

**MINUTES**

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

February 23, 2016

West Hawai'i Civic Center, Community Center, Bldg. G, 74-5044 Ane Keohokalole Hwy, Kailua-Kona

MEMBERS PRESENT: Mr. Craig Takamine, Chairperson  
Mr. Russell Arikawa, Vice-Chairperson  
Mr. Leningrad Elarionoff  
Ms. Susan Lee Loy  
Mr. Rick Robinson

ABSENT:

Mr. Bryant Balog, Water Board Member  
Ms. Brenda Iokepa-Moses, Water Board Member  
Mr. Jay Uyeda, Water Board Member  
Ms. Kanoë Wilson, 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

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  
Mr. Clyde Young, Operations  
Ms. Judy Hayducsko, Operations

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1) CALL TO ORDER – Chairperson Takamine called the meeting to order at 10:07 a.m.

2) STATEMENTS FROM THE PUBLIC

None.

3) APPROVAL OF MINUTES

The Chairperson entertained a Motion to approve the Minutes of the January 26, 2016, Water Board meeting.

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

4) APPROVAL OF ADDENDUM AND/OR SUPPLEMENTAL AGENDA

None.

5) PUNA:

A. **UTILITY AGREEMENT NO. 2219 WITH THE STATE DEPARTMENT OF TRANSPORTATION (DOT) FOR KEA'AU-PĀHOA ROAD SHOULDER LANE CONVERSION, PHASE 2:**

The State Department of Transportation (DOT) has submitted for execution a Utility Agreement (UA) for water system improvements, which were necessary for the Kea'au-Pāhoa Shoulder Lane Conversion project. There was no cost to the Department of Water Supply, as all improvements were necessary to accommodate the DOT's road improvements.

Staff has reviewed Utility Agreement No. 2219, and finds it acceptable.

The Manager-Chief Engineer recommended that the Board approve the execution of the UTILITY AGREEMENT NO. 2219 FOR THE KEA'AU-PAHOA ROAD SHOULDER LANE CONVERSION, PHASE 2, and that the Chairperson or Vice-Chairperson be authorized to execute the Agreement, subject to review as to form and legality by Corporation Counsel.

MOTION: Mr. Robinson moved to approve; seconded by Mr. Elarionoff.

The Manager-Chief Engineer explained that this is standard paperwork. The waterline improvements were actually part of the State Highways project, so they paid for it. This Utility Agreement is just part of their requirements.

ACTION: Motion carried unanimously by voice vote.

6) SOUTH KONA:

A. **4<sup>th</sup> AMENDMENT TO WELL SITE DEVELOPMENT AGREEMENT, 1250 OCEANSIDE (HŌKULIA) WELLSITE DEVELOPMENT AGREEMENT - UPDATE:**

The Manager-Chief Engineer reported that the developer's attorney, Carlsmith Ball LLC, emailed a new red-lined version of the 4<sup>th</sup> Amendment, just before 6:00 p.m. last night. He said that for the record, part of the delay was due to DWS reviewing the attorney's previous draft; DWS made comments on that draft and relayed them to the developer's attorney via Ms. Self on February 18. The Manager-Chief Engineer said because the latest version only arrived back from the developer's attorney last night, there was not enough time to review it thoroughly. The developer's attorney summarized the changes in their version in the body of the email; the attorney said that after discussing it with his client, the developer wanted to retain the language related to "the delay due to government review," in the Force Majeure portion of the Agreement. Based on the clarification that took place at last month's Board meeting, DWS plans to reject the developer's request to retain that language, the Manager-Chief Engineer said. DWS will ask Carlsmith to remove that language. The version that DWS sent to Carlsmith on February 18 constitutes everything that DWS needs to make an executable document, he said. DWS does not feel that anything should have been a surprise to Carlsmith, after the December Board meeting and subsequent clarification that took place last month, he said. This is how DWS plans to respond to the developer's attorney, through Ms. Self.

Mr. Robinson indicated that he could not believe that Carlsmith did not respond until 6:00 last night.

The Manager-Chief Engineer said the precise time was 5:55 p.m.

Mr. Robinson asked if it was standard procedure for Carlsmith to wait until 5:55 at night to respond.

Ms. Self said that it has been.

Mr. Robinson said he was frustrated by it.

Ms. Self said that everybody at DWS was frustrated, too.

Mr. Robinson said that it showed a lack of respect.

Mr. Arikawa asked for confirmation that DWS was going to reject the latest red-lined version.

The Manager-Chief Engineer confirmed this.

Mr. Arikawa asked whether DWS planned to reject the latest version, and instead go ahead with what the Board agreed on at last month's meeting.

The Manager-Chief Engineer confirmed this.

Mr. Arikawa said that was great.

The Manager-Chief Engineer said that in hindsight, it turned out to be a good idea to keep putting this Item on the Agenda, so that the Department can report on the progress of the discussions and emails with the developer's attorney. DWS anticipates that this Item will be discussed again next month; hopefully, there will be a positive outcome, with all of DWS's revisions addressed.

Mr. Elarionoff asked how the Manager-Chief Engineer knew about the red-lined version; it only came in at 6:00 in the evening.

The Manager-Chief Engineer said he reads his emails at night, but any attachments are hard to review on the phone or on the I-Pad.

The Deputy agreed, saying that the red-lined parts do not show up on the phone, etc.

Ms. Self said she had printed out a hard copy, in case any of the Board members wanted to see it.

Ms. Lee Loy said she wanted to reiterate that there is standard language for a Force Majeure clause, and the Board would be veering way out of bounds if the Board were to capitulate on new language. She asked what the next steps would be, noting that DWS has conveyed a clearly executable document into Carlsmith's court. She asked whether there was a deadline for the developer to execute; she asked what happens if they do not execute.

Ms. Self said that the document has already been approved by the Board; it is just a matter of ironing out the language to conform to what the Board approved at the Board meeting. She said that she planned to tell Carlsmith that this red-lined version is unacceptable; she planned to change the language back again to what the Board approved. If necessary, the developer's attorney could be brought back to the Board to explain.

The Manager-Chief Engineer concurred.

Chairperson Takamine said that sounded good.

7) MISCELLANEOUS:

A. **PROFESSIONAL SERVICES AGREEMENT – CONSERVATION, EFFICIENCY, AND CUSTOMER ENGAGEMENT PROGRAM:**

The Department desires to enter into a professional services agreement with a computer software company, WaterSmart Software, with expertise in developing customer engagement reports to educate customers on water conservation and efficiency.

This project requires a consultant procured through professional services procedures. Based on the anticipated scope of work, the contract amount will be \$50,000.00, and will be funded from the Department's Capital Improvements Projects (CIP) Budget. It is anticipated that this initiative will take approximately 12 to 15 months to complete.

The Manager-Chief Engineer recommended that the Board approve the Conservation, Efficiency, and Customer Engagement Program, as a project to be added to the Department's Fiscal Year 2017 CIP Budget.

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

Noting that DWS lost its Public Information and Education Specialist, the Manager-Chief Engineer said that this program is going to help fill the gap of that loss while DWS recruits for a replacement. DWS has been working with the *Energy Excelerator* (note: *spelling is correct*) program, which is funded through PICHTR (Pacific International Center for High Technology Research). DWS intends to utilize software to reach out to customers on the West Side of the island on a trial basis. The Deputy is the project lead, the Manager-Chief Engineer said. DWS wants to leverage its funds with the Energy Excelerator program, to enable DWS to get \$100,000.00 worth of software for an input of \$50,000.00 from DWS. The \$50,000.00 input from DWS will be a combination of actual funds plus in-kind costs, such as staff time, etc. The Energy Excelerator program said that they would be able to match DWS dollar for dollar. DWS sees this as a good opportunity, he said. The software vendor, WaterSmart, is already working with other utilities in the continental United States.

The Deputy said that the Department was bringing this Item to the Board for approval to add the project to DWS's CIP list. He noted that WaterSmart has been working with utilities on the West Coast. Judging by samples provided by WaterSmart, the vendor looks at customer usage, and creates customized, mailable reports to customers. These reports show how customers are in their typical water use; the reports also give a profile of an efficient user. They provide recommendations on becoming more efficient in usage, with an eye to saving costs as well as protecting the resource. This is a good venture, the Deputy said.

The Manager-Chief Engineer said the software program tailors a message to particular customers, rather than sending out a blanket conservation notice. This will hopefully turn out to be an effective tool in furthering DWS's conservation efforts.

Ms. Lee Loy asked whether this message would be sent out as a paper newsletter or an email.

The Deputy said it would be a paper report, similar to what Hawai'i Energy mails to people's homes. He noted that it would be handled in a similar way, because DWS has its customers' mailing addresses.

The Manager-Chief Engineer said he was still finalizing the scope of the proposal. Once the Board approves this Item, DWS will nail down the scope with the vendor. The scope will depend

on what kind of funding is available, and what DWS's needs are. With today's technology, there are even ways to install an app to reach out to customers, he said. He was not sure if that was covered in this base cost at this point. DWS would like to test it out, to see if it works. If the software turns out to be viable, DWS will probably bring it back to the Board for an expanded project at that point in time, the Manager-Chief Engineer said.

Ms. Lee Loy asked whether that scope of services would be developed after the Board's approval.

The Manager-Chief Engineer said yes, DWS would need to notify the Energy Excelerator that there is \$50,000.00 that DWS can commit from the Department and Water Board's side. Assuming that the Energy Excelerator can kick in the other \$50,000.00, WaterSmart can work with DWS to prepare a scope of services to meet the Department's specific needs.

Mr. Arikawa asked if the Department still planned to look for a Public Information and Education Specialist.

The Manager-Chief Engineer said yes.

Mr. Arikawa asked if this software program was just to fill the gap.

The Manager-Chief Engineer confirmed this.

Mr. Arikawa asked whether this software program will go away, once the new person is hired.

The Manager-Chief Engineer said no, that was not DWS's intent. This software will probably be another tool for the actual person, and the software would continue to be implemented for the Department. Hopefully, the software will free up the person's time to do other, personal public outreach efforts. The hope is that this tool can supplement the position, he said.

Mr. Elarionoff asked how WaterSmart got started. He asked if they got started because of the shortage of water on the West Coast; he noted that California is having a hard time with water. He asked if this was a private company that got started to deal with the water shortage on the West Coast. He asked if this was one of those companies that really want to do some good. He asked if the company was started to deal with the West Coast, and is now seeking more business to improve their income. He asked which kind of company it is.

The Manager-Chief Engineer said he was not sure. He confirmed that WaterSmart is a private, for-profit company. He was not sure how the company got started, but he believed that they were to some degree involved with the efforts in California. He said he was not sure if the company got started specifically *because of* the water shortage.

Mr. Elarionoff asked for confirmation that the Department's first intent here is to check it out to see if it is functional and applicable.

The Manager-Chief Engineer confirmed this.

ACTION: Motion carried unanimously by voice vote.

**B. DEPARTMENT OF WATER SUPPLY PROPOSED OPERATING AND 5-YEAR CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGETS FOR FISCAL YEAR: (FY) 2017:**

The Department's FY 2017 Operating Budget, totaling \$53,901,500, and 5-Year CIP Budget for FY 2017–2021, has been distributed for the Board's review.

The Manager-Chief Engineer recommended that the Board approve a public hearing to be held on Tuesday, March 22, 2016 at 9:45 a.m., prior to the Water Board's regular meeting, to accept public testimony regarding the Department's FY 2017 Operating and CIP Budgets.

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

The Manager-Chief Engineer noted that the Board had received copies of the proposed Budget at last month's meeting as a preview, and copies were distributed again today for the Board's review.

Mr. Elarionoff said that there was a Public Hearing last month, whereby DWS gave back four cents (from the Power Cost Charge), and the Recommendation this time is to take back five cents (for the proposed Energy CIP Rate). The balance is one cent, he noted.

The Manager-Chief Engineer said the Energy CIP Rate was the next Agenda Item, and the Board may not want to take it out of order; he said he understood where Mr. Elarionoff was coming from.

Mr. Elarionoff said that last month, he voted against the reduction of the Power Cost Charge.

Mr. Arikawa asked if it would be for the 2017 Budget; he wanted to be clear that it was not effective next month.

The Manager-Chief Engineer said it was for Fiscal Year 2017, beginning July 1 of this year.

Ms. Lee Loy noted that the Board had been looking at different alternatives to start a specific fund to help DWS's renewable energy efforts. She asked if there were a carve-out in this process. She recalled that there was some preliminary discussion with staff on exploring whether to create a specific fund for renewable energy projects.

The Manager-Chief Engineer, referring to the January 26 Budget memo from the Controller to the Chairperson, said that Item 3 touches upon that subject. DWS put it on the Agenda today; it includes the 5 cents per 1,000 gallon Energy CIP Rate. Item 7(C), the next Agenda Item, calls for a Public Hearing and discussion on the Energy CIP Rate. He noted that the rate could be 4 cents, or 10 cents, etc., instead of the proposed 5 cents.

Ms. Lee Loy asked if this would be the right time to discuss what the amount is, and to discuss how to bank that fund. She asked if it should be discussed a little further down on the Agenda.

The Manager-Chief Engineer said that the Board could talk about it now if the Board wants to discuss how to bank certain funds in general. However, if the Board wants to talk about specifics on the CIP Rate, the Board probably should wait until the next Agenda Item.

Ms. Self said that the Energy CIP Rate is part of the Budget, and the Item is on the Agenda.

Chairperson Takamine asked if the Board wanted to skip over this Item, and move to the next Item, and then come back to this Item.

Ms. Self suggested that the Board just table this Item, go on to Item 7(C), and then come back.

Mr. Elarionoff said that he wanted to make clear that he does not oppose the 5 cents, especially in light of other tax hikes. He considered 5 cents per 1,000 gallons to be manini.

Ms. Lee Loy said that she saw this as the foundation; she just wanted to make sure that the conversation is in context.

The Manager-Chief Engineer agreed.

Ms. Lee Loy said that this is a wonderful way to start the funding for some of DWS's renewables; she just wanted to have a larger conversation on some of the options.

Ms. Self said there was already a Motion on the table.

Chairperson Takamine asked if anyone wanted to make a Motion to table.

ACTION: Mr. Robinson moved to table this Item; seconded by Ms. Lee Loy, and carried unanimously by voice vote.

**C. PROPOSED ENERGY CIP RATE:**

In conjunction with the Department's FY 2017 Operating Budget, a new rate is being proposed to fund projects intended to reduce the department's dependence on purchased power, which is budgeted at \$22 million in FY 2017.

The concept for this new rate was developed in part by consultant Steve Bolles, who reported the results of his Energy Evaluation Study of DWS at the Water Board meeting on August 25, 2015.

Among his various recommendations, Mr. Bolles noted that funding for energy improvements was a hurdle that needed to be addressed. This new rate was developed as a means to address that need.

The energy rate is budgeted at \$0.05 per 1,000 gallons, and is expected to generate \$460,000.00 in FY 2017, to be used on 2 projects:

- To install power factor correction capacitors at 16 well sites (\$240,000.00); and
- To install variable frequency drives (VFDs) at 2 well sites (\$220,000.00).

The energy rate is to be adjusted annually, depending on projects to be funded.

The Manager-Chief Engineer recommended that the Board approve a Public Hearing to be held on Tuesday, March 22, 2016, at 9:30 a.m., prior to the Water Board's regular meeting, to accept testimony regarding the Department's new Energy CIP rate, beginning in FY 2017 at \$0.05 per 1,000 gallons. The rate will be adjusted annually, based on energy-saving projects proposed by the Department for the year.

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

The Manager-Chief Engineer said the staff collaborated to see what this Energy CIP fund could be used for; he noted that the Department is trying to take a multi-pronged approach to achieve energy efficiencies. This initiative is among the components that DWS has been looking at, including energy saving performance contracting, etc.

Mr. Sumada said that he, Mr. Young, and other staff members had gotten together to consider the recommendations made to DWS during the energy study presentation last May by Mr. Steve Bolles. The focus was on how DWS would fund some of the projects that Mr. Bolles recommended. DWS came up with the proposal under consideration today, whereby a new rate would be created, separate from the Power Cost Charge (PCC), which would be implemented in the FY 2017 Budget. Mr. Sumada noted that any new rate or rate change requires a Public Hearing, so that is why DWS must hold one for this new rate. Mr. Young came up with the amount for the new rate, based on projects that he wanted to see put in place in FY2017, he said.

Ms. Lee Loy thanked Mr. Sumada for providing the background information, because she had wanted to know how DWS had arrived at the amount. She asked if DWS expects to spend that amount in FY2017.

Mr. Sumada said that he would expect that DWS would enter into a contract with a contractor or vendor, and over the course of FY2017, DWS would make payments to the contractor, based on how much they accomplished.

Ms. Lee Loy asked if these projects would be addressed within the FY2017 Budget.

Mr. Young said yes.

Ms. Lee Loy asked if the carve-out amount, i.e., the 5 cents, really covers what is planned for FY2017.

Mr. Sumada confirmed this.

The Manager-Chief Engineer said that if this rate gets implemented, it would start July 1<sup>st</sup>, but DWS would not have the money in the pot as of July 1<sup>st</sup>. DWS would have to wait two months, when the first bills with the new rate go out. After that, some money would come in, but logistically, the Manager-Chief Engineer did not see how DWS could actually swing a contract at the beginning of FY2017. DWS might be able to manage it halfway through the fiscal year, when some funds become available, he said. At that point, DWS would start the procurement process. The Manager-Chief Engineer said that the Board might choose other options, instead of having project-specific needs year-to-year, and may keep the rate at 5 cents per 1,000 gallons, subject to the staff and Board collaborating on projects on a year-to-year basis – or long-term projects. In any case, this Item is what DWS is proposing today, but there are other options available, the Manager-Chief Engineer said.

Ms. Lee Loy asked if the projects were always going to be related to Mr. Bolles' recommendations, like going down a checklist. Ms. Lee Loy said that she assumed that, once all of the items on the checklist are done, the Energy CIP fund would have mounted in the meantime. She asked what happens to that money; she asked what those monies would be used for.

Mr. Robinson said he had been thinking about what Mr. Elarionoff said last month about the bother of going through Public Hearings to approve the rate decrease on the PCC. He said it speaks to methodology. Noting that the Board had hired Mr. Okamoto as Manager-Chief Engineer, Mr. Robinson said that the Board should give the Manager-Chief Engineer the authority to change rates, or to include new rates in the Budget, etc. He said that instead of having a Public Hearing to do this 5 cent increase earmarked for energy savings, the proposal should just be presented as part of the annual Budget for the next year – which is consequently approved by the Board. He said that in the course of the year, whenever there are changes in the PCC or other extraordinary changes, the Manager-Chief Engineer should have the authority to make those changes, and be given the latitude to give the Board notice that the Manager-Chief Engineer is taking this action. This should be done without having to go through Public Hearings, etc. He noted that Ms. Self was thumbing through the Rules and Regulations, to see whether this can be done. Delegating authority to the Manager-Chief Engineer without holding Public Hearings would make everyone's lives easier, Mr. Robinson said. It would also enhance the Manager-Chief Engineer's ability to be nimble and quick in taking action.

The Manager-Chief Engineer thanked Mr. Robinson for the vote of confidence. He said that he and the Deputy strive to establish that trust relationship and confidence with the Board, when

DWS makes the kinds of decisions that it can make administratively. However, he believed that such a change might require a Resolution or something like that.

Ms. Self said no, a Public Hearing needs to be held.

Ms. Lee Loy said maybe the law could be changed.

The Manager-Chief Engineer said it would mean going through the Legislature; it is State law.

Ms. Self suggested going to the Legislature.

Mr. Robinson asked if the Public Hearing could be to delegate authority to the Manager-Chief Engineer.

The Manager-Chief Engineer said that Mr. Sumada had looked up the relevant Statute, HRS 54-63. He thanked Mr. Robinson again for the vote of confidence.

Mr. Robinson said that he agreed 100 percent with Mr. Elarionoff about Public Hearings; they are a waste of time, he said. Everybody here drives to the Public Hearing, and the public does not show up.

The Manager-Chief Engineer said the Department has tried to make the Public Hearing process as time-efficient as possible, by scheduling Public Hearings just prior to regular Water Board meetings.

Mr. Elarionoff noted that the Recommendation called for the rate to be adjusted annually; he asked what that adjustment would be based on.

Mr. Sumada said it would be based on the projects that Mr. Young and his colleagues identified to be accomplished in the coming year. He said that it was based on the energy study that Mr. Bolles prepared.

Mr. Elarionoff asked if there was any psychological reason for setting the rate at 5 cents.

Mr. Sumada said the rate was calculated according to a formula, dividing the cost of the projects by the estimated water consumption for the year. The amount comes to 5 cents.

Mr. Elarionoff asked if it came to exactly 5 cents.

Mr. Sumada said yes.

The Manager-Chief Engineer said that DWS has approximately 9.2 billion gallons worth of consumption per year; multiplying that figure by 0.05 per 1,000 gallons comes to \$460,000.00. Engineers and accountants do not deal with psychology; they only deal with numbers, he said.

Mr. Arikawa asked how DWS arrived at the figures for the two projects: one is for \$240,000.00 and the other is for \$220,000.00. He asked if the calculations were based on actual quotes.

Mr. Young said that DWS has some pricing based on its Material Bid for things like the VFDs; staff also based their cost estimates historically for things like installation, etc.

Mr. Arikawa asked what happens if the cost of the material or whatever goes up before DWS gets the quotes out; if that happens, the figure would naturally go up, he said. The \$460,000.00 listed here would not cover these two projects.

The Manager-Chief Engineer said that was possible.

Mr. Arikawa asked where DWS would get that extra money to cover these projects.

Mr. Young said that of the 16 well sites slated for power factor correction, some of them could be cut back, instead of asking the Board for more money. There is some flexibility here, he said. DWS could alternatively go to smaller pump stations where the VFDs are not as big, etc.

Mr. Arikawa said that he was thinking that maybe the rate should be 0.525 or something like that, to provide an extra cushion. He asked how DWS would cover the cost, if they came up short.

Mr. Young said that DWS could do things in the following year, too. He said that the main thing is that DWS is making progress every year.

Mr. Robinson suggested that the two Public Hearings proposed for next month be combined into one Public Hearing.

The Manager-Chief Engineer said that the Department had wrestled with that same question; DWS believed that they had to be held separately.

Mr. Sumada agreed; State HRS requires a Public Hearing for any rate change, and the County Charter requires a Public Hearing for Budgets. The Rules do not address dealing with two Items in one Public Hearing; he said that he did not know the answer to that question. It may be possible to combine them into one Public Hearing, but Mr. Sumada said that he set up two separate Public Hearings, with the information he had.

Ms. Self said she could see no reason why DWS could not have both Items handled at the same Public Hearing; the main thing is to hold a Public Hearing, and this would just be an Agenda with two Items on it.

Mr. Sumada said yes, that makes sense.

The Manager-Chief Engineer said it would be one Public Hearing with two Agenda Items.

Ms. Self said yes, it did not make sense to have two separate Public Hearings.

The Manager-Chief Engineer concurred.

Mr. Robinson said the Board should put a third Item on the Agenda.

Ms. Lee Loy said the idea of having these monies going to fund specific renewable energy projects is excellent; as the fund builds, more projects can come online. This is a great place to start, she said.

Ms. Self raised the question of posting the Public Hearing Notice.

The Secretary said that the two Public Hearing Notices that had been prepared for publication in the newspapers would have to be amended, to combine the two Items into one Public Hearing Notice.

Mr. Arikawa joked that the next rate decrease should be Item No. 3 on the Agenda.

The Manager-Chief Engineer said that coincidentally, Mr. Sumada and his staff are continuing their analysis of the PCC, and it is highly likely that DWS will come back to the Board for another rate adjustment, in April.

Mr. Robinson asked if Item No. 3 on the Agenda could be delegation of authority to the Manager-Chief Engineer for rate increases consistent with energy costs through the course of the year, with post-notification to the Board, and consequently, to the general public.

Ms. Self said no, the Statute is very clear that any rate change, up or down, requires a Public Hearing.

The Manager-Chief Engineer suggested that once this new rate is established, through Public Hearing, that the Board authorize him to utilize CIP funds or other funds available to DWS to cover any shortfall in project costs. He suggested that the Board could delegate that authority to the Manager-Chief Engineer, who would then simply report to the Board. He gave as an example, a shortfall of \$40,000.00, i.e., a scenario whereby the two projects come to a total of \$500,000.00 instead of the budgeted \$460,000.00. The Manager-Chief Engineer would be authorized by the Board to go ahead and approve the additional \$40,000.00 from CIP funds, and just report to the Board that this was done.

Mr. Arikawa said he could not see why not.

Ms. Self concurred.

Mr. Robinson asked if that would require a Public Hearing.

Ms. Self said no, that would just be a matter of switching monies.

The Manager-Chief Engineer said he believed that he could normally do that anyway.

Ms. Self agreed.

Mr. Robinson asked if the Board would be required to delegate to the Manager-Chief Engineer; he asked if it was just something that would be a matter of course.

Ms. Self said no, she thought the Board would just give him that authority.

Mr. Robinson asked if it would call for a Motion from the Board.

Ms. Self said yes.

The Manager-Chief Engineer suggested that this could happen when DWS awards a project, and the cost comes to \$500,000.00; DWS would have to bring it to the Board for award *anyway*.

Ms. Self concurred.

The Manager-Chief Engineer said in such a case, DWS would let the Board know that the costs had overrun the budget in place; the Manager-Chief Engineer would seek the Board's approval to utilize CIP funds to make up the difference. It could be dealt with that way, he said.

Mr. Arikawa agreed.

The Manager-Chief Engineer said that the Board could decide to cut out one of the sites, and keep within the budgeted amount, etc. The discussion could go that way, too.

Ms. Self said that would work.

Mr. Elarionoff said he preferred it that way, because the Manager-Chief Engineer would be held accountable to the Board.

The Manager-Chief Engineer agreed. That is the way it would have been done anyway – without any Resolution or extra action by the Board.

Mr. Arikawa said it is a good idea.

Mr. Robinson agreed that it was a great idea.

Ms. Lee Loy asked whether the Board should now return to Item 7(B).

Ms. Self said no, there was a Motion on the table for this Item, 7(C); the Board had tabled the previous Item, so the Board needs to take action on this Item, i.e., the rate increase.

ACTION: Motion carried unanimously by voice vote.

**B. DEPARTMENT OF WATER SUPPLY PROPOSED OPERATING AND 5-YEAR CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGETS FOR FISCAL YEAR: (FY) 2017:**

Chairperson Takamine asked if anyone wanted to make a Motion.

Ms. Self said there already was a Motion, although it had been tabled.

Mr. Sumada noted that the Public Hearing would combine the two Items; currently the times are different.

ACTION: Motion carried unanimously by voice vote.

Mr. Arikawa asked to clarify that the Board would have a Public Hearing at 9:30 a.m. and 9:45 a.m., ahead of the regular Board meeting in March.

Chairperson Takamine asked if it would be one Public Hearing, starting at 9:30 a.m.

The Manager-Chief Engineer said it would be one meeting with two Items, and suggested that it be held at 9:45 a.m.

Ms. Self said yes, the Public Hearing should not take more than 15 minutes.

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

The Manager-Chief Engineer said that he was in frequent contact with Commission on Water Resource Management (CWRM) staff, as well as with Mr. Roy Hardy and Deputy Director Jeff Pearson. CWRM has notified DWS that the National Park Service (NPS) wants to present to CWRM some new information, and a meeting has been set for Kona on May 17. DWS will definitely attend the meeting to hear what NPS wants to present to CWRM, he said. The Manager-Chief Engineer said that the venue has not been secured yet, but DWS plans to stay on top of it with CWRM staff.

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

*(Executive Session was not held.)*

F. **MONTHLY PROGRESS REPORT:**

The Manager-Chief Engineer said that he wanted to highlight the Waimea Water Treatment Plant Compliance Upgrade, Phase 2 project in South Kohala. One of the issues that DWS has been experiencing involves staffing; a Treatment Plant Operator suddenly resigned. DWS has been working on various contingency plans in anticipation of dry conditions in the area, and the staffing is an added challenge for DWS there. Mr. Ikeda has been working very hard with Contracts to put out a competitive sealed bid for Treatment Plant Operator Services. DWS currently has only one operator at Grade IV level, which is the required level to run the Water Treatment Plant. Because of the critical shorthanded situation, the operator has not been able to take time off for well over a year. DWS is hopeful that one of its other Treatment Plant Operators will be able to pass the Grade IV exam, to provide back-up. As it stands now, there is the lone operator at Grade IV level. Meanwhile, Mr. Ikeda is working on a bid to get private companies to provide supplemental services in case the need arises. That bid will be advertised, and the bid opening will be in March.

Mr. Ikeda said that the bid results will be brought to the Board next month.

The Manager-Chief Engineer said that the Board will hopefully vote to award the bid. He said he hoped there were people who qualify to provide those services to DWS; this poses a major challenge to DWS at this point. He noted that for the Deputy's Compliance Upgrade project, the required Operator Certification level would be a Grade II, and hopefully there is a larger pool of people available with that certification level, he said.

Mr. Elarionoff asked how DWS would ensure diligence on the part of these vendors. He noted that a large percentage of prison guards called in sick on Super Bowl Sunday. He said that people like that do not care; it is only a job.

The Manager-Chief Engineer said that DWS inserted into the bid documents a provision for training sessions with the current Treatment Plant Operator IV, as well as a retainage. The vendor will be a private company, and the operator they provide will need to be on call at a moment's notice; the operator will need to know how to operate the plant. The operator will need to be able to come in and take over the plant. He said there should be a certain length of response time written into the bid documents.

Mr. Ikeda said it would be 48 hours' response time.

The Manager-Chief Engineer said that the operator would definitely need Grade IV certification. If the vendor does not provide the services as contracted, DWS would fire them.

Mr. Elarionoff asked if there was a penalty or a bond to hold the vendor accountable.

The Manager-Chief Engineer said that there is a performance bond requirement in DWS contracts. He noted that part of DWS's contingency plan is to get the wells in the area back up and running. If the vendor were completely derelict in their duties and were unable to run the plant, DWS would be forced to activate those wells, and try to feed Waimea 100 percent off of well water – and shut the Treatment Plant down.

Chairperson Takamine asked about the status of the electrical equipment on the Laupāhoehoe Reservoir project.

Mr. Inaba said that it is being installed, although a couple of pieces of equipment that were delivered need to be replaced. The major component, i.e., the cabinets, was delivered, and as of

this week, they are actually standing in place. The SCADA staff needs to do more programming to complete that installation, he said.

The Manager-Chief Engineer said that at this point, the contractor is beyond the contract completion date.

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

Mr. Elarionoff asked what the unfunded pension liability meant; it was mentioned on the first page of the Financial Statements.

Mr. Sumada explained that the actuary calculates how much all of the employees, current and past, are going to need for their pensions, i.e., what the cost is to provide for their pensions. The actuary comes up with the number for current and past employees. Current employees contribute money into the State Employee Retirement System (ERS) with every payroll, as does the employer. Those employee/employer contributions constitute the *funded* portion of the pension liability. The total pension obligation to employees may be \$100 million, but the contributions might come to only \$50 million; the unfunded liability is the difference: \$50 million.

Mr. Sumada said that if everyone were to retire today, the ERS would need \$100 million to fully fund their pensions; ERS has only \$50 million in the bank, so the unfunded portion is the other half, he said. That unfunded portion is the unfunded pension liability.

The Manager-Chief Engineer noted that this number is given to the auditors; the auditors did not calculate it themselves.

Mr. Sumada said that is correct; the actuaries calculated that number, and that is the \$20 million that DWS put on its balance sheet as a liability.

Mr. Elarionoff said he was still not clear, but that was as much information as he could handle.

Mr. Robinson said that unfunded pension liability number really bothered him. The ERS supposedly invests; the people contribute personally, and government entities are contributing on employees' behalf on a match basis. The Water Board decided to contribute 100 percent of its obligation, for all of its employees; therefore, DWS should be consistent, on an actuarial basis, with what ERS recommended that DWS contribute, he said. Actuaries take into account employees' life expectancy, future anticipated increases, and other factors, because this is an indexed retirement plan, Mr. Robinson said. In their report, the auditors gave their take on this unfunded liability; ERS is saying that all employees, not just DWS employees, are part of this unfunded liability. ERS did not make a distinction, and instead blanket-allocated the pension liability back to everybody. He noted that the County Council voted to *not* make the additional contribution; DWS is shouldering the burden for people on Maui, on Kaua'i and on Oahu who have not made the additional contribution. Mr. Robinson said it was not fair, but wondered what DWS could do about it.

Mr. Sumada said that certainly is one of the reasons for the unfunded liability. The other reason for the unfunded liability is that several years ago, the State raided the ERS in order to balance the State Budgets. At the time, investment returns were running around 16 percent; the ERS was allowed to keep 12 percent, and the State took the difference to balance their budget.

Mr. Sumada said that the State has never paid the money back to ERS; this was money that was supposed to fund pensions.

Mr. Elarionoff said that now he understood. He asked what Source Water Protection projects are, listed on Page BUD3.

The Deputy said that the Department of Health (DOH) implemented the Source Water Protection Grant several years ago; DWS got a grant from DOH of \$200,000.00, to focus efforts on education to the community regarding source water and the importance of source water protection. Over the past couple of years, DWS has been using the funds to invest in supplies, programs, videos, etc., to enhance its outreach efforts; DOH reimburses DWS 100 percent after DWS makes the purchases; it is a 100 percent grant.

#### **H. MANAGER-CHIEF ENGINEER'S REPORT:**

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

- 1) Report on Pacific Water Conference – One big takeaway from the conference from the conference was learning about the ID/IQ Procurement Process used by Honolulu Board of Water Supply (BWS). The Manager-Chief Engineer said he has been in contact with their project manager to explore whether it is something that DWS could also use. ID/IQ stands for “Indefinite Delivery/Indefinite Quantities,” a way of procuring things that may not be very quantifiable. BWS has used the process for a hydro-pneumatic tank repair and replacement project, as well as for submersible motor and pump repair projects. DWS is interested in looking at different procurement processes that other people are using with success; if the process looks more efficient, DWS wants to check it out, the Manager-Chief Engineer said.
- 2) Upcoming AWWA Conference – The Manager-Chief Engineer invited interested Board members to email the Board Secretary. As in past years, the Chairperson can go, and from there on, attendance is based on seniority. There are four slots budgeted for Board members. In the past, the Board has done the Exhibits, but this year, the conference is also offering an Agenda tailored to small utilities, which DWS qualifies for. The fee is only \$125.00 per person; the small utilities sessions are scheduled for a Wednesday. The Board will also get passes to the Exhibits. This year's conference schedule has been moved back one day, so attendees will leave here on the Saturday (instead of the Friday), and return home on the Thursday (instead of the Wednesday). The Manager-Chief Engineer directed interested Board members to Google the conference website at ACE 16.

#### **I. CHAIRPERSON'S REPORT:**

The Chairperson reported that he met last week with the Manager-Chief Engineer and the Deputy to discuss how the Board can better serve DWS. The conversation turned to the subject of a Big Island legislator who authored a bill which would have adversely affected DWS. The discussion moved to the need to engage Big Island legislators on a one-on-one basis. A meeting was then scheduled with the Big Island caucus on Oahu, with the help of Representatives Clift Tsuji and Cindy Evans. The Big Island legislators get together once a week for breakfast; this is the only island that does so, the Chairperson said. This meeting will be a great opportunity for DWS to meet one-on-one with the Big Island State House Representatives and State Senators. The Office of Hawaiian Affairs representative, Mr. Bobby Lindsey, will also be there. Only Senator Josh Green will not be on hand, the Chairperson said. This meeting is slated for next week Thursday, March 3, and the Manager-Chief Engineer, the Deputy and the Chairperson will fly to Honolulu to attend.

The Chairperson said he wanted Board members to have the opportunity to do site visits, to gain a better understanding of DWS projects such as well repairs and big CIP construction projects, etc. The Chairperson spoke to Mr. Ikeda, who was open to having the Board do site visits. He noted that the Board needs to be very aware of the Sunshine Law; he asked how many Board members can attend each site visit.

Ms. Self said that DWS can agendize the site visit, and take Minutes just like a meeting.

Chairperson Takamine said his experience with site visits has been very positive, because he was able to gain a better understanding of what is involved in DWS projects. He said he would be encouraging Board members to make site visits, and will try to avail the Board with opportunities whenever possible.

Ms. Self said that if up to two Board members go on a site visit at a time, the Sunshine Law does not apply, so long as neither Board member tries to influence the other's vote.

Mr. Robinson asked if it were only two members allowed to go at a time.

Ms. Self said yes, but other than that, the only other way is to create a committee (for the purpose of the site visit), where up to four members can attend.

The Manager-Chief Engineer noted that Mr. Inaba will be visiting the Queen Ka'ahumanu Highway project today. If the Board wants to visit sites like that, DWS can coordinate it with the contractor. DWS will provide the Board members with personal safety equipment for the site visit, he said.

Chairperson Takamine said he wants to see the many talents of the Board members put to use to help make the Department a better place to work.

8) ANNOUNCEMENTS:

1. **Next Regular Meeting:**

The next meeting of the Water Board is scheduled for 10:00 a.m. on March 22, 2016, at the Department of Water Supply, Operations Center Conference Room, 889 Leilani Street, Hilo, HI.

*The regular meeting will be preceded by a Public Hearing on Department of Water Supply Proposed Operating and 5-Year Capital Improvement Projects (CIP) Budgets for Fiscal Year (FY) 2017, and the Proposed Energy CIP Rate, at 9:45 a.m.*

2. **Following Meeting:**

The following meeting of the Water Board will be held at 10:00 a.m. on April 26, 2016, at the Department of Water Supply, Operations Center Conference Room, 889 Leilani Street, Hilo, HI.

9) ADJOURNMENT

**ACTION:** Ms. Lee Loy moved to adjourn; seconded by Mr. Robinson, and carried unanimously by voice vote.

The meeting adjourned at 11:12 a.m.

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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.*