BOARD OF WATER SUPPLY of the COUNTY OF KAUAʻI

FINANCE COMMITTEE MEETING

Second Floor, Microbiology Lab Bldg
Kauaʻi County Department of Water
4398 Pua Loke Street, Līhuʻe, Kauaʻi, Hawaiʻi 96766

MONDAY, OCTOBER 21, 2013

Recessed to Reconvene on October 22, 2013

1:00 p.m.

AGENDA

1. CALL TO ORDER

2. ROLL CALL

3. ACCEPTANCE OF AGENDA

4. ACCEPTANCE OF MINUTES
   Review and approval of:
   Finance Committee Meeting Minutes – July 22, 2013
   Finance Committee Meeting Minutes – July 25, 2013

5. OLD BUSINESS
   Manager's Report 14-16 – Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge

6. ADJOURNMENT

NOTE: NOTE: If you need an ASL Interpreter, materials in an alternate format, or other auxiliary aid support, please contact Edie at 245-5406 or email: eineumiller@kauaiwater.org at least five calendar days before the meeting.

RECEIVED FOR THE RECORD
REVISED DCA, AS 10-21-13
REVISED FCM, 10-21-13 *for* 10-22-13

Administrative rule material to be repealed is bracketed. **New material is underscored.** Deleted material is ~~stricken through~~ or [bracketed.] In printing this rule amendment, the brackets, bracketed material, underscoring, strikes need not be included

PART 4 SECTION VII – FACILITIES RESERVE CHARGE

1. The water system facilities reserve charge shall be assessed against all new developments and subdivisions requiring supply of water from the County of Kauai, Department of Water, and existing developments requiring additional supply of water from the Department's system. The facilities reserve charge must be paid before water services are made available to the new or existing development.

~~**2. The water system facilities reserve charge will be raised or lowered each year according to the percentage increase or decrease in the Engineering News Record Construction Cost Index change over previous year index held as the base. This shall not increase more than four percent average per year determined from the effective date of this rule.**~~

~~3~~2. The water system facilities reserve charge shall be paid by all applicants for water service, including but not limited to the following:

a. All irrigation services and/or meters.

b. Additional buildings to be connected to existing services where additional demands or supplies are indicated. The charges shall be based on the meter sizes required if the buildings were metered separately.

c. Additional units connected to existing services and meters under the categories of single family and multi-family residential units. The charges will be based on the established schedule of charges for the respective categories.

3. The Facilities Reserve Charge, was adopted in accordance with a report prepared by an independent consultant retained by the Board to assess and study water facilities. The report calculated the costs associated with water development needs as laid out in the Board approved Department of Water facilities needs assessment study entitled "Water Plan 2020" as amended. The breakdown of those costs, per gallon, are laid out in Schedule 1:

~~**The water system facilities reserve charge shall be determined from the following Schedule 1:**~~

Schedule 1

	~~$ per Fixture Unit~~	$ per gallon	$ per 5/8" meter	~~MAXIMUM PERCENTAGE*~~
SOURCE	~~$104.00~~	$4.15	$3,120	~~18%~~
STORAGE	~~$196.00~~	$7.86	$5,880	~~34%~~
TRANSMISSION	~~$272.00~~	$10.87	$8,160	~~48%~~

TOTAL		~~$572.00~~	$ 22.88	$17,160	~~100%~~

* ~~Maximum Offset Percentage allowed when developer provides all of source, storage or transmission capacity according to DOW standards. For developments providing less than 100% of source, storage or transmission capacity according to Hawaii Water Standards 2002 as amended the maximum percentage listed in the schedule for offset will be reduced according to Part 5 rules.~~

~~3.~~ The water system facilities reserve charges shall apply to all applicants for water service as follows:

a. For each parcel created by subdivision, including the first lot created; and for every new single family residential dwelling unit not yet metered and a facilities reserve charge has not yet been paid, the charge shall be ~~$4,600.00~~ the charge for a 5/8" meter.

~~b. For each unit or hotel room in a multi-family residential development and/or resort development, which applies to each unit or hotel room, the charge shall be $4,600.00 the charge for a 5/8" meter..~~

~~c~~b. ~~For all other uses, the facilities reserve charge shall be determined by the size of the meter as follows shown in Schedule 2 and schedule 3~~For meter sizes up to two inches, the facilities reserve charge shall be determined by the size of the meter as follows in Schedule 2 :

~~Meter Size~~	~~Amount~~
~~5/8"~~	~~$ 4,600.00~~
~~¾"~~	~~$ 14,300.00~~
~~1"~~	~~$ 26,400.00~~
~~1 ½"~~	~~$ 53,200.00~~
~~2"~~	~~$ 90,700.00~~
~~3"~~	~~$ 170,000.00~~
~~4"~~	~~$ 283,400.00~~
~~6"~~	~~$ 566,800.00~~
~~8"~~	~~$ 907,000.00~~

~~**d. For meter sizes up to two inch the water system development fee will increase according to the AWWA Standard C-700-latest edition for Cold Water Meters-Displacement type, Bronze Main Case Recommended Maximum Rate for Continuous operations gpm flow rate ratio of larger sizes to the 5/8" meter which is as follows in Schedule 2:**~~

Schedule 2

Meter Size	**Ratio to 5/8' Meter**	**Meter Cost**
~~**SIZE**~~	~~**Ratio to 5/8"**~~	~~**Maximum Meter Cost**~~

5/8 "	**1**	**$ 17,160**
3 / 4"	**1.5**	**$ 25,740**
1"	**2.5**	**$ 42,900**
1-1/2"	**5**	**$ 85,800**
2"	**8**	**$137,280**

~~ed~~c. For meter sizes beyond two inches the ~~water system development fee~~facilities reserve charge ~~will be~~shall be determined by the application of engineering principles and standards. For AWWA Standard C-702-latest edition for Cold-Water Meters- Compound Type Class II given as a reference type of meter the ~~fee~~ Facilities Reserve Charge shall not ~~to~~ exceed the costs laid out in Schedule~~schedule~~ 3:

Schedule 3

SIZE	**Maximum Meter Cost**
3"	**$5,720,100**
4"	**$9,884,160**
6"	**$22,239360**
8"	**$29,652,480**

d. For Schedules 2 and 3 above, ~~M~~meter sizes shall be determined by the Department and not by the Developer or Applicant.
~~The facilities reserve charge for multi-family and/or resort development will be determined by the approved meter size or the number of units, whichever number is larger.~~
~~Facilities reserve charges are periodically adjusted by the Department. These adjustments may increase or decrease existing facilities reserve charge amounts.~~ Where adjustments to facilities reserve charges result in decreases of such charges, no refund will be made of the difference between the higher, pre-existing charges and the lower, adjusted charges.

e. Indexing of the Facilities Reserve Charge

The Facilities Reserve Charge shall be raised or lowered each year according to the percentage increase or decrease in the Engineering News Record Construction Cost Index. This shall not increase more than four percent (4%) average per year as determined from the effective date of this rule.

4. FRC Offsets.

a. Definitions and construction of words. As used in this paragraph 4, the following definitions shall apply:

"Applicant" means any person, individual, corporation, partnership, business, organization, association, or other entity whatsoever that applies for water service from the Department.

"Consumer" has the meaning ascribed to it under Section I of Part 2 of the Department's Rules and Regulations.

"FRC" means the facilities reserve charges described in section VII of Part 4 and Section III of Part 3 of the Department's rules.

"Offset" means reduced or reduction.

"Subdivider" has the meaning ascribed to it under section I of Part 3 of the Department's Rules and Regulations.

"Subdivision" has the meaning ascribed to it under section I of Part 3 of the Department's Rules and Regulations.

"Water transmission main" or "main" means a main extension under Paragraph 2.d [2.a.(4)] of Section II of Part 2 of the Department's Rules and Regulations.

As used in this Paragraph 4, the following rules of construction shall apply:

Number. Words in the singular or plural number signify both the singular and plural number.

"Or" "and". Each of the terms "or" and "and", has the meaning of the other or of both.

b. When an applicant, consumer, or subdivider is required to construct and dedicate water source or water storage facilities, or water transmission mains, to the Department, the following rules shall apply.

Subject to the provisions of this paragraph 4, the applicable FRC liability of such applicants, consumers, or subdividers shall be offset ~~by up to 33% each where water source or water storage improvements are constructed, and up to 50% where water transmission mains are constructed~~in accordance with an amount not to exceed those percentages laid out in Schedule 4; provided that the total amount of all offsets that an applicant, consumer, or subdivider receives shall not exceed 100% of the applicant's, consumer's, or subdivider's FRC liability~~, and provided further that the offset for any source or storage improvement or transmission main shall not exceed the actual cost of the source or storage improvement or transmission main~~.

Schedule 4

	MAXIMUM OFFSET PERCENTAGE
SOURCE	**18%**
STORAGE	**34%**

TRANSMISSION	**48%**
TOTAL	**100%**

The Department, and not the applicant, consumer, or subdivider, shall calculate and determine the total amount of an applicant's, consumers, or subdivider's FRC offset in any given case. The Department may require the applicant, consumer, or subdivider to submit documentation verifying the actual cost of a source or storage improvement or transmission main.

c. The offsets described in this Paragraph 4 "FRC Offsets" shall not apply to water transmission mains constructed by a subdivider, applicant or consumer which are within or adjacent to a subdivision or lands either 1) owned by the applicant or consumer, or 2) developed by the applicant or consumer for uses such as, but not limited to, residential, agricultural, commercial, resort, industrial, governmental, religious, or educational uses. Where water transmission mains are constructed within, adjacent to, or outside of such subdivisions or lands, the offsets shall apply only to mains constructed outside of and off-site from such subdivisions or lands."

5. Should the Department use meters different than the meters currently used by the Department, the same methodology for FRC determination shall be used for other meters approved by the Department.

6. The administrative charge for review of Water Requests ~~is $2 per fixture unit~~ shall be accessed as established by Board resolution. ~~defined by the Uniform Plumbing Code latest edition. This same definition for fixture unit will be used for the schedule above as adjusted by Department staff for low flow devices which are built as part of the structure and are not easily changed to high flow devices.~~

~~7. Fix U's are the fixture units determined by application of the Uniform Plumbing code as adjusted for low flow devices that are built into the structure.~~

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Draft Minutes

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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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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Old Business

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve It!"

MANAGER'S REPORT NO. 14-16

October 21, 2013

Re: Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge

RECOMMENDATION: It is recommended that the Finance Committee adopt Part 4 Section VII of the DOW's Rules & Regulations and forward recommendation to the full board.

BACKGROUND: The Rules Committee has met on October 4, 2013 reconvened October 10, 2013.

The Rules Committee is concerned about further delay of the expansion fee rules and is proposing no changes to Parts 2 and 3 of the rules. Since the Part 5 rule is considerably modified with none of the deletions from Part 2, 3, and 4 that were previously proposed, Part 5 consists of HRS references and some language for affordable housing and rule challenge references. There were no comments from the Rules Committee at this time on phasing.

The attached revised Part 4 follows this same philosophy and keeps previous language for offsets and other items for clarification.

The portion of the Part 4 rule for indexing and administrative charges remains in this revision. The percentages for source, storage and transmission determined by SAIC are incorporated into the old Part 4 rules and the reference to over 100% deleted as the total of the percentages now equals 100%.

The schedule is simplified as fixture units are no longer used to determine the fee. The staff will still need to apply engineering principles and standards to determine the fee for larger meter sizes.

Fixture units will still be calculated for the admin fee to get staff familiar with the use of fixture units.

Options:

1. **Approve**
   Pros: We will have a recommendation to the Board so we may move forward.
   Cons: Items have been added back that were raised as concerns in community comments.

2. **Not Approve**
   Pros: Relief to those that are near getting meters.
   Cons: Will cause further delay in increasing funds in the FRC fund for expansion projects.

3. **Revise the rule**
   Pros: Would have to reserve comment until the revisions are identified.
   Cons: Would have to reserve comment until the revisions are identified.

Thank you for your attention to this matter.

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Respectfully submitted,

David R. Craddick, P.E., C.E.M.,
Manager and Chief Engineer

DRC/mjg

Attached: DOW revised proposed changes on Part 4 Section VII (10-21-13)

Mgrrp/Finance/October/14-6 Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge(10-21-13)mjg

Administrative rule material to be repealed is bracketed. **New material is underscored.** Deleted material is ~~stricken through~~ or [bracketed.] In printing this rule amendment, the brackets, bracketed material, underscoring, strikes need not be included

PART 4 SECTION VII – FACILITIES RESERVE CHARGE

1. The water system facilities reserve charge shall be assessed against all new developments and subdivisions requiring supply of water from the County of Kauai, Department of Water, and existing developments requiring additional supply of water from the Department's system. The facilities reserve charge must be paid before water services are made available to the new or existing development.

2. The water system facilities reserve charge will be raised or lowered each year according to the percentage increase or decrease in the Engineering News Record Construction Cost Index change over previous year index held as the base. This shall not increase more than four percent average per year determined from the effective date of this rule.

3. The water system facilities reserve charge shall be paid by all applicants for water service, including but not limited to the following:

   a. All irrigation services and/or meters.

   b. Additional buildings to be connected to existing services where additional demands or supplies are indicated. The charges shall be based on the meter sizes required if the buildings were metered separately.

   c. Additional units connected to existing services and meters under the categories of single family and multi-family residential units. The charges will be based on the established schedule of charges for the respective categories.

4. The water system facilities reserve charge shall be determined from the following Schedule 1:

Schedule 1

	$ per Fixture Unit	$ per gallon	$ per 5/8" meter	MAXIMUM PERCENTAGE*
SOURCE	$104.00	$4.15	$3,120	18%
STORAGE	$196.00	$7.86	$5,880	34%
TRANSMISSION	$272.00	$10.87	$8,160	48%
TOTAL	$572.00	$ 22.88	$17,160	100%

* Maximum Offset Percentage allowed when developer provides all of source, storage or transmission capacity according to DOW standards. For developments providing less than 100% of source, storage

or transmission capacity according to Hawaii Water Standards 2002 as amended the maximum percentage listed in the schedule for offset will be reduced according to Part 5 rules.

3. The water system facilities reserve charges shall apply to all applicants for water service as follows:

a. For each parcel created by subdivision, including the first lot created; and for every new single family residential dwelling unit not yet metered and a facilities reserve charge has not yet been paid, the charge shall be ~~$4,600.00~~ the charge for a 5/8" meter.

b. For each unit or hotel room in a multi-family residential development and/or resort development, which applies to each unit or hotel room, the charge shall be ~~$4,600.00~~ the charge for a 5/8" meter..

c. For all other uses, the facilities reserve charge shall be determined by the size of the meter as ~~follows~~ shown in Schedule 2 and schedule 3 :

~~Meter Size~~	~~Amount~~
~~5/8"~~	~~$ 4,600.00~~
~~¾"~~	~~$ 14,300.00~~
~~1"~~	~~$ 26,400.00~~
~~1 ½"~~	~~$ 53,200.00~~
~~2"~~	~~$ 90,700.00~~
~~3"~~	~~$ 170,000.00~~
~~4"~~	~~$ 283,400.00~~
~~6"~~	~~$ 566,800.00~~
~~8"~~	~~$ 907,000.00~~

d. For meter sizes up to two inch the water system development fee will increase according to the AWWA Standard C-700-latest edition for Cold Water Meters-Displacement type, Bronze Main Case Recommended Maximum Rate for Continuous operations gpm flow rate ratio of larger sizes to the 5/8" meter which is as follows in Schedule 2:

Schedule 2

SIZE	Ratio to 5/8"	Maximum Meter Cost
5/8 "	**1**	**$ 17,160**
3 / 4"	**1.5**	**$ 25,740**
1"	**2.5**	**$ 42,900**
1-1/2"	**5**	**$ 85,800**
2"	**8**	**$137,280**

e. For meter sizes beyond two inch the water system development fee will be determined by the application of engineering principles and standards. For AWWA Standard C-702-latest edition for Cold-Water Meters- Compound Type Class II given as a reference type of meter the fee shall not to exceed schedule 3:

Schedule 3

SIZE	Maximum Meter Cost
3”	$5,720,100
4”	$9,884,160
6”	$22,239360
8”	$29,652,480

Meter sizes shall be determined by the Department and not by the Developer or Applicant. The facilities reserve charge for multi-family and/or resort development will be determined by the approved meter size or the number of units, whichever number is larger.
Facilities reserve charges are periodically adjusted by the Department. These adjustments may increase or decrease existing facilities reserve charge amounts. Where adjustments to facilities reserve charges result in decreases of such charges, no refund will be made of the difference between the higher, pre-existing charges and the lower, adjusted charges.

4. FRC Offsets.

a. Definitions and construction of words. As used in this paragraph 4, the following definitions shall apply:

“Applicant” means any person, individual, corporation, partnership, business, organization, association, or other entity whatsoever that applies for water service from the Department.

“Consumer” has the meaning ascribed to it under Section I of Part 2 of the Department’s Rules and Regulations.

“FRC” means the facilities reserve charges described in section VII of Part 4 and Section III of Part 3 of the Department’s rules.

“Offset” means reduced or reduction.

“Subdivider” has the meaning ascribed to it under section I of Part 3 of the Department’s Rules and Regulations.

“Subdivision” has the meaning ascribed to it under section I of Part 3 of the Department’s Rules and Regulations.

“Water transmission main” or “main” means a main extension under Paragraph 2.d [2.a.(4)] of Section II of Part 2 of the Department’s Rules and Regulations.

As used in this Paragraph 4, the following rules of construction shall apply:

Number. Words in the singular or plural number signify both the singular and plural number.

"Or" "and". Each of the terms "or" and "and", has the meaning of the other or of both.

b. When an applicant, consumer, or subdivider is required to construct and dedicate water source or water storage facilities, or water transmission mains, to the Department, the following rules shall apply.

Subject to the provisions of this paragraph 4, the applicable FRC liability of such applicants, consumers, or subdividers shall be offset by up to 33% each where water source or water storage improvements are constructed, and up to 50% where water transmission mains are constructed; provided that the total amount of all offsets that an applicant, consumer, or subdivider receives shall not exceed 100% of the applicant's, consumer's, or subdivider's FRC liability, and provided further that the offset for any source or storage improvement or transmission main shall not exceed the actual cost of the source or storage improvement or transmission main.

The Department, and not the applicant, consumer, or subdivider, shall calculate and determine the total amount of an applicant's, consumers, or subdivider's FRC offset in any given case. The Department may require the applicant, consumer, or subdivider to submit documentation verifying the actual cost of a source or storage improvement or transmission main.

c. The offsets described in this Paragraph 4 "FRC Offsets" shall not apply to water transmission mains constructed by a subdivider, applicant or consumer which are within or adjacent to a subdivision or lands either 1) owned by the applicant or consumer, or 2) developed by the applicant or consumer for uses such as, but not limited to, residential, agricultural, commercial, resort, industrial, governmental, religious, or educational uses. Where water transmission mains are constructed within, adjacent to, or outside of such subdivisions or lands, the offsets shall apply only to mains constructed outside of and off-site from such subdivisions or lands."

5. Should the Department use meters different than the meters currently used by the Department, the same methodology for FRC determination shall be used for other meters approved by the Department.

6. The administrative charge for review of Water Requests is $2 per fixture unit as defined by the Uniform Plumbing Code latest edition. This same definition for fixture unit will be used for the schedule above as adjusted by Department staff for low flow devices which are built as part of the structure and are not easily changed to high flow devices.

7. Fix U's are the fixture units determined by application of the Uniform Plumbing code as adjusted for low flow devices that are built into the structure.