they would have to pay the difference between what they pay at subdivision time and what it is when the meter goes in.

Mr. Nishimura said they should have that discussion at the appropriate time along with a written report to avoid any misunderstandings.

Chair Dill asked the Department Heads to work on the Facilities Reserve Charges.

Mr. McCormick move to adjourn the Finance Committee at 9:52 a.m.; Mr. Nishimura seconded the motion. Motion carried unanimously.

Respectfully Submitted,

Barbara Davis

Barbara Davis
Boards & Commissions Support Clerk

Approved,

Randall Nishimura
Secretary – Board of Water Supply