MINUTES

DEPARTMENT OF WATER SUPPLY
COUNTY OF HAWAIʻI
WATER BOARD MEETING

January 26, 2016
Department of Water Supply, Operations Center Conference Room, 889 Leilani Street, Hilo, HI

MEMBERS PRESENT:
Mr. Craig Takamine, Chairperson
Mr. Russell Arikawa, Vice-Chairperson
Mr. Leningrad Elarionoff
Ms. Brenda Iokepa-Moses
Ms. Susan Lee Loy
Mr. Rick Robinson
Mr. Jay Uyeda
Ms. Kanoe Wilson

ABSENT:
Mr. Bryant Balog, Water Board Member
Mr. Duane Kanuha, Director, Planning Department (ex-officio member)
Mr. Warren Lee, Director, Department of Public Works (ex-officio member)

OTHERS PRESENT:
Ms. Amy Self, Deputy Corporation Counsel
Mr. Chad Funasaki, N&K CPAs, Inc.
Mr. Ryan Iwane, N&K CPAs, Inc.
Ms. Nancy Cook Lauer, West Hawaiʻi Today

Department of Water Supply Staff
Mr. Keith Okamoto, Manager-Chief Engineer
Mr. Kawika Uyehara, Deputy
Mr. Kurt Inaba, Engineering Division Head
Mr. Richard Sumada, Waterworks Controller
Mr. Daryl Ikeda, Operations Chief
Ms. Kanani Aton, Public Information and Education Specialist
Ms. Judy Hayducsko, Operations
Mr. Clyde Young, Operations

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

2) STATEMENTS FROM THE PUBLIC

None.

3) APPROVAL OF MINUTES

The Chairperson entertained a Motion to approve the Minutes of the December 15, 2015, Water Board meeting.

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

The Manager-Chief Engineer asked for a brief discussion on the Minutes.

Ms. Lee Loy said she would make a Motion for that; she said she hoped it was related to what she thought it was.

The Manager-Chief Engineer said it has implications for an Item farther down on today's Agenda. He asked the Board to look at the December 15, 2015, Minutes before them. Referring to the Force Majeure clause in the 4th Amendment to the Oceanside agreement, he said he wanted to clarify if the Board's intent was to **exclude** the language regarding *government agency review time* from the Force Majeure portion of the Agreement. He said he wanted to clarify whether that was the Board's intent. He drew the Board's attention to Page 24 of the Minutes, beginning with the paragraph saying: "Turning to the Force Majeure clause in Item 20…" He then referred to Page 36, where Ms. Lee Loy asked for confirmation that the Force Majeure clause would be confined to the routine Force Majeure language. On Page 37, Ms. Lee Loy affirmed that the Force Majeure clause would be kept as a typical Force Majeure. The Manager-Chief Engineer said he wanted to clarify whether the Board meant that it would exclude the government agency review time from the Force Majeure clause.

Ms. Lee Loy said that that definitely was her intent to shore up the Force Majeure language; Force Majeure language is very specific, but the proposed language that was before the Board at last month's Board meeting (from Oceanside's attorney) was expanded. It was not the typical Force Majeure language, she said. Ms. Lee Loy said that she wanted to be sure that the Board was not stepping away from the typical Force Majeure language, and she did not want the Board to be setting precedents by expanding that Force Majeure language. She said she appreciated the Manager-Chief Engineer for bringing up this matter, because it was the intent of the Board to ensure that the Force Majeure language would be confined to that specific legal term.

Ms. Self agreed, saying that Force Majeure entails circumstances that are beyond the parties' control, such as Acts of Nature, union strikes, etc. While the litigation that Oceanside was referring to in their proposed language may pose a difficult situation, it is something that *can* be dealt with, she said. Referring to the litigation, she noted that in order to get things done, the parties need to talk to each other. The other matter that the Board discussed was with regards to obtaining permits from entities like HELCO, she said. In that case, too, if the parties do what is required, a permit can be obtained. That situation also would not be considered beyond the parties' control (i.e., it would not constitute a Force Majeure cause).

Mr. Robinson said that it was good to have those two points of clarification.

The Manager-Chief Engineer said that was all he had; he did not know what needs be done at this point, now that everybody is in agreement on that clarification. The clarification will be recorded in today's Minutes, he said.

Ms. Self confirmed that it would be on the record.

The Secretary confirmed this.

Mr. Elarionoff asked how the Manager-Chief Engineer felt about it.

The Manager-Chief Engineer said that was his intent from the discussion as well. However, it was not quite clear from the December Minutes regarding the particular portion of the proposed Force Majeure language that talked about "the failure of any government agencies to approve or consent to any matter for which such approval or consent is required…"

Ms. Self suggested an additional Motion to Clarify.

Mr. Arikawa suggested withdrawing his original Motion, and then the Board could make another Motion to accept the Minutes as amended.

Ms. Self said yes, maybe the Board could *clarify* this.

Ms. Lee Loy said yes, it would be the Minutes as Clarified.

Ms. Self said yes, as Clarified; that would work.

Mr. Arikawa said it would be "as Clarified".

Ms. Self said that whoever made the Motion could withdraw the original Motion.

Mr. Arikawa withdrew his original Motion.

<u>ACTION:</u> Ms. Lee Loy moved to approve the Minutes as Clarified, and as presented on the record today; seconded by Mr. Uyeda, and carried unanimously by voice vote.

4) APPROVAL OF ADDENDUM AND/OR SUPPLEMENTAL AGENDA

None.

5) <u>PRESENTATION OF AUDITED FINANCIAL STATEMENTS – JUNE 30, 2015:</u>

Mr. Chad Funasaki of N&K CPAs, Inc. introduced his colleague Mr. Ryan Iwane; both were here to present the Audit Report for the fiscal year ended June 30, 2015.

Mr. Elarionoff said that he had eight or nine questions, but he offered to ask them after the presentation was finished.

Chairperson Takamine agreed that questions should be held until the end of the presentation.

Mr. Funasaki turned to the Opinion section on Page 4 of the Audit Report; the Financial Statements of the Department are fairly reported in all material respects, in accordance with generally-accepted accounting principles. This was a clean opinion, he said.

A key theme in the Auditing Report was the **Change in Accounting Principle**, which needed to be implemented for the year, Mr. Funasaki said. This pronouncement is related to pension liability, he said. As a result of the new pronouncement, the auditors this year needed to add a new Required Supplementary Schedule to the Audit Report.

Regarding the Management's Discussion and Analysis on Page 7, Mr. Funasaki said that this year it is a single-year presentation, instead of the usual two-year, side-by-side comparison with the previous year. This is because of the implementation of the new accounting standard, which has involved changes that make comparison with the previous year difficult.

At the end of the fiscal year, DWS had about $325 million in total assets; deferred outflows of $5.5 million; total liabilities of $95 million; $2.3 million in deferred inflows; and a total net position of $234 million.

Page 8 shows the reasons for the changes in net position, which increased by $9.2 million in 2015. However, because of the implementation of the pension liability standard on the balance sheet, the net position actually decreased, from $241 million in FY2014, to $233 million in FY2015.
Mr. Funasaki said that while the change in net position rose by $9.2 million, it was offset by a $16.4 million decrease, because of this pension liability that needed to be reflected on the Financial Statements for FY2015.

Mr. Iwane turned to DWS's Statement of Net Position on Pages 10 and 11. He said that for the most part, things in FY2015 were pretty much business as usual, aside from the implementation of the new accounting standard, known as GASB 68. This was a major change in accounting and financial reporting, Mr. Iwane said. Page 10 shows a new entry on the Financial Statements, related to the GASB 68 implementation; this entry is for $5.5 million in deferred outflows of resources. The new standards seek to separately identify true assets and liabilities, versus other types of accounts, Mr. Iwane said. He said that a deferred *out*flow of resources is similar to an asset, but it is actually applicable to future periods. For that reason, it is separated out, whereas in previous years it would just be lumped in as an asset like a prepaid expense, Mr. Iwane said. The same thing applies to the entry listed as deferred *in*flows of resources; this is similar to a liability such as deferred revenue. This entry applies to future periods, and therefore the standard setters sought to separate it out. In this case, the deferred inflows of resources for FY2015, as related to the GASB 68 implementation, were $2.3 million.

The big number that hit DWS's Financial Statements as a result of GASB 68 is listed under Liabilities – Net Pension Liability, Non-current: **$20 million**, as of June 30, 2015. This obviously had a huge impact on DWS's Financial Statements, Mr. Iwane said. The biggest impact of the implementation of GASB 68 was on the Statement of Net Position, he said.

Speaking of the entry on Page 12 listed as the Statement of Revenues, Expenses and Changes in Net Position, pension expenses appear to have increased by approximately $880,000.00.

Mr. Iwane turned to Note F on Page 27, listed as the Employee Benefit Notes. This entry shows most dramatically how DWS's pension information changed with the implementation of GASB 68. Page 28 shows a five-year schedule of deferred outflows of resources related to the Department's contributions to the pension plan, for a total of $1.9 million. The schedule shows how the deferred outflows and deferred inflows will be recognized as pension expenses from FY16 through FY20. Referring to the $1.9 million, that is what DWS actually paid into the Employee Retirement System (ERS) during FY15. That number is sitting in the column listed as deferred outflows of resources *this* year; it is going to offset the pension liability next year, Mr. Iwane said.

Pages 29 and 30 involve actuarial assumptions that the auditors used to come up with the estimated pension liability. These assumptions were used on a statewide basis; they were not unique to DWS, Mr. Iwane said.

Note I on Pages 35 and 36 deals with the Change in Accounting Principle. It shows that as of June 30, 2014, DWS's net position was approximately $241 million, but that number needed to be adjusted to take into consideration the impact of GASB 68, Mr. Iwane said. The auditors needed to bring in about $18.4 million in net pension liability, i.e., DWS's share of net pension liability as of June 30, 2014. The result of that was to reduce the beginning net position value, offset by approximately $2 million in deferred outflows of resources; this will represent what was paid in to ERS during FY14, Mr. Iwane said. Therefore, the net effect was about $16.4 million, which is the amount by which the net position was impacted by the implementation of GASB 68.

Mr. Funasaki said that this is DWS's piece of the ERS's huge pension liability. This will now be reflected in <u>all</u> state and county departments' Financial Statements, not just DWS's Financial Statements. He reiterated that this is an estimate that was determined by an actuary, he said.

Mr. Iwane said that Page 39 shows DWS's Proportionate Share of the Net Pension Liability. DWS's share in FY15 was $20.5 million, and in FY14 it was $18.4 million. He noted that even though the audit is talking about FY14 and FY15, the dates shown on the schedule are different, i.e., they show the measurement period as the fiscal year ended June 30, 2014, and the fiscal year ended

June 30, 2013. The reason those dates were used by the actuaries was because the decision was made at the state level to use a *prior period,* so as not to delay the Financial Statements. Mr. Iwane said that if the actuaries used FY15, the Audit Report would not have been ready today.

Mr. Iwane said that the schedule listed as DWS's Proportionate Share of the Net Pension Liability is really supposed to show 10 years' worth of information, but only two years' worth of information was available. That schedule is going to build over the succeeding years, so next year there will be three years' worth of information, followed by four years' worth of information, etc.

Page 40 shows 10 years' worth of pension contributions by DWS, which comprise both the employer share and the employee share of contributions.

Mr. Funasaki said that on Page 42, the auditors noted a significant deficiency in internal control, which is elaborated upon later in the report. He said that this is not a material weakness, but it is something that warranted being brought to Management's attention. The significant weakness is identified on Page 43, he said.

The auditors identified some segregation issues involving the daily cash collections process, saying that somebody with access to assets should not be doing certain tasks. Mr. Funasaki said that one of the auditors' recommendations was to segregate the access to assets function within the cash collection procedures. The auditors brought the matter to Management's attention, and recommended that DWS reevaluate the collection process. Mr. Funasaki noted that the auditors tested 25 business days, and the test came out clean, i.e., there were no irregularities or errors during the testing period. The auditors did not audit Management's Response, listed on Page 43.

Mr. Elarionoff commented that the accounting language used in the Opinion on Page 4 was hard to understand for him, specifically the time period mentioned in that entry.

Mr. Funasaki said that it was standard wording. He noted that the point in time for DWS's net position, as written in the Opinion, was as of June 30, 2015. This balance sheet is a point in time, so it is as of June 30, 2015, he said.

Mr. Elarionoff asked Mr. Funasaki to explain the entry listed on Page 4 as Other Matters. He asked him to explain the sentence saying: "We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance."

Mr. Funasaki said that the standards require the auditors to have things such as the Management's Discussion and Analysis in the report, but N&K CPAs do not audit or opine on that information.

Mr. Elarionoff asked why the standards require it.

Mr. Funasaki said that the standards require that it be disclosed in the report.

Mr. Elarionoff asked why the information is not relevant, yet the standards require it.

Mr. Iwane said he believed that the standards setters feel that the information is relevant and useful; it allows users to understand and make decisions based on the information that they are seeing. That is why the standard setters want such Supplementary Schedules, etc., to be included in the Audit Report.

Mr. Elarionoff asked whether the entry regarding Consumption on Page 9 and the entry on Page 12 on Operating Revenues were the same thing. He asked if this was what DWS is making from selling that much water.

Mr. Iwane said no, the Operating Revenues were in dollars, and the consumption was in gallons.

Mr. Elarionoff asked what Provision for Doubtful Accounts meant, as listed on Page 14.

Mr. Funasaki said that it meant Receivables that the Department does not expect to collect, which DWS establishes an allowance for. These are accounts that are written off, he said. He noted that among Receivables, there will be some accounts that the Department cannot collect on.

Mr. Elarionoff asked what Other Accrued Liabilities were comprised of, listed on Page 14.

Mr. Funasaki said that it is comprised of a variety of categories, but he did not know offhand what was grouped together to comprise Other Accrued Liabilities.

Mr. Elarionoff said okay, he was just curious. Turning to Page 21, he asked what Services meant.

The Manager-Chief Engineer said he believed that meant service laterals.

Mr. Elarionoff took issue with the word Assumption, as in Actuarial Assumptions, on Page 29. He said as a former policeman, he never used that term. He asked if Assumptions in this case meant something else in accounting language.

Mr. Funasaki explained that the liability was determined based on estimates generated by an actuary. Factors like mortality rates, etc., were taken into consideration, he said. Estimates are hard, he said. Assumptions are used by actuaries to determine what the liability should be, he said.

Mr. Iwane said that by way of offering assurance, the wording that was used for these Notes followed the sample disclosures that were provided by the Standard itself. That is where the wording came from, he added. Mr. Iwane said that he understood Mr. Elarionoff's feeling on assumptions per se.

Mr. Funasaki said that these are not the auditors' assumptions; the auditors are not making assumptions.

Mr. Elarionoff said that makes him feel a lot better. He turned to Note G on Page 34, to the section listed Risk Management. He quoted the sentence: "These losses include an estimate of claims that have been incurred but not reported." He asked why this was not relevant enough to be reported.

Mr. Funasaki said that it was indeed relevant. He noted that this section deals with insurance, which includes known claims for which a liability is established; there are also claims incurred which are as yet unreported. That too is an actuarial estimate; it is an estimate based on assumptions, he said.

Mr. Elarionoff turned to Page 42, where the last sentence in the first paragraph says: "We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2015-001, that we consider to be a significant deficiency." He then turned to Page 43, to the sentence that says: "Therefore, the duties assigned to the Waterworks Controller do not appear to be adequately segregated." Under Recommendation, it says: "Management should reevaluate the design of internal controls over cash collections." Mr. Elarionoff said he took the auditors' previous comments on the subject to signify they thought this was no big deal.

Mr. Funasaki said he was sorry if Mr. Elarionoff interpreted it that way. He did not mean that the significant deficiency was unimportant. However, it is <u>not</u> to a point where it could result in a *material misstatement* in the Financial Statements. The auditors felt that the significant deficiency was important enough to bring to Management's attention. A material weakness exists when the controls are not operating, such that it could result in a very big misstatement in the Financial Statements. Mr. Funasaki said that the Audit Report is saying that these Financial Statements are fairly presented, in all material respects. He reiterated that he was not saying the significant deficiency was no big deal; it was significant enough that the auditors felt they needed to communicate to Management. By definition, that is what a significant deficiency is.

Mr. Robinson said that he had a hard time understanding the whole thing about the pension liability. He noted that on Page 40, DWS is portrayed as having paid what it was supposed to pay into the pension system every year. He said that here, all of a sudden, the Government Accounting Standards Board (GASB) awakes to this big pension liability, and decides to change the accounting rule so that now, DWS has to report it as a liability. He said he was sure that DWS, along with a lot of other government entities, have been paying what the ERS required them to pay, in accordance with prior standards. He asked if this change in the accounting standard was due to people living longer; he asked if it was due to ERS's realization that it has lost money. He asked if it was due to DWS hiring more people than expected. He summed up, asking what the change was due to.

Mr. Funasaki said it could very well be due to all of the above reasons. Every county and State department in Hawaiʻi has its share of pension contributions to ERS. While DWS and other departments have been paying their required amounts, this estimated liability, etc., was never *until now* put on anybody's Financial Statements. Mr. Funasaki said he was not 100 percent sure what the reasons are for the change, but it is likely that the change is due to the reasons Mr. Robinson just mentioned.

Mr. Robinson said he was mystified by the methodology used to determine the amount of money that is actually owed to ERS; it was still not clear how that was arrived at. He asked if it was based on the salaries that employees are getting, or based on life expectancy, which would enable the actuary to judge what it is actually going to cost, over time. He said that he did not think that there was any change in items such as: return on investment; annual expected increase in employment; and CIP increases, etc. He said he was confused that all of a sudden, the actuaries came up with $20 million or whatever it was; he was not clear on how that number was determined.

Mr. Iwane said that he did not think that the methodology on determining the liability had changed. The actuary is trying to actuarially determine what that liability is, as of a given point in time. The actual net fiduciary amount that is sitting at ERS is also used to calculate the net pension liability as of a given point in time; this is used to currently pay down this actuarially-determined liability. He said that one would take the net assets of ERS as of a given point in time, less what the liability was; this would give one the collective pension liability that will be allocated among the various counties' departments and departments within the State of Hawaiʻi government. That allocation is based on contributions made, in relation to everybody in the ERS system.

Mr. Robinson asked for confirmation that the allocation was determined by ERS, and that it was put out there collectively by ERS. He assumed that ERS was putting this out as an unfunded pension liability, and is telling State and county departments that ERS wants them to participate in that unfunded liability. He said that rather than to suddenly show a huge deficit on the Financial Statement, he would expect ERS to instead, at some point, issue reports that DWS had contributed this amount of money, i.e., as an asset. He would have thought ERS would tell DWS what it needs to contribute in the coming year. Mr. Robinson said that he had never seen a depiction on the balance sheet previously that showed what the Department's actual contributions to ERS were, nor a depiction of how much DWS allocated back to its employees. He said he considered those contributions to ERS to be "investments," because those contributions are invested in the employees' retirements.

Mr. Funasaki said there is no asset shown here, because it is a net pension liability.

Mr. Robinson said it just shows up all of a sudden; it was confusing to him.

Mr. Iwane agreed that DWS has never been deficient in its pension contributions. He said there was no liability in the past, and directly, there really is no liability even as of today. That is because DWS has been paying what it is required by statute to pay, every year, Mr. Iwane said. However, things change, and people are indeed living longer; meanwhile, there are concerns over whether the pension fund is ultimately going to be able to pay retirees when the time comes. He said that he saw the $20 million as the amount as of June 30, 2015, that DWS *hypothetically* might have to pay to ERS to ensure that its employees' retirements are funded. Mr. Iwane acknowledged that it is a big estimate, which is very much subject to change. He said he believed that account is not showing what the amount will necessarily be, he said.

Mr. Robinson said it represents what the amount *could* be.

Mr. Iwane said yes, it is what could be, because ultimately, DWS is paying ERS on a monthly basis the amount that it should be paying.

Ms. Iokepa-Moses said this is like a forecast for what DWS might potentially have to pay to cover the employees' retirement.

Mr. Iwane said yes, that is basically how it is, as of June 30, 2015. This is a big estimate because it is allocated among a big pool of employees all over the state of Hawaiʻi, not just DWS. This amount is not very specific; it just gives one a ballpark idea of what could be a true liability in the event that ERS cannot pay. However, Mr. Iwane did not believe that day is going to come. He said he did not believe that ERS would ever require $20 million to pay up; he did not think was going to ever happen.

Mr. Robinson said that if the Board accepts this Audit Report, the Board in essence becomes liable for that amount, because it shows up as a liability on its own balance sheet. In essence, the Board is on the hook. He said he knows the auditors will say that the Board does not really have to pay, but the Board *is* liable for it.

Mr. Iwane said that because it shows up as a liability, Mr. Robinson is correct.

Mr. Robinson said that if the Board accepts this Audit Report, the Board will be acknowledging that it is liable for that amount. He did not think that ERS is going to send the Board to the collection agency to demand that money from the Board. However, accepting the Audit Report is an acknowledgment that the Board thinks it is right. Mr. Robinson said he understood how accounting standards change, but it was bothersome to him that the Financial Statement does not show the total ERS contributions, and what that amount, allocated back to DWS, is. He wanted to see an offsetting liability, because DWS has contributed all of this money through all of the years. It was like putting money in a 401(k), he said. DWS should be expecting ERS to operate in a responsible manner; ERS did not have an offset to show what DWS has contributed, Mr. Robinson said. The Board is going to have to acknowledge a liability from what is the differential on what ERS says ERS has, versus what ERS *should* have. Mr. Robinson bemoaned that that has never been shown as an actual asset.

Mr. Funasaki said that this is just a cost-sharing arrangement; it is a multiple-employer retirement plan. He did not know if there was a mechanism to carve out DWS's contributions as an entry on the balance sheet, on the asset side. He reiterated that it was a cost-sharing plan.

Mr. Robinson noted that while DWS has contributed as required by statute, not every government entity has been as diligent in its contributions. He believed that the liability that is being put on DWS's books is due to those delinquent agencies. He said he did not know how to draw that distinction, but it would be something for ERS to work on.

Mr. Funasaki said that was a good point.

Ms. Lee Loy agreed; the Board today got a tiny little snapshot, but there is a bigger picture of agencies not paying their share.

Mr. Funasaki said he was sure that there are a lot of counties and State agencies that are not happy with this, either. The County of Hawai‘i’s share as a whole is a huge amount, and it really changes the way the Financial Statements look.

Mr. Robinson asked whether this liability will affect bond ratings in Hawai‘i.

Mr. Funasaki said he thought the bond rating agencies will take this into account; every jurisdiction where pension liability is an issue is going to be affected.

Mr. Iwane said this is not specific to DWS alone, nor to Hawai‘i alone. This pension liability issue is everywhere; some localities have it worse than others, he said.

Mr. Funasaki acknowledged that the new standard will totally alter the way DWS’s Financial Statements look.

Mr. Robinson said that DWS, by being consistent in its payments into ERS, is actually helping the other departments that are not current in their pension contributions.

Mr. Funasaki said that DWS could go into a deficit-net position because of this; DWS’s equity could go negative.

Ms. Lee Loy asked about the auditors’ recommendation regarding the significant deficiency. She asked how DWS could improve that situation; she asked if DWS should step away from cash collections, and instead move into other forms of payments.

Mr. Funasaki said the auditors are not saying that the significant deficiency will never go away if DWS does not segregate the internal control duties. He suggested implementation of mitigation measures, but did not elaborate. Mr. Funasaki said that the auditors would go back next year and take a look at the process then. The auditors are not mandating anything specific; there are various things that can be done, he said.

Ms. Lee Loy asked if the auditors are suggesting that DWS step away from cash collections, and if so, she wondered what type of equipment and staff that Accounting would need to switch to.

Mr. Funasaki shied away from giving details, saying only that the auditors will definitely revisit this issue next year.

Mr. Iwane said that the main idea was to bring it to Management’s attention; the auditors have already spoken to the Manager-Chief Engineer and other management staff, so they are aware of the issue. DWS Management ultimately knows better than the auditors; Management knows what they can live with and what they cannot live with, he said. Stepping away from cash collections could cause more problems, he said. All that the auditors are saying is that the current situation is not ideal, and there will be a cost benefit to any kind of change that DWS makes, Mr. Iwane said. He believed that collectively, Management and the Board will come up with the best solution.

Ms. Wilson asked whether this Audit Report will be shared with the County Council or the Mayor, and asked whether DWS would share it with anyone else.

Mr. Iwane said he believed it was posted on the DWS website.

Mr. Sumada said that DWS gives the Audit Report to the State Revolving Fund and the U.S. Department of Agriculture (USDA), both of which loan funds to DWS. Other than that, the Board is the main recipient of the Audit Report.

Ms. Wilson asked if this was an Item that would be on the Council Agenda.

The Manager-Chief Engineer said no. The Water Board is DWS's governing body, and this Audit Report becomes public record if somebody requests to see it. DWS is obligated to provide access to it, but the Department does not hand out copies unless requested.

Chairperson Takamine asked about the five-year schedule of Deferred Outflow of Resources on Page 28. The first four years listed are the same amount each year: $168,978.00, but in the fifth year, FY20, the amount jumps up to $585,720.00. He asked why the amount ballooned in FY20.

Mr. Iwane said it was due to the different amortizations of the components that make up the Net Deferred Outflows and the Net Deferred Inflows. Two of the three components are amortized over a 5.76 year period, while the component was amortized over a five-year period; that is what is causing the big amount showing up in FY20, Mr. Iwane said.

ACTION: Ms. Lee Loy moved to approve the Audit Report provided by N&K CPAs, Inc.; seconded by Ms. Iokepa-Moses, and carried unanimously by voice vote.

6) SOUTH HILO:

A. **JOB NO. 2014-1009, PANA'EWA WELL A REPAIR:**

This project generally consists of the replacement of the existing well vertical hollow shaft motor, pump, column pipe, lineshaft, lineshaft bearings, all appurtenant equipment, such as strapping, and chlorination of the well and pumping assembly, in accordance with the plans and specifications.

Bids for this project were opened on January 14, 2016, at 1:30 p.m., and the following are the bid results:

Bidder	Bid Amount
Beylik Drilling and Pump Service, Inc.	$228,970.00
Derrick's Well Drilling and Pump Services, LLC	$149,000.00

Project Costs:

1) Low Bidder (Derrick's Well Drilling and Pump Services, LLC)	$ 149,000.00
2) Contingencies (10.0%)	$ 14,900.00
Total Cost:	**$ 163,900.00**

Funding for this project will be from DWS's CIP Budget under Deepwell Pump Replacement. The contractor will have 180 calendar days to complete this project. The Engineering estimate for this project was $115,000.00.

The Manager-Chief Engineer recommended that the Board award the contract for JOB NO. 2014-1009, PANA'EWA WELL A REPAIR, to the lowest responsible bidder, Derrick's Well Drilling and Pump Services, LLC, for their bid amount of $149,000.00, plus $14,900.00 for contingencies, for a total contract amount of **$163,900.00**. He further recommended that either the Chairperson or the Vice-Chairperson be authorized to sign the contract, subject to review as to form and legality by Corporation Counsel.

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

The Manager-Chief Engineer noted that this well field supplies a good portion of Hilo.

Mr. Uyeda noted that there are only two contractors on the island who are bidding on these well repair jobs. He expressed concern that DWS is going to award to the same contractor for this project and for Item 9. He asked how many contracts are open with this company, and he asked if Derrick's has the capacity to keep up with all of these projects. He also asked if 180 days was adequate time, and he asked why the number of calendar days was less for the Booster Pump project in Item 9. He said he would have expected that the Booster Pump project would be faster than a well repair.

Mr. Young acknowledged that currently there were only two contractors bidding on these projects: Beylik Drilling and Pump Service, Inc., and Derrick's Well Drilling and Pump Services, LLC. However, Mr. Young said he understood that Water Resources plans to bid on projects, and yet another contractor, whom he did not name, was looking to start bidding in February. The hope is that the bidding will become more competitive. He noted that the Engineering estimate for this project was $115,000.00, but the actual bids came in much higher. The main reason for the gap between the estimate and the actual bids was because the labor charges were significantly higher than the Engineering staff assumed they would be, Mr. Young said.

Mr. Uyeda repeated his question about whether 180 working days was adequate; he wondered if Derrick's was likely to have to come back for a time extension.

Mr. Young noted that the Booster Pump project in Item 9 involves discharge heads that needed to be custom-made; this means the lead times for such a project are much longer than for a well repair job.

Ms. Iokepa-Moses said that it would be nice to see the history of these two contractors. She noted that Derrick's bid is so much lower than Beylik's bid. She wondered whether Derrick's is trying to get the bid, and then hit the Board later for more money.

Mr. Young said that he has not seen that pattern with well repairs.

ACTION: Motion carried unanimously by voice vote.

7) NORTH HILO:

A. **JOB NO. 2005-870, LAUPĀHOEHOE (MANOWAI‘ŌPAE) 0.5 MG RESERVOIR:**

The contractor, Yamada Paint Contracting, Inc., dba. GW Construction, is requesting a contract time extension of 4 working days (6 calendar days). This is the third time extension request for this project.

Ext. #	From (Date)	To (Date)	Days (Calendar)	Reason
1	10/18/2015	01/08/2016	82	Inclement and unworkable weather conditions (16 working days) and design changes realigning new access easement (additional 60 calendar days)
2	01/08/2016	02/04/2016	23	Inclement and unworkable weather conditions (6 working days) and DWS's request to stop work to address

				a safety concern (additional 17 calendar days)
3	02/04/2016	02/10/2016	6	Inclement and unworkable weather conditions (4 working days)
Total Days (including this request)			111	

The contractor's time extension request of 4 working days (6 calendar days) is in concurrence with the Department's tally of reported agreed upon rain-outs.

The Manager-Chief Engineer recommended that the Board grant this contract time extension of 4 working days (6 calendar days) to Yamada Paint Contracting, Inc., dba GW Construction, for JOB NO. 2005-870, LAUPĀHOEHOE (MANOWAIʻŌPAE) 0.5 MG Reservoir. If approved, the contract completion date will be extended from February 4, 2016, to February 10, 2016.

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

Mr. Inaba said that the contractor is just waiting for delivery of the SCADA cabinet and other equipment. He noted that the rainout days mentioned above are a black-and-white thing in the General Rules and Covenants; these have been duly verified at the site.

ACTION: Motion carried unanimously by voice vote.

8) HĀMĀKUA:

A. JOB NO. 2008-945, ĀHUALOA-HONOKAʻA TRANSMISSION WATERLINE, PHASE 2:

The contractor, Isemoto Contracting Co., Ltd., is requesting a contract time extension of 89 calendar days. This time extension request is in conjunction with the Department acquiring the NPDES permit for the contractor's State Right-of-Way permit to complete the project. This is the first time extension request for this project.

Ext. #	From (Date)	To (Date)	Days (Calendar)	Reason
1	1/2/2016	03/31/2016	89	NPDES permit requirement for work within State Right-of-Way.

The Manager-Chief Engineer recommended that the Board grant this contract time extension of 89 calendar days to Isemoto Contracting Co., Ltd., for JOB NO. 2008-945, ĀHUALOA-HONOKAʻA TRANSMISSION WATERLINE, PHASE 2. If approved, the contract completion date will be extended from January 2, 2016, to March 31, 2016.

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

The Manager-Chief Engineer explained that this project entails a transmission line from DWS's well on the mauka side, down towards Honokaʻa Town, in the vicinity of Tex Drive In. Initially this was a single project, but DWS subsequently broke it up into two phases; the reasons were: funding and the State Highways right-of-way issue. At that time, DWS did a National Pollutant Discharge Elimination System (NPDES) permit for the whole project. DWS completed Phase 1 of the project, and then proceeded with Phase 2, thinking optimistically that the Department could clear the State Highways hurdle. Meanwhile, DWS had secured funding from the State Revolving Fund (SRF). DWS bid Phase 2 out, anticipating that during the bidding process, the State Highway permit approval would have been secured. As it turns out, that process has only recently been resolved; DWS and State Highways have executed the Use and Occupancy permit.

DWS had thought that a new NPDES was not required for Phase 2, but the State Department of Health's Clean Water Branch thought otherwise. Therefore, DWS is going ahead to do another NPDES update for the entire scope of the project, even though Phase 1 is already done. The NPDES is on the State Department of Transportation's checklist for *their* permit; the NPDES needs to be taken care of to get the State Highways permit, too. The time extension is not the contractor's fault, the Manager-Chief Engineer said.

Mr. Arikawa asked for confirmation that the actual completion date was January 2, 2016.

The Manager-Chief Engineer confirmed this, and apologized that this matter was not brought before the Board in December.

Ms. Lee Loy asked if the NPDES permit had been prepared and processed; she asked if DWS was only waiting for publication.

The Manager-Chief Engineer said no, DWS is actually re-initiating the process again.

Ms. Lee Loy asked if this could be done within 89 days.

The Manager-Chief Engineer said DWS is hopeful that it will be possible; the contractor asked for more time, but DWS pared it down, based on what staff felt that it could be done by. He noted that the State has offered DWS some assistance.

Mr. Inaba said yes, the State did offer its help, and that will hopefully expedite things.

Ms. Lee Loy asked if the NPDES will go through the Office of Environmental Quality Control (OEQC) to be published; she asked if instead it would go straight to Department of Health (DOH).

Mr. Inaba confirmed it would go straight to DOH.

Ms. Wilson asked what the timeline for the NPDES permit would be.

Mr. Inaba said that typically it takes at least a month, but because DWS has been offered assistance by State Highways to expedite it, it should go faster.

The Manager-Chief Engineer noted that DWS had done the NPDES once already, so that would help, too. DWS has all of the pertinent information, he added.

Mr. Inaba explained that DWS had already done the NPDES paperwork for both Phases 1 and 2, but the timeline lapsed, and DWS now has to re-file.

Ms. Wilson said it was because the timeline lapsed that the permit needed to be redone.

The Manager-Chief Engineer said that DWS would have had to pay $500.00 a year to hold that permit open. It was not clear at the time how long it would take to get to Phase 2, and the thinking was that it would not be necessary to extend the NPDES for the whole project.

Mr. Uyeda asked how much work remained to be done on the contract.

Mr. Inaba said it was basically a matter of crossing the highway, and doing patching, etc.

Mr. Uyeda said it usually takes about a month, construction-wise, to cross the highway.

The Manager-Chief Engineer said DWS was hoping it would take less time.

Mr. Uyeda expressed doubts that 89 days would be enough time; he thought the Department might come back for a second time extension.

The Manager-Chief Engineer said that could be the case, but DWS is trying to strike a balance. DWS does not want to overestimate the time extension; DWS wants to hold the contractor accountable. At the same time, DWS does not want to make the timeframe unrealistic. Staff evaluated the time extension request, while being in contact with various external agencies, and this is the timeframe that staff felt comfortable with.

Ms. Wilson asked for confirmation that DWS does not yet have a Right-of-Way permit from the DOT.

Mr. Inaba said this is the one checklist item that the NPDES permit was waiting on.

Ms. Wilson said that DOT is waiting for the NPDES permit in order to get the Right-of-Way.

Mr. Inaba confirmed this.

The Manager-Chief Engineer said that DWS has to apply for a permit to work within the State Highways Right-of-Way, and for DOT to approve that permit, there are all these requirements.

Mr. Elarionoff asked if this were a Federal mandate, handled by the State.

The Manager-Chief Engineer said the Clean Water Branch oversees the NPDES permit process; it is indeed a Federal mandate, administered by the State.

ACTION: Motion carried unanimously by voice vote.

9) NORTH KONA:

A. **JOB NO. 2015-1042, KALOKO MAUKA #1 STATION BOOSTERS B & D REPAIR:**

This project generally consists of the replacement of the existing pumps and motors; refurbishment of the existing discharge heads; and chlorination of the pumping assembly, in accordance with the plans and specifications.

Bids for this project were opened on January 14, 2016, at 2:30 p.m., and the following are the bid results:

Bidder	Bid Amount
Beylik Drilling and Pump Service, Inc.	$ 89,200.00
Derrick's Well Drilling and Pump Services, LLC	$ 80,000.00
Water Resources International, Inc.	$115,000.00

Project Costs:

1) Low Bidder (Derrick's Well Drilling and Pump Services, LLC)	$ 80,000.00
2) Contingencies (10.0%)	$ 8,000.00
Total Cost:	**$ 88,000.00**

Funding for this project will be from DWS's CIP Budget under Deepwell Pump Replacement. The contractor will have 210 calendar days to complete this project. The Engineering estimate for this project was $90,000.00.

The Manager-Chief Engineer recommended that the Board award the contract for JOB NO. 2015-1042, KALOKO MAUKA #1 STATION BOOSTERS B & D REPAIR, to the lowest responsible bidder, Derrick's Well Drilling and Pump Services, LLC, for their bid amount of $80,000.00, plus $8,000.00 for contingencies, for a total contract amount of **$88,000.00**. He further recommended that either the Chairperson or the Vice-Chairperson be authorized to sign the contract, subject to review as to form and legality by Corporation Counsel.

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

Ms. Iokepa-Moses complimented the nice job on the Engineering estimate.

Mr. Uyeda asked if there were back-up pumps at the booster station; he asked if it were completely non-operational.

Mr. Young said that there were four back-up pumps, and one of them, labeled as "B," is down. That one is pretty old; it was installed before Mr. Young joined DWS in 1991.

The Manager-Chief Engineer asked if this were the first time that DWS is replacing it.

Mr. Young said yes, according to DWS's records, this is the first time that B is being replaced; it is at least 30 years old.

The Manager-Chief Engineer said that is way beyond expected life.

Mr. Young said that other one is 25 years old; that is pretty good life for a booster pump, too.

The Manager-Chief Engineer noted that these were relatively small, at 30 horsepower or thereabouts. However, they have a high head of around 569, he added.

Mr. Arikawa asked whether Derrick's has enough manpower to do all of these jobs.

Mr. Young said that Derrick's has been able to keep up so far; he noted that the contractor has jobs on other islands as well as here. Derrick's has the bulk of the jobs, he said.

Mr. Arikawa noted that Item 10 on today's Agenda awards that project to Derrick's, too.

Mr. Young said he said he made a list, and Derrick's name came up over and over again; the contractor does not seem to have a problem keeping up.

Mr. Arikawa said he shared Mr. Uyeda's concern, noting that Derrick's was being awarded three jobs today alone.

The Manager-Chief Engineer said that DWS too had had the same concerns for quite some time. DWS has to go out to bid with the scope and schedule that meets the Department's needs. DWS cannot go with any assumptions that any particular contractor will be awarded, or that their resources might be stretched thin. The contractors need to let DWS know if they cannot do the job in the allotted amount of time; contractors are contractually obligated to meet the requirements of the contract, which includes the completion date. DWS is hopeful that Derrick's has the resources to do what they need to do within the timeframe.

Ms. Wilson asked if DWS does on-site walk-throughs to ensure that the work gets done.

The Manager-Chief Engineer confirmed that that is always available.

ACTION: Motion carried unanimously by voice vote.

B. **<u>DIVISION AND ASSIGNMENT OF WATER UNITS OBTAINED THROUGH THE 1980 ALI‘I DRIVE AGREEMENT TO TMK PARCELS (3) 7-5-020:022 AND 034:</u>**

As part of the 1980 Ali‘i Drive Agreement, TMK Parcels (3) 7-5-020:022 and (3) 7-5-020:034, which are adjoining parcels and at the time owned by Maclab Enterprises Ltd., were together provided 220 water units, with Maclab's contribution of $500.00 per water unit for a total contribution of $110,000.00.

Since then, the two parcels have been sold to different owners. Those owners, through a private agreement executed on November 6, 2015, wish to assign the 220 units proportionally to the two parcels, based on land areas.

Ninety-seven (97) of the units would be assigned to TMK 7-5-020:022, and the remaining 123 units would be assigned to TMK 7-5-020:034. The 1980 agreement has a provision for assignment of developer's rights to other developers, with the written consent of the Water Board.

The Manager-Chief Engineer recommended that the Water Board approve the assignment of 97 units to TMK (3) 7-5-020:022 and the assignment of 123 units to TMK (3) 7-5-020:034. He further recommended that the Chairperson or Vice-Chairperson be authorized to execute the appropriate documents.

<u>MOTION:</u> Mr. Arikawa moved to approve; second by Ms. Iokepa-Moses.

The Manager-Chief Engineer said that in order to move the allotment of the water credits here, the matter had to go before the Board.

Mr. Inaba said that it was just a division of water units; the units were already assigned to the combined two properties. The properties now have different ownership, and this only involves a division of the units, individually, to each of these properties, he said.

Ms. Iokepa-Moses asked for confirmation that the parties are not asking for more or fewer units; she asked if this was only a division.

Mr. Inaba confirmed that this was only a division.

<u>ACTION:</u> Motion carried unanimously by voice vote.

10) <u>SOUTH KONA:</u>

A. **<u>JOB NO. 2015-1041, KE‘EI A DEEPWELL REPAIR:</u>**

This project generally consists of the replacement of the existing deepwell submersible motor and pump, with DWS furnished pump and Contractor furnished motor; replacement of existing power cable, column pipe, column couplings and all appurtenant equipment; chlorination of the well and pumping assembly; and selective reconfiguration and replacement of above-ground discharge piping assembly.

Bids for this project were opened on January 14, 2016, at 2:00 p.m., and the following are the bid results:

Bidder	Bid Amount
Derrick's Well Drilling and Pump Services, LLC	$207,000.00
Beylik Drilling and Pump Service, Inc.	$238,390.00

<u>Project Costs:</u>

1) Low Bidder (Derrick's Well Drilling and Pump Services, LLC)		$ 207,000.00
2) Contingencies (10%)		$ 20,700.00
	Total Cost:	**$ 227,700.00**

Funding for this project will be from DWS's CIP Budget under Deepwell Pump Replacement. The contractor will have 180 calendar days to complete this project. The Engineering estimate for this project was $246,000.00.

The Manager-Chief Engineer recommended that the Board award the contract for JOB NO. 2015-1041, KE'EI A DEEPWELL REPAIR, to the lowest responsible bidder, Derrick's Well Drilling and Pump Services, LLC, for their bid amount of $207,000.00, plus $20,700.00 for contingencies, for a total contract amount of **$227,700.00**. He further recommended that either the Chairperson or the Vice-Chairperson be authorized to sign the contract, subject to review as to form and legality by Corporation Counsel.

MOTION: Mr. Arikawa moved to approve; seconded by Mr. Uyeda.

The Manager-Chief Engineer said that this involves a submersible motor-type deepwell repair. He praised the engineer for this estimate.

Mr. Uyeda asked where this well was located.

Mr. Robinson said that it was about a half-mile down makai on Painted Church Road, in Ke'ei.

Mr. Uyeda said he was concerned that there is a drought situation in the area; he asked what DWS's game plan was to keep up with demand for water amid drought conditions. He acknowledged that DWS had sent out an emergency notice to conserve water. Mr. Uyeda asked if there were any plans in place in the event the situation reaches a critical point; he asked if DWS is rushing to repair the wells that are down.

The Manager-Chief Engineer said yes, these well repairs are part of DWS's strategy. He noted that DWS has five wells in South Kona: four Ke'ei Wells, i.e., Wells A through D, and the Haleki'i Well. The Haleki'i Well is down, he said. DWS is working to stay ahead of things by repairing or replacing wells, and the Department is also sending out Conservation Notices. DWS is also reaching out individually to high-usage customers. Therefore, it is a multi-pronged approach, he said.

ACTION: Motion carried unanimously by voice vote.

(Ms. Lee Loy moved to recess; seconded by Ms. Wilson. Recess began at 11:32 a.m., and ended at 11:42 a.m.)

B. **4th AMENDMENT TO WELL SITE DEVELOPMENT AGREEMENT, 1250 OCEANSIDE (HŌKULIA) WELLSITE DEVELOPMENT AGREEMENT - UPDATE:**

The Manager-Chief Engineer said this Item was put on the Agenda in case there were any concerns or a status update on the revisions to the 4th Amendment. DWS included in the Board packets the version that the developer's attorney had submitted since last month's meeting. This version did cause some concerns with DWS because it still included references to the Ackermans, as well as government agencies, in the Force Majeure clause. Last night at 5:30, the developer's attorney sent DWS yet another revised version, and DWS did not have a chance to look closely at it, he said. DWS wants to make sure that the Department keeps the Board up to speed on the status of this document, and wants to ensure that things move forward, the Manager-Chief

Engineer said. DWS wants this document to move forward, and be finalized in a timely fashion, he said. Therefore, DWS will look closely at the revision received last night. DWS will probably put this Item back on next month's Agenda as an update, but DWS does not want to go through another line-by-line slog through the document at the Board meeting itself, he said. The Manager-Chief Engineer said that the clarification that took place earlier in today's meeting was helpful.

Mr. Robinson said that DWS needs to inform the developer's attorney that sending documents out at 5:30 the night before a meeting is ridiculous, and is just not right. It is not in keeping with the spirit of compromise, he added.

The Manager-Chief Engineer said that DWS will have the Department's attorney discuss with the developer's attorney appropriate measures to move things forward.

Ms. Self said she conveyed this in an email this morning.

Ms. Lee Loy said she wanted the Department to know that DWS is always welcome to bring issues like this to the Board; if either party is not happy, the door is wide open for them to bring their concerns to the Board. She said she wanted that on the record.

The Manager-Chief Engineer said that he appreciated that.

11) MISCELLANEOUS:

A. **DEDICATIONS:**

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.

1. GRANT OF EASEMENT
(POD 5 – Easement 56-B1)
Grantor: Kohanaiki Shores, LLC
Tax Map Key: (3) 7-3-063: 002 and 015

2. RELEASE AND CANCELLATION OF GRANT OF EASEMENT
Grantor: Kohanaiki Shores, LLC
Tax Map Key: (3) 7-3-063: 001 and 015

3. BILL OF SALE
Project Name: Smith-Souza Waterline Improvements
Sellers: John and Velma Souza; Preston and Kathleen Smith
Tax Map Key: (3) 4-5-003: 007 & (3) 4-5-003: 006
Facilities Charge: $1,190.00 Date Paid: October 24, 2013
Final Inspection Date: 11/30/2015
Water System Cost: $31,000.00

4. BILL OF SALE
Project Name: Iokepa Estate Subdivision Water System Improvements
Sellers: Gomes Family Limited Partnership
Tax Map Key: (3) 7-5-016: 088, 089, 090, 091, 092, 093, 097, 095, 015, 016, 017, and 029
Facilities Charge: $47,370.00 Date Paid: 6/14/2002
Final Inspection Date: 3/15/2004

Water System Cost: $418,500.00

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 or the Vice-Chairperson be authorized to sign the documents.

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

Mr. Robinson asked about the fourth item above, whose Date Paid entry says: "6/14/2002." He asked if that was a typo.

Mr. Inaba said that he wanted to clarify that item. This is an existing subdivision that had a master meter; it is in the same corridor as the Wai'aha corridor that DWS has accepted and is currently operating. The owner of this subdivision is turning over their private system to DWS. This is an existing subdivision that was done in 2004, he added. The owners paid the Facilities Charge back in 2002, he said. They have been operating it as a private system up to now. As part of the Wai'aha System, the owner had planned to do the improvements necessary for DWS to accept the system. DWS has re-inspected the entire system, to ensure that everything meets the current requirements, Mr. Inaba said.

Mr. Robinson asked for confirmation that all this time, DWS has been operating on a master meter that goes into their private system.

Mr. Inaba confirmed this.

Mr. Robinson asked for confirmation that now, DWS is going to take the private system, and put it into a system that is accepted by DWS; the master meter will go away, and the individual residents will get regular meters.

Mr. Inaba confirmed this. Subject to the Board's approval today, there will be applications for DWS meters from the people currently who have service in that subdivision, he said. The residents would go to the DWS office to get their individual meters; DWS will remove the master meter, do the main connection and install the new meters.

Mr. Robinson asked whether there was a delay that the subdivision was not accepted from 2004 to today.

Mr. Inaba said no, the owners had just wanted to operate it as a private water system.

Mr. Robinson asked whether they could have come in at anytime during that period to get their system accepted. He asked whether it was only recently that the owners decided to seek acceptance.

Mr. Inaba confirmed this.

Mr. Elarionoff asked if the residents would retain the meters they have at present.

Mr. Inaba said no, DWS is going to install the Department's meters.

ACTION: Motion carried unanimously by voice vote.

B. **POWER COST CHARGE:**

The Department proposes reducing the Power Cost Charge from $1.85 to $1.81 per thousand gallons, to reflect a decline in power costs for the Department's wells and pumps. A Public Hearing will have been prior to this Board meeting to accept public testimony on this change.

The Manager-Chief Engineer recommended that the Board approve the reduction of the Power Cost Charge from $1.85 to **$1.81**, effective February 1, 2016.

<u>MOTION:</u> Mr. Arikawa moved to approve; seconded by Ms. Wilson.

Mr. Elarionoff said he would vote against the Motion; he said he wished there were some other way of doing this. He said it was a cumbersome way of reducing four cents from the Power Cost Charge.

<u>ACTION:</u> Motion carried with seven (7) Ayes: (Mr. Arikawa; Ms. Iokepa-Moses; Ms. Lee Loy, Mr. Robinson; Mr. Uyeda; Ms. Wilson and Chairperson Takamine); one (1) Nay: (Mr. Elarionoff) and one (1) Excused (Mr. Balog).

C. **<u>UPDATE RE: NATIONAL PARKS SERVICE'S PETITION TO DESIGNATE KEAUHOU AQUIFER AS A GROUND WATER MANAGEMENT AREA:</u>**

The Manager-Chief Engineer said that the Commission on Water Resource Management (CWRM) will have a meeting this Thursday, at which the Commissioners will take up DWS's Water Use and Development Plan (WUDP) Phase 2 Scope. CWRM staff, which has been working collaboratively with Mr. Inaba and his staff, are recommending approval of the Scope. The Scope was developed in light of what the Commissioners had requested DWS to include in the WUDP. The Scope is moving forward, with a positive recommendation from CWRM staff. Mr. Inaba will fly over to represent DWS at the CWRM meeting, the Manager-Chief Engineer said.

D. **<u>EXECUTIVE SESSION RE: NATIONAL PARKS SERVICE'S PETITION TO DESIGNATE KEAUHOU AQUIFER AS A GROUND WATER MANAGEMENT AREA:</u>**

No Executive Session was held.

E. **<u>DISCUSSION OF AMENDING DWS RULE 3-10 AND 3-12, REGARDING LEAK ADJUSTMENTS:</u>**

Ms. Lee Loy said that the Board had been discussing this matter for the past two or three Board meetings. She said she had passed along the iterations of the Rule Amendments that the Board looked at last month; she believed that Corporation Counsel and DWS staff had reviewed them.

The Manager-Chief Engineer thanked Ms. Lee Loy for the proposed language changes; DWS staff and Ms. Self worked to put into language form the intent of what Ms. Lee Loy wanted to accomplish with this proposed Rule Change. That intent was to tighten up and be more defined on how leak adjustments should be applied. Ms. Self, Mr. Sumada and his staff met with DWS management, and the red-lined version that was in the Board packets is what DWS believes accomplishes the intent for which the process was initiated, he said.

Ms. Lee Loy said that she completely supports this red-line version; Corporation Counsel has had an opportunity to review it to ensure that the language before the Board today meets the standards to adjust Sections 3-10 and 3-12. She said that she was unclear as to the next step.

The Secretary said that there is a process for Rule Changes.

Ms. Lee Loy opened the door to any further comments from the Board or the staff. If there were no further comments, Ms. Lee Loy said that she wanted to move it into the next step of the process: to adopt these as the new Rules, or to amend the Rules.

The Manager-Chief Engineer said that DWS wanted to bring forward to the Board the idea of taking an overall look at the rest of the Rules, to see if there are other areas that needed to be refined. The idea would be to consolidate the rule amendment effort, he said. That would be at the Board's discretion, the Manager-Chief Engineer said. No major input has been received from DWS staff yet, but if the Board wants to move forward on this Amendment alone, DWS can do that, too. Alternatively, if the Board desires, DWS can wait to consolidate revisions; it is up to the Board.

Ms. Lee Loy asked what the process would be.

The Manager-Chief Engineer said that a typical process requires a Public Hearing.

Ms. Self said that pursuant to HRS Chapter 91, the Board has to hold a Public Hearing for a Rule Change, and the Board must consider any comments or statements from the public who attend. After that, the Board can go forward with the adoption of the Rule Change; it is similar to the process that the Board went through this morning, i.e., to reduce the Power Cost Charge. It requires a Public Hearing, and the Board would need to publish it.

Mr. Elarionoff said that the red-lined version was really good, but he said he was curious about the use of the word "leak." He asks what the word "leak" means; he did not think his idea of a leak was the same as what is in the proposed Rule Change.

Ms. Lee Loy said that it is a defined term in the Rules. She said that a lot of the language that was used in the red-lined version was either defined terms or language that was reviewed by staff. This red-lined version is not stepping away from defined terms or creating a new term. The red-lined version is just shoring up the language whereby if there is a leak, regardless of what kind of leak it is, DWS would be getting compensated for it, or the consumer would be able to try to address it by a process that would reduce the cost of whatever water was lost at that time, she said.

Mr. Elarionoff said in this case, a break in the pipe is considered a leak. However, Mr. Elarionoff said that to him, a leak is just a trickle.

Ms. Self clarified that the word "leak" is actually <u>not</u> a defined term within the Rules. She reminded the Board that the owner has responsibility over his own pipes; it is not the responsibility of DWS. There is a provision in Section 3-10 for adjustments for different situations. She reminded the Board of a past discussion of leaks which may go unnoticed because the leaks take place underground. Leaks like these can incur large bills. The red-lined version is just trying to tighten up the language on granting leak adjustments, Ms. Self said. She believed that the reason Ms. Lee Loy addressed this Rule Change was to try to avoid these large bills, and to be able to collect them, as well.

Mr. Elarionoff said that he understood that. He said the language is really good.

Chairperson Takamine noted that there was a Motion on the table.

The Secretary asked if there was a second.

Ms. Lee Loy said now that she had heard what the process was, she would like the process to be efficient, and if there are more changes to the Rules, she thought that the Board should make the changes all at one time. The process calls for money spent on publishing the Public Notices, etc., she said. Ms. Lee Loy said that she would like to see a deadline for the Department to come up with any other changes. She noted that the sub-committee had been working on this Rule Change for at least a year. Ms. Lee Loy proposed that the Department have another 60 or 90 days to come up with any other proposed Rule Changes; this would enable DWS to do a comprehensive Rule Change, and invest the time, energy and money one time.

The Manager-Chief Engineer said that sounded more than fair. He proposed that DWS will bring its comprehensive Rule revision to the Board by the March Board meeting.

Ms. Lee Loy said she liked that. Afterwards, the Board can take the Rule Changes to Public Hearing, etc.

Ms. Self asked if there was a second to the Motion on the table.

<u>ACTION:</u> Ms. Lee Loy said that the Motion was to allow additional comments from staff by the March Board meeting; seconded by Mr. Arikawa, and carried unanimously by voice vote.

F. **<u>MONTHLY PROGRESS REPORT</u>**:

Mr. Robinson congratulated the Deputy for obtaining as-builts on the Olaʻa No. 6 Production Well project from the contractor, Isemoto Contracting Co., Ltd.

The Deputy said that he was now processing the contractor's final payment requests.

The Manager-Chief Engineer noted that DWS was taking a different direction on the second project on the spreadsheet, Olaʻa No. 2 0.5 MG Reservoir Replacement. The Land Court process was one factor, he said. The other factor is that the two wells in the area, Olaʻa A and B, which feed this tank, are more of a liability than an asset. The two wells are uncased, and they lie within a Hawaiian Electric plant. The wells are in Puna, where DWS has no shortage of water. DWS has two terrific high-capacity sources in the area: Olaʻa No. 3 and No. 6. DWS has decided to give up Olaʻa A and B, a move that DWS rarely makes; by giving them up, DWS will no longer have need of replacing this tank. Instead, DWS can install a pressure-reducing valve (PRV) station, the Manager-Chief Engineer said. There is still waterline there that needs to be replaced, so DWS plans to amend the scope to be an Olaʻa Waterline Replacement project.

Mr. Robinson asked for confirmation that Olaʻa A and B may not be beneficial to DWS, under the wellhead protection formula.

The Manager-Chief Engineer confirmed this, saying that the wells are within a power plant, and they are uncased. Normally, DWS cases a well to prevent any contaminant from infiltrating the well. These wells do not have that casing; there are various issues with these two wells, he said.

Chairperson Takamine turned to the Laupāhoehoe (Manowaiʻōpae) 0.5 MG Reservoir project, noting that the date of completion is February 4, 2016. Earlier today it was mentioned that DWS is just waiting for electrical equipment, etc. He asked if the electrical portion made up most of the 30 percent of the work left to be completed.

The Manager-Chief Engineer confirmed this.

G. **<u>REVIEW OF MONTHLY FINANCIAL STATEMENTS:</u>**

Mr. Sumada said that this month's Financial Statements show the new accounts that the auditors set up for the pension reporting. Those numbers on the balance sheet will not change until this coming year-end, when the auditors adjust them. The auditors will change the numbers once a year, and Mr. Sumada will make the change on the Financial Statements accordingly.

Mr. Sumada noted that the Board will have received a handout today from the Secretary on the Fiscal Year 2017 Operating and CIP Budgets. Mr. Sumada plans to put the Budgets on next month's Board Agenda, for discussion.

The Manager-Chief Engineer said the handout is dated today's date; it is in memo form, attention to Chairperson Takamine and members of the Board.

Mr. Elarionoff asked Mr. Sumada what he thought of the auditor's report.

Mr. Sumada said that to be honest, their comment at the end bothered him.

Mr. Elarionoff asked which comment.

The Manager-Chief Engineer said the comment about the significant deficiency.

Mr. Sumada said that it bothered him because DWS had a procedure in place, as documented in Management's Response. The procedure is designed to offset the weakness that the auditors found, but the auditors did not consider that. If it was a matter of a weakness not being addressed; he could understand that, he said. However, that was <u>not</u> the case; this weakness was addressed, and there *was* a procedure in place to mitigate any problems that could arise, Mr. Sumada said. *That* fact should have been taken into account before the auditors decided to publish what they did, Mr. Sumada said.

H. <u>**MANAGER-CHIEF ENGINEER'S QUARTERLY UPDATE:**</u>

The Manager-Chief Engineer said that DWS continues to make improvements in various areas: several improvements in Information Technology, Operations and Engineering. DWS is crawling its way into the 21st Century; this includes improving the technology DWS uses, such as equipping inspectors with smart phones. Using smart phones, the inspectors can go out in the field and text back the results of inspections, and inspectors can send back photos showing the status of projects, he said.

On Item 20, DWS is giving a preview, saying that the Water Board is considering a separate fund for energy savings projects. This initiative was also part of Mr. Sumada's Budget memo, under Item 3, which was mentioned earlier in advance of next month's Board meeting and discussion.

I. <u>**MANAGER-CHIEF ENGINEER'S REPORT:**</u>

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

1) <u>Public Information and Education Specialist Update</u> – Ms. Aton said that she had issued Conservation reminders via email, online, and the newspapers for South Kohala, Hāmākua, and North and South Kona. DWS also sent high-user letters to the Waimea Water Treatment Plant service area. DWS is drafting courtesy notices in the event that the region's drought situation worsens. The Source Water Protection/Conservation video is done, and copies are being made, Ms. Aton said. DWS is using Water Smart as a vendor to assist with customer engagement, particularly in the Lālāmilo and North/South Kona area; the vendor will be looking at water use analysis and conservation. Ms. Aton announced that she was resigning from DWS, and will join Civil Defense as its Public Information and Disaster Recovery Specialist, starting February 1. She thanked the Department for its support over the years.

2) Recognition of Employee of the Quarter – Mr. Sumada announced that Ms. Lynn Hirano, a Cashier with Customer Service, has been named Employee of the Quarter for the fourth quarter of FY16. Ms. Hirano, who was unable to attend today, was nominated after she manned the Cashier's station alone for four months while DWS was recruiting a second cashier. Ms. Hirano has been a very good worker at DWS for the past 25 years, Mr. Sumada said.

Mr. Robinson asked what the average length of service was for DWS employees.

The Manager-Chief Engineer said that was a good question, noting that he recently signed a stack of Years of Service awards, ranging from five years to more than 40 years of service. He said that DWS has terrific people who stay with DWS for many years. He said that DWS also encourages employees to take advantage of opportunities that arise elsewhere. He considered DWS to be the best Department in the County.

Mr. Elarionoff said that he got a call from a constituent yesterday, who complained at length about the $33.15 Standby Charge on his water bill. Mr. Elarionoff asked what the Standby Charge was all about.

Mr. Sumada explained that the Standby Charge is a fixed rate that DWS assesses customers every month, based on meter size, regardless of consumption. It is a charge that DWS uses to cover fixed-type expenses, such as servicing meters, etc. The Standby Charge covers maintenance and installation throughout the island.

Mr. Elarionoff said that it means that everybody bears that cost.

Mr. Sumada said yes, it is a shared cost.

The Manager-Chief Engineer said that Mr. Elarionoff can have the person call DWS anytime that he has questions.

Mr. Elarionoff said that was all right; he would get back to the person with the information.

Mr. Sumada said that the Standby Charge only changes when DWS has a rate change; the Standby Charge will go up next July, based on the rate schedule that was put in place when consultant Ms. Ann Hajnosz came here last year.

Mr. Robinson observed that there would be, in essence, two costs applied to the Standby Charge. There would be the operational cost for maintenance of the system, and there would also be a cost for the amortization, or depreciation, of the system itself, he said. The customer would be paying for operational costs as well as for depreciation, for his right to have a water meter in place. Mr. Robinson noted that some people do not use any water, yet they still pay the Standby Charge.

Mr. Sumada said that was correct.

Mr. Robinson reiterated that the Standby Charge would be a combination of the two costs.

Mr. Sumada agreed, and said that Ms. Hajnosz uses the term "cost of service" to describe the kinds of costs that are covered by this Standby Charge.

J. CHAIRPERSON'S REPORT:

Chairperson Takamine announced that Senator Gil Kahele had passed away this morning. He said that the Senator was a really good friend and outstanding community member; when Mr. Kahele was appointed by then-Governor Neil Abercrombie as Senator in 2011, Mr. Kahele was ecstatic.

The loss of this man who really loved his job will be a great loss for Hilo, Chairperson Takamine said.

Ms. Iokepa-Moses said it was a great loss for Kaʻu as well; Senator Kahele was a champion for Kaʻu.

Chairperson Takamine asked for a moment of silence to honor Senator Kahele and his family.

12) ANNOUNCEMENTS:

1. **Next Regular Meeting:**
   The next meeting of the Water Board is scheduled for 10:00 a.m. on February 23, 2016, at the West Hawaiʻi Civic Center, Community Center, Bldg. G, 74-5044 Ane Keohokalole Hwy, Kailua-Kona, HI.
2. **Following Meeting:**
   The following meeting of the Water Board will be held at 10:00 a.m. on March 22, 2016, at the Department of Water Supply, Operations Center Conference Room, 889 Leilani Street, Hilo, HI.

13) ADJOURNMENT

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

The meeting adjourned at 12:25 p.m.

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Secretary