

SPECIAL COMMITTEE MEETING MINUTES
BOARD OF WATER SUPPLY
Wednesday, November 10, 2010

The Board of Water Supply, County of Kaua‘i, Special Committee met at its office in Līhu‘e on Wednesday, November 10, 2010. Special Committee Chair Leland Kahawai called the meeting to order at 9:12 a.m. On roll call, the following answered present:

SPECIAL COMMITTEE: Mr. Leland Kahawai, Chairperson
Mr. Dee Crowell
Mr. Donald Fujimoto (*present at about 9:34 a.m.*)

BOARD: Mr. Randall Nishimura
Mr. Raymond McCormick

STAFF: Mr. William Eddy
Mr. Keith Aoki
Mr. Edward Doi
Mr. Gregg Fujikawa
Mr. Keith Fujimoto
Mr. Dustin Moises
Mr. Heath Prow
Ms. Faith Shiramizu
Ms. Marites Yano
Mr. Aaron Zambo
DOW Deputy County Attorney Andrea Suzuki
First Deputy County Attorney Amy Esaki

PURPOSE:

Chair Kahawai noted that the Standing Committee had been formed to look at the Facilities Reserve Charge (FRC) and any amendments to that, and review the draft report from R. W. Beck. Deputy Eddy volunteered the academic exercise to walk the Committee through the draft report, though he noted that some changes were being made to the report in both costs and, in particular, how the debt service calculations are made. Unanswered questions from board members would be researched for the next follow up meeting.

BECK REPORT:

Page 1-1, Introduction, under Background:

According to the report, the one sentence definition of FRC is:

“The FRC is intended to recover a proportional share of the cost of facilities (source, storage and transmission) necessary to provide water system capacity to new developments in Kaua‘i”. It is not used for operational costs, but solely to provide water system capacity for new developments. Water rates are to cover operational costs.

Mr. Crowell asked if the FRC is charged for vacant lots in existing subdivisions and what it gets applied to if it is not for that development if the infrastructure is already in. Deputy Eddy noted it is for source, storage and transmission. Deputy Eddy confirmed to Mr. Crowell that the new subdivision FRC gets charged off the top before subdivision approval is final.

Chair Kahawai asked if, for instance, in 1950 we put in a system and it was 'x' amount of FRC, and the FRC gradually climbs, at what point we would reach the total liability for putting in the systems. Deputy Eddy reported that this is not tracked.

Upon query from Mr. Crowell, Mr. Doi responded that we started charging for the FRC in 1972, and Mr. Fujikawa stated there was a charge called "Aid in Construction" prior to that and the Board must have had Rules and Policies for that. He stated that this was money to pay for mainline extensions, mainly applied to subdivisions.

Upon query from Mr. Nishimura at what point fire flow became part of our Standards, Mr. Fujikawa remembered Standards going back to 1965, and the Water General Plan back in 1972/1973 that had a table which discussed fire protection flow and criteria for certain land uses. The Fire Department needed water so there must be some fire underwriter's criteria, so the Standards go way back. The County took over the plantation water systems.

Page 2-1, Regulatory Background, Item 3:

HRS Section 46-143(d)(1), Impact Fee Calculation

"The data sources and methodology upon which needs assessments and impact fees are based shall be set forth in the needs assessment study.

This indicates that, by law, a needs assessment study must be done for the impact fees. Deputy Eddy indicated that we are in compliance with the statute.

Page 3-2, Needs Assessment Study, Table 3-1: Population and Water Use Projections

The FRC is intended to recover a proportionate share of costs of facilities for new developments, now we go on to calculating what new developments are estimated or expected.

This section outlined the projected population estimate projections and level of service standards. Our Standards are specified in the Water System Standards. If we can project the population, we can project demands, to the year 2030.

Chair Kahawai asked Deputy Eddy that when the 2004 study was done, estimates for the past 5 years before 2004, we were running at around 12 – 14 million gallons per day (gpd) and the Beck study estimated \$4,600 for the 5/8" meter. Were they anticipating going to 16 million gpd at that time? Deputy Eddy noted that the 2004 report was set up exactly the same as this report. The 2004 projected population was only until 2020 and the figure they used was 17 million gpd.

Mr. Crowell asked if it took into account the number of visitors on the island. Deputy Eddy felt this was total island wide water consumption. Mr. Crowell noted that on any given day there would be 20,000 plus visitors in addition to the local population. Deputy Eddy surmised that the visitor counts were not factored into the calculation. He did not feel we had any data on ways to separate transient demands from non-transient demands other than hotel meter records.

Chair Kahawai noted that 17 million was estimated in 2020 in the 2004 study but the current study to 2030 is less, 16.5 million.

Mr. Nishimura asked if we could request that, alongside the figures that they are giving us for this study, that R.W. Beck put in the values from the 2004 study so we can visually see the comparison on all the Tables. In looking at the great increase which is being requested for FRC, it would be good to see some correlation of numbers in system needs, or costs, etc. It may be because construction costs have gone up so the FRC has gone up but if it is based on needs, and needs are going one way and the FRC is going another way, we will have a hard time selling that to ratepayers and developers.

Page 3-4, Needs Assessment Study, Table 3-2: Projected Capital Facility Needs

There are four listed categories, CIP, CRP, CRPL and Undefined.

Mr. D. Fujimoto requested the definition of “Undefined”. Deputy Eddy stated that these are projects that do not fit into the other categories, i.e., renegotiate the water purchase agreement with Grove Farm, etc.

Mr. Crowell asked if the FRC only addresses the CIP projects. Deputy Eddy indicated that the CIP projects are not limited to providing infrastructure for future development but also include making up deficiencies, for example, the new tank in Stable Tank in Kapaa, a portion of that tank will be used to make up existing deficiencies which is a CIP project and a portion will be for future development. The entire tank is a CIP project but it is not entirely for future demands; only the portion for future demands is eligible for the FRC. Mr. D. Fujimoto indicated that the other portion would be made up by user fees.

Mr. D. Fujimoto presumed that R.W. Beck did appropriate research with the appropriate numbers, and Deputy Eddy remarked that there is more information further on in the report which shows this.

Mr. Crowell asked if subdivisions needing to improve sections of their existing waterline, would that waterline qualify for FRC improvements by the developer? Deputy Eddy stated the department would require developers to upsize the pipeline to meet the developments needs. Mr. D. Fujimoto felt that upsizing waterlines for increased source is a different category than just replacing existing sized waterlines.

Deputy Eddy noted current Rules do speak about the requirements of development needs. Part III of the Rules does allow for cost-sharing between the developer and the Board to further increase the size of the pipeline to meet future needs as a planning tool so future developments do not have to replace it again.

Mr. D. Fujimoto asked if the study reflected any projected gains by the developer, an example would be for in huge developments like A&B, did they get credited about 1/3rd of the costs, the rest is a benefit to the County. Are projected gains reflected in the study? Deputy Eddy stated the FRC is paid up front and if the developer is required to put source, storage, or transmission then FRC offsets are required. Mr. D. Fujimoto asked if the costs exceed the FRC, and if we catch up it would be good for the developers. Deputy Eddy reported that R.W. Beck was bringing in real time costs.

Deputy Eddy stated FRC is not allowed to be applied for the CRP and CRPL, they are shown for informational purposes. Deputy Eddy stated to Mr. Nishimura that the “Undefined” category is not eligible for FRC, though Mr. D. Fujimoto requested Deputy Eddy check on

this, as it may apply if it is a part of future water needs. He needs to define what is “Undefined” as see if it qualifies for FRC.

Mr. Crowell asked what these projected costs were based on. Deputy Eddy confirmed that all costs are based on Water Plan 2020 costs, estimated costs, and are all shown in the appendices. Deputy Eddy was not sure how R.W. Beck projected this into the future, to 2030.

Chair Kahawai noted that in the 2004 study the costs for CIP were significantly lower than the \$679.1 million and a comparison is needed as the total in 2004 was \$152.5 million in 2001 dollars. Mr. Nishimura asked if Beck could do a conversion to 2010 dollars and Mr. D. Fujimoto noted it is possible to obtain inflationary rates so they should be able to do it.

Mr. D. Fujimoto asked if there are more projects or if the costs have just gone up. Mr. Fujikawa stated that more projects have been added. The FRC is always projecting future demands. Deputy Eddy noted that we added a lot of factors to the project costs that weren't considered back in 2004 and R.W. Beck requested these updates. Mr. D. Fujimoto stated that if the FRC is only for CIP projects, then a portion of the \$240.2 million would apply. Deputy Eddy stated the CIP was \$55.6 million in 2004. Mr. D. Fujimoto stated that the current FRC charge is \$4,600 and they are recommending \$10,600. The CIP cost has tripled but the FRC cost has doubled, so how do we come up with the difference.

Page 3-5, Needs Assessment Study, Eliminating Existing System Deficiencies, Table 3.4: Identification of DOW Water Systems with Source Deficiencies

The FRC is not used to eliminate system deficiencies. It goes to source, storage, transmission, distribution. Mr. D. Fujimoto stated the table should be clarified which shows \$679.1 million. A more appropriate table which is the basis for the FRC, not the total \$679.1 million – this is Table 3.3. The table needs to show the CIP only. Mr. Nishimura asked for clarification that the FRC is not to be used either for system or operations deficiencies.

Chair Kahawai asked if replacing a pipe with the same size would not qualify, but if you upgrade from 8” to 16” that would qualify for FRC; what is the difference between upgrading and replacing. Deputy Eddy stated it is difficult with pipeline as it is a network, tanks are easier. A water system such as Līhu‘e, we have current demands/consumption and water tanks with current storage capacity. The Water System Standards tell us how to calculate the required storage capacity.

Page 3-7, Needs Assessment Study, Table 3-5: Identification of DOW Water Systems with Storage Deficiencies:

An example is Lawai-Omao with a 0.25 MG tank to service the area; the Water Plan Standards say we need more storage so now we built the Piwai 0.5 MG tank to increase total storage capacity to 0.75 MG. The Water System Standards say we need 400,000 to meet the existing demands so we apply 150,000 to make up the deficiencies and the remainder is available for system expansion and the costs were assigned accordingly. Mr. D. Fujimoto stated that a percentage is allocated for the FRC. The user fees should cover the costs to make up for the deficiencies.

Upon query from Mr. Crowell if DOW paid for the tank, Deputy Eddy stated that DOW paid for the 0.5 MG tank, the other tank is an old State tank. Ms. Yano confirmed that the 0.5 MG tank was paid with FRC funds. Mr. D. Fujimoto stated we are talking about a moving target, then it becomes a deficit on the books rather than a future project and we need to draw the line

between future projects and deficit. Deputy Eddy stated this section identifies the deficiencies; the report separates those being used to eliminate deficiencies and future and projected growth. Mr. D. Fujimoto asked if we can correlate this information with our rate study so there are no gaps or overlaps. Deputy Eddy has spoken to R.W. Beck concerning the timeline and there could be some overlap with the FRC and rate study. Mr. D. Fujimoto stated that the new rates will reflect the cost of these projects. Mr. Crowell declared that the bond is a drop in the bucket compared to this. Mr. D. Fujimoto said we may look at another rate increase for the CIP.

Mr. Nishimura noted that the tables reference Appendix D, but there are several tables, but the numbers do not match. Deputy Eddy noted that the total in Appendix D-3 is \$663,449 million, because of the Grove Farm project though he was unsure why. Deputy Eddy will request a clearer explanation.

Page 4.4, Facilities Reserve Charge Update, Table 4-2: Projects Used to Calculate Unit Cost of Source Capacity:

DOW provided the list of projects used to calculate these figures. They are showing the calculations of what percentage is for growth. An example is A-02, Anahola Well where 28% is needed to make up for deficiency with 72% held for future development and growth. This is all Water Plan 2020 CIP. Chair Kahawai asked if the 72% qualifies for the FRC fund. The total cost for growth is \$56,634,176. Deputy Eddy stated it is the total cost to make up the deficiency. Many of the categories in Table 4-2 are 100% growth. Mr. D. Fujimoto noted that the last two items in the table are TBD and wondered if these are included in the calculations, and if user fees would pay for these TBDs. Deputy Eddy reported that Anini and Moloaa are smaller systems and the cost impact may be less.

Page 4.6, Facilities Reserve Charge Update, Table 4-3: Projects Used to Calculate Unit Cost of Storage Capacity:

Deputy Eddy noted that in this table there are more projects but lower percentages overall. Transmission is more complicated so there is more room for variables. Pipelines are a network of pipes. These are projected to 2030.

Chair Kahawai asked if the FRC increase is to cover the \$240 million in CIP costs and Mr. D. Fujimoto stated a portion of it qualifies. Deputy Eddy noted that in Tables 4-2 and 4-3 it shows how the CIP is separated. The transmission and distribution portion of the report will be skipped as it is still being negotiated between DOW and R.W. Beck.

Upon query from Mr. Crowell if the Bond list includes CIP projects, Deputy Eddy noted there is a mix of projects. Chair Kahawai thought the report should note which projects are Bond projects. Mr. D. Fujimoto stated that the FRC is a way of getting present money for future projects but at some point we might end up going backwards. This is a not a mechanism for funding but only a way to get money back for the projects, we still have to do Bond floats, etc. Timing is an issue as no-one knows when someone will pay the FRC.

Chair Kahawai asked if R.W. Beck could estimate forward five years and then determine the FRC. Mr. D. Fujimoto stated that people could pay today and it goes into the account and interest is accrued. You need the improvements done before the FRC is collected, so we should ask the consultants concerning the timing.

Upon query from Mr. Crowell on how much we collected in the last fiscal year 2009/2010, Ms. Yano will research and report back.

Page 4.8, Facilities Reserve Charge Update, FRC Credit Component:

This is an important component of the calculations. Source, storage, transmission and distribution are calculated and then this FRC credit component is applied.

Page 4.10, Facilities Reserve Charge Update, Table 4-5, Updated FRC Calculations:

Deputy Eddy confirmed to Mr. Crowell that all these are all across Kaua'i.

Backtracking, Deputy Eddy noted that for Tables 4-2 and 4-3 the total dollar figure is for the cost of source for growth and storage for growth, and that number is divided by the gpd. The unit costs are based on our historical costs. Mr. Crowell asked how the costs could be historical costs if they are projected costs. Deputy Eddy gave an example in Table 4-2, item A-02 cost of \$2,620,000 so that is our estimated cost based on our historical cost to drill and develop the new well. Costs are detailed in the Appendix. Costs for source is difficult to estimate because it can vary widely especially with ground water where there is no guarantee when we drill a well. Storage is much cleaner, we can calculate from historical bid records. Pipeline has clean calculations too, with dollars per foot.

Mr. Crowell stated Table 3-1 shows 16 million gpd, projecting less than 50% growth, but the projected CIP projects are going way over that, at 100%. Mr. D. Fujimoto stated that the FRC is about three times the amount but with the credit adjustment it comes back to two times the amount. All this is based on the existing consumers but when the new customer comes on, he now helps pay down debt service which was not projected in the user fees, so they give that back as part of the credit. The Base was not projected for the user fees, hence the credit.

Mr. Nishimura asked what daily consumption per individual was used for the study. Deputy Eddy stated it was shown on Page 4-4, Table 4-2, \$56 million - \$10,600 FRC. It's about 400 gpd. Unit cost of growth related source capacity is \$6.91; \$56,634,176 divided by the gpd for new capacity of 8,197,920 = \$6.91. The FRC source component calculation is $\$6.91 \times 600 \text{ gpd} = \$4,150$.

Mr. Nishimura asked what the 20% unmetered water is based on. Mr. Fujikawa stated in Water Plan 2020, in 2009 it noted system replacement for leaky pipes. Unaccounted water is water not reaching the meter, such as leaks, fires, mainline flushing etc. Staff estimated in 2001 unaccounted water at 25% but it should drop to 15% because of water conservation and replacement of leaking pipes. Mr. Nishimura asked why the deficiency is being charged to the FRC. Mr. Fujikawa stated that unaccounted water is a reality of the system. The consumer is also paying for the leaks, because that is the operational cost of the system. Mr. Fujikawa indicated that is what makes up the source capacity calculation. It is trying to apply the \$6.91 to how many gallons each unit is using. They are acknowledging the system isn't perfect and they are adding on an additional 20% for the leaks. Upon query from Mr. Nishimura why this is being applied to the FRC charge, Mr. Fujikawa said it is the pro rata share of the cost of new facilities. Mr. Nishimura stated he understands the reason for this size is for deficiencies in the system but then the customer pays on top of that? Is this then also charged to us as consumers on the rate study side, so is it being charged on both sides? Mr. Fujikawa stated the rate study has to assess unmetered costs and so the 20% FRC rate is for growth, and the rate study will probably assess the rate for operating the system and its deficiencies.

Mr. D. Fujimoto does not think it is double-dip as the FRC is looking at source but leaks are covered under operations. We need to design the source to incorporate losses. Mr. Nishimura stated it is forcing us to build more because of our system deficiencies. Mr. Fujikawa stated that nonmetered and unaccounted for water is national, global issue. Deputy Eddy noted that the AWWA identifies 15% as ideal. These are not one-time improvements, but built to age. It becomes leaky, and water meters get less accurate over time.

Upon query from Chair Kahawai on the previous FRC increase, Mr. Fujikawa indicated that it had increased from \$2,600 in 2000 to \$4,600 in 2004.

In Table 4-5, it shows how the \$10,600 is calculated.

Page 4.11, Facilities Reserve Charge Update, Table 4-6, Comparison of Previous and Updated FRCs:

R.W. Beck will be asked to expand further on the first paragraph:

“A number of factors have been identified as contributing to the increase in the FRC. General inflation, as well as construction-specific cost increases are in part responsible, as well as the inclusion of planning, land and design costs in the FRC update. Additionally, changes to the requirements for main abandonment were also a source of increased costs.”

Chair Kahawai asked where R.W. Beck was up to now, as the document was just a draft from August. Deputy Eddy indicated that they were wanting to see our final audit, though he was unsure how that factored into the FRC. R.W. Beck also have also recommended to have some input from the rate study into the FRC, particularly the debt service calculation, which is not in these current calculations. R.W. Beck would need to explain this.

Mr. D. Fujimoto noted that one component of the PR piece is a broader explanation of the FRC. People need to understand that the purpose of the FRC is for other people to have water otherwise the user would pay for all improvements. If people decide they won't pay the fees then they won't be able to make the improvements. Expansion needs to be so we can allow further expansion on the island, because without the FRC there would be a moratorium on building. In looking at the table, Mr. D. Fujimoto noted that the 6" is doubling in cost, and the ¾" meter has a 297% increase. Deputy Eddy noted that the calculations are based on the 5/8" meter. The ¾" pipes are usually used for commercial or multi-family buildings. The method used for other than 5/8" is not adequately described and needs more thought.

Page 4.12, Facilities Reserve Charge Update, Table 4-7, FRC Comparison with Other Water Utilities:

Mr. D. Fujimoto remarked that Kaua'i will have the highest FRC in the State. Mr. D. Fujimoto also asked when the next projected review will be after this, is it every five years. Deputy Eddy stated it may be defined in the HRS. Mr. D. Fujimoto also wondered in the rate study, if step increases were possible, instead of just a one-time increase. The report currently is showing a one-time charge.

Mr. Crowell would like another session on transmission and distribution. Two-thirds of the projected capital costs versus storage and source, on Table 4-5 transmission and distribution is 24%.

Upon query from Mr. Nishimura on when the department would be required to do another study, Mr. Fujikawa stated that this is at the Board's discretion, it is not in the Rules.

Page 4.13, Facilities Reserve Charge Update, Table 4-8, Maximum FRC Offsets for Off-Site Developer-Funded Facilities:

Mr. D. Fujimoto stated that regardless of the amount the developer pays, this is the maximum amount that you can offset. Mr. Crowell stated the developer does the improvement and then gets the credit. Mr. D. Fujimoto stated the developer would only get a percentage of the credit.

Deputy Eddy indicated that WP 2020 identifies these projects and they have been identified to build out areas within population zones that are expected to be developed. Large developments may be outside that consideration. Mr. D. Fujimoto stated this plan is based on existing zoning and existing development. Mr. Fujikawa stated WP 2020 is based on zoning based on the General Plan updated population. Mr. D. Fujimoto stated that if it is zoned, it should be accounted for. We need to reflect what is on the master plan. Mr. Fujikawa stated that if the developer waits long enough, then DOW would do the water improvement.

Mr. D. Fujimoto felt that more deficiencies need to be addressed. Mr. Fujikawa stated that is the dilemma, whether to change old pipe or do improvements for growth, is there enough funding sources to make up the deficiencies. Mr. D. Fujimoto wondered what the expectation level was.

Chair Kahawai requested that Deputy Eddy follow up with R.W. Beck on the answers to the Committee's questions and then another meeting can be called to review the Transmission and Distribution.

Mr. Fujikawa wondered if a R.W. Beck representative would be available at the next meeting, and Mr. D. Fujimoto felt they should at least be available by phone. It would need to be after the Final Audit.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:25 a.m.

Respectfully submitted,



Carol A. Beardmore
Commission Support Clerk

Approved,



Leland Kahawai
Chair – Standing Committee

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