

Committee Meetings

October 15, 2009

Board present: Chair Leland Kahawai, Ian Costa, Dee Crowell, Donald Fujimoto, Raymond McCormick, Randall Nishimura, and Roy Oyama.

Staff present: David Craddick, Paul Ganaden, Gregg Fujikawa, William Eddy, Bruce Inouye, Faith Shiramizu, Edward Doi, Jeffery Mendez, and County Attorney Al Castillo, Jr. Absent & excused: Keith Fujimoto and DOW Deputy County Attorney Amy Esaki.

FINANCE COMMITTEE MEETING:

Finance Chair Randall Nishimura recused himself for the Claims Payables only, as there were bill payments due to his company in this batch of Claims Payables. Pro-Tem Finance Committee Chair Ray McCormick called the meeting to order at 10:07 a.m.

Re: Claims Payable (as of September 30, 2009):

WATER UTILITY FUND:.....	\$1,318,269.26
BOND FUND:	\$ 145,444.10
FRC FUND:	\$ 22,180.00
STATE FUND:	\$ -0-
TOTAL	<u>\$1,485,893.36</u>

Mr. Oyama moved that the claims be approved for payment, seconded by Mr. Costa; by a unanimous vote; motion was carried.

Finance Chair Nishimura presided over the rest of the Finance Committee Meeting.

Re: Committee Discussion and Possible Action on the Proposed Block Changes

Water Rates Study - Proposed Block Changes for Year 2011

Manager Craddick gave a brief overview of his report below and had some discussion with the Board to ensure that all understood his report:

The Board's approval was requested to go to the next step and meet with the required public and government groups on the proposed consumption block changes.

The basis for the proposed changes are based on customer response by meter size to the 2006-2010 rate increases which attempted to encourage conservation of water, add some portion of the lowest block to the service charge to prevent "meter camping" and include a four percent increase in rates for very high end consumption for each meter size. "Meter Camping" is a term used for service holders that have a meter and do not use it. If there was a good response by increasing lower block consumption and decreasing higher block consumption the percent dollar increase when compared to the percent of total consumption

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for that meter class drops. If the response was in the opposite direction the percent dollar increase when compared to the percent of total consumption for that meter class increases. Three sets of data were provided.

Pages 1 and 11 are summaries of existing to current or proposed data. Pages 2 through 10 are data for the respective meter size. Page 1 summarizes the existing and proposed new blocks. The area marked in yellow is the percent difference in the revenue increase and percent of total consumption. The percentage you see is negative if the conservation effort increased in the lower blocks and decreased in the upper blocks and is positive if the conservation effort did not happen. What is happening when this criteria is applied is the cost of service is decreasing for the group that conserved and increases for the group that did not conserve. The 8- and 4-inch meter sizes did not have blocks which allowed conservation as 90 – 100 percent of the consumption was in the lowest block. That is why those meter classes have the largest positive percent. In the end about \$1.15 million in revenue is realized if owners of the respective meters do not start or continue to conserve water. The “meter camping” issue is discussed in more detail below.

The consumption added to the service charge is an effort to cover our cost when meters are installed and there is little to no consumption. Camping on the meter with little to no consumption prevents water from being given to those with current need. Also meters with consumption way over the averages for a particular meter size also has a negative effect on DOW in that the correct meter size would have a higher “Facility Reserve Charge” (FRC).

On each of the meter data sheets there is a number indicating average number of services negatively affected by the consumption added to the service charge. There is another number for the number of services negatively affected by the high end four percent increase in rates. In both cases the people can either increase the meter size if the consumption is high or decrease the meter size if they have very low consumption for the size of meter they have. Of course the smallest meter cannot go smaller and the largest meter cannot go larger. There are no 8-inch meter customers in the highest block.

By implementing the proposed block changes at the start of the Fiscal Year 2011, we will have about a year of data that will reflect consumer’s efforts at changing to correct meter sizes and water conservation. We expect much of this activity on meter “right sizing” will occur between the time the Board approves the block changes and the time they are enforced. The more time customers have to react to these changes the more time the staff will have to educate and inform the public of the pending changes.

Manager Craddick thanked the Board for their attention on this important matter and to keep in mind the net result of this effort will assist in the prevention of rate shock when we have to start repayment of bonds and will get people adjusted to the new blocks before implementing across the board rate increases.

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Manager Craddick also added a timeline on events for this proposed water rate block change:

<u>Activity</u>	<u>Time in Months</u>
• Approval by Rules and Finance Committees subject to Small Business Advisory Committee (SBAC) comments.	1
• Begin working with individual service holders that will be affected by action	8 (concurrent)
• Comments from County SBAC and the State Small Business Regulatory Review Board (SBRRB).	2
• Board approval or rejection of SBAC/SBRRB comments subject to Public Hearing.	1
• Lag time for delays	1
• Public Hearing	1
• Final Board action	1
• Implementation is earmarked for July 1, 2010	

Manager Craddick stated that although there was some subjectivity, they have looked at every meter in our system in order to figure out how this proposal would affect each of our customers for each billing cycle, which was compiled into a summary page.

He added that this study showed that there are some customers that have a real high water usage on a minimal sized water meter, which their meter should be changed to a larger meter. They would have to pay a facility reserve charge (FRC) but they will have a correct sized meter that is better suited for their needs and in the long run, would save them money.

Manager Craddick also added that there is no one on our largest 8-inch meter that is in the top block.

Manager Craddick stated that there are about 800 of our customers that are under utilizing their 5/8-inch meter. The DOW allocates a certain amount of water per meter; therefore, the customers who are under utilizing the meter are kind of tying up potential income and are covering the cost of service to maintain the lines. The monthly service charge that we collect is only for customer service and not to cover the maintenance of the lines or the depreciation of the system.

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Therefore the first proposed minimum block is to cover the first 2,000 gallons to ensure that the cost of service is paid from our customers that very minimally use their water meters; therefore, whether our customer uses no water or only up to the first 2,000 gallons, it is proposed that they will be charged the (current cost per 1,000 gallons) x 2,000 gallons and will be included as part of the service charge.

On query by Finance Chair Nishimura, Manager Craddick stated that the 4th block has a 4 percent increase, which is the only increase as the rest of the rates are the same. The goal of this 4th block is not to collect monies but in hopes that all our customers will get the correct sized meter.

On query by Mr. D. Fujimoto, Manager Craddick stated that the ultimate goal of these proposed block changes is to ensure that our customers conserve water and if our customers do conserve, we would not see additional revenues.

Manager Craddick added that another result of these proposed block changes would possibly eliminate the need for system expansion by our customers either conserving or changing their meter to better suit their needs. He figures that the re-shifting of water meter sizes would take about a year or so and then a rate increase could be looked into to follow.

Mr. D. Fujimoto felt that through the block changes, we do get additional revenue; therefore, technically we are indirectly having a rate change. He thought that this proposed process was to hopefully stabilize our system, which would be our basis to later start a real rate increase.

Manager Craddick reiterated the goal of this proposed block changes is for everyone to get their correct meter size, stop camping on the meter, reward customers who do conserve water, and penalize others that do not conserve. He added that it is a misnomer that this is a rate increase as it is a revenue increase as a result of our customers that do not want to conserve, do not have the right water meter size, or continue to sit on meters that they are not using.

Finance Chair Nishimura stated that the above can be addressed at the time the proposed changes are finalized and brought to the public. At this point, he wanted to focus on the Manager's presentation and to ensure that all of the Board members understood it. If the Board needs more clarity, that can be worked on too.

Mr. D. Fujimoto stated that he understood the concept and can support it. However, as we are going through a major bond float and we need to show how we will pay the debt service. He added that he felt that bottom line that this process is a rate increase; therefore, it may be best to do it in one step to do the rate increase, which our customers will adjust their usage quicker in order to normalize their water bills.

Mr. Kahawai concurred that the Board would need to know how the debt service will be addressed; therefore, having both the proposed block changes and a rate increase may be the

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only way for the Department to meet its debt. Manager Craddick added that whatever the plan the Board chooses to address the debt service can be forwarded to the bond company.

Finance Chair Nishimura requested that the Board focus only on the proposed block changes and save their suggestions on the bond issue when that topic is discussed.

Mr. Crowell requested to have samples of: 1) potential customer that wants to change his water meter, what will it cost? How will his rate change? Saving a lot of money or not? Mr. D. Fujimoto added that the example could be what is the minimum usage that would be best to upgrade from a 5/8-inch to a 3/4-inch meter?

Finance Chair Nishimura also asked Manager Craddick for more information on the following: 1) number of customers negatively affected for each block; 2) the end number to also include the service charge on the front end to be able to see the total revenue stream as well; 3) also to schedule a separate meeting to focus only on understanding and clarifying the proposed block changes.

Mr. D. Fujimoto stated that there is a sense of urgency because this needs to be resolved to be part of our plan in order to do the bond float.

On query by Finance Chair Nishimura, Manager Craddick stated that the timeline for the bond float would be about December when the Board would need to do a bond resolution and when the County would probably be going to the bond rating agency. Therefore, the Board would need to finalize its game plan to address the debt service prior to the County going to the bond rating agency.

Also on query by Finance Chair Nishimura, Manager Craddick stated that this process should take several months as the small business groups need to be consulted, a public hearing needs to be done; therefore, potentially the Board would not be approving these proposed changes until May or June, 2010. However, Manager Craddick added that he wanted to have Board consensus before going to inform the public of our plans, subject to the small business groups input and public hearing input. Mr. D. Fujimoto added that we would need an adequate plan that would satisfy the bond company that we would be able to pay back the bond.

On query by Finance Chair Nishimura, Manager Craddick stated that his backup plan to these proposed block changes would be to have a rate increase.

Mr. D. Fujimoto stated that he concurred with Manager Craddick's proposed block changes.

County Attorney Castillo discussed that the County of Kauai (COK) wants to accelerate this bond process in order to be ahead of the rest of the counties. The COK is looking at early January 2010. He suggested that the DOW work with Finance Director Wally Rezentes Jr. to ensure that the bond process goes smoothly.

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Manager Craddick added that the bond rating agency needs to be contacted 2 months prior to the bond being issued.

Manager Craddick discussed that he felt that the timing of the bond issue can be critical as often times people go from one investment to another at the end of the calendar year.

Mr. D. Fujimoto stated that he saw Finance Director Wally Rezendes Jr. and he had requested to be on our next Board Meeting Agenda to discuss this bond float. He wanted assurance from this Board to address debt service as the amount we are asking for is a lot. Mr. Rezendes Jr. also requested that the Department meet with the Mayor to keep him apprised of what the Department is planning to do. Manager Craddick stated that he has already met with all of the Councilmembers and the Mayor on our inclusion with the COK's bond issue. They were told that we already have a scheduled 8-1/2% water rate increase as of January 1, 2010. Therefore, we would need about another 16% for a total of 25% rate increase in order to address our debt service. However, there are potential alternatives to eliminate further rate increases which includes a couple of projects that are proposed to be added to our CIP project bond list that would save a couple of million dollars plus the potential of buying the Surface Water Treatment Plant and operating it ourselves. Another potential long-term project that would be helpful is to drill for a horizontal high-level water source that could reduce our electric rates.

Manager Craddick added that the Board's commitment to do a bond issue would be documented in a bond resolution that would be drafted by our bond counsel.

A special Finance Committee Meeting was proposed for Thursday, October 29, 2009 at 10:00 a.m. The Secretary will confirm with all Board members, Finance Director Wally Rezendes Jr. and anyone else pertinent to the bond issue.

Mr. Costa moved to defer this matter to the Thursday, October 29, 2009 Finance Committee Meeting and to request that Finance Director Wally Rezendes, Jr. be in attendance, seconded by Mr. Crowell; by a unanimous vote, motion was carried.

On query by Finance Chair Nishimura, Manager Craddick stated that an administrative policy would need to be made to address the implications relative to our other Rules if a customer wants to move up or down in meter size. Mr. Fujikawa added that if our customer wanted a larger meter, they would have to pay the current applicable facilities reserve charge (FRC) and if they downsize, they would not have to pay any further FRC but would not get any refund.

Mr. Fujikawa added that the only problem would be if the customer wanted additional water, then it would be dependent on the system capacity at the time of the request.

Finance Chair Nishimura stated that his main concern on this particular part of the process is that the customer would not have any additional requirements like construction of a new tank or

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installation of new waterlines. Manager Craddick concurred that there would not be these types of requirements for this situation.

Mr. Fujikawa also added that in addition to paying the additional FRC to upsize your meter, some engineering design may be involved as the customer would need to get a bigger box, bigger lateral, etc. Finance Chair Nishimura requested Mr. Fujikawa to make a list of the possible implications that may arise for this situation from an engineering standpoint.

The Finance Committee was duly adjourned at 11:20 a.m.

RULES COMMITTEE MEETING:

Rules Committee Chair Dee Crowell called the meeting to order at 11:20 a.m.

Re: Committee Discussion and Possible Action on the Proposed Block Changes

Mr. Costa moved to receive this report and place on file and deferred action until the special Finance Committee on October 29, 2009, seconded by Mr. Oyama.

Mr. Nishimura requested for clarity on all meter sizes to use \$16.40.

By a unanimous vote; motion was carried.

Mr. Crowell asked for a timeline on the proposed block changes and bond float, also when the proposed future rate increases would be scheduled.

ADJOURNMENT:

There being no other business, the Finance and Rules Committee Meetings were duly adjourned at 11:25 a.m.

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