MINUTES

DEPARTMENT OF WATER SUPPLY
COUNTY OF HAWAIʻI
WATER BOARD MEETING

February 26, 2019

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

MEMBERS PRESENT:	Mr. Eric Scicchitano, Vice-Chairperson Mr. David De Luz, Jr. Mr. Nestorio Domingo Mr. Kenneth Sugai Mr. Leningrad Elarionoff (10:05 a.m.) Mr. Keith K. Okamoto, Manager-Chief Engineer, Department of Water Supply (ex-officio member)
ABSENT:	Mr. William Boswell, Jr., Chairperson Mr. Bryant Balog, Water Board Member Mr. Craig Takamine, Water Board Member Ms. Kanoe Wilson, Water Board Member Director, Department of Public Works (ex-officio member) Director, Planning Department (ex-officio member)
OTHERS PRESENT:	Ms. Diana Mellon-Lacey, Deputy Corporation Counsel Ms. Nancy Cook-Lauer, Hawaiʻi Tribune-Herald Mr. Chad Funasaki, N&K CPAs, Inc. Mr. Andrew Ho, N&K CPAs, Inc.
DEPARTMENT OF WATER SUPPLY STAFF:	Mr. Kawika Uyehara, Deputy Ms. Nyssa Kushi, Information and Education Specialist Mr. Kurt Inaba, Engineering Division Head Mr. Richard Sumada, Waterworks Controller Mr. Daryl Ikeda, Chief of Operations Mr. Warren Ching, Energy Management Analyst Mr. Calvin Uemura, Customer Service Section

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

2) STATEMENTS FROM THE PUBLIC - none

The following was taken up out of order.

5) **PRESENTATION OF AUDITED FINANCIAL STATEMENTS – JUNE 30, 2018**

Mr. Chad Funasaki and Mr. Andrew Ho, representatives of N&K CPAs, Inc., the Department's independent auditors, were present to answer questions from the Board and to make a presentation on their report.

Mr. Funasaki began by reviewing Pages 4 and 5--the responsibilities of management for the financial statements, and what they, as auditors, are responsible for. The financial statements are fairly presented in accordance with US generally accepted accounting principles. It is an unmodified opinion that these financial statements are fairly presented. Page 5 notes that the financial statements do not purport to the results of the County of Hawaiʻi. They are only for the Department of Water Supply. He pointed out one new thing this year, which will be covered later, and that is the adoption of a new County principle, implemented in 2018. Page 6 makes reference to a second report, which will also be covered later. Pages 7 through 10 cover management's discussion of the analyses. It highlights why things increase or decrease and provides highlights of the financial statements in 2018 versus prior year 2017. He turned it over to Mr. Ho to give an overview of the financial statements, Pages 11 through 15.

Mr. Ho stated that for the most part, in the 2018 financial statements, operations are pretty usual. As Mr. Funasaki mentioned, the most significant change is going to be in relation to implementation of the new County standard (GASB 75). Basically, what it does is it puts the net OPEB (Other Post-Employment Benefits) liability on the books. In previous years, it was sitting in the footnotes. On Page 12 is a $17 million OPEB liability which was not there in the past. This was done primarily to create consistency with the reporting because a few years back, the net pension, or ERS (Employee's Retirement System) liability, came on the books.

Mr. Funasaki noted that it is similar to the pension. A couple of years ago, there was a large liability put on the balance sheet, related to the pension (ERS). Now it is basically the same thing. This OPEB is another liability being placed on the balance sheet. The effect of it is on Page 13, towards the bottom, a $15.7 million adjustment, which decreases net position.

The Manager-Chief Engineer stated that the OPEB (Other Post-Employment Benefits) is basically from the EUTF (Employees' Union Trust Fund), which, to his understanding, is the health insurance coverage. Besides the ERS retirement pay, there is also a post-employment benefit for health care coverage.

Mr. Funasaki stated that the adjustment was made a couple of years ago for the pension, the ERS. For this year, to be consistent with the pension accounting, it is being done for the other post-employment benefits, which is the EUTF. This is the Department's proportionate share of that liability, and there are other County departments having their proportionate share as well. It is just that it is being recorded now on the financial statements.

(Mr. Elarionoff joined the meeting at 10:05 a.m.)

Mr. De Luz asked how that is reconciled with the ERS.

Mr. Funasaki replied that they are both determined by actuary, and they come out with the Department's proportionate share of the pension amount, or liability, and the OPEB liability. The Department's share is now presented on the statement of net pension.

Mr. De Luz stated his concern was that the Department has mandatory contributions to the ERS. (Mr. Funasaki noted that was correct.) Mr. De Luz asked how the liability on the books would equate to what ERS has in its proportionate share to the Department.

Mr. Funasaki replied that the ERS has its own audit.

Mr. De Luz asked if their formula is a higher proportionate share than what the Department would eventually owe, meaning if there is a delta, whether it is higher or lower. He wondered what the true liability is and that it reconciles with ERS.

Mr. Funasaki replied that the proportion shown in the report is reconciled. It is at a high level, and then it gets broken out. Each county has their proportionate share and that, in total, reconciles. He asked if that answered Mr. De Luz's question.

Mr. De Luz stated that his concern was in five to ten years, the Department is going to have to pay the piper. He wondered if the Department will have to be more conservative and have a cash reserve if there is a shortfall when the ERS calls it in.

Mr. Funasaki stated it is an unknown. It is an educated estimate. As things change, such as mortality rates, that liability can go up or down. Basically, the assets are funding this liability because right now, there is an unfunded portion. How assets perform also has a variance. A lot of things can move that net liability, meaning the liability is in excess of the assets funding it.

Mr. De Luz stated that he appreciated what was being reported but he wondered how this Department would be able to generate those resources, because it is semi-autonomous, and whether it may be limited unless it starts looking at this now. From his perspective, the Department may need to consider a cash stress test on the next five to ten years, hopefully not impacting operations. His concern was that collective bargaining could care less about this liability. It concerns him whether the Department would have sufficient cash reserves to be able to make its contribution once called upon. As with last year, there was an additional $800,000.00 that had to be made; but what if it were something like five to six million. That would be a hit.

Mr. Ho noted that, overall, in terms of the statements, that is the most impactful change. As Mr. Funasaki had mentioned, on Page 13, the restatement adjustment is just the beginning net OPEB liability balance. Pages 14 and 15 show the statement of cash flows.

Mr. Funasaki added that it is net cash, or, actually, the net inflow of cash, about $3.7 million. The Department ended the year with roughly $29.2 million in cash and cash equivalents.

Mr. Ho continued to Page 34, showing some additional disclosures with regard to employee benefits for the EUTF liability. A lot of it is similar, based on actuary assumptions. Some additional disclosures on Page 36 show investment expected, the rate of return, and changes in the net OPEB liability.

Mr. Funasaki noted that on Page 34, it shows what was discussed--the other post-employment benefit. Disclosed in there are things that came from the actuary, such as inflation, salary increases, and a lot of the assumptions that are made. Development of that liability is on Page 35. This is a new note in the audit because of implementation. Page 37 shows the changes in the liability and what it was at the beginning of the year, versus the end of the year.

Mr. Ho stated that on Pages 30 and 39, there are additional disclosures showing some of the sensitivity on liability to changes and some of the factors listed on Page 35 in terms of actuary assumptions. On Page 41, they pointed out the significant change to the financial statements--disclosure on the adoption of the new accounting principle of GASB 75 for the EUTF's OPEB liability. It breaks out additional information to the changes in the net position at the beginning of the fiscal year.

Mr. Funasaki added that they had to restate the beginning net position to account for this liability which is what is highlighted.

Mr. Ho noted that it should line up with Page 13 and the $15.7 million change.

Mr. De Luz commented, then, that it never gets funded but stays on as a liability and is adjusted based on assumptions of net income.

Mr. Funasaki stated that they are saying the pension is going to be funded in a certain year and these are just estimates. It is difficult because they are the most reasonable estimates that can be developed.

Mr. De Luz understood and appreciated that, but it is representative of a deferred continued liability.

The auditors agreed it is, if it continues.

Mr. De Luz asked the Manager-Chief Engineer if the Department could give the Board an idea, when preparing the budgets, of anticipated increases so the Board would know what the net difference is between increase in revenue versus salary increases with inflation. The reason he asked is because it takes so long to get a water rate increase, and that is generally only in the area of revenue, so it should be looked at two to three years ahead to give a better indication of how to at least fund those current potential requirements and not dip into the cash reserves.

The Manager-Chief Engineer replied that Mr. Sumada places these types of expenses in the budget, annually, that have to be paid to the State; but it sounds like what Mr. De Luz is asking for are more forecasts.

Mr. De Luz replied yes, because based on this report, the Department may probably need to start doing its water rate study at the end of this year.

The Manager-Chief Engineer replied it is already in the plans.

Mr. Funasaki asked if there were any further questions on the report.

Mr. Elarionoff stated that it is hard for him to visualize because there are so many variables. He was interested in whether there is something like a graph showing the Department's progress--whether it is going uphill or downhill for however long the auditors have been doing these reports.

Mr. Funasaki replied that he did not have a 5-year or 6-year trend with him but noted that net cash and cash increases are always a good indication. There is a positive net increase in cash of $3.7 million. A lot of things need to be factored in, like when you look at your income statement or statement of activities, looking at the net income or net loss, there are things to take into consideration because within that line, you have depreciation expense in there. If you back that out, you could have net income, but depreciation is a book entry. It is not really cash. He offered to put something together for Mr. Elarionoff if he wished.

Mr. Elarionoff replied that would not be necessary. Just something off the top of his head would be fine.

Mr. Funasaki replied that it the Department is looking good.

Mr. Elarionoff thanked him for the information.

Mr. Funasaki continued with the second report referred to earlier, on Pages 49 and 50. This is a report on Internal Controls, or financing reporting. The second paragraph, or the second section, talks about internal control, or financial reporting and defines what deficiencies are. There are two types of deficiencies: significant deficiencies and material weaknesses. Obviously, material weaknesses are more severe. Significant deficiencies are less severe, but it rises to a level where they should let governance know that this condition or finding exists. On the top of Page 50, they highlight or point out the fact that there was one deficiency identified in internal control.

Mr. De Luz thought that only one deficiency was good.

Mr. Funasaki stated that last year, there were three deficiencies and two of them were resolved. This last one is being pointed out, although it was addressed to some degree last year, but it is only reiterated so the Department may do a more complete look at access to the systems and whether it is really necessary. Looking at Page 51, they talk about segregation of duties and this particular issue pertains more to logical access to the various systems within the County's systems. There are different areas where people have access and what it is really saying is if you do not need to have access, or it is not critical for your daily functions, then maybe you do not need that access. Just doing an overview of who has access to what is being communicated there. Under the "Cause" section on Page 51, in the last paragraph, there is an audit trail or activity log mentioned but maybe somehow it could be monitored. It is similar to what they wrote last year in their report, shown on Page 55, which is a status of what was communicated last year. The first two were accomplished within the year and the third one was partially accomplished but may be need a little bit more attention. Management's response to the issue is shown on Page 54. That is the Department's or management's response to how they are going to address this particular issue. From three down to one, they are on their way to getting this accomplished.

Mr. De Luz asked if, in regard to this particular matter, the Department has any issues with staffing as far as being able to manage this or is it more of looking at the responsibilities of the parties and establishing their access security.

Mr. Funasaki replied he did not think it meant hiring additional positions.

Mr. De Luz asked if it meant working with the system administrator and whether it includes keeping compliant with HIPAA with regard to access of information.

Mr. Funasaki replied that was correct. They also checked on the HIPAA.

Mr. De Luz noted that it is more of an internal manner then.

Mr. Funasaki replied that was correct.

Mr. De Luz asked if the system time stamps when someone logs in.

Mr. Funasaki replied he believed so.

Mr. De Luz asked if it is restricted by PC or a specific work station, or more from the ability of password protected.

The Manager-Chief Engineer replied it requires a log in and password.

Mr. De Luz mentioned the only reason he brought this up was that he is on a credit union board and they actually had a similar issue because of their multiple branches; and part of their ability with IT to manage that was station specific on more of the critically, highly sensitive data that needed to be accessed.

Mr. Domingo asked about Page 55, "Strengthen Controls Over Logical Access in the Financial Accounting Software" and if that meant if access is not required, then those employees are not allowed to work on the accounting software.

The Manager-Chief Engineer replied that is basically what it means.

Mr. Funasaki asked if there were any further questions.

Mr. Elarionoff asked if, in looking at the total picture, with the projected population increase, etc., the Department is prepared for the future.

Mr. Funasaki replied that projections or forecasts are not within the scope of what they do.

Mr. De Luz commended Mr. Sumada for this very clean audit report. The challenge is that he has some mentoring to have someone eventually fill his shoes.

There being no further questions, the Board thanked Messrs. Funasaki and Ho for their presentation.

(Messrs. Funasaki and Ho left the meeting at 10:28 a.m.)

Vice-Chairperson Scicchitano noted, for the record, that Mr. Elarionoff had joined the meeting, and there was now a quorum.

3) APPROVAL OF MINUTES:

ACTION: Mr. Sugai moved for approval of the **Minutes of the January 22, 2019, Public Hearing on the Power Cost Charge**; seconded by Mr. Elarionoff and carried unanimously by voice vote.

MOTION: Mr. De Luz moved for approval of the **Minutes of the January 22, 2019, Regular Water Board Meeting**; seconded by Mr. Sugai.

Mr. Elarionoff pointed out the following corrections to the Minutes:

Page 10, at the top, second line down, it says "types of findings so that it can come a new cause." He stated there was something wrong with that phrase but did not know how to correct it. The Manager-Chief Engineer noted that it looked like it needs the word "to" before "a new cause."

Page 17, third paragraph from the bottom, it says "Mr. Masuda replied that if the meaning…" He thought that word should be meeting instead of meaning. Ms. Diana Mellon-Lacey thought it made sense within the context because if you go back to the earlier paragraph, there was discussion about whether comments could be discussed outside of this meeting. She agreed that it is probably supposed to be "meeting" if the meeting is about changing the way contested case hearings are done--that is all by the Department's Rules and Regulations. In other words, you would have to change the Rules and Regulations to change how contested case hearings are held. The Manager noted that the word meaning would be changed to meeting.

Page 18, sixth paragraph from the bottom, beginning with "Mr. Masuda," second line down, toward the right side, it says "For an open section." It should be "session" instead of section. The Manager-Chief Engineer noted that would make more sense.

ACTION: There being no further corrections, Motion to approve the Minutes was carried unanimously by voice vote.

4) APPROVAL OF ADDENDUM AND/OR SUPPLEMENTAL AGENDA:

ACTION: Mr. Sugai moved to add the Supplemental Report for Item 7A, North Kohala, Job No. 2016-1045, Hala‘ula Well Development - Phase 2 to the Agenda; seconded by Mr. Elarionoff and carried by roll call vote (Ayes: 5 - Messrs. De Luz, Domingo, Elarionoff, Sugai, and Vice-Chairperson Scicchitano; Nays: 0; Absent: 4 - Chairperson Boswell, Messrs. Balog and Takamine, and Ms. Wilson).

5) **PRESENTATION OF AUDITED FINANCIAL STATEMENTS – JUNE 30, 2018**

Taken up earlier.

6) **DEPARTMENT OF WATER SUPPLY PROPOSED OPERATING AND 5-YEAR CAPITAL IMPROVEMENT PROJECTS (C.I.P.) BUDGETS FOR FISCAL YEAR 2020:**

The Department's Fiscal Year 2020 Operating Budget, totaling $55,652,500, and 5-Year C.I.P. Budget for Fiscal Year 2020-2024, totaling $122,700,000, have 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 19, 2019, at 9:30 a.m., prior to the Water Board's regular meeting, to accept public testimony regarding the Department's Fiscal Year 2020 Operating and C.I.P. Budgets.

MOTION: Mr. Elarionoff moved for approval of the recommendation; seconded by Mr. De Luz.

Mr. De Luz asked Mr. Sumada how reimbursements for natural disasters are accounted for, whether it is a receivable or more like a grant or aid when it comes back.

Mr. Sumada replied it is both a receivable and classified as contributions in aid. It would be recorded at fiscal year-end, June 30.

Mr. De Luz asked if that meant it is carried as a current receivable during the fiscal year, and if it is not paid, it is booked as a receivable on the balance sheet.

Mr. Sumada replied that was correct. There have been some FEMA receivables on the books for the last couple of years. They take a while before they are received.

Mr. De Luz asked if the expenses are booked as "occurred."

Mr. Sumada replied that was correct.

Mr. Domingo asked about the budget report, Page 1, under "Other assumptions included in the operating budget." He wondered if Item #3, the three percent salary increase, was an assumption or if it was a projected increase in the local economy, or a cost of living adjustment.

The Manager-Chief Engineer replied it is from collective bargaining. All of the Department's employees are union members and they essentially have their wages established via collective bargaining. The Department has to account for a possible increase due to that collective bargaining. Not all bargaining units get an increase every year, but the Department has to include something, knowing it may happen.

Mr. Sumada added that it is an estimate of what is anticipated the collective bargaining increases will be for coming fiscal year 2020.

Mr. De Luz asked if the Department had a wish list on the major projects. He noted it would be nice for the Board to have an understanding of what they are.

Mr. Inaba stated that there is a CIP master list from the 20-year master plan. There are projects in between that come up due to other needs.

Mr. De Luz asked if that could be supplemented because he had a feeling the projects are moved around, depending on priority and circumstances.

Mr. Inaba replied that was correct and that is why the list is updated year to year.

Mr. De Luz commented that he liked the concept with the OPEB, discussed during the Audit report, because some of the projects are quite expensive. It may require consideration of some type of rate reserve in anticipation of future large projects. Although increasing rates is not something he would like, the Department may have to be prudent to make sure it is able to maintain its capacity and distribution to its customers.

Mr. Elarionoff understood what Mr. De Luz was saying; however, if you do that, then when it comes to collective bargaining, you are throwing money. In one way you prepare for the future, but you stick your neck out.

Mr. De Luz stated it could be a restricted fund, which is something that would need to be addressed. He agreed, though, that it can be a double-edged sword. The unions could say you increased rates for that, so it can be increased for collective bargaining.

The Manager-Chief Engineer stated that the Department tries to be realistic, but at the same time, not being too comfortable. What was done in the past was going year by year on the CIP list, but it was found that by providing the five-year CIP, at least it had that projection. This is kind of a wish list because oftentimes, they are not all accomplished within that timeframe. It allows the flexibility that when priorities do change, at least that project was approved so it can be moved up on the list, or some are moved down on the list without needing individual approval each time priorities change. As Mr. Inaba mentioned, there is the longer-term master plan that includes some other projects. Perhaps the Department could add to the 5-year CIP by providing years six through ten beyond it.

Mr. De Luz also noted that the Department is always looking for funding opportunities for its projects so based on funds and accessibility to funding, that may require moving something up or pushing something back.

Vice-Chairperson called for the vote on the recommendation to approve a public hearing to accept testimony on the fiscal year 2020 Operating and CIP Budgets.

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

7) NORTH KOHALA:

A. **JOB NO. 2016-1045, HALA‘ULA WELL DEVELOPMENT – PHASE 2:**

This project consists of outfitting an existing exploratory well, constructing a control building and a 0.50-MG Reservoir, and installing approximately 10,000 feet of 12-inch waterline in State Highway right-of-way and private roadways and easements. Completion of this project will provide additional source water to North Kohala, increase water availability in many areas of the existing service area of North Kohala, and significantly increase redundancy of the major water system in North Kohala.

Bids for this project were opened on February 21, 2019, at 2:00 p.m., and the following are the bid results:

Bidder	Bid Amount	Adjusted Bid Amt. w/Preferences*
Goodfellow Brothers, LLC	$12,882,195.00	$12,141,185.25
Isemoto Contracting Co., Ltd.	$13,334,136.00**	$12,594,102.51
Nan, Inc.	$14,717,068.00	$13,915,774.60
Kiewit Infrastructure West Co.	$14,977,795.00	$14,163,364.22
Jas. W. Glover, Ltd.	$15,130,000.00	$14,908,860.02

*Bids were adjusted (for purposes of award) to provide credits for use of Hawai‘i Products and participation in the State Apprenticeship Program, in accordance with Hawai‘i Administrative Rules.
**Bid was corrected due to an error in the bid.

Project Costs:

1) Low Bidder (Goodfellow Brothers, LLC)	$12,882,195.00
2) Construction Contingency (~10%)	1,250,000.00
	$14,132,195.00

Staff has reviewed the bids and finds that the lowest responsible bid is acceptable.

Funding for this project will be from the DWSRF (Drinking Water State Revolving Fund) Loan. The contractor will have 550 calendar days to complete this project. The engineer’s estimate is $9,500,000.00.

The Manager-Chief Engineer recommended that the Board award the contract for JOB NO. 2016-1045, HALA‘ULA WELL DEVELOPMENT – PHASE 2, to the lowest responsible bidder, Goodfellow Brothers, LLC, for their bid amount of $12,882,195.00, plus $1,250,000.00 for construction contingency, for a total contract amount of $14,132,195.00. It is further recommended that either the Chairperson or the Vice-Chairperson be authorized to sign the contract, subject to review as to form and legality of the contract by Corporation Counsel.

MOTION: Mr. Sugai moved for approval of the recommendation; seconded by Mr. Domingo.

Mr. De Luz asked about the apprenticeship program where an accommodation of 5% differential is given if a bidder is approved and it is taken into consideration on the bids.

Mr. Inaba explained that, as shown on the table included in the supplemental agenda, the adjusted bid amount includes the apprenticeship program. It is used only for bidding purpose results to compare bids during award evaluation. There is also a Hawaiʻi Products Preference included.

Mr. De Luz asked about the bid prices being more than estimated.

Mr. Inaba stated that he had checked with the contractors, and the big issue is the location, or the distance, so it includes more cost in concrete as well as the hauling away after excavation to the approved disposal site. It was significantly more than it would have been. The project also includes work within the State highway right-of-way and an electrical control building and controls designed with the arc flash protection.

Mr. Domingo asked if the plans include installation of the reservoir and two miles of 12-inch waterline right alongside the highway.

Mr. Inaba replied that it is from the well site down to the highway and along the highway because there is an existing asbestos pipe in there that is relatively fragile. That will all be replaced.

ACTION: Motion was carried unanimously by voice vote.

7) MISCELLANEOUS:

A. **DEDICATIONS**:

The Department 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. BILL OF SALE
   Seller: County of Hawaiʻi
   East Hawaiʻi Regional Sort Station
   Tax Map Key: (3) 2-1-012: 029, 2-1-013: 150 and 167
   Facilities Charge: $13,750.00
   Date Paid: 12/15/2009
   Final Inspection Date: 12/04/2009
   Water System Cost: $567,425.80

   Mass Transit Agency Baseyard
   Tax Map Key: (3) 2-1-013: 148
   Facilities Charge: $44,000.00, Date Paid: 2/26/2016
   Final Inspection Date: 8/22/2017
   Water System Cost: $937,800.00

2. GRANT OF EASEMENT
   Grantor: Water Board of the County of Hawaiʻi
   Grantees: Hawaiʻi Electric Light Company, Inc., a Hawaiʻi corporation;
   Hawaiian Telcom, Inc., a Hawaiʻi corporation
   Tax Map Key: (3) 3-6-003: 035 (portion) Manowaiopae Tank Site

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.

ACTION: Mr. Elarionoff moved for approval of the recommendation; seconded by Mr. Sugai.

The Manager-Chief Engineer noted that Item #1 needed to be removed from the Agenda, rather than deferred. It involves a State of Hawai'i land ownership action; therefore, there is no definite timeframe. It will be placed back on an agenda when appropriate.

Mr. Inaba stated that the Department had gotten a portion of the easement at the last Water Board meeting but is waiting on the State portion, which requires Board of Land and Natural Resources action.

Ms. Mellon-Lacey added that she has been following up on that as well because of the delays.

ACTION: **Motion to approve Item No. 2 was carried unanimously by voice vote**.

B. **MATERIAL BID NO. 2018-17, SALE OF USED VEHICLES, EQUIPMENT, SCRAP COPPER, AND SCRAP BRASS FROM THE DEPARTMENT OF WATER SUPPLY**:

Bids were opened on February 13, 2019 at 2:00 p.m. All items for which the Department received bids and the successful bidders are as follows:

Item	Description	Bidder	Amount
2	Scrap Copper	Linus Wiggins	$.45/lb.
4	1996 Chevy S-10 Pickup, DWS 107	Gabriel Sampaia	$257.00
5	1996 Chevy S-10 Pickup, DWS 108	Gabriel Sampaia	$50.00
8	1998 Ford Contour, DWS 130	Damien Joaquin	$25.00
11	2001 Chevy S-10 Pickup, DWS 145	Gabriel Sampaia	$26.00
13	2002 Dodge Ram 2500 Pickup, DWS 161	Leonard Baybayan, Jr.	$500.00
14	2003 Chevy Malibu, DWS 163	Leonard Baybayan, Jr.	$27.00
15	2003 Chevy S-10 Pickup, DWS 167	Lee Perreira	$159.00
16	2003 Chevy Astro Passenger Van, DWS 168	David Faisca	$30.00
18	1992 Ford F350 1-Ton Dump Truck, DWS 187	Lee Perreira	$259.00
19	2006 Chevy Silverado Pickup, DWS 200	Gabriel Sampaia	$1,658.00
21	2010 Ford Transit Connect Van, DWS 226	Linus Wiggins	$450.00
25	2001 Chevy 3500 Express Cargo Van, DWS 143	Milan Machacek	$267.00
30	1996 Chevy 1-Ton Pickup with Autocrane, DWS 109	Christopher Greenwell	$1,257.00
33	Grimmer Schmidt Air Compressor	Gabriel Sampaia	$150.00
34	Generac Corp 60 kw Generator	Paul Daub	$20.00
35	Rockwell Model 10 Table Saw	Mark Yoshioka	$50.00
36	2008 Ford Ranger, DWS 215	Lee Perreira	$1,159.00

The Manager-Chief Engineer recommended that the Board approve all of the high bids for MATERIAL BID NO. 2018-17, SALE OF USED VEHICLES, EQUIPMENT, SCRAP COPPER,

AND SCRAP BRASS FROM THE DEPARTMENT OF WATER SUPPLY, as listed above and also authorize the Manager-Chief Engineer to dispose of all items for which no bids were received.

MOTION: Mr. Elarionoff moved for approval of the recommendation; seconded by Mr. De Luz.

Mr. Elarionoff asked about Item #6, the 1997 Ford Escort Station Wagon, noted as having been in an accident and if the Department has insurance.

The Manager-Chief Engineer replied that the Department is self-insured.

Mr. De Luz asked what is done with the excess items that were not bid on and how they are disposed of.

The Manager-Chief Engineer replied that a notification will go out to all employees if they want an item because the procurement portion was done. If items are still left, they will be disposed of per Department of Environmental Management's requirements.

Mr. Sugai asked if they were not bid on because they are not running.

Mr. Ikeda replied they need work, and a lot of the Department's vehicles have very high mileage.

Mr. De Luz asked if there were safety or corrections programs that could use them to refurbish.

Ms. Diana Mellon-Lacey mentioned auto repair practice or something of that nature.

Mr. De Luz stated that the Department could go through its procedures first and whatever is left over, it could be figured out from there.

Mr. Ikeda stated if anybody wanted them after that, they could come and get it.

ACTION: Motion was carried unanimously by voice vote.

C. **MONTHLY PROGRESS REPORT**:

Mr. Inaba reported that the Waikoloa Reservoir No. 1 Earthquake Repairs project community meeting was held January 24, 2019, at the Waimea Community Center and it went well. There were no questions regarding the monthly progress report.

D. **WATER SHUT-OFF RELIEF FOR FEDERAL WORKERS AFFECTED BY GOVERNMENT SHUTDOWN:**

The Department proposes providing shut-off relief to federal government employee customers affected by the federal government shutdown. It is proposed that no shut offs will be initiated during government shutdown. The customer must provide proof of federal government employment for the duration of the shutdown, for example, federal ID or federal pay stub. The Department will develop payment arrangements with customers during and after the shutdown has ended.

The Manager-Chief Engineer recommended that the Board allow the Department to proceed with this proposal.

MOTION: Mr. Sugai moved for approval of the recommendation; seconded by Mr. De Luz.

Mr. Elarionoff asked if this is relevant right now.

The Manager-Chief Engineer replied it is not, at this point, and that the recommendation would change to not being needed at this time. While the agenda was being prepared, there was a possibility of another shutdown; therefore, it was placed on the agenda to be proactive instead of waiting until March, creating hardship to some of these customers. However, at this point, it is not needed.

Mr. De Luz asked if this has been done in previous scenarios like the private sector--if they go on strike, for example.

The Manager-Chief Engineer replied, not that he was aware of.

Mr. Elarionoff asked if this was going to be a trend.

The Manager-Chief Engineer replied that he hoped not.

Mr. De Luz stated that the reason he asked his question was that in any type of federal shutdown, they normally get retroactive pay. In the private sector, and even State or County, when they go on strike, they do not get their pay. That is a hardship because they lose that income and do not get it back. He asked if this might be a dangerous precedent to start.

The Manager-Chief Engineer replied he did not think so. They would not be relieved of their responsibility, but merely given time to pay. It was brought to the Board because it is not something the Department can do, administratively. The Department had several requests from those affected by the shutdown, and that is what prompted this agenda item. He asked Ms. Mellon-Lacy how this should be handled now that it is not necessary.

Ms. Mellon-Lacey stated the recommendation could be withdrawn. No vote required.

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

Mr. De Luz commented that on Page 3, the increase of 24% for the General and Administrative Expenses was addressed during the auditor's report, which is for the EUTF. It goes in line with the OPEB accrual, in his opinion.

Mr. Sumada replied that was correct. The increase in general and administrative operating expenses is related to the attempt to fund the unfunded liability and pay down that obligation.

Mr. De Luz asked how the loss of lower Puna assets such as waterlines, meters, etc., are represented on the books.

Mr. Sumada replied they were written off. The assets were taken off the books, or the balance sheet, in fiscal year 2018.

Mr. De Luz asked if that was one of the reasons for the depreciation difference because depreciation decreased from previous year 2018, to current 2019.

Mr. Sumada replied he would have to take a closer look.

Mr. De Luz stated that was fine. He just wanted an understanding of how it was done. He continued that he knew the Department does not necessarily do a system-by-system cost analysis, but it seemed that the operating expenses in that area were reduced. He also mentioned the standby charges and commended the Department on its management of them. It was disproportionate; in other words, it was better than the increase in electrical charges, which means the Department is implementing its efficiency programs. He asked what "customers' accounting" meant under the deposits.

Mr. Sumada replied that under the category of expenses, "customers' accounting" relates to Customer Service and its salaries for meter reading, billing, customer service, and cashiering.

Mr. De Luz asked if there is a separate schedule for vehicle maintenance versus operational maintenance such as pumps and motors.

Mr. Sumada replied there is.

Mr. De Luz commented that it would become a cost benefit relationship at some point in time to recommend either decommissioning or replacing items.

Mr. Elarionoff asked about the write-offs mentioned earlier with regard to lower Puna and how that would work when the Department receives reimbursement from FEMA.

Mr. Sumada replied that the funds would not be used to replace what was lost but would be used for other projects.

Mr. Inaba added that it goes through what FEMA calls an alternative procedures program. For example, in the case where waterlines were lost during the eruption, because those waterlines will not be put back, FEMA will reimburse at least 75% of the value of that item and with their approval, it could be used on another project. The intent is to try to use the funds on other projects that would help benefit people relocating within the district.

The Manager-Chief Engineer noted that reimbursement is not guaranteed. It is going through the approval process.

F. **MANAGER-CHIEF ENGINEER'S REPORT:**

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

1. North Kona Wells - the Deputy gave the Board an update on the wells. As of today, ten out of fourteen wells are operational. That is a change from last month when eleven were operational. The most recent well that went offline is the Makalei Well, which is at the northern end of the system, near Makalei Fire Station. The order of repairs anticipated for the four wells will be Hualālai, Palani, Wai‘aha, and then Makalei.

   For Hualālai Well, as of last week, the pump, motor, column pipe, and power cable were in the well. As it was being tested for the electrical connections, some issues with the electrical system came about. Upon confirmation with the motor manufacturer and contractor, it was decided the more prudent thing to do would be to extract the pump, motor, and cable from the hole again to do some additional testing to see where this electrical issue was occurring. They anticipate having it extracted by this Friday and then additional evaluations can be done. In response to Mr. Elarionoff's question of whose expense it would be at, the Deputy replied it would be on the contractor's expense because it is still considered under warranty.

Palani Well will be next in line for completion. The project was awarded, and completion is expected in August of this year.

The Wai‘aha Well is the one that has a litigative hold on it right now, so there were no comments. As far as the second Wai‘aha well on that same site, Engineering is progressing with completing the survey, design, and grading of the site.

The Makalei Well, which is the most recent well that went offline on February 13 of this year, appears to be a motor issue again. They still have to remove the pump and motor from the well. This was a well that was dedicated to the Department by a developer, so it is still under the developer's warranty. Staff is working with them on dealing with the warranty on the pump and motor.

The Manager-Chief Engineer added that the Department will work with the developer to implement some of the lessons learned from 2017. Since it is under warranty, the Department will have the developer work with their contractor to incorporate them.

In response to Vice-Chairperson Scicchitano's question of when the well came online with the Department, the Manager-Chief Engineer replied it was summertime last year.

Mr. Elarionoff asked what was meant by lessons learned from 2017.

The Manager-Chief Engineer replied that from the findings of the Permitted Action Group, the Department is going to add more temperature sensors and will try to size motors, so they are within a certain horsepower range, or use a lower horsepower whenever possible, and also try to standardize the voltage. The voltage part might not be feasible in this case because the control building is already established. The Department will probably implement additional power quality monitoring equipment, etc.

Mr. Elarionoff stated that he did not think the monitoring equipment is helping.

The Manager-Chief Engineer stated that more data is better than less data. The Department is hoping to see a trend of rising temperatures before a well ultimately fails so it may have something to investigate.

Vice-Chairperson Scicchitano asked if the Department did its due diligence when it acquired that well.

The Manager-Chief Engineer replied that the design was done before the Department went through the situation with the North Kona wells.

Mr. Domingo asked the Manager-Chief Engineer if he thought the failure had to with the temperature.

The Manager-Chief Engineer replied that the pump and motor is still down in the hole, so it will not be known until it is pulled out. The only test that can be done while the pump and motor are in the hole is a megger test, which is a resistance test. If it meggers zero, there is no resistance, meaning there is a short somewhere. Either the motor is compromised or something blew out.

In response to Mr. Domingo's question on the size of the well, Mr. Inaba replied it is 1,700 feet but it pumps higher to 1,900 feet.

2. Department of Water Supply Energy Report - Mr. Warren Ching, Energy Management Analyst, highlighted some of his report. On the first page are monthly power costs. This includes HELCO and other sources such as Lālāmilo Windfarm. Getting into the graph, the yellow portion is what the Department paid for actual kilowatt energy, and the red portion is what was paid for the demand charge, which is unique to larger accounts. HELCO charges how much *power* is used and not necessarily how much *energy* is used. For example, it would be like DWS charging a customer for how many gallons per minute they used, or the highest gallons per minute they used, over the month, not only just the amount of gallons, but how many gallons per hour. Energy kilowatt hours is how much energy was used. The demand charge is how much the rate of energy is used, the highest rate. It makes up about 15% of our total cost. On the second page, one of the major reasons why costs vary each month is the varying HELCO rate. The first table shows how many different accounts the Department has, and the rate schedules attached. There are about 150 accounts, which are separated into three different categories, or schedules, based on the amount of energy that each site uses. Schedules J and P are the only ones that charge the Department for demand. Those are the larger accounts. Looking at the two graphs, the main varying rate is the rate for energy. That is one of the major reasons why the energy or power costs change each month. Looking into most recent months, it looks like the energy rate is coming down. HELCO's side has a lot to do with their costs to produce the energy. The expectation is that the monthly cost for power is going to follow this energy rate trend, which is going down. The third page is the Department's power cost history, or trend. The power cost charge was recently dropped to $1.89 per thousand gallons on February 1, 2019. The last page shows the Department's 2018 partnership with Hawai'i Energy. They helped the Department fund a couple of its projects.

Mr. Sugai asked if the leak loggers were the ones put on in South Kona.

Mr. Ching replied yes. The loggers basically listen for leaks. They are a way for the Department to try and find leaks that are not apparent from the surface. They are subsurface leaks.

Mr. Sugai asked if the rebate program paid the Department $121,000.00.

Mr. Ching replied they have not paid it yet, but the Department is in the process of completing that project. They said they would commit a certain amount of funding to this Department if it purchases and installs them per project. This will ultimately save the Department in running its pumps, therefore reducing energy use.

Mr. De Luz mentioned running into Mr. Graceson Ghen (of Hawai'i Energy) at the Pacific Water Conference and wondered if he would be willing to work with the Department on a cost benefit program with regard to water use management in its buildings, for example, retrofitting toilets. There might be something with the same concept as the leak detection program. Another possibility might be measuring when the highest use is in the Department's buildings and using innovative technology to manage how that water is used. There might be a cost benefit there. He believed the future is going where electrical tariffs are going, where you will be charged more during high demand periods.

Mr. Ching thought that was a good suggestion. Perhaps Hawai'i Energy might help if there were notable energy savings attached to that.

Mr. De Luz thought there were additional funds that the Public Utilities Commission gave them.

Mr. Ching stated that in response to Puna Geothermal Venture being offline, they have increased the amount of their rebates. For example, the Department's LED lamp replacements utilized some of that additional funding. Where a normal rebate might be $3.00 per bulb, it is now $7.00 per bulb. He noted that he has been working with Hawai'i Energy as much as possible.

G. **CHAIRPERSON'S REPORT:**

1. Vice-Chairperson Scicchitano mentioned the upcoming American Water Works Association (AWWA) national conference this year in Denver, Colorado, June 9 to 12. He had a chance to attend last year's conference and enjoyed it. Four Board Members are budgeted to attend. Please let the Department know if you wish to participate.
2. Mr. De Luz asked if he could comment on his attendance at the Pacific Water Conference in Honolulu, February 20 to 21. He noted that he learned a lot but there is more to learn. He also commended Ms. Judy Hayducsko for her presentation on the water audit. She made something that can be very difficult to understand, very digestible. He went to some other presentations, which were more complex, for example, LA County, which has thirteen different water districts that draw off the Colorado River. It was very difficult to understand how they came up with some of their conclusions. He found the presentation by Ms. Hayducsko to be very interesting, how what is pumped versus what is consumed, and that delta is a moving target. It is not just lost transmission. There is water draw, such as hauling water for the Pa'auilo system. Some of that water does not necessarily get measured. He thought that it would be good for the Board Members if they could be invited to presentations like these, if they are done internally, to give more perspective as to what the Department deals with. It was quite a learning experience for him. The Manager-Chief Engineer stated that Ms. Hayducsko did do a good job.

   Mr. Domingo thanked the Department for sending him also. What he found interesting was the One Water Initiative. Another session of interest was the University of Hawai'i studies on increasing temperatures, starting in 1929 when they began keeping data, and 2010 being the highest temperature recorded in West Hawai'i. The coffee farmers out there are really worried because the yield this year was not very good and they attributed it to the drought and lack of water. That was really an eye opener and for some decision-makers to re-evaluate their policies and keep supporting the coffee farmers out there.

8) ANNOUNCEMENTS:

1. **Next Regular Meeting:**

The next meeting of the Water Board will be **March 19, 2019**, 10:00 a.m., in the West Hawai'i Civic Center, Community Meeting Hale (Building G); 74-5044 Ane Keohokalole Highway, Kailua-Kona, Hawai'i.

2. **Following Meeting:**

The following meeting of the Water Board will be April 23, 2019, 10:00 a.m., in the Department of Water Supply, Operations Center Conference Room; 889 Leilani Street, Hilo, Hawai'i.

9) ADJOURNMENT:

ACTION: Mr. Elarionoff moved to adjourn the meeting; seconded by Mr. Sugai and carried unanimously by voice vote. The meeting at 11:39 a.m.

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Recording Secretary