Committee Members Present: Chair Larry Dill called the Finance Committee meeting to order at 1:00 p.m. Chair Dill, and Hugh Strom answered present at Roll Call. Laurie Ho was excused.

Staff Present: Kirk Saiki, Eddie Doi, Regina Flores, Kim Tamaoka, Christine Erorita

Guests: Deputy County Attorney, Nick Courson, Clyde Kodani, Shawn Shimabukuro, Grove Farm and Dave Hinazumi, Grove Farm

AGENDA
Chair Dill accepted the Finance Meeting agenda as circulated.

OLD BUSINESS

BACKGROUND:
Acting Manager and Chief Engineer, Mr. Saiki reported that the last Finance Committee meeting discussed Max Day Demand (MDD) which was complicated regarding the legality. Currently the Department is considering a method of assessing the FRC by plumbing fixtures. (Refer to draft Part 4, Page 2 of 5, Schedule 2a & Schedule 2b.)

Problems faced with the numbers developed in the Leidos report was based on the cost per meter (actual unit cost per fixture unit) and that the cost of the meter got lower as the meter size got larger. By getting a 1-1/2” meter, with high fixture units, it would cost more than a 2” meter. There needs to be a way to cap this section in the calculation method. The Department suggested adding a worksheet to determine calculations.

DISCUSSION:
Civil Engineer, Mr. Doi commented that if the meter size is 5/8” to 2” based on the report, the Department had to refigure the meters sizes 3” to 8” by using the report’s 2” meter calculation (using multiples of the 5/8” meter) which calculated to $1.13M. This was calculated in the higher unit cost from the previous SAIC report. The Department would determine any meter size above 3”.

Leidos Report - Table 4-7, Page 4-11 - Chair Dill asked if the table was determined by the Department on an individual basis, why didn’t the Department use the consultant’s recommendation in the report.

Mr. Doi explained that the Department was tried to revolve MDD with the applicant. The calculation would clarify the assessment of meter charges vs. MDD. There are no set guidelines to quantity the flow and daily demand.
Honolulu Board of Water Supply uses fixture count and all other counties use flat rate. Previously the Department recommended flat rate but it was not approved.

At 3:10 p.m., Chair Dill recessed the Finance Committee meeting.

At 3:19 p.m., Chair Dill reconvened the Finance Committee meeting.

Chair Dill “Received for the Record” correspondence received from Ms. Shawn Shimabukuro, Grove Farm Company regarding the FRC, Proposed Rules Amendment, dated September 11, 2014 which was addressed to Chair Clyde Nakaya. The correspondence was part of Ms. Shimabukuro’s testimony.
Shawn Shimabukuro, Grove Farm Company provided her testimony.

Ms. Shimabukuro stated the letter (dated March 8, 2013) submitted yesterday was in response to the 2013 SAIC study. The figures referenced in the March 8, 2013 letter, no longer are proposed. Recently she became aware of the Leidos report (November 2013) and requested more time to review the report. Ms. Shimabukuro would provide comments to the Finance Committee.
DISCUSSION:
Chair Dill noted that Leidos was SAIC (name change) which is a work in progress. The numbers and values may be different that were reflected from the previously consultant, SAIC. The Department was asked to provide a response to the comments in the March 8, 2013 Grove Farm letter for the Finance Committee to review. The comments would be recommended to the full Board.

Chair Dill thanked Ms. Shimabukuro for her comments relating to the letter.

DISCUSSION:
Page 1 of 5 – #2a, iv. - (This section was provided by the Department.)

“Water service laterals that have failed to install a water meter on the subject property for which the FRC was paid or where water meter has not been in place for a period great than one year will be required to pay the difference of the original FRC paid and the FRC in effect at the time the water meter is installed as described in Part 5 Section III, paragraph 5 of these Rules.”

A concern was discussed if someone paid for a meter and does not install it, the Department could ask the applicant to pay an incremental cost of the FRC at installation. But if the meter has been installed, within a year, the FRC charges increase.

Mr. Strom concurred with Chair Dill of not agreeing with the latter portion of the amendment and requested the Department to explain the logic in Part 5 Section III.

The Department will also verify the footer on Part 4 effective date: December 25, 2011.

Page 3-5 - #6 – Calculations:
“Water services with existing meters where additional fixtures unit(s) or water demand is required…”

“FRC (net) = [FRC (existing Fixture Units and proposed Fixture Units)] less [max. FRC (existing water meter)]”

Chair Dill posed an example for the Department - If an applicant purchased a 5/8” meter 10 years ago; using the current calculation for the max FRC, the cost is $113,280 or if the charge was $80,000 which the applicant previously paid. This example reflected no FRC was paid in the last part of calculation.

The Department will show more calculations on examples or additional service on the last part of the calculation and to include clarification on the rule.

“The minimum FRC will be $0.00.”

The Department will review the last paragraph or delete.

“No FRC refund shall be made for existing meters requiring a decrease in water demand, decrease in meter size or decrease in existing water supply fixture units.”

Several examples and options were discussed by the Finance Committee and Department.
- Abandon a 2” lateral and do a 5/8” meter if paid with the current charge.
- There could be no refunds with FRC and the Department’s get back the credit. The land owner would benefit from a lower meter rate.
The Department will:
1) Note in the rules that an applicant could be credited to downsize a meter but get credit for a larger meter size.
   Acting Manager and Chief Engineering, Mr. Saiki was concerned that the larger meters may not be priced high enough. There is precedence with the existing rule on how to assess the cost for multi-family resort units but not for an industrial non-residential or non-resort for a larger meter.
2) Provide how the meters will get assessed.
3) Provide worksheets at the next Finance meeting with different scenarios and will adjust the language.
4) Check if the consultant answered Chair Dill’s question regarding discrepancies and justification regarding multifamily resort units.

Chair Dill commented he was okay with the tables.

Page 4 of 5, #7a – Last definition -- “and” “or”
The Finance Committee will defer the definition of “and” “or” which is in the existing rules to Deputy County Attorney, Andrea Suzuki regarding.

Page 4 of 5, #7c – (The offset is in the existing rules.)
“The offsets described in this Paragraph 7 “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 an off-site from such subdivisions or lands.”

Chair Dill commented that generally it would be okay for the Department to enter into an agreement with developer for an offset. In other scenarios, the Department needs to be careful not to provide a benefit to a single entity as opposed to the customers.

The Department builds for the future and upsizes for potential development in an area. The FRC is paid by the developer. The Department co-shares the FRC with the developer (Example: A developer puts in a 6” line but with future development, the Department puts in a 10” line with the cost doubles with the Department co-sharing the 10” line.) On individual scenarios, the Department probably would not show that they are covering costs.

Chair Dill agreed with paragraph 7c because the developer would pay for distribution and any upsizing to transmission would be done by a negotiated agreement with the Department.

Page 5 of 5, #8
“The administrative fees for review of Water Requests and Building Permits shall be assessed as established by Board resolution.”

The Department will check on the status of the administrative fees for review.
Page 5 of 5, #9 - Indexing

“Indexing of the FRC. The FRC shall be determined at the start of each fiscal year according to the percentage increase or decrease based on the Engineering News Record Construction Cost Index percentage on December 31st of the previous year. The Department will inform the Board on the percentage during the fiscal year budget review.”

Chair Dill commented that the intent is to establish the FRC at a certain date. Annually the Department updates and adds a factor to apply on what the FRC would be.

Other proposed changes to the value in the rule included:

1) Add the Cost of Goods Index that are posted by the Feds quarterly; if there are adjustments, follow the Fed rate.
2) Annually review the rule to change the numbers.
3) Calculate the FRC but at the end of the calculation add today’s CPI over the base CPI. The FRC should be approximately correct.

It was noted that the proposed rules do not allow the Department to update the FRC every time a new facility is built.

The Department will improve the language in paragraph #9.

Leidos Report Page 4-3

“Data sources for the FRC update include the following…”

The data source list was for discussion purposes only. It was noted the material is not updated and would have to be re-evaluated again.

Chair Dill commented that the Rate Study needed to be done quicker.

Page 4-9 Leidos Report – FRC Credit Component

“Because the Average Day design standard is 500 gpd per ERU (Equivalent Residential Unit)…”

DISCUSSION:

Chair Dill questioned when the Department calculates the FRC, the Max Day uses 750 gpd, why is the Department crediting the Average day?

The Department will check why there is a credit on the Average Day.

Leidos Report Page 4-11, Table 4-7 - Comparison of Previous and Updated FRCs

The FRC charge of $2,600 did not represent the actual cost of the 5/8” meter. A question was asked by Chair Dill if the $4,600 charge was the full amount or a discounted amount. He recalled $2,600 was 1/6 of the actual service for 5/8” meter.

In Acting Manager and Chief Engineer research, he found that $2,600 was discounted but the Department wanted $5,800 which was cut in half. He did not know how the $4,600 was determined.
Chair Dill referred to Page 4-11 1st sentence: “A number of factors have been identified as contributing to the increase in the FRC.”

There is a perceived increase in this sentence. On the number of factors that are identified contributed to the increase in the FRC, there needs to be a clear understanding.

The Department will research where the rate study is which reflects and justifies $4,600 and if this was the Department’s actual cost of service for the 5/8” meter.

Page 4-11 - Last Paragraph
“There are number of reasons for this change, including the closer correlation between system demand and fixture units...”

Charging customers more appropriately is the goal.

Page 4-13 – FRC Implementation
2nd bullet – re: Phasing
“Consider phasing in the full increase of the FRC so affected parties can appropriately adjust...”

There was no proposal for recommendation from the Department regarding phasing. At the Finance Committee level, they did not want phasing. Chair Dill questioned if phasing was resolved.

The Department will provide phasing for the full Board to consider with a few options.

3rd bullet - re Credit on FRC
Chair Dill requested the Department to recommend to the Board - How to determine the appropriate amount of the transfer from the Water Utility Fund to the FRC fund (the collection of FRC costs through rates). If so, the transfer should be to the FRC fund.

Department will prioritize Part 4 Section VII, Facilities Reserve Charge, Proposed Rule Amendments.

The Assessment of Grove Farm Water Treatment Facility attachment to the Leidos report was not an agenda item which not discussed but will only be used by the Department.

A Finance Committee meeting will be scheduled possibly prior to the Regular Board meeting on Thursday, September 25th.

At 4:40 p.m., Chair Dill adjourned the Finance Committee meeting.