



*“Water has no Substitute – Conserve It!”*

## COUNTY OF KAUA‘I, DEPARTMENT OF WATER (DOW) Frequently Asked Questions, Facilities Reserve Charge

**The Department of Water (DOW)** is a semi-autonomous public agency of the County of Kaua‘i that provides retail water service to approximately 21,263 customers throughout the island. The DOW’s mission is to provide safe, affordable and sufficient drinking water through wise management of resources and with excellent customer service for the people of Kaua‘i.

The DOW is proposing a rule amendment related to the Facilities Reserve Charge (FRC). This FAQ sheet includes a general overview of the proposed rule changes, and supplemental information as to how and why this new rule amendment is being proposed by the DOW.

If you have any questions regarding this FAQ sheet, the proposed rule amendments, or upcoming public meetings, please call:

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*Mahalo!*

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Frequently Asked Questions, Facilities Reserve Charge**

**What is a Facilities Reserve Charge (FRC)?**

The FRC is a fee paid by new developments needing new water supply services, or older developments (typically commercial properties, agricultural lots, and hotels) needing additional water supply services. This charge is designed to cover the necessary costs to build new infrastructure that will provide water to those new developments.

The FRC is made up of three different costs – the cost of building new wells (source), the cost of building new tanks (storage), and the cost of building new main lines (transmission). The proportional share of all three types of infrastructure generate the total FRC.

**What are the proposed rule amendments?**

Below is a summary of the proposed rule changes, and reasons why they are being recommended.

**a. Modification of Facilities Reserve Charge (FRC)**

The proposed rule modifies the charges that apply to all new developments and subdivisions requiring water supply, and to existing developments requiring new or additional water supply from the DOW. The proposed FRC for the typical residential 5/8-inch water meter is increased by approximately 300%, from \$4,600 to \$14,115. For larger meters, from ¾-inch to 8-inch, the fee increase declines progressively from 48% to 24%. The proposed FRC for single family, multi-family and resort is also modified based on Hawai‘i’s Water System Standards.

*Why is this being proposed?*

The proposed increase is necessary to meet the growing cost of expanding the DOW’s water system. It has been over eleven (11) years since the current rate was set, and actual costs that the DOW incurs are far greater than the current FRC. Moving forward, the DOW and the Board will review the FRC rate every several years in order to avoid large increases.

*What would happen if the FRC does not increase?*

The FRC can only be used to fund projects that will expand the DOW’s water system and provide additional growth. The FRC is intended to recover a proportional share of the costs needed to build new facilities in order to provide additional capacity for new developments. If the FRC does not increase, the DOW will have less funds to support expansion of the water system. Additionally, if the FRC does not increase, the DOW may need to either increase the water rates for all existing customers, reduce water facility expansion projects, or a combination of both in order to help pay for the expansion of the system.



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**b. Establishment of Time Period to Install Water Meter**

The proposed rule change also applies to applicants who have paid the FRC fee prior to the enactment of these new rules, but have *not yet* installed their water meter. The new rule would allow these “prior applicants” to install their meter within three (3) years following the enactment of the new rules, at no additional FRC charge. If a prior applicant’s water meter is not installed after three (3) years, the prior applicant will be required to pay the difference between the FRC they paid and the FRC in effect at the time their meter is installed.

*Why is this being proposed?*

In the existing rules, there is no timeline to install a water meter once the FRC is paid. This means that although the DOW is operating and maintaining the system for all applicants, only those that have their meters installed are paying for the operation and maintenance costs of the system. This rule change would encourage all applicants who benefit from the system, to pay their equal share of costs for operating and maintaining the system.

**c. Modification of FRC Offsets**

Another proposed change modifies the percentage of FRC offsets that are applicable for specific source, storage or off-site transmission facilities constructed by developers. Offsets are defined as a reduction in the FRC that’s designed to fairly reflect the value of non-site related capital water facility improvements (such as wells, tanks and pipelines) that are constructed by applicants or developers.

The proposed rule change modifies the FRC offset percentages up to 22% where water source improvements are constructed, up to 41% where water storage improvements are constructed, and up to 37% where off-site transmission facilities are constructed.

*Why is this being proposed?*

Under the existing rules, developers who have built and conveyed a well or tank or transmission lines are applicable to “offset” the FRC they owe by up to 33% where water source improvements are constructed, up to 33% where water storage improvements are constructed, and up to 50% where off-site transmission facilities are constructed. However, these existing percentages do not accurately reflect the proportion of the FRC costs that are attributable to source, storage and transmission.



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The proposed rule change modifies the FRC offsets to reflect the actual percentage costs for source, storage and transmission improvements that are necessary for future growth island-wide.

**d. Establishment of Total FRC Offsets**

The proposed rule change also allows an applicant who is required to provide 100% of the source or storage or off-site transmission facilities, to receive the total FRC offset for the entire FRC liability amount per category of source or storage or offsite transmission improvements.

For example, say a developer owes \$100,000 for their FRC (22% or \$22,000 for source, 41% or \$41,000 for storage and 37% or \$37,000 for off-site transmission facilities = \$100,000 FRC liability). If that developer spends \$20,000 instead of \$22,000 to build a new well that would provide all of the source required for their development, their FRC offset will be \$22,000 for the new source. This means, the developer will not owe any FRC for the source that they installed.

*Why is this being proposed?*

Under the existing rules, if a developer has built and conveyed any or all of the source, storage and transmission required to serve their development, they could only receive an FRC offset for the amount of the total expenses paid, even if they expended less than their FRC liability.

Using the same above example, under the existing rules, if that developer spends \$20,000 instead of \$22,000 to build a new well that would provide all of the source required for their development, their FRC offset will be only \$20,000 for the new source. This means that under the existing rules, the developer will still owe an FRC liability of \$2,000 for the source that they installed.

**e. Establishment of Grant Funds Offset**

The proposed rule change allows an applicant to use a project’s Grant Funds to offset the project’s FRC liability associated with development. Grant Fund offsets can only apply to the identified grant beneficiaries.

For example, an Affordable Housing Project that acquires State Legislative Aid for the construction of a required transmission pipeline can offset the project’s transmission portion of their FRC liability in accordance with this proposed rule amendment.



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*Why is this being proposed?*

This rule change is being proposed as another means to help an applicant offset their FRC liability.

- f. The proposed rule change deletes Part 4, Section VII (detailing the Facilities Reserve Charge) in its entirety. Applicable portions of Part 4, Section VII relating to the FRC have been included in Part 5.
- g. Included in the proposed rule change are requirements mandated by Hawaii Revised Statute §46-141 to §46-148.

**Has the proposed FRC been thoroughly studied?**

Yes. In order to provide for future growth, an independent third party consultant was hired to identify the DOW’s existing need for water system expansion. The consultant, Louis Berger Group, utilized the DOW’s Water Plan 2020 project list and singled out expansion projects to determine the present costs needed to provide for a single-family dwelling (5/8-inch water meter).

After conducting a range of studies, consulting with the community and the DOW, the consultants have proposed a rate of \$14,115 for a standard, single-family residential meter. For larger meters, the proposed fee is increased proportionally based on water meter flow capacity.

**How did Louis Berger Group conduct its study?**

Louis Berger Group conducted a Needs Assessment Study, and updated the DOW’s FRC methodologies, calculations and schedules. The proposed method utilizes the water system standard demand for a single-family dwelling, water meter sizes and AWWA water meter flow capacity ratios. It determined the actual cost of new source, storage and transmission facilities and calculated the percentages required to meet the demands for growth. Louis Berger Group provided the DOW with a Needs Assessment Study, as required by the Hawaii State Law governing the development of FRC’s (Hawaii Impact Fee, HRS §46-141 et al.). A copy of the Needs Assessment Study and FRC proposed rule amendments are available on the DOW’s website, [www.kauaiwater.org](http://www.kauaiwater.org).

**Did the study follow a plan?**

Yes. In 2001, the DOW adopted Water Plan 2020 which provides a long-term vision for the DOW through 2020. The FRC proposal was developed under the guidance of Water Plan 2020. The portions of Water Plan 2020 that deal with system expansion continue to be used as the technical basis for the new FRC calculations.



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**Why can't conservation reduce the need for expensive system upgrades?**

The DOW operates a series of public programs that promote conservation. Water use island-wide has indeed dropped in recent years, however, this has not made up for the pre-existing deficit. In areas with demand for new development, conservation efforts have not created enough of a reduction to permit the development of new residential and business units.

**Has the community been consulted?**

Over the past four years the DOW has been exploring numerous methods and scenarios to address the overall concern to support expansion of the water system, in order to provide sufficient capacity for future development and growth.

In early 2011, the DOW held focus group sessions with residential and commercial customers. The DOW has also met with community groups, has conducted other outreach, and has posted progress reports on all Water Plan 2020 projects on its website. In earlier discussions, a preliminary figure of \$20,000 for a 5/8-inch water meter was being considered. Focus group members said they felt that number seemed excessive, but were willing to reserve judgment if they felt the DOW was proceeding with transparency, equitability and efficiency. They favored the DOW's policy that the new users of water should pay their fair share rather than everyone facing increased water rates for new capacity.

**Does the proposed FRC deter economic growth?**

In focus groups, some members of the community said they feared a high fee would function as an anti-growth policy. But the opposite has been occurring. Growth in some areas has been blocked because the DOW does not have the financial ability to pay for increased capacity that new development requires. The DOW's view is that changing the FRC to a realistic figure is pro-planning.

**Does the DOW make a profit?**

No. The DOW is a non-profit semi-autonomous public agency of the County of Kaua'i. The DOW's budget is completely funded through the rates charged for water services that are provided to customers. Water rates are approved by the Kaua'i Board of Water Supply. The DOW does not receive any tax revenues.