

# Finance Committee Meeting

March 31, 2017  
10:00 a.m.

Committee Members Present: Chair Larry Dill reconvened the Finance Committee meeting at 10:05 a.m. Committee members present: Thomas Canute, Beth Tokioka. Also present was Vice Chair Laurie Ho.

Staff Present: Kirk Saiki, Marites Yano, Sandi Nadatani-Mendez, Dustin Moises, County Attorney Mahealani Krafft

Via Teleconference: Raftelis Consultants Mr. Sudir Pardiwala, and Ms. Hannah Phan

## **D. NEW BUSINESS**

1. Manager's Report No. 17-29 - Discussion and Possible Action on the Financial Management Planning and Water Rate Analysis for the Department of Water for July 2017 to June 2021 and submit an Impact Statement to the Small Business Regulatory Review Board

## **DISCUSSION:**

The Finance Committee discussed at its meeting on March 24<sup>th</sup> the Board's proposal to reduce the FRC for affordable housing, which may impact the water rates. The current draft of the water rate proposal is to not have any changes to the water rates for this fiscal year. Chair Dill commented that it would be appropriate to defer action on the rates after these two items are resolved so that the financial data can be added from the current fiscal year.

The following March 24<sup>th</sup> Workshop slides from the consultant's presentation were discussed:

### Slide 11 – Ending Fund Balance

Waterworks Controller Ms. Yano distributed a Water Bill Comparison Chart (Received for the Record). Manager Saiki explained the chart showed an existing bill for a single family (5/8" meter), commercial (2" meter) and resort (6" meter) in Senario A and Senario B.

Chair Dill questioned if Tier 1 should be Tier 0 which is in the rules. Ms. Yano explained there was an amendment from Tiers 0, 1, 2, 3, 4 to Tiers 1, 2, 3, 4, 5. Mr. Pardiwala was asked to update the terminology in the rate study presentation.

Customers would receive a reduced bill in the Senario A & B. Senario B is similar to the current rate structure on how customers are billed now.

### Slide 4 – Key Assumptions

Inflation factors were determined by looking at historical trends.

Average salary increase are 3.5% and step movement averages to 5%. The last 5 years could be averaged. Retirement benefits are reviewed every year.

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Slide 6 – O & M Expenses

Bulk Water Purchases are with the Grove Farm water plant & Princeville. In 2019, there is an option to take over the plant. Department of Water (DOW) operator will need to be trained to run the plant. O & M Expenses will increase (which may be a wash).

Slide 7 – CIP Financing Plan

The CIP Financing plan projects actual cash flow yearly. Chair Dill asked if all the projects planned for funding by the water rates were presented to the Board? What is \$23M funding as shown on slide 7 (page 11) going to do in 2019?

A five year projection list was given to Mr. Pardiwala and a back log of Mr. Aoki's projects will be in construction this July. The construction budget is \$36M spread over 2018 and 2019. Some projects will start in 2020 into 2021 based on a projection. Mr. Canute added for fiscal year to date the Department spent only \$1.5M. \$36M could be encumbered the next 18 months.

A CIP list is submitted to the state legislature every year for additional grant funding. The \$3M received from the state is not reflected in the projection presented.

Slide 17 – Senario B Description

Senario B does not encourage conservation vs. Senario A. 9 (See Slide 20). Chair Dill asked if the Department should set a Tier lower to encourage more customers? Tier 0 and Tier 1 is close to 60% of total usage. Tier 2 uses most of the total usage is 80%. Senario A will show more impact to customers.

There is an option to have 4 Tiers in Senario B (60, 75, 90, 10%)  
The issue is the rate differential and to investigate the peaking factors.

Slide 18 – Current Tiers

Tier 0 was eliminated; rates should be actual rates that the Department is charging.

On Slide 13 – Existing Water Rates

Tier 1 is \$4.85 for the first year. All Tiers reflect 12 cents higher which the consultants (includes power cost adjustment).

Slide 27 – Comparison of Rates

Rates in Senario A include the power cost adjustment of 12 cents. The power cost adjustment is built in to establish the 1<sup>st</sup> year which will be inflated yearly. This year, the power cost adjustment was not added, because the rate study ended.

Chair Dill asked if the rates are adopted, will the power cost adjustment be done at all? The rules state to adjust every year. Manager Saiki said the only reason a power cost adjustment is done is if it was built in but the power triples. There needs to be a plan according to Chair Dill if the actual increase every year is 5%, it would be good if the actual increase every year is 15%; the Department would lag. He said there should a provision for that. Mr. Pardiwala indicated a 5% provision would go up every year. This would impact the total revenue requirements. The power cost is about \$3M and could be separated in a line item. Chair Dill requested a recommendation from the Department and Mr. Pardiwala to review the Cost of Power Clause in the Department's Rules and Regulations to

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see how this is handled. There is the hope that rates will to go down and provisions should be considered either way.

If power goes up, Chair Dill would like to show the customer this information. Ms. Tokioka added there is a possibility that Kaua'i Island Utility Cooperative (KIUC) rates could go down, or that a time of use rate could be offered to provide savings.

Slide 28 – Summary

Tier 4, Scenario B showed \$6.73 but on the previous line, it showed \$6.76 (a typo).

Slide 29 – Customer Impact – Senario A

The blue rectangle (5/8" meters) are based on the average use on meter size on 10 units and 40 units.

Slide 45 – Meter Capacity Factors Comparison

Mr. Pardiwala explained the current meter charges is divided by the cost of the 5/8" = Current Rate Ratio.

Example calculation: Current meter charge for 5/8" is \$17.75. Tier 1, 2, & 3 are the actual current Tiers. Tier 0 is a fixed charge.

5/8" meter - \$17.75 + \$3.80

3/4" meter has 2 units of water

$\$3.80 \times 2 = \$7.60 + \$24.75 \text{ less } \$17.75 \text{ (5/8" meter)} + 3.80 = \text{the initial charge}$

Mr. Pardiwala will include the meter ratio calculation into the report for future reference.

Slide 35 – Customer Impacts 5/8" Meter

Senario A – Top line calculations for the Total Bill included Tier 0 and is double counted.

- The Department will analyze an update to the power cost adjustment of 12 cents as of March 31<sup>st</sup> effective July 1, 2017 per the Rule.
- The FRC will be discussed at the April Board meeting.

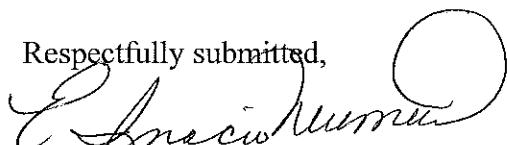
The Finance Committee discussed deferring the rate study until it is resolved at the Board level regarding the Facility Reserve Charge (FRC) for affordable housing and the close out of FY2017. At the Board level, the rates would be extended to the next fiscal year.

Finance Chair Dill recommended bringing this information back to the Board; Mr. Canute and Ms. Tokioka agreed with no objections.

**E. ADJOURNED**

Chair Dill moved to adjourn the Finance Committee at 11:03 a.m., seconded by Mr. Canute; with no objections, motion carried unanimously.

Respectfully submitted,



Edie Ignacio Neumiller  
Commission Support Clerk

Approved,



Beth Tokioka  
Secretary – Board of Water Supply