

MINUTES

DEPARTMENT OF WATER SUPPLY
COUNTY OF HAWAI'I
WATER BOARD MEETING

March 24, 2015

Department of Water Supply, Operations Center Conference Room, 889 Leilani Street, Hilo, HI

MEMBERS PRESENT:

Mr. Rick Robinson, Chairperson
Mr. Craig Takamine, Vice-Chairperson
Mr. Russell Arikawa
Mr. Bryant Balog
Mr. David Greenwell
Ms. Brenda Iokepa-Moses
Ms. Susan Lee Loy
Mr. Jay Uyeda

ABSENT:

Mr. Quirino Antonio, Jr., Manager-Chief Engineer, Department of Water Supply (ex-officio member)
Mr. Duane Kanuha, Director, Planning Department (ex-officio member)
Mr. Warren Lee, Director, Department of Public Works (ex-officio member)

OTHERS PRESENT:

Ms. Kathy Garson, Deputy Corporation Counsel
Mr. Chad Funasaki, N&K CPAs, Inc.
Mr. Ryan Iwane, N&K CPAs, Inc.
Ms. Ann Hajnosz, Brown & Caldwell
Mr. Dean Nakano, Brown & Caldwell
Mr. Fred Camero, Beylik Drilling & Pump Service, Inc.
Ms. Nancy Cook Lauer, West Hawai'i Today
Mr. Jeff Zimpfer, National Parks Service
Mr. David Tarnas
Ms. Joanna Herkes, SSFM
Ms. Lisa Reddinger, Johnson Controls
Mr. Jason Knable, Carlsmith Ball, LLC

Department of Water Supply Staff

Mr. Keith Okamoto, Deputy
Mr. Kurt Inaba, Engineering Division Head
Mr. Richard Sumada, Waterworks Controller
Mr. Daryl Ikeda, Chief of Operations
Ms. Kanani Aton, Public Information and Education Specialist
Mr. Kawika Uyehara, Engineering Division
Mr. Clyde Young, Operations Division
Mr. Eric Takamoto, Operations Division
Ms. Candace Pua, Assistant Waterworks Controller

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- 1) CALL TO ORDER – Chairperson Robinson called the meeting to order at 10:00 a.m.

2) STATEMENTS FROM THE PUBLIC

Chairperson Robinson read into the record a written testimony, submitted via email on March 23, 2015, by Mr. Daniel Hodel of Kailua-Kona. The text of the email was as follows:

“I write to this address since there is no apparent email address for the Water Board and they are meeting tomorrow (just learned this today) and plan to vote on a budget with a water rate increase that will completely hose those of us who are stuck with legacy water hui systems that are billed at the high small residence rates even though dozens of homes are fed from the same small county water meter. This is unfair. DWS should either take over these systems or allow a reasonable rate structure for them. Right now we are paying exorbitant rates and you want to make them higher and higher. Individually we use very little water; collectively you hose us. Please stop ignoring our plight and come up with some reasonable response to the problem.” Signed: Daniel Hodel, 76-897 Hualālai Road, Kailua-Kona.”

(Ms. Iokepa-Moses arrived at 10:04 a.m.)

3) APPROVAL OF MINUTES

The Chairperson entertained a Motion to approve the Minutes of the February 24, 2015, Water Board meeting.

ACTION: Ms. Lee Loy moved to approve; seconded by Mr. Greenwell; and carried unanimously by voice vote.

4) APPROVAL OF ADDENDUM AND/OR SUPPLEMENTAL AGENDA

None.

5) PRESENTATION OF AUDITED FINANCIAL STATEMENTS – JUNE 30, 2015:

Copies of the Department’s audited financial statements for the fiscal year ended June 30, 2014, were distributed to Board members. Mr. Chad Funasaki, Principal, and Mr. Ryan Iwane, Senior Manager, representing the accounting firm of N&K CPAs, Inc., presented the audit to the Board.

The Deputy explained that he was acting today on behalf of the Manager-Chief Engineer. He introduced Messrs. Funasaki and Iwane.

Mr. Funasaki noted that this was the first time that his firm had performed audits for DWS, and this year’s report presentation is later than usual; he said he expected the next audit report would be presented in January next year. This year’s presentation is made up of two reports: the Independent Auditor’s Report and the Report on Internal Control over Financial Reporting and on Compliance.

Mr. Funasaki said that probably the most important part of the report is the Opinion; the auditors are happy to announce that they had issued an unmodified (i.e., a clean) opinion. The Financial Statements were fairly presented, in all material respects, he said. He noted that the 2013 audit was done by the previous auditor, Accuity, LLC; all entries labeled 2013 were made by Accuity.

Mr. Iwane noted that there was a slight change to the format of the Statements of Net Position, commonly known as the Balance Sheet. Whereas, historically, the total assets would equal the sum of total liabilities, the format this year shows total assets *minus* liabilities equal net position. The Government Accounting Standards Board (GASB) recommends this new format, and the County’s Comprehensive Annual Financial Report (CAFR) follows this format, Mr. Iwane said. Therefore, using this format puts DWS in step with the way the County presents their Statement

of Net Position. Mr. Iwane reported that the total *current* assets as of June 30, 2014, were \$45.5 million, versus \$38.3 million the prior year, while total assets grew to \$318 million in 2014, versus \$315 million in 2013. The numbers, line by line, were pretty consistent, as a result of operations during the year, he said. Total current liabilities went from \$8.4 million in 2013 to \$9.3 million in 2014; and total liabilities in 2013 were \$78 million, versus \$77 million in 2014.

Turning to the Statement of Revenues, Expenses and Changes in Net Position, Mr. Iwane said that water sales were pretty flat, at \$47.5 in 2014, versus \$47.7 million the prior year. This is also pretty consistent, based on fluctuations in consumption, changes in rates, etc. This top line resulted in an Operating Loss of \$4.2 million in 2014, versus \$1.4 million in 2013. However, figuring in Non-Operating Revenues and Non-Operating Expenses, especially Contributions in Aid of Construction, the total change in Net Position was actually an increase of about \$4.5 million in 2014, compared to \$12 million in 2013.

Mr. Funasaki said that the increase in the Operating Loss, to \$4.2 million in 2014 from \$1.4 million in 2013, was largely due to the increase in depreciation expense, which is a non-cash item. He noted that depreciation in 2013 was \$11.4 million, versus \$12.5 million in 2014; this was a jump of over \$1 million. He noted again that this was a non-cash expense.

Mr. Iwane moved on to the section regarding Net Cash Provided by Operating Activities, which stood at \$7.3 million in 2014, versus \$9.5 million in 2013. Cash used in Capital and Related Financing Activities saw a net cash outflow of \$1.3 million in 2014, versus \$7.9 million in 2013. A lot of this activity was related to payment of debt, receipt of proceeds, acquisition of property and payments, increases in infrastructure, etc. Turning to Non-Cash Investing, Capital and Financing Activities, Mr. Iwane said this consists of Contributions in Aid of Construction; DWS received about \$6.7 million in non-cash, long-term capital assets, compared with \$7.9 million in the prior year. This is reflected as revenue in the Statement of Revenues and Expenses as Contributions in Aid of Construction that resulted in principal forgiveness of State Revolving Fund (SRF) outstanding loans. In 2014, \$1 million was forgiven; this is reflected in Revenue, and is a decrease in the amount of debt, he said. In 2013, \$4.7 million was forgiven.

Chairperson Robinson asked about the entry regarding Purchase of Investments and Proceeds from the Sale and Maturities of Investments.

Mr. Funasaki said that there was no activity in 2014; the investments were liquidated in 2013, and there was no investment activity in 2014.

Mr. Iwane said the investments were liquidated in 2013, and moved over to Cash; it shows up in the Cash Flow Statement. There was a net increase in Cash of \$6.3 million, as noted on Page 13 of the report.

Chairperson Robinson asked if the current auditors reviewed what Accuity did for the 2013 report, which showed \$10 million used to purchase investments, compared with a sale of investments of \$21 million.

Mr. Funasaki said that his firm makes inquiries as necessary and reviews the previous auditor's work, and found their work was okay, but did not perform specific procedures to check Accuity's accuracy. However, if something does not look quite right, N&K CPAs, Inc., asks about it.

Chairperson Robinson asked if there was anything in the report that should be brought to the Board's attention.

Mr. Iwane said that the County had adopted a new GASB: GASB 65, but this has no impact on DWS's stand-alone Financial Statements. He said that nothing stands out to bring to the Board's attention.

Chairperson Robinson asked for an explanation of what GASB is.

Mr. Funasaki said that GASB refers to government entities; it is a separate set of accounting standards to which government agencies such as DWS are subject.

Chairperson Robinson asked if DWS's Monthly Financial Statements are prepared in accordance with GASB.

Mr. Funasaki said yes, he believed the Monthly Financial Statements were reflective of those standards, and the Annual Statement is in compliance with GASB.

Mr. Iwane said that regarding Financial Disclosures, DWS's Financial Disclosures are pretty standard; the auditors made some tweaks in wording, with concurrence with Mr. Sumada and his Finance team. The tweaks were made in the interest of making the Financial Disclosures a little clearer and more useful, he said. He noted that one tweak involved Note H in the report, which reflected the major transactions on general obligation bonds between DWS and the County of Hawai'i; this is a big number. Note H also includes the lease of the Waiākea Office Plaza and other recent transactions, to give a sense of the dealings between DWS and the County, Mr. Iwane said.

Mr. Funasaki spoke about Internal Control over Financial Reporting and Compliance, saying his firm does not issue an opinion on this. However, the firm does highlight and communicate any deficiencies or weaknesses in Internal Control. The firm did not note any significant deficiencies in its report, he said.

The Deputy said that this report puts into writing the overall financial health of the Department.

Mr. Funasaki said that water sales were flat, the top line is flat, and there are some increases in operating expenses, but nothing really of concern. He noted that a big portion of DWS's revenue is the Contributions in Aid of Construction, which was down slightly but nothing to be concerned about. He noted that Total Net Position was \$241 million, which was an increase. Therefore, there is nothing alarming or worrisome at this point, Mr. Funasaki said.

Mr. Greenwell asked if there was anything in the report about outstanding collectibles.

Mr. Funasaki said that Receivables was on Page 10. That figure is receivables net of any allowance, which is based on Management's best estimate of how much DWS can collect.

Chairperson Robinson asked for confirmation that DWS was current with all of its payments to the Employee Retirement System.

Mr. Funasaki said that was an adjusting journal entry that the auditors had to record; he said he would touch upon that later in this presentation.

Chairperson Robinson asked if that was listed as contingent liability.

Mr. Funasaki said no. He then turned to the three-page report regarding Required Communication with Governance (i.e., the Water Board), that was in the Board's packets. In this report, the auditors dealt with significant estimates regarding the estimate of the useful lives of capital assets used to compute depreciation expense; the valuation allowance for trade receivables; the estimate of the liability for post-retirement benefits other than pension; the

estimate of the loss reserves for worker's compensation; and the valuation of non-cash Contributions in Aid of Construction. These estimates come from Management, and the auditors review the estimates to see if they are reasonable.

Mr. Arikawa asked if the auditors are also computing post-retirement, etc.

Mr. Funasaki said that those numbers are estimates determined by actuaries, who are specialists upon whose work the auditors rely.

Chairperson Robinson said he was happy there were no disagreements between the auditors and Management.

Mr. Funasaki confirmed they were all in agreement. He pointed out the entry labeled "Corrected and Uncorrected Misstatements." There were three journal entries that the auditors recorded as "material." One was the excess Employee Retirement System (ERS) contribution made by DWS, which was \$300,000.00.

Mr. Iwane said that Management actually pointed that out to the auditors, and it was decided that it was a big enough number to warrant posting.

Mr. Funasaki confirmed that this was a client-requested entry. The other two journal entries involved an inaccurate disposal of electric pump equipment, for \$360,000.00. In other words, this was taken off DWS's records, but the auditors had to put it back on because the equipment was incorrectly disposed of. This was a correction of the journal entry, he added. The third journal entry involved some Waiākea Office Plaza renovations, and a misunderstanding over whose asset it really was; this involved the County's leases, Mr. Funasaki said. There was a mix-up over whose asset it was, but in the end, the auditors worked with the County and Mr. Sumada to sort it out. The asset actually was DWS's asset; there was also an off-setting receivable recorded there as an amount due from the County, but it was not really a receivable because it was DWS's asset.

Chairperson Robinson asked if these were lease improvements that the County was paying for, over time.

Mr. Funasaki said no, they were actually paid for by DWS, but the County leases the property being renovated. Summing up, those three journal entries were considered material, corrected misstatements, which were communicated and recorded by DWS.

Chairperson Robinson, hearing no further questions, called for a Motion to approve the audits.

ACTION: Ms. Iokepa-Moses moved to approve; seconded by Mr. Greenwell, and carried unanimously by voice vote.

6) PRESENTATION OF FIVE-YEAR RATE STUDY:

Copies of the Department's five-year rate study, conducted by Ms. Ann Hajnosz of the consulting firm of Brown & Caldwell, have been distributed to Board members. Ms. Hajnosz will present her results, and will answer any questions from the Board. Before the proposed rates can be adopted, Public Hearings must be held to accept public testimony on the matter. In the past, two public hearings were held, on consecutive nights in Hilo and Kona at 6:00 p.m.

The Manager-Chief Engineer recommended that Public Hearings be scheduled in Hilo and Kona for 6:00 p.m. on consecutive days in order to receive public testimony on the proposed 5-year water rates.

MOTION: Mr. Greenwell so moved, seconded by Mr. Arikawa.

Ms. Iokepa-Moses asked the Board to consider holding Public Hearings in Ka‘u, in addition to Public Hearings in Hilo and Kona. She explained that Ka‘u is a rural area whose residents might have a hard time driving into town. She said she was not pushing for it this time, but asked that the Board consider holding future Public Hearings in Ka‘u.

Chairperson Robinson and other Board members said this could certainly be done.

ACTION: Motion carried unanimously by voice vote.

Ms. Hajnosz introduced Mr. Dean Nakano, her colleague at Brown & Caldwell. By way of background, Ms. Hajnosz noted that she had first done DWS water rate studies during the tenure of then-DWS Manager Bill Sewake. Rate making is part science, whereby AWWA standard methodologies are followed, she said. Rate making is also geared to what the individual utility wants to accomplish. She noted the various components of the rate-setting process: revenue requirements; cost of service; and the rate proposal itself.

The first three of eight steps in the rate-setting process involve investigation similar to what DWS’s auditors do; the rate study team looks at DWS’s rate history, financial history, consumption trends during the past three years; water sales trends, revenues and capital and operating expenses. After the revenue requirements analysis, the next step is to do a projection, based on historical performance, i.e., the Determination of Revenue Requirements. The rate study at that point asks what level of rate increase is needed.

The fifth step is where DWS’s costs are examined to see how those costs are providing water service to DWS’s various customers. A key concept that Ms. Hajnosz stressed was cost of service, which she defined as the nexis between cause and benefit.

The next step, rate design, is where rate setting becomes more of an art, rather than a science. Ms. Hajnosz said this is where the rate study takes into consideration rate policy, subsidies for different customer classes, etc.

In the seventh step, called the Proof of Adequacy of Rates, the rate study takes the rates and plugs them back into a financial model to double-check that DWS will get the revenues that it expects, based on the projection of customer sales, operating expenses, etc.

In the eighth and final step, the rate study comes up with its rate recommendation to DWS. Today, the Board will be providing Ms. Hajnosz with feedback on the draft recommendation, she said.

Ms. Hajnosz noted that the audit report presented earlier showed that DWS is in a good financial position, in spite of flat water sales. The goal of rate studies is to make sure that the utility has enough revenues to accomplish its mission. Ms. Hajnosz said that from a cost of service basis, DWS wants to show that nexis between cost and delivering the service, as well as to show who benefits. That is what cost of service is, she said. Fairness on rates means that while the utility may not be at cost of service for a particular customer class, DWS does not want to make the huge jump in rates from below cost of service to cost of service. DWS does not want to do that in one big leap, because that would not be fair. Instead, the utility needs to have some sort of phase-in process. Equitability is really the cost of service piece, Ms. Hajnosz said.

Ms. Hajnosz said DWS directed her to keep the rate structure the same; there are no changes in the rate structure in this rate study. She said there was a five percent cap on the level of the rate increase, over the five-year period, for each year. The rate study also looked at DWS’s debt

levels; DWS's debt levels, which stand at around 20 percent of net assets, are relatively low. However, the rate study aimed at keeping a handle on debt, she said. The rate study looked at creating an emergency fund over the five-year period; the intent was to avoid doing anything fast, which could cause rate shock. The rate study calls for gradually building an emergency fund, over five years.

The rate study looked at DWS's needed capital renewals and replacements (R&R); the struggle to keep up with R&R is pretty standard for all utilities these days. This is a very important objective for DWS, she added.

Looking at the revenue requirements of the rate study, Ms. Hajnosz said the three-year trend was for lagging customer growth, as the economy emerges slowly from the recession. Growth is still not as robust as one would like, she said. The rate study was very conservative in its financial projections, seeing customer growth and water sales growth at less than one percent each. DWS's water sales have decreased, as have those of other utilities with which Ms. Hajnosz has been in contact. The reason for the sluggish growth is a combination of economics as well as conservation-oriented messages and water-saving fixtures. The rate study predicts flat growth in revenues at existing rates, she said.

On the expense side of the ledger, DWS's operations and maintenance (O&M) has held pretty steady every year for 2012, 2013 and 2014. The rate study sees a slight uptick in O&M. Power costs currently are low, but the rate study sees power costs rising in the long term. There is an assumption that DWS will add two or three staff in the next five years, and DWS has quite a bit of leeway in its budget for staff positions. DWS has traditionally underspent on its budget for staffing, she noted.

On capital expenditures, DWS has done a really good job in 2011 through 2014 of incorporating or implementing the capital that was projected, to the tune of 86 percent execution (i.e., \$47.8 million was projected, and DWS actually did \$41.2 million in projects during the five-year period). The industry track record is typically 70 to 80 percent execution, Ms. Hajnosz said. DWS is accomplishing about \$10 million a year on projects. The rate study is projected about \$14 million a year over the next five years; this number has an approximately six percent inflation rate built in, Ms. Hajnosz said. She noted that the current construction market is so volatile, and it depends on the economy. The \$86 million reflects how much DWS can afford with rate increases of three percent, four percent, five percent, five percent, and five percent over the five years. If water sales do not come in at the levels that DWS needs, it will need to reprioritize its expenditures on capital improvements, she said. It is a balancing act between policy consideration and reality, Ms. Hajnosz added.

Ms. Lee Loy asked if this \$86 million accounts for the replacement of aging infrastructure.

Ms. Hajnosz confirmed this; the capital improvements include a mix of new construction and renewals and replacements.

The Deputy said that the five-year CIP budget that DWS brought before the Board was used in factoring the proposed rates.

Ms. Lee Loy said that the projected capital improvements were kind of a cornerstone for the rate study.

Ms. Hajnosz said yes, the rate study absolutely took that into consideration when determining its rate proposals.

Mr. Greenwell noted that the Big Island has water systems all over the place, and asked if the rate study had to plug in any extra percentage to account for aging infrastructure.

Ms. Hajnosz said that the rates are on a “postage stamp” basis, whereby it does not matter where the water system is, just like it does not matter where you mail your letter from – the rate is the same regardless. The rate study does take into account what the Department decides are districts that need prioritization for capital improvement dollars.

The Deputy noted that determining the proposed five-year CIP list is a collaborative process internally among Engineering, Operations and Finance. Priority projects such as infrastructure that needs replacement are built into what DWS has proposed in its five-year CIP budget, and Ms. Hajnosz uses that to develop the proposed rate increase.

Ms. Lee Loy asked if other expenses, such as mandates to update DWS’s Water Use and Development Plan and other reporting requirements, are also folded into the numbers.

Ms. Hajnosz confirmed this. Turning to how DWS pays for projects, she noted the Drinking Water State Revolving Fund (DWSRF) funding from the state Department of Health accounts, the Facilities Charge revenues; general obligation bond proceeds, etc.

Regarding DWS’s CIP Reserve Fund, she noted that this was DWS’s cash fund in capital, where DWS wants to balance cash-funded capital, with leveraged debt. She noted that when the utility puts capital assets into the ground, they are long-term assets whose lifespan ranges from 20 years to as much as 80 years. The notion is that DWS does not want current customers to pay for all of that; DWS wants to spread those costs, and match those costs with the benefits. The question is: who benefits from that asset, she said. It will probably be a generation or two of rate payers, and DWS wants to spread those costs, and the appropriate way is to leverage, Ms. Hajnosz said.

Regarding debt, the rate study sought to stay at about \$30 million in debt over the five-year period; DWS is currently at \$36 million. The rate study has incorporated that debt. Ms. Hajnosz advises that if the utility has relatively low debt levels, the utility should try to incorporate debt into the utility’s capital financing.

Ms. Hajnosz turned to the triggers that helped determine the level of the rate increase.

The Emergency Reserve Account, which is new to DWS, is one of the triggers. The rate study advocates a target of 25 days of Operating and Maintenance expenses; by the end of the five-year period in 2020, the amount in the emergency reserve account will grow to about \$3.4 million. This account would be used for events such as major line breaks, etc., she said.

The Capital Reserve Account, already mentioned, is another trigger. That will start out at a nice \$4.5 million in 2015, and DWS will draw down on it to about \$1.5 million. That is a bit low, but DWS is trying to keep its balance level on rate increases and the amount of cash that DWS has hanging around.

The Facilities Charge Fund, another trigger, stands at about \$2 million a year; the question is whether DWS wants to spend it all in one year.

Another important metric is Debt Service Coverage. DWS sells general obligation bonds with the County, so things are pretty secure. DWS only needs 1.0 percent debt service coverage, but in past rate studies, the aim has been to hit 1.25 percent. Ms. Hajnosz said that DWS for the past years has stood at 1.26 percent. DWS is paying more attention to the Capital Reserve Account; DWS does not want to build too much money in that account because it would spell higher rate increases.

The projected rate increases, mentioned earlier, are: three percent the first year; four percent the second year; and five percent for each of the next three years. If the Board decided instead to have a uniform rate increase for each of the five years, the number would be four percent each year, Ms. Hajnosz said. The Board can decide what rate formula to go with, she said. This rate study for the first time incorporates elasticity, i.e., a measure of how much demand will decrease as rates rise. The rate study is using a minus point-two elasticity factor, which means, for every 10 percent in rate increase, a two percent drop in water sales can be expected. Therefore, with a five percent rate increase, DWS might see a one percent drop in water sales. DWS has to make up for that with higher rate increases, Ms. Hajnosz said. The rate study is building in a measure of conservatism into its final projections; with water demand remaining flat or even declining, it is not clear where the trough and the low point are, she said.

The focus of the rate study was naturally, DWS's agricultural (ag) rates and general use rates. The rate study also looked at Fire Protection Standby Rates, Fire Service Rates, and Standpipe Rates.

Mr. Uyeda asked when DWS last raised rates.

Ms. Hajnosz said that it was a year ago; DWS is on a five-year rate plan now.

Mr. Inaba noted that it was a 2.7 percent rate increase.

Ms. Hajnosz said the next part of the presentation talks about key cost of service assumptions. The cost of service is where the rate study takes DWS's costs, and attributes those costs to various customer groups. The factor that influences that the most is the Peaking Factor; this involves the peak flow times, in the morning and the evening, when people are home and use water. Due to the peaking factor, the pipes need to be about 1.5 times bigger to accommodate demand during peak times, she said. Therefore, that peak capacity needs to be built into DWS's assets; this is a huge fixed cost that utilities need to figure out how to recover.

The other very high cost that utilities need to build into their systems is fire protection. This rate study took a closer look at how DWS is accounting for fire protection in the system. The rate study bumped up its allocation for fire protection, from a meager 1 percent, to five percent. The rate study recognizes that a part of DWS's source of supply, a part of its storage, and a part of its transmission and distribution provide fire protection capacity, which is pretty standard. DWS has been pretty cutting edge for years, in its recognition that peaking capacity was a fixed part of its system, with fixed costs attributed to it; it was recognized that peaking capacity should be recovered in the next component of DWS's rates. She noted that the standby charge is fixed, while the consumption charge is variable; the rate study advocated a 33/67 ratio. The rate study did not want to change that ratio, for fear of triggering a huge spike in the standby charges, Ms. Hajnosz said.

She next showed a slide of the rate study's Cost of Service results, with the standby charges very close to the Cost of Service, within about 10 percent. DWS has been a strong supporter of being at Cost of Service, especially with its standby charge. The standby charge provides revenue stability; DWS knows that it will get that revenue every month, no matter what usage is. The rate study tried to bring the standby charge up to Cost of Service, while still balancing the impact on DWS's low users, i.e., users with 5/8-inch meters, who pay \$16.00 in standby charges. The rate study did not go all the way to Cost of Service for the 5/8-inch meter customers, but for everybody else, the standby charge has been brought pretty close to Cost of Service, Ms. Hajnosz said.

Turning to the discussion of the Consumption Charge, Ms. Hajnosz showed the various general usage blocks, noting that the first block of customers is lower than the Cost of Service, the second block is right at Cost of Service, and the third and fourth blocks are slightly higher – to encourage conservation. On the ag side, the first two blocks are exactly the same as the general use blocks; the third block is where the subsidy occurs. The third block of ag rates is lower than the second block, she noted.

Chairperson Robinson asked for an explanation of the blocks.

Ms. Hajnosz said they are usage blocks; the higher users pay more.

Chairperson Robinson said that the higher users pay more and support people who don't use that much; conservation users do benefit.

Ms. Hajnosz said yes, that is the message that the rate study wants to send. Regarding the standby charges, the rate study pays the most attention to the 5/8-inch meter customers, because they make up the majority of customers. The majority of customers are residential users. The standby charges for them are not going to go up to Cost of Service until after 2017, she said.

She showed a slide that breaks out the consumption charge from the power cost charge. The total rate for the first block for 2016 is gotten by adding the first block rate of 89 cents with the current power cost charge of \$2.44, she said. The total rate for the second block is gotten by adding the second block rate of \$1.80 with the power cost charge of \$2.44, etc. Ms. Hajnosz noted that the Board was considering today whether to decrease the power cost charge; by doing so, DWS's overall revenues will go down because DWS's operating costs have dropped. DWS has the latitude to raise the power cost charge in the event of higher power costs, she said.

Noting the written testimony heard earlier, the customer in question is among several households probably taking water off a 5/8-inch meter; this customer and his neighbors are probably in the third or fourth block, Ms. Hajnosz said. They would be paying at the highest rate, but this is hardly a typical situation. Based on DWS's bill frequency analysis, fewer than 10 percent of DWS's customers are in that fourth block. That is by design, because DWS does not want a lot of people in that fourth block. Ms. Hajnosz said that this block has the most potential for revenue erosion. If people in that block decide to conserve, the revenue at that high rate is going to go away. Right now, about eight percent of DWS's usage is in that fourth block, Ms. Hajnosz said.

The rate study did not change the General Use Block Thresholds, she said. The rate study also did not change the Ag Use Block Thresholds.

Mr. Greenwell asked how DWS compared with other counties regarding block usage.

Ms. Hajnosz showed a slide that compared the rates by county; it also included Guam, where Ms. Hajnosz is currently working on rates. The slide shows how the blocks shape up, she said.

Mr. Greenwell said his question was about what percentage of users on the Big Island are in the 40,000 gallons per month block, compared with Maui and Oahu.

Ms. Hajnosz said she could only talk about Maui, where she worked recently. Usage in that block on Maui was no more than 15 percent of usage; 10 percent of customers.

Mr. Greenwell said that eight percent of Big Island customers were in that block.

Ms. Hajnosz said yes, and that is by design. DWS does not want a lot of usage in the fourth block because it represents revenue at risk.

Chairperson Robinson asked whether a condo project with 200 units taking water off a large meter would be considered to be Block 4.

Ms. Hajnosz said yes, a big condo would have a four-inch meter. She said that the blocks are based on meter capacity, for the most part. She said that if customers want to spend double the average usage, they can, but they will pay for it. The marginal cost of getting more source and more supply is much, much higher than the average cost; that is the whole theory behind conservation pricing of rates, she said.

The Deputy said that besides conservation pricing, customers are supposed to get the size of meter suited to what one is planning to do on the property. That corresponds to the Facilities Charge amount. If a project will use 51 units of water, the developer is supposed to have a two-inch meter, and pays the Facilities Charge for that. That customer will typically be in the second block rate. If, for whatever reason, a customer gets into the third or fourth block, that is supposed to be a temporary situation. When DWS reviews plans for projects, it evaluates what the property will be used for, and assigns Facilities Charges accordingly, etc.

Mr. Greenwell noted that DWS has a very liberal policy on leak adjustments, in terms of forgiveness, compared with waterworks elsewhere in the country.

Chairperson Robinson noted that Ms. Hajnosz said earlier that Maui, compared with the Big Island, had a lower rate in Block 4, but a higher percentage of customers in Block 4 (at 14-15 percent versus the Big Island's eight percent). He asked if this was due to the substantial number of condo project on Maui, compared with the Big Island.

Ms. Hajnosz noted that Maui actually has a single-family class of rates, whereas the Big Island and Kauai do not have customer classes, i.e., they have rates by meter size.

She turned to the Bill Comparison under Existing Rates slide, noting that nobody besides the Big Island has a separate power cost charge. The other counties' rates are all bundled in the consumption charge, Ms. Hajnosz said. All of the counties' standby charges are in the same ballpark range; the only difference is that Honolulu has a billing charge which only accounts for the billing portion of the standby costs. The Big Island's bills are pretty much in the middle, or just slightly below average, among the counties.

The Big Island's rate increases have been very constant, in the single digits. From a rate payer's standpoint, the increases have been perceived as sensible, Ms. Hajnosz said. At this point, she asked for the Board's feedback on the rate increases. The Board will need to schedule the Public Hearings, and the rate study report can be finished and implemented in either July or August.

Mr. Uyeda asked to go back to the Bill Comparison under Existing Rates. He asked what the average rate would be, just taking into account the other counties (omitting Guam).

Ms. Hajnosz said it would probably be in the \$110 range, which is right where the Big Island is.

Ms. Iokepa-Moses asked if the Board was being asked to give input today.

Chairperson Robinson said yes, and the Board would then schedule the two Public Hearings, and would probably go to a vote on the rate increase in June.

Ms. Hajnosz said it would be okay if the timetable slipped a month, i.e., if the implementation came in August instead of July. She suggested scheduling the Public Hearings in the latter part of May or early June, and approving the rates at the June Board meeting.

Mr. Uyeda said he is concerned that the historical trends show that DWS's customer base is not growing a lot. He asked Ms. Hajnosz for suggestions to increase the customer base, in order to get more revenue and to offset the rate increases.

Ms. Hajnosz said that DWS basically needs to show value for what the customers are getting; DWS provides reliable and safe drinking water. Getting that message out is the best way to encourage customer growth, as well as to strengthen economic development by attracting businesses, etc.

Ms. Iokepa-Moses said that she personally does not want development to happen that quickly; she considered staying at this plateau to be a positive thing because people are conserving more and using alternative sources of water usage. DWS is not a money-making business per se; so long as DWS can cover its costs, lower or stable usage would be a positive thing for DWS, she said.

Mr. Uyeda said that as the years go by, DWS's assets start to dwindle or age. DWS needs to replace its aging assets, so its operating costs go up.

Mr. Greenwell suggested that Ms. Hajnosz work with Ms. Aton to put out educational aids to help people understand the need to replace infrastructure at the beginning of the pipe, where it is the oldest. The people also need to be told why DWS needs to increase water rates; the rate increases are needed because DWS needs to repair those old pipes.

Ms. Hajnosz agreed.

Mr. Greenwell said that conservation is a wonderful thing, but it does have an effect on water sales and revenues.

Ms. Hajnosz said that there is a huge movement nationally for utilities to seek to recover their fixed costs, much more than variable costs. Utilities are seeking to increase their standby charges by about 20 percent or thereabouts, but they do a balancing act as they try to also convey the conservation message.

Chairperson Robinson asked whether the Big Island is the only county that charges the power cost charge.

Ms. Hajnosz said that the Big Island is the only one that separates it. All of the other counties wrap it into their charge.

Chairperson Robinson noted that the Board has the ability, over the course of the year, to adjust DWS's power cost charge up or down, depending on what happens with power costs.

Ms. Hajnosz said that Honolulu has a clause whereby the Board can project their power cost on an annual basis; if the power cost goes above a certain level, the Board can institute a change.

Chairperson Robinson said that because power costs are the biggest costs of DWS's operations, it only makes sense to continue the power cost charge as a separate item on the bill. This enables the Board to make a much quicker adjustment to the power cost charge, he added.

Ms. Hajnosz agreed, saying that the public should be made aware that the power cost is something that DWS has no control over, and that it is a pass-through to DWS, as well as a pass-through to customers.

Chairperson Robinson said that when the Board takes constructive action to implement wind energy, etc., to power its wells, this actually translates to the bottom line for all customers, across the board.

Mr. Uyeda asked if Ms. Hajnosz would be making the same presentation as today at the Public Hearings.

Ms. Hajnosz said that the presentations at the Public Hearings would be a scaled-back version; there would not be as much detail, but it will be similar.

Mr. Uyeda said that he liked the recommendation that the Board increase the rates at a flat level, instead of going up and then flattening out; he thought rates should be increased by four percent across the board for the five years. It would be easier to factor in and calculate.

The Deputy said that today's Agenda calls for getting the Board's feedback on whether to go with the 3, 4, 5, 5, 5 formula or the flat four percent increase.

Mr. Uyeda said it would be helpful to have a chart that shows by what DWS percentage is increasing this year; he thought it was a 2.7 percent increase.

Ms. Hajnosz said that Slide 25 shows that this year, the Board has already implemented the 2.7 percent increase.

Ms. Lee Loy said she just wanted to know how the increases would affect her family. She noted that a single-family residential customer, a family of four, would fall into Block 2. She said that she understood that this is the profile of the majority of DWS's customers; these are the customers that the rate decision will impact the most.

Ms. Hajnosz said that was absolutely right. She noted that on Slide 21, the average customer has a 5/8-inch meter, with bi-monthly usage of about 25,000 gallons, or 12,500 gallons a month.

The Deputy said that the average household will use about 400 gallons a day or slightly less, times 60 days in a billing cycle. Therefore, the usage would be about 24,000 gallons for one billing cycle, he said. He agreed that most households fall into the second block.

Ms. Aton said that she would work out some information on the usage for a typical single-family customer; she noted that she had had some related inquiries from West Hawai'i Today and others.

Chairperson Robinson turned to the scheduling of the two Public Hearings. He and Vice-Chairperson Takamine had discussed it, and proposed that the Kona Public Hearing be held on in the afternoon of May 26, after the regular Board meeting. The Hilo Public Hearing would be held on May 27, in the evening.

Ms. Lee Loy said she liked that idea.

The Board discussed what time to hold the Kona Public Hearing; Chairperson Robinson initially proposed 6:00 p.m. on May 26.

Mr. Arikawa proposed 5:00 p.m. on May 26 instead.

Chairperson Robinson said 5:00 p.m. in Kona on May 26 was fine with him. The Hilo Public Hearing would be held at 6:00 p.m. on May 27, he said.

Ms. Garson asked the Board to be clear that what is being proposed by Ms. Hajnosz is the 3, 4, 5, 5, 5 formula; this is what Ms. Hajnosz will be taking to the Public Hearing.

Mr. Uyeda said he liked the flat four percent, but that was just his comment.

Ms. Garson said that if the Board wants to change it, the Board must say so now.

Ms. Iokepa-Moses said that she preferred the 3, 4, 5, 5, 5 formula.

Ms. Garson said that if the Board wants to have a discussion on the flat rate versus the graduated formula, Ms. Hajnosz needs to know now what to present to the public.

Mr. Uyeda said he could go either way; it did not matter.

Ms. Iokepa-Moses said that the graduated formula was more appealing to her; it would give the customers more time to react to the increases.

Ms. Lee Loy said that it was challenging to finesse between urging customers to conserve, while telling customers that they would be paying more, despite using less water. However, she said she too supported the graduated formula: maybe something like 3, 4, 4, 5, 5.

The Deputy suggested 3, 4, 4, 5, 6.

Ms. Lee Loy said yes, she wanted something that would help customers get a bit more used to the increases. She also wanted to see how DWS does its conservation messages; DWS is already seeing the trend in low-flow toilets and solar power, etc.

Ms. Iokepa-Moses said that she took it that the reason for the Public Hearings was *not* to tell the public what is going to happen; the Public Hearings were instead meant to take input from the public, and possibly change the rate increases.

Ms. Lee Loy agreed.

Ms. Iokepa-Moses said that the Public Hearings were a chance to go to a 3, 3, 3, 4, 7 or whatever percentage increase. The public will have a chance to tell the Board that the escalation is too steep, or to give other input to the Board. She asked whether the rate increases will go into effect in July.

Ms. Hajnosz said they would go into effect in either July or August.

Ms. Iokepa-Moses repeated that the Public Hearings were not aimed at telling the public what is going to happen; the hearings are aimed at telling the public what is proposed, to receive public feedback, and come up with something.

Ms. Hajnosz said that she would want to put out one proposed option, rather than two options.

Ms. Iokepa-Moses agreed with this.

The Deputy said that the Board will go to Public Hearing, having come up with a consensus today on the proposed rate increase.

Chairperson Robinson asked for a Motion on what the Board should take to the public.

Mr. Arikawa said that the Board needs to address the graduating formula, but should also inform the public that the Board can adjust the power cost charge.

Ms. Iokepa-Moses said that she did not want to go there; the power cost charge is never going to go down.

Mr. Arikawa said that that is exactly what DWS is recommending, later on today's Agenda.

Ms. Garson confirmed this; the power cost charge was going to go down.

Mr. Arikawa said yes, that is what DWS is planning on doing.

Ms. Garson said yes, the power cost charge is going down; there is a proposal in the Agenda to decrease the power cost charge.

Ms. Iokepa-Moses said she did not want to go there at this point, although it would be a big bonus.

Mr. Greenwell asked if the standby charge could be increased more than is projected by the rate study. The standby charge provides a fixed return that DWS would be getting whether there is conservation or not, and regardless of what size of meter or what block the customer is in. He suggested putting 25 cents or 50 cents more on the standby charge, which is something that DWS could rely on, whether the customer is using water or not.

Ms. Hajnosz turned to Slide 18, showing the average customer's usage. Right now, the average customer's bi-monthly increase is 3 percent, which is exactly what the system increase is. The rate study has been trying to balance, but if the standby charge goes up, that bi-monthly percentage increase will also go up. The lower-usage customers will have a more than 3.3 or 4 percent increase. This is a communication issue; the lower the usage, the higher the increase percentage will be, if the standby charge goes up.

Ms. Iokepa-Moses asked if there could be conservation-oriented handouts or other material that DWS can give the public who come to the Public Hearings.

Ms. Aton said yes, it could be conservation best practices or other practical information.

Ms. Iokepa-Moses said that would be helpful.

MOTION: Ms. Iokepa-Moses moved to go with Ms. Hajnosz's proposed graduated formula of 3, 4, 5, 5, 5.

Ms. Iokepa-Moses said that Ms. Hajnosz has obviously done all her research; Ms. Iokepa-Moses was completely convinced that Ms. Hajnosz's proposed formula is what the Board should present to the public. The Board can always tweak the formula or the standby charges, after hearing what the public has to say at the Public Hearings.

Ms. Lee Loy seconded the Motion, with the understanding that after the Board goes to Public Hearing and hears from the public, the Board will have the opportunity to adjust the rate increases.

Chairperson Robinson summed up the Motion and second, saying that the Board will go with the 3, 4, 5, 5, 5 formula as proposed, subject to further modification, depending on public testimony.

ACTION: Motion carried unanimously by voice vote.

(The Board took a break from 11:44 a.m. to 11:53 a.m.)

7) HĀMĀKUA:

A. **PĀPA‘IKOU TRANSITE AND G.I. PIPELINE REPLACEMENT: ASSIGNMENT OF INTERESTS:**

Kahuku Development Foundation (KDF), in concurrence with United States Department of Agriculture (USDA) is proposing to assign all of its interest to the Water Board and allow the Department of Water Supply (DWS) to move forward with the project, working directly with USDA.

Should the Board accept the assignment, a bond will be required for the loan portion of the funding. The cost of the bond will be a reimbursable expense. The funds for the project have been allocated through a \$4,105,000 loan and a \$3,470,000 grant (for a total amount of \$7,575,000).

The Manager-Chief Engineer recommended that the Water Board approve the assignment of the PĀPA‘IKOU TRANSITE AND G.I. PIPELINE REPLACEMENT project from Kahuku Development Foundation, and authorize either the Chairperson or the Vice-Chairperson to sign all necessary documents, subject to approval by Corporation Counsel.

MOTION: Mr. Greenwell moved to approve; seconded by Ms. Iokepa-Moses.

The Deputy explained that this Item came before the Board in February of 2014. The intent of this Item was to utilize a third party to take advantage of the USDA loan and grant program. Since then, there has been a change in personnel at USDA, and it transpired that a third party is not needed. DWS can still qualify for a grant and will still be doing the project. The Kahuku Development Foundation wants to assign what the third party was going to do, to DWS; this would save DWS money while still getting the job done. DWS would also still qualify for the same amount of loan and grant money, the Deputy said.

ACTION: Motion carried unanimously by voice vote.

8) SOUTH KOHALA:

A. **RESOLUTION NO. 2015-01, APPROVING THE RECEIPT AND EXPENDITURE OF MONIES FOR THE WAIMEA WATER TREATMENT PLANT COMPLIANCE UPGRADES – PHASE 2 PROJECT (FUNDED BY THE DRINKING WATER STATE REVOLVING FUND):**

(Note: Resolution requires roll call vote)

This Water Board Resolution No. 2015-01 seeks to supersede Resolution No. 2011-05. Resolution No. 2011-05 previously approved a lower amount than what is necessary. The Resolution is a prerequisite for the Drinking Water State Revolving Fund (DWSRF) program. This Resolution is specifically identified for the following project: JOB NO. 2010-964, WAIMEA WATER TREATMENT PLANT COMPLIANCE UPGRADES - PHASE 2, and

authorizes the Manager–Chief Engineer or Deputy to execute loans and/or grants with the State Department of Health for up to \$11,500,000.00.

The Manager-Chief Engineer recommended that the Water Board adopt DRINKING WATER STATE REVOLVING FUND RESOLUTION NO. 2015-01, APPROVING THE RECEIPT AND EXPENDITURE OF MONIES FOR THE WAIMEA WATER TREATMENT PLANT COMPLIANCE UPGRADES – PHASE 2 PROJECT (FUNDED BY THE DRINKING WATER STATE REVOLVING FUND), subject to the approval of Corporation Counsel.

MOTION: Mr. Greenwell moved to approve; seconded by Mr. Takamine.

Mr. Uyehara explained that because this is a Drinking Water State Revolving Fund (DWSRF) loan, a Water Board resolution is required in order to execute the loan agreement with the Department of Health (DOH). The project scope is sizeable; it involves converting DWS's conventional filtration process at Waimea Treatment Plant, to a membrane filtration process. DWS intends to keep the existing facilities running and in operation, while building a brand-new membrane process building, where membrane filtration is used. This process will help DWS increase its production of the surface water there. The membrane filaments will act as a positive barrier to meet all of DWS's compliance needs for surface water use. This means upgrading facilities that are more than 30 years old, with the help of State funds.

Mr. Uyeda asked Mr. Uyehara to explain about the Waimea Water System; he asked if it were cheaper to use surface water, rather than pumping sub-surface water from a well. He asked what the benefits were of using a surface pump.

The Deputy said that this project has been in DWS's books for more than 10 years, when DWS first started working with SRF. The great thing is that things have reached a positive tipping point, where power costs are higher, and membrane technology has improved and has become more cost-efficient. At one time, DWS was looking at changing over to ground water deepwells. He noted that 10 years ago, DWS was looking at \$10 million as a construction estimate for this project; 10 years later, the cost is in the same ballpark. The \$11.5 million estimate includes about \$1 million in design costs, the Deputy said. It is virtually unheard of to have a project cost the same as it would 10 years ago, he added. DWS is looking to bring this project into the modern day, using a cheaper source of water. The elevation there is more than 3,000 feet. There is a well in the area, but it costs quite a bit in energy costs to bring the water up to the surface, the Deputy said. It is a good back-up to have, in the event of a drought or other adverse conditions. Although this project has been on the DWS books for a long time, DWS has decided that this is a prudent route to take.

Mr. Greenwell asked whether there were any plans to upgrade or improve the hydroelectric power plant in the area.

Mr. Uyehara said this CIP project would not deal with that.

Mr. Young said there were no plans at this time to upgrade or increase capacity; if there is more flow, DWS might consider it.

Mr. Takamine asked if this project will improve the quality of the actual drinking water in Waimea.

Mr. Uyehara said that right now, DWS meets and maintains all of the compliance requirements stipulated by the EPA and DOH. This project will help DWS to transition to a newer technology that has been approved and is prevalent across the country. The process will create a positive

physical barrier to micro-organisms that will not be able to get through the filter elements; it will give DWS increased competence in meeting its compliance requirements.

The Deputy said that the water quality is going to be as good, if not better. DWS will be able to improve the efficiency of the process, and will enable DWS to better eliminate exposure to micro-biological elements.

Mr. Takamine asked if DWS would still purchase polymers that it is currently using.

Mr. Uyehara said that DWS will still have a pre-treatment process, prior to the water going through the membrane elements. The pre-treatment will include coagulation and flocculation to remove larger particles, so DWS will still use polymers.

Mr. Greenwell asked how long the lifespan of the filters was.

Mr. Uyehara said that he believed that their lifespan was seven or eight years; after that, DWS would need to think about replacing the filters. He said he could double-check the life expectancy. As for the whole facility, it is meant to last 20 to 25 years. DWS is working with a consultant on a daily basis to work out a routine maintenance program, whereby DWS will be back-washing the membranes daily. The whole cassette that the membranes are attached to, will need to be inspected periodically, and will need to be replaced as necessary.

Mr. Arikawa, noting that the project has been approved up to \$11 million, asked what the project cost would be.

Mr. Uyehara said that the most recent estimated cost was around \$9.5 million or 9.6 million.

The Deputy said that the project is currently out to bid, with bid opening slated for May 7.

Ms. Lee Loy asked Mr. Uyehara for confirmation that this would be a brand-new facility.

Mr. Uyehara confirmed this.

Ms. Lee Loy asked what would happen to the old facility.

Mr. Uyehara said that the old facility will remain in operation until the new facility is tested, approved and given the go-ahead to proceed with operations. DWS has not decided what to do with the existing filter basin, but the old building itself will remain an office, with storage for equipment or supplies. The old building is not that big, he added.

Mr. Uyeda asked if this SRF loan would increase DWS's cost for debt service.

Both Mr. Uyehara and the Deputy said that it had already been factored in to the rate study.

Mr. Uyeda said okay, that was his question.

ACTION: The Secretary took a roll call vote: Ms. Lee Loy (Aye); Mr. Uyeda (Aye); Mr. Takamine (Aye); Chairperson Robinson (Aye); Mr. Greenwell (Aye); Mr. Arikawa (Aye); Ms. Iokepa-Moses (Aye); and Mr. Balog (Aye). Motion carried with Eight (8) Ayes, and Zero (0) Nays.

9) NORTH KONA:

A. JOB NO. 2012-985, HUALĀLAI DEEPWELL REPAIR:

The contractor, Beylik Drilling and Pump Service, Inc., is requesting a contract change order and contract time extension for the Hualālai Deepwell Repair. The contract change order is for the replacement and repair of damaged materials and equipment, and troubleshooting services for Hualālai Deepwell. Amid repeated failures of the motor's thrust bearing, the well repair has involved multiple repair cycles and associated costs for equipment, labor, shipping, pump and motor repairs/testing and replacement materials including thrust bearings, step-up transformer, junction box, column pipe, discharge head, and check valves. Total project costs shall not exceed \$667,891.56. The description of additional materials and associated fees are as follows:

Original Contract Amount:	\$79,223.00
Original Contingency amount:	7,922.00
1 st Additional Contingency & 123 day extension request:	94,500.00 (approved 10/22/13)
2 nd Additional Contingency & 273 day extension request:	53,611.72 (approved 6/24/14)
3 rd Additional Contingency request (emergency procurement)	23,581.06
4 th Additional Contingency & 274 day extension request:	\$409,053.78

The contractor, Beylik Drilling and Pump Service, Inc., is also requesting a contract time extension of 274 calendar days. This is due to unforeseen events, involving repeated failures of the motor's thrust bearing. This request is to cover the time expended on troubleshooting, well extraction and repair of damaged equipment; and the time required to procure replacement materials and for reinstallation work. These factors were beyond the control of the contractor and the original scope of the repair.

The Manager-Chief Engineer recommended that the Board approve an increase in contingency of \$409,053.78 to Beylik Drilling and Pump Service, Inc., and approve a contract time extension of 274 calendar days for JOB NO. 2012-985, HUALĀLAI DEEPWELL REPAIR. If approved, the contract completion date will be revised from October 31, 2014, to July 31, 2015.

MOTION: Ms. Lee Loy moved to approve; seconded by Ms. Iokepa-Moses.

The Deputy noted that Mr. Young had distributed some supplemental information to the Board this morning; this was some background information that the Department had put together in-house, along with a timeline. The Deputy said that this project has been frustrating for DWS. The project started off as a simple "push" project, with the intention to replace the pump and motor. The new pump and motor would be dropped down the hole, and the expectation was that everything would be good to go, the Deputy said. As evidenced by the timeline, things were not so simple. After the first "push," DWS learned that the transformer had over-heating problems. DWS has come back to the Board twice before today, and the Deputy noted that one of the times was with Change Order #2. Today, DWS is asking the Board for a time extension, as well as additional funds to get this well back up and running in the Kona Water System.

Mr. Greenwell noted that he had experienced similar problems with the Palani Ranch Well. He said that DWS is spending a great deal of public money on this project, and with not much to show for it. He asked what was happening with this project.

Chairperson Robinson asked where the Hualālai Well is.

Mr. Greenwell said it was south of Makualani and Palani Ranch.

Mr. Young noted that his Operations colleague, Mr. Eric Takamoto, was with him, along with Mr. Fred Camero, representing Beylik, the contractor. Mr. Young said this was definitely one of the toughest well repairs he has seen in his 24 years with DWS. He noted that the original scope was to replace a DWS-supplied pump and a contractor-supplied submersible motor, which was an oil-filled type of motor. This project, started in April 2013, ran into problems with the

transformer over-heating down in the hole, and DWS came back before the Board to address that, to the tune of \$94,500.00. That basically doubled the cost of the project right there, Mr. Young said. Following the repair of the transformer, a host of other problems ensued, including damage to the thrust bearing. There are so many possible causes for thrust bearing failure, but the cause of the trouble has yet to be determined, Mr. Young said. DWS talked to the manufacturer of the thrust bearing, the motor re-builders, the contractor, etc. The theory is that the cause of the failure might involve temperature/lubrication issues, Mr. Young said. He said that DWS was asking for the additional funds and the time extension after-the-fact, because the repairs are already in progress.

Mr. Young explained that DWS put in Change Order #2, mentioned earlier, back in June 2014; this request for a time extension of 273 days was approved by the Board. In that Change Order, DWS replaced the Lakewood check valves. In the meantime, DWS's Honokōhau Well went down. With both Hualālai and Honokōhau Wells down, DWS lost three million gallons of production per day; normally, those two wells produce 10 million gallons a day in North Kona. With DWS losing nearly a third of its capacity for the system, the Manager-Chief Engineer declared an emergency situation. In such cases, DWS does whatever it takes to get the well back in service as soon as possible, so as not to jeopardize the public's health and welfare. This triggered Change Order #3, which never came before the Board; this entailed air freight and handling charges to bring the pump and motor back to the Big Island. Once here, the pump fails again. There were high amps (amperes), and it appeared to be another thrust bearing issue, Mr. Young said. He drew the Board's attention to the itemized list of things submitted by Beylik, that DWS now needs to address. He noted that the total on the itemized list is \$404,000.00, while the amount listed in the Agenda is \$409,000.00. The Agenda amount accounts for some additional shipping and handling charges, for the column pipe. He said that some of the major cost items involved stress-bearing items such as the column pipe, check valves, etc. DWS included work to ensure that the column pipe could withstand a lot of weight, including the weight of the water, and this proactive, "insurance" work added a lot of labor charges to the job, and more than doubled the time to do it, Mr. Young said.

The Deputy said this was a proactive move, to fend off the possibility of losing the well entirely, which could happen if the pump, motor, or a large segment of column pipe fell into the hole and lodged.

Mr. Young said that DWS went the conservative route, and made sure to get column pipe that could handle the weight; that accounts for the high cost of the column pipe on the list, he said.

The Deputy summed up, saying that this project has been fraught with one problem after another; the motor has been back for teardown and repair three times. DWS has been trying to eliminate all possibility of failure topside first – before 1,000 feet of column pipe, and check valves, are put down the hole. With this third time of pulling the motor, DWS is trying to build in proactive measures a bit earlier, in terms of additional heat management capacity in the motor; this will hopefully eliminate a potential cause for thrust bearing failure.

Mr. Young said that DWS is looking to use heat-exchanger motors here and maybe at Palani; he went to the Mainland for the test of the Palani motor, and it ran really well, with stable temperatures. DWS is also looking at the viscosity, or the weight, of the oil; DWS might go with a heavier-viscosity oil, he said. Mr. Young said that DWS is still waiting for **reports** from the thrust bearing manufacturer, along with a copy of the teardown report. DWS is going to replace the check valves, and will do a positive seal check. DWS is also looking at the leak-by with an eye to beefing them up, Mr. Young said.

Mr. Greenwell asked if DWS could have a policy of mandatory string tests when DWS changes pumps like this. He noted that in his experience of buying a new pump, part of the contract is a mandatory string test.

The Deputy said yes, the Department has learned a lot of things during this process, and has had internal meetings to hash out how to do things better, and how to avoid problems like this. The idea is to take a look on-site, evaluate the major components and see if they need to be replaced, etc., and build that into the bid. Regarding full string tests, the Deputy agreed that was something that DWS definitely needs to make part of the requirements of the bid documents.

Mr. Uyeda asked about the situation in Kona, asking how many wells were down there.

The Deputy said there were four wells down: Hualālai, Honokōhau, Hōlualoa, and Kahalu‘u B.

Mr. Uyeda said that DWS needs to get as many of those wells back on line as soon as possible. He asked if there were another option; he asked if DWS could delay the Hualālai Well project for a while, and in the meantime focus on getting the other three wells back online. Those other wells might not pose as many problems, he said. His other question was regarding how long the Hualālai Well had been running before it went down. He also asked if this motor was a high-temperature kit motor; he wondered why there was additional cost involved with it. He also asked how many other wells have high-temperature kits in them; he asked if they were working well. He wondered if DWS should wait before the Lanihau Well comes online, to see whether that well has challenges similar to the problems in the Hualālai Well.

Mr. Young said the Keōpū Well was one of the first ones to have a built-in high-temp kit; that well has been running fine. Hualālai Well ran okay for about seven years.

Mr. Takamoto said that after that, it ran okay for five years, but then it ran okay for eight months.

Mr. Young said that historically, the deep-set high-level wells have had reliability problems; they did not have high-temp kits.

Mr. Uyeda suggested that DWS look at going to a lower horsepower pump, with less GPM (gallons per minute); *that* would alleviate the need for a high-temp motor, and the repair might be less. Meanwhile, it may guarantee that it would work, although it may not produce as much as desired. This would at least ensure that the three wells are fixed.

The Deputy asked Mr. Young the status of Honokōhau.

Mr. Young said that Honokōhau was a month away from completion.

Mr. Uyeda asked about the other two wells.

Mr. Takamoto said that Hōlualoa is proceeding as a standard repair; the pump, motor, and cable have been ordered, and the Department will order the column pipe and other materials as needed. Kahalu‘u B Well is slated for completion on April 30; that well is on track to be repaired, he said.

Ms. Iokepa-Moses asked how the customers in Kona are faring with these wells down.

The Deputy said that there is a conservation measure in place, and DWS is getting by, thanks to the fact that DWS has 12 sources in the system. However, DWS prefers to utilize the high-level sources due to their better quality; Hualālai and Honokōhau are high-level sources, while Hōlualoa and Kahalu‘u B are basal sources. That was one of the reasons that DWS started Hualālai back in 2012; DWS really wants to see it done. The Deputy said the Department understands the Board’s concerns about all of these uncertainties in the cost. Honokōhau’s

repairs were procured as an emergency, amid the situation at Hualālai. Once Honokōhau is back up in about a month, things should be fairly comfortable, he said. Meanwhile, DWS's customers are getting the water they need, but the Department prefers to give the customers better-quality water.

Chairperson Robinson said he taste-tests the water when he drinks from the water fountain at the gym; once DWS did its inter-connect, the water has not tasted as salty as before.

Mr. Greenwell asked if anybody could come to the Board on a monthly basis to give updates on this project, instead of just granting a 274-day extension to Beylik with no progress reports in between.

The Deputy said that sounded reasonable.

Mr. Camero, representing Beylik, said that could be done.

Mr. Greenwell said it would entail updates at the Board meetings, to show the Board where things stand on the project.

Mr. Inaba said it would be like what happened with the Kawailani Tank.

Mr. Greenwell said this is a serious matter; he wanted to see justification of the time extension, etc.

The Deputy said he agreed.

Chairperson Robinson asked Mr. Camero if he could commit to coming before the Board in the coming months.

Mr. Camero said he would.

The Deputy noted that Beylik has been in business a long time; Mr. Bill Moore, one of the firm's senior people with some 60 years of service, was perplexed over all of the problems with this project.

Ms. Lee Loy noted that DWS is waiting for some reports to come back, which may offer a clearer picture. She suggested that the Board might want to delay its decision for 30 days, to allow for the other pieces of information to come in. Meanwhile, one of the wells may come back online within the month, she said.

The Deputy asked when the report was expected.

Mr. Young said that the report is expected any day now; the report might help DWS determine a possible cause, and it might point to what weight of oil that DWS should go with. He said he was not sure that anything would be gained by delaying, noting that some of the costs, such as shipping, may be subject to change. Mr. Young said that this job is a forced account; when Beylik invoices DWS, they must submit their actual invoices.

Ms. Iokepa-Moses said that the only concern she had with moving forward here was the fact that the cause of the problem down the hole has not yet been determined.

Mr. Young said that the root cause of the failure has never been found, and that is why this repair has proved troublesome. Once the equipment is put into the hole, you want to make sure all bases are covered first, because DWS cannot monitor what goes on 1,500 feet below ground, he said.

Chairperson Robinson said okay, so DWS really just does not know the cause.

Mr. Young confirmed this.

Mr. Greenwell asked if DWS owns a portable power monitor.

Mr. Young confirmed that DWS does own a portable power monitor.

Mr. Greenwell asked this, assuming that DWS was using it.

Mr. Arikawa asked whether the report that DWS is waiting for might drop the cost of this project.

Mr. Young said he did not expect to see anything in the report that would drop the cost. It was possible, but very unlikely, he added.

Mr. Arikawa wondered if DWS could hold off on the Hualālai repairs, considering two wells should be coming back online within a couple of months.

Ms. Iokepa-Moses asked if the Board could not just accept the Motion to extend.

Chairperson Robinson said yes, DWS should take some time.

Mr. Uyeda said that was why he asked his question about how many wells were out.

The Deputy said that it is up to the Board; if the Board deems that it should wait a month, it can wait a month. The cost estimate that is before the Board today is based on some timeframe issues. However, if things need to be adjusted and the Department needs to come back to the Board, the Department will bring back adjusted numbers for the Board's consideration as well. If it is determined that it would be more prudent to wait another month, that would not be a problem, he said.

Mr. Uyeda asked what prompted DWS to make the new proposal to go with a high-temp kit. He asked if the post-mortem on the old motor showed that it burned out, etc.

Mr. Young said that it showed that the thrust bearing failed; it looks like a lubrication issue. DWS just does not know the *cause* of the lack of lubrication; *that* is the problem. DWS knows that it is working successfully in Keōpū and Palani; the testing looked really good.

Mr. Uyeda said that he is not trying to direct the contractor; he asked if the manufacturer of the motor is reporting that other people are experiencing motor failures.

Mr. Young said that he is not aware of any such reports.

Mr. Uyeda asked if there were a different motor that DWS could go with, instead of this manufacturer's motor. He said he was just throwing out ideas.

Mr. Young said there are other manufacturers. He noted that DWS had a lot of problems with equipment back when he started with DWS in the 1990s; he cited the example of the Haleki'i Well, that had to be pushed and pulled eight times. He said that DWS is looking at three or four times, in the Hualālai case.

Chairperson Robinson said that means maybe four more times to go.

Mr. Young said he did not want to go there.

Mr. Balog asked whether DWS had tried to get a second, outside opinion. He noted that at his workplace, they have consulted a third party on repairing and re-building issues, who wound up giving a completely different view of things.

Mr. Young said that aside from talking with the manufacturer and the contractor, he spoke during his visit to the Mainland (to test the Palani equipment) with an independent engineer. That engineer said that even though DWS does not have any evidence that over-temp is a problem in the Hualālai project, he felt that DWS should go ahead and fix the motor the way DWS was planning to. The views on this were pretty consistent among everybody involved, he added.

Mr. Balog said his company went for a third opinion on a generator problem, and that third party came up with a detailed report on rebuilding a new generator, etc.

Ms. Lee Loy asked if the emergency repair, listed on the timeline as taking place in September 2014, was the catalyst which led to the succession of change orders – without DWS going back through a procurement process. This seems like a really large amount, she said; she wondered if DWS could try to get a better deal from someone else. She said she was concerned that this is a huge amount, as kind of an open check.

The Deputy clarified that the only emergency decision that was made was on Change Order #3, and the intent was to be able to fly the equipment back. However, the current situation stems from after the thrust bearing failure took place and a number of other uncertainties arose. The intent was never to bypass the procurement process, he said.

Ms. Lee Loy said she completely supports getting the project done, but had concerns about this amount. She advocated a 30-day delay, to wait to see what other information comes in. The Board will have a bit of breathing room, and will make a better decision because it will not feel pressured, she said. She suggested that if DWS puts the job back out to bid, the Department might be able to get a better deal.

Chairperson Robinson said that there is a Motion and a Second to approve the Recommendation. The Board also discussed whether to defer the decision for another 30-day period, he said. He said that at this time, the Board will take a vote on the Motion to approve, or will vote to defer.

MOTION: Ms. Lee Loy moved to defer until next month’s Board meeting, to allow the Board time to see the report. She also asked Beylik to provide a status update on the project.

Chairperson Robinson asked for a second on the Motion to defer until next month’s Board meeting.

Mr. Takamine seconded.

ACTION: Motion to defer carried unanimously by voice vote.

B. EXTENSION OF THE DUE DILIGENCE PERIOD WITHIN THE WELL DEVELOPMENT AGREEMENT (KEAUHOU RESORT DEVELOPMENT AREA) WITH TRUSTEES OF BERNICE PAUHI BISHOP (KS), KAMEHAMEHA INVESTMENT CORPORATION (KIC), AND THE WATER BOARD:

The Trustees of the Estate of Bernice Pauahi Bishop (“KS”) and Kamehameha Investment Corporation (“KIC”) entered into an agreement with the Water Board to develop one of KIC’s wells that have been previously drilled and tested, and has similar properties to our other high level aquifers.

In this agreement, the Department of Water Supply (DWS) was to perform its due diligence within a two-year period to assess the condition of an existing well and to procure a consultant. DWS is proposing a time extension of the due diligence period until October 31, 2015, to coordinate with Kamehameha Schools and to determine the location and size of the site(s) and alignment of the waterline for the design of the well and supporting facilities to be constructed on KS properties.

The Manager-Chief Engineer recommended that the Water Board approve the request for extension of the due diligence period within the Well Development Agreement (Keauhou Resort Development Area) with trustees of Bernice Pauahi Bishop (KS), Kamehameha Investment Corporation (KIC) and the Water Board to October 31, 2015, to determine the final scope of work.

MOTION: Ms. Lee Loy moved to approve; seconded by Mr. Greenwell.

The Deputy said that DWS is just asking here for more time to continue its due diligence, including some preliminary engineering and discussions with the land owner, Kamehameha Schools (KS), regarding the alignment and placement of the tank, transmission lines, etc. DWS has a preliminary layout sketched out by the design consultant; it is now a matter of sitting down with KS regarding the alignment or placement of certain infrastructure that KS would like to see.

Mr. Greenwell asked where the well was located.

The Deputy said that it was in the Keauhou area, mauka of and south of the Kahalu‘u Shaft.

Mr. Greenwell asked if this was basal water.

The Deputy said no, this is high-level water.

Mr. Inaba said that the well is up mauka of the highway.

The Deputy said that the well is drilled and cased, and DWS is looking to take it over and to outfit it.

ACTION: Motion carried unanimously by voice vote.

10) MISCELLANEOUS:

A. DEDICATION OF WATER SYSTEMS:

The Department has received the following documents for action by the Water Board. The water systems have been constructed in accordance with the Department’s standards and are in acceptable condition for dedication.

(Item 1. was deferred from the February 24, 2015, Board meeting.)

1. GRANT OF EASEMENT AND BILL OF SALE

Grantors/Sellers: Edward J. Rapoza and Rhondall K. Rapoza, Robert D. Triantos and Richard S. Fallon and Nancy T. McKinley

Tax Map Key: (3) 7-6-011: 03 (portion), 009 (portion) and 019 (portion)

Facilities Charge: \$79,380.00 Date Paid: 02/04/2015

Final Inspection Date: TBA

Water System Cost: \$ TBA

2. GRANT OF EASEMENT

(For Water Meter Purposes)
Grantors: Kohanaiki Shores LLC
Tax Map Key: (3) 7-3-068: 001 portion

The Manager-Chief Engineer recommended that the Water Board accept these documents subject to the approval of the Corporation Counsel and that either the Chairperson the Vice-Chairperson be authorized to sign the documents.

Mr. Inaba asked that Item 1 be deferred again to next month's Board meeting. He said he had asked DWS's Land Section to contact the people who submitted the documents, and DWS had contacted the contractor, but the contractor had not yet gotten back to the inspector.

Ms. Garson suggested just withdrawing Item 1, rather than have it keep showing up on the Agenda.

Mr. Inaba said that the Item can be removed now, and put back on the Agenda as soon as everything is done.

Ms. Garson confirmed that the Department will withdraw Item 1 from the Agenda.

ACTION: Mr. Uyeda moved to approve Item 2; seconded by Mr. Arikawa, and carried unanimously by voice vote.

B. DEPARTMENT OF WATER SUPPLY PROPOSED OPERATING BUDGET FOR FISCAL YEAR (FY) 2016 AND 5-YEAR CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGET FOR FY2016-2020:

The Department's FY2016 Operating Budget, totaling \$53,174,000, and 5-Year CIP Budget for FY2016–2020, have been distributed for the Board's review and advertised for the public's review. A public hearing was held prior to this meeting to accept public testimony. The Board may change either Budget, or adopt them as presented over two readings.

The Manager-Chief Engineer recommended that the Water Board approve the Department's FY 2016 Operating budget and 5-year C.I.P. budgets for Fiscal Years 2016-2020 on this first of two readings.

MOTION: Ms. Lee Loy moved to approve; seconded by Mr. Arikawa.

The Deputy said that aside from the one testimony received this morning, DWS is ready to proceed with the proposed Budgets and to continue the process.

ACTION: Motion carried unanimously by voice vote.

C. POWER COST CHARGE:

Departmental power costs have declined as a result of a decline in HELCO billings for electricity for the Department's wells and pumps. The Department proposes reducing the Power Cost Charge from \$2.35 to \$2.32 per thousand gallons to reflect this decline. In order to accept public testimony on this change, a Public Hearing should be scheduled before the new Power Cost Charge is reduced.

The Manager-Chief Engineer recommended that the Board approve holding a Public Hearing on April 28, 2015, at 9:45 a.m., to receive testimony on reducing the Power Cost Charge from \$2.35 to **\$2.32**, effective May 1, 2015.

MOTION: Mr. Greenwell moved to approve; seconded by Ms. Lee Loy.

Mr. Greenwell asked if it was worth it to hold a Public Hearing over a matter of three cents; he wondered if three cents was going to make a difference. He wondered if DWS was so far ahead of the game that the Department needs to have a Public Hearing to decrease the Power Cost Charge by three cents; it is a miniscule amount.

The Deputy said that if the Department is going to change the Power Cost Charge, DWS is required by statute to hold a Public Hearing, whether or not three cents is worth it. DWS has been monitoring the power cost continually, and it is at a point where DWS is seeing a continual trend downwards. Mr. Sumada did the analysis, he said. It has been a while since there has been an adjustment in the Power Cost Charge.

Ms. Iokepa-Moses said she disagrees slightly with Mr. Greenwell's view; she agreed that it is mandatory to hold a Public Hearing with any change in the Power Cost Charge. Therefore, even though a decrease of only three cents is involved, the Board should hold the Public Hearing; DWS should not keep the Power Cost Charge at \$2.35. The Board should decrease it by three cents, she said.

ACTION: Motion carried unanimously by voice vote.

D. RENEWAL OF CONTRACT FOR MAINTENANCE AGREEMENT – SOUTH KOHALA, HĀMĀKUA, AND LAUPĀHOEHOE SITES (BRANTLEY CENTER, INC.):

Brantley Center, Inc., presently has a Maintenance Agreement for site maintenance for the Department's South Kohala, Hāmākua, and Laupāhoehoe tank and pump sites. They are requesting to renew the Agreement from July 1, 2015, to June 30, 2016. The rates would be as follows:

South Kohala --	\$4,392.35/month x 12 months =	\$52,708.20
Hāmākua --	\$2,944.16/month x 12 months =	35,329.92
Laupāhoehoe --	\$738.48/month x 12 months =	8,861.76
	Total:	<u>\$96,899.88</u>

The Department has the right to award the contract to Brantley Center, Inc., without advertising or calling for bids, according to Hawai'i Revised Statutes Section 103D-1010. Brantley Center, Inc., has submitted the necessary documents to meet the requirements as a qualified rehabilitation facility.

This is a 10% increase from their last increase for FY2013-2014.

Brantley Center's performance has been satisfactory, and the costs are reasonable. A total of 41 sites are covered by this agreement.

The Manager-Chief Engineer recommended that the Board award the contract for the RENEWAL OF CONTRACT FOR MAINTENANCE AGREEMENT – SOUTH KOHALA, HĀMĀKUA, AND LAUPĀHOEHOE SITES (BRANTLEY CENTER, INC.) to Brantley Center, Inc., for a period from July 1, 2015, to June 30, 2016 at a total cost of \$96,899.88, and that either the Chairperson or the Vice-Chairperson be authorized to sign the documents, subject to approval by Corporation Counsel.

ACTION: Mr. Uyeda moved to approve; seconded by Mr. Arikawa and carried unanimously by voice vote.

E. **UPDATE RE: NATIONAL PARKS SERVICE'S PETITION TO DESIGNATE KEAUHOU AQUIFER AS A GROUND WATER MANAGEMENT AREA:**

The Deputy reported that a meeting was held on March 3, 2015, which included the Mayor, the County's Managing Director, the Planning Director, representatives from the National Park Service (NPS) from Colorado, along with the Managing Director, Ms. Aton, Ms. Garson and the Deputy. The meeting was positive and productive, he said. DWS is optimistic that this process can continue, and hopefully, some concerns can be resolved without reaching designation status, the Deputy said.

Ms. Iokepa-Moses asked if the meeting were open to the public.

The Deputy said no, it was a collaborative effort among the County, NPS and the Commission on Water Resource Management (CWRM), represented by CWRM Acting Deputy Director, Mr. Roy Hardy.

Ms. Iokepa-Moses asked if the meeting were recorded.

The Deputy said it was not recorded for Minutes or anything official of that nature.

Ms. Iokepa-Moses asked Ms. Garson if that were proper.

Ms. Garson said yes, it was okay because it was a good-faith discussion; it was not a formal mediation because there was no third-party mediator.

Ms. Lee Loy asked about DWS's Water Use and Development Plan (WUDP) update. She asked the Deputy to frame it up for the Board.

The Deputy noted that CWRM at its December 10, 2014, meeting issued a preliminary order with an itemized list of tasks for DWS and NPS to perform. One of those tasks was for DWS to submit a WUDP project scope, he said. DWS has had some interaction with CWRM staff regarding the scope, and DWS revised the scope accordingly. DWS attended the February CWRM meeting, and amended the scope again to reflect the Commissioners' concerns and desires; this was what the Commissioners thought was necessary in order to make a decision regarding designation in May. DWS has done all of the tasks that CWRM requested, and has met all of the deadlines for submittal, and DWS's consultants are at work on the scope, the Deputy said.

Ms. Lee Loy observed that DWS is meeting its milestones as it moves along.

The Deputy confirmed this.

Ms. Lee Loy said she noticed that DWS had actually phased in its WUDP plans; DWS is doing it in two parts.

The Deputy said yes, DWS had originally scoped the plan out with the consultants, envisioning what DWS anticipated would be needed from CWRM. However, additional concerns were brought forward at the December 10, 2014, CWRM meeting. As a result, DWS decided that it would be prudent to have the consultant follow closely what they were originally scoped out to do, as Phase 1, and the additional concerns raised by CWRM would be attacked in Phase 2. The Deputy said that DWS will need to come back before the Board, once DWS pins down that scope

and the associated fee. DWS will come to ask the Board's blessing on the fee amount, but that point has not yet been reached, he said.

Ms. Lee Loy asked if that Phase 2 work would coincide with the May 30 deadline that CWRM set for the WUDP update.

The Deputy said no.

Ms. Lee Loy said, in that case, somebody else can pay for the Phase 2 work.

Chairperson Robinson said if there was no further discussion, there was no need to hold an Executive Session.

F. **EXECUTIVE SESSION RE: NATIONAL PARKS SERVICE'S PETITION TO DESIGNATE KEAUHOU AQUIFER AS A GROUND WATER MANAGEMENT AREA:**

The Water Board had anticipated convening an executive meeting, closed to the public, pursuant to Hawai'i Revised Statutes, Sections 92-4, 92-5(a)(2), to discuss mediation as directed by the Commission on Water Resource Management regarding the National Park Service's petition to designate Keauhou Aquifer as a Ground Water Management Area, and for the purpose of consulting with the Water Board's attorney on questions and issues pertaining to the Water Board's powers, duties, privileges, immunities and liabilities.

(The Board waived the Executive Session.)

G. **DISCUSSION OF AMENDING RULES AND REGULATIONS REGARDING PLACING RESPONSIBILITY WITH PROPERTY OWNERS FOR TENANTS' DELINQUENT BILLS:**

Ms. Lee Loy reported that she and the Sub-Committee had met, and had come up with a good framework for amending the Rules and Regulations. However, there is a part of the Rules regarding Contested Cases that needs work regarding definitions.

Chairperson Robinson said this Item would be deferred to the April Board meeting.

H. **AD HOC COMMITTEE PURSUANT TO HRS SECTION 92-2.5(B) TO PRESENT, DISCUSS AND/OR NEGOTIATE FOR LEGISLATION REGARDING THE PLACEMENT OF SUCH LIENS ON REAL PROPERTY FOR NON-PAYMENT OF WATER BILLS:**

Ms. Lee Loy reported that this measure had died, because it failed to get a hearing at the Legislature.

Chairperson Robinson said that this Item would be removed from the Agenda, and instead the Sub-Committee would focus on amending the Rules and Regulations.

I. **MONTHLY PROGRESS REPORT:**

Mr. Inaba said that he had added three items to the CIP list. One involves the Lālāmilo Windfarm, which he added so that the Department can provide updates to the Board; DWS will provide monthly updates, he said. There is no cost to DWS on this item; there are no expenditures, he said.

Mr. Inaba said that the two other new items involved:

- Emergency back-up power to critical sites;

- Arc flash studies.

These items were added so that the Board is kept up to speed on these projects.

Chairperson Robinson asked what an arc flash study is.

Mr. Inaba said the arc flash study is aimed at evaluating DWS's existing sites, to show DWS what hazards are present. There is a lot of information out there about the risks and hazards with regards to high-powered equipment, especially at DWS's deepwells. The arc flash studies will provide DWS with information about safety procedures and equipment that DWS may have to implement in the future, he said.

Chairperson Robinson said that this keeps people from getting electrocuted.

Mr. Inaba noted that there was such an incident; and DWS has been educating staff, especially electricians, with small classes featuring safety videos, etc.

Mr. Greenwell asked about the status of the Waikoloa Reservoir repair project.

Mr. Inaba said that DWS had received plans and specifications (specs) from the consultant, which will be submitted to DLNR; these are presumably the final plans and specs, to which DLNR will hopefully give its blessing. FEMA will use those plans and specs to review the scope of work; DWS may be getting more money from FEMA than anticipated, Mr. Inaba said. The hope is that this job will be put out to bid soon, he added.

Mr. Greenwell asked if these plans were for the entire project, or just for the portion that involved moving the fence back in the forest.

Mr. Inaba said it included everything.

The Deputy explained that Mr. Inaba may have sounded uncertain regarding the time frame, because the State Dam Safety authorities are hiring their own professional consultant to review DWS's professional consultant's design. Therefore, it will need to go through *that* review process.

Chairperson Robinson noted that because of the dam break on Kaua'i, the State Dam Safety people went from zero activity, to 150 percent activity.

Mr. Greenwell asked if DWS was being required to send people to the dam safety class next month on Oahu.

Mr. Inaba said that the course is offered on the Big Island, and the State notifies DWS about the next class here, knowing that DWS has registered dams with the State.

The Deputy said that there is a maintenance requirement, which DWS is obliged to pay for.

Chairperson Robinson asked about the status of the Queen Ka'ahumanu Highway Widening agreement. He understood that everybody signed off, with the exception of one minor group, which he said was named AHCP or something. That group changed a few items in the agreement after everybody else signed off, which means that the process needs to start all over again.

Mr. Inaba noted that the Chairperson was referring to the Memorandum of Understanding (MOU).

J. **REVIEW OF MONTHLY FINANCIAL STATEMENTS:**

Chairperson Robinson asked about the item on the front page of the Financial Statements, which said that the Accrued Workers Compensation had increased \$78,000.00, or 34 percent versus the prior year “due to change in claim reserve determined by COH Safety Office.” He asked whether the Safety Office sends DWS an estimate of what the amount will be.

Mr. Sumada said that once a year, on June 30, he receives a report from the Safety Office that lists up all of the claims that relate to DWS. This Reserve number appears on the bottom of that report; that is the number to which Mr. Sumada adjusts the Balance Sheet number. That is the reason for any change that occurs in that number.

Chairperson Robinson asked whether DWS pays the Safety Office, and whether they, in turn, hold the money for payment of claims.

Mr. Sumada said no, that number just basically stays there from one year to the next, until the next report comes out. The claims are reviewed by the Safety Office, and then sent to DWS once they are approved. DWS pays the claims as they come in, on an ongoing basis, throughout the year, he said. He confirmed that DWS is reserving those funds.

K. MANAGER-CHIEF ENGINEER’S EVALUATION FOR CALENDAR YEAR 2014:

(This Item was continued from the February 24, 2015, Board meeting.)

Chairperson Robinson said that in light of the Manager-Chief Engineer’s retirement, there was no need to go ahead and complete the evaluation. He recommended to the Board that this Item be removed from the Agenda.

Ms. Garson said that the Item will just be removed, (i.e., there is no need for a vote).

L. EXECUTIVE SESSION:

The Board had anticipated convening an executive meeting to consider the evaluations of the Manager-Chief Engineer, as authorized by Hawai‘i Revised Statutes, Sections 92-4, and 92-5(a)(2), 92-5(a)(4) and Hawai‘i County Charter Section 13-20(b), where consideration of matters affecting privacy will be involved, and for the purpose of consulting with the Water Board’s attorney on questions and issues pertaining to the Water Board’s powers, duties, privileges, immunities, and liabilities.

(The Board waived the Executive Session.)

N. EXECUTIVE SESSION RE: PROCESS AND CRITERIA FOR SELECTION OF NEW MANAGER-CHIEF ENGINEER OF THE DEPARTMENT OF WATER SUPPLY:

The Water Board had anticipated convening an executive meeting, closed to the public, pursuant to Hawai‘i Revised Statutes, Sections 92-4 and 92-5(a)(4) for the purpose of consulting with the Water Board’s attorney on questions and issues pertaining to the Water Board’s powers, duties, privileges, immunities and liabilities. A two-thirds vote, pursuant to HRS Section 92-4, is necessary to hold an executive meeting.

ACTION: Ms. Lee Loy moved to go into Executive Session, seconded by Ms. Iokepa-Moses, and carried unanimously by voice vote.

(Executive Session began at 1:00 p.m., and ended at 1:18 pm.)

M. DISCUSSION OF PROCESS AND CRITERIA FOR SELECTION OF NEW MANAGER-CHIEF ENGINEER OF THE DEPARTMENT OF WATER SUPPLY:

Back in regular session, Ms. Lee Loy said that she liked the idea of opening up the selection process, for the sake of transparency and to offer the opportunity to various candidates. She also wanted to have the recruitment go beyond the typical County channels, to professional channels such as HWWA or AWWA.

Ms. Garson said she assumed that HWWA would have something, and maybe AWWA might, too. She did not know if there was a cost associated with putting out a recruitment notice through them. She said that she would try them, as well as County Human Resources's recruitment announcements online.

MOTION: Ms. Lee Loy moved to authorize the Chairperson to work with Corporation Counsel to refine the scheduling dates, publication dates and the selection process framework; seconded by Mr. Greenwell.

Ms. Garson confirmed that the Board wanted to go the open recruitment route, through the Department of Human Resources, using the same advertising format as the previous recruitment. She confirmed that the Board was giving the Chairperson the authority; she asked what to put into the advertisement regarding the salary.

Chairperson Robinson said that he would work with Ms. Garson on that; they would come up with a schedule, etc.

Ms. Garson said that she and the Chairperson would also establish either a set minimum salary, or a salary range.

Chairperson Robinson said that the advertisement should go out by the end of March at the latest. The application period would run through April, and the interviews would be in May, depending on how many people come to the Board meeting in Kona. If necessary, there will be a second round of interviews after that, he said. Hopefully, the person will be ready to take on the responsibility on July 1, after Mr. Antonio retires on June 30.

ACTION: Motion carried unanimously by voice vote.

N. EXECUTIVE SESSION RE: PROCESS AND CRITERIA FOR SELECTION OF NEW MANAGER-CHIEF ENGINEER OF THE DEPARTMENT OF WATER SUPPLY:

(This Item was handled earlier.)

O. MANAGER-CHIEF ENGINEER'S REPORT:

The Manager-Chief Engineer provided an update on the following:

- 1) Lava Update – No report.
- 2) Public Information and Education Specialist Update – Ms. Aton asked the Board for its input on the Frequently Asked Questions (FAQs) that she had distributed at the previous meeting; she asked if there were any further comments before she posts the FAQs on the DWS website. Chairperson Robinson said that he got so many positive responses from people, and he had made numerous copies for people. He said it would be good to know that it is on the website, so that he can refer people there.

(Ms. Iokepa-Moses left the meeting at 1:22 p.m.)

P. CHAIRPERSON'S REPORT:

No report.

11) ANNOUNCEMENTS:

1. **Next Regular Meeting:**

The next meeting of the Water Board is scheduled for 10:00 a.m. on April 28, 2015, at the Department of Water Supply, Operations Center Conference Room, 889 Leilani Street, Hilo, HI. *It will be preceded at 9:45 a.m., by a Public Hearing regarding the proposed decrease in the Power Cost Charge.*

Chairperson Robinson said that he would be absent for the April 28, 2015, Board meeting; Vice-Chairperson Takamine will officiate.

2. **Following Meeting:**

The following meeting of the Water Board will be held at 10:00 a.m. on May 26, 2015, at the West Hawai'i Civic Center, Community Center, Bldg. G, 74-5044 Ane Keohokalole Hwy, Kailua-Kona, HI. *A Public Hearing on the proposed Water Rates will be held in Kona at 5:00 p.m. on May 26, 2015, at a venue to be announced. A second Public Hearing on the proposed Water Rates will be held in Hilo at 6:00 p.m. on May 27, 2015, at a venue to be announced.*

12) ADJOURNMENT

ACTION: Mr. Arikawa moved to adjourn; seconded by Mr. Takamine, and carried unanimously by voice vote.

The meeting adjourned at 1:24 p.m.

Secretary

The Department of Water Supply is an Equal Opportunity provider and employer.

Notice to Lobbyists: If you are a lobbyist, you must register with the Hawai'i County Clerk within five days of becoming a lobbyist. {Article 15, Section 2-91.3(b), Hawai'i County Code} A lobbyist means "any individual engaged for pay or other consideration who spends more than five hours in any month or \$275 in any six-month period for the purpose of attempting to influence legislative or administrative action by communicating or urging others to communicate with public officials." {Article 15, Section 2-91.3(a)(6), Hawai'i County Code} Registration forms and expenditure report documents are available at the Office of the County Clerk-Council, Hilo, Hawai'i.