

FINANCE COMMITTEE MEETING

Friday, August 14, 2020

Committee Members Present: Finance Committee Chair Lawrence Dill, Ka`aina Hull and Elesther Calipjo. Also present was Board Member Gregory Kamm and Troy Tanigawa.

Staff Present: Marites Yano, Michael Hinazumi, Anne Parrott, Marcelino Soliz, Terri Amorin, Bryan Wienand, Keith Aoki, Valentino Reyna, Mary-jane Akuna, Jas Banwait

Guest(s) **via Remote:** DCA Todd Jensen

Finance Chair Dill called the meeting to order at 8:10 a.m., and quorum was established.

No Testimonies received on the call in number.

D. OLD BUSINESS

1. *Manager's Report No. 17-29* - Discussion and Possible Action on the Financial Management Planning and Water Rate Study for the Department of Water for Fiscal Year 2020 through Fiscal Year 2024 (*Update*)

BACKGROUND:

Waterworks Controller Mrs. Marites Yano briefed the Finance Committee on the Water Rate Study done in 2016 and two workshops were held for staff's input. Refer to Page 3 on the DOW staff and consultants review on four objectives that were identified. A model was developed by the consultants that was presented for the Board's deliberation then provided for the Finance Committee's consideration.

Key events took place when the Water Rate Study began that caused a delay. The Facilities Reserve Charge (FRC) rule amendment was discussed at the Board level. The Finance Committee deferred the FRC rule amendment until it was effective on September 9, 2017. The second event was the vacancy of the Manager and Chief Engineer of the Department and a new Board. A workshop was presented to the new Board on the goals and objectives of the Water Rate Study. The proposed Capital Improvement Project (CIP) list was updated and the proposed financial model was completed. The Department received \$14M funding from the State and was incorporated into the financial model for CIP. The last model presented to the Finance Committee in November 2019 proposed annual rate increases of 7% effective February 2020, 2021, 2022, 2023. The Department checked with the County of Kaua'i (COK) policies on the reserve funds that affected the roll over balances in the proposed Water Rate Study. After working with the COK, the Department revised and completed updates to the reserve fund policies.

Due to the impacts of the global COVID-19 pandemic on water consumption, the Water Rate Study data is now obsolete. Three (3) Options on Page 5 were presented for the Finance Committee's consideration. Mrs. Yano recommended *Option 1: Terminate the Water Rate Study and start fresh with a new data when ready.*

DISCUSSION:

Mr. Calipjo asked if the options would be voted on at this meeting. Mrs. Yano said yes, then the Finance Committee would go back to the full Board on a recommendation to vote on.

Mr. Hull agreed that the study would have to be redone fresh on the availability of the money. He was in favor of *Option 1: Terminate the Water Rate Study and start fresh with a new data when ready.*

Civil Engineer Mr. Bryan Wienand proposed for consideration a 0% revenue adjustment and to complete the Water Rate Study with the model. Recent data could be updated in the model by the consultants on the new revenue projections. Mr. Wienand did not feel the need to start over with a new consultant. The current consultants could possibly let the Department know how much could be spent.

After speaking with the Fiscal staff, Mrs. Yano commented on why the Department should spend more if the Water Rate Study is not going to be used. The last Water Rate Study data was from 2015 and the customer's base increased, consumption decreased, trends are not applicable based on the pandemic but the model belongs to the Department in which Fiscal could input new data for new rate scenarios.

Mr. Marcelino Soliz informed the Finance Committee that the key consultant is no longer with the firm and the main consultant would have to ramp up the data. Water consumption is stable; hotel consumption decreased and residential consumption is steady. He added the change would be the amount of revenue for the consumption. Customers who were receiving unemployment benefits and the extra \$600 were able to pay their bills but this benefit ended. Fiscal will have to look at the downfall of revenues. If the contract is not terminated with limited funds, these funds may be used in another areas. Mr. Soliz agreed with Option 1 to terminate the contract. Mr. Hull was not in agreement regarding the hotel rates based on using the pre-pandemic modeling for post-pandemic future. It would be better to start fresh.

Mr. Wienand said if the contract is cancelled, there would be no value of the \$164,000 which has some remaining funds. The timeline to rebuild a new model would be in the dark for the spring budget process without completing the model. This would give the Board and staff an idea of an estimate. He was not in agreement to cancel the Water Rate Study.

Chair Dill mentioned that the Department was ready to come before the Board with a completed model. Now the Department could run various scenarios based on inputting new data. Chair Dill asked if there was a cost to work with the consultant? Accountant Mrs. Anne Parrott shared Fiscal's issue along with Mrs. Yano and Mr. Soliz that the bulk of the work the consultant did was based on 2015 data that determined the revenues. Mrs. Yano would have to request additional funds for the consultant to update the data. Funds on all of the Scope of Work on the contract has been spent. The additional amount of funds would need to be addressed with the consultant.

Mr. Calipjo recommended Option 1 to terminate the contract and start over.

Chair Dill referred to the Water Utility General Fund (Page 6) - \$6.5M is the Estimate Ending Balance for 6/30/21 based on no rate increase and recent estimates of water consumption based on reduced consumption rates during the pandemic. This was correct information from Mrs. Yano with significantly reduced projected revenues. In the July revenues, the Department was in line with the projections. Chair Dill asked if one year beyond these projections change, what would the estimated ending balance would be by June 30, 2022? Mrs. Yano mentioned based on are flat revenues for this fiscal year it could be \$5M. What could be controlled is the operating expenses and projected capital expenditures. In previous years, a large amount was budgeted for projects. She indicated there is \$20M in capital expenditures which would be spent this fiscal year. There would be enough cash to sustain the Department the next fiscal year.

Mr. Hull strongly discussed the back and forth dialog during this meeting with staff. The message from staff needs to be unified before coming before an official Board meeting. Chair Dill agreed and acknowledged that the Finance Committee and staff has worked hard to support the recommendation.

Mr. Hull moved to approve Option 1: Terminate the Water Rate Study and start fresh with a new data when ready as recommended by the Finance Committee; seconded by Mr. Calipjo; with no objections, motion carried with 3 Ayes, Roll Call: KH, LC, LD

This Agenda item will before the full Board at the August Agenda recommending Option No. 1.

E. ADJOURNMENT

Chair Dill adjourned the Finance Committee meeting at 8:40 a.m. with no objections.

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