

MINUTES

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

September 27, 2022

Liquor Control Conference Room, 101 Aupuni Street, Suite 230, Hilo, HI

MEMBERS PRESENT: Mr. David De Luz, Jr., Chairperson
Mr. Steven Hirakami, Vice-Chairperson
Mr. Michael Bell
Ms. Julie Hugo
Mr. Pono Kekela
Ms. Kea Keolanui
Mr. Benjamin Ney
Mr. Kenneth Sugai
Mr. Keith K. Okamoto, Manager-Chief Engineer,
Department of Water Supply (ex-officio member)

ABSENT: Mr. Stephen “Kawena” Lopez, Water Board Member
Director, Planning Department (ex-officio member)
Director, Department of Public Works (ex-officio member)

OTHERS PRESENT: Mr. J Yoshimoto, Assistant Corporation Counsel
Mr. Tyler Benner, County of Hawai‘i, Legislative Auditor’s Office
Ms. Maxine Pacheco, Legislative Auditor’s Office
Ms. Jasmine Santos, Legislative Auditor’s Office
Mr. Jeff Zimpfer (10:18 a.m.)

DEPARTMENT OF

WATER SUPPLY STAFF: Mr. Kawika Uyehara, Deputy
Mr. Kurt Inaba, Engineering Division Head
Ms. Candace Gray, Waterworks Controller
Mr. Gregory Goodale, Chief of Operations
Mr. Eric Takamoto, Operations Division
Mr. Warren Ching, Energy Management Specialist
Mr. William O’Neil, Jr., Water Service District Supervisor II, DWS Waimea
Ms. Sunshine Carter, Administration Division

- 1) CALL TO ORDER – Chairperson De Luz called the meeting to order at 10:00 a.m. A quorum of eight members were in attendance.
- 2) STATEMENTS FROM THE PUBLIC - none

3) APPROVAL OF MINUTES:

- ACTION: Mr. Ney moved for approval of the Minutes of the August 23, 2022, Public Hearing on the Power Cost Charge; seconded by Ms. Keolanui and carried unanimously by voice vote.
- ACTION: Mr. Sugai moved for approval of the Minutes of the August 23, 2022, Water Board Meeting; seconded by Ms. Hugo and carried unanimously by voice vote.

4) APPROVAL OF ADDENDUM AND/OR SUPPLEMENTAL AGENDA - none

5) **PRESENTATION OF COUNTY OF HAWAI‘I AUDIT REPORT ON CASH HANDLING (FOLLOW-UP):**

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Copies of the County of Hawai‘i, Office of the Legislative Auditor, “Department of Water Supply Cash Handling Follow-up,” Report No. 2022-04, dated September 2, 2022, have been distributed to Board Members. The County’s Legislative Auditor, Mr. Tyler J. Benner, presented the report to the Board.

Mr. Benner stated that he is with Office of the County Auditor, formerly Legislative Auditor. With him Ms. Maxinne Pacheco, lead auditor for this engagement, and Ms. Jasmine Santos who served in a support role for this engagement. He is here today to brief the Board on the follow-up to Report No. 2022-04 dated September 2, 2022.

The scope of the audit reviewed cash handling practices from July 22 to August 22, 2022. They visited the Department’s Hilo, Waimea, and Kona offices. He thanked the Department for unrestricted access to sites, information; and personnel’s cooperation was exceptional. There was a high degree of collaboration as they began to form and test their assumptions. The management and accounting team were instrumental in educating their understanding; and management noted that they generally agreed with the report.

For some background, these events represent the history and do not reflect the current leadership or the current operating practices. The Department of Water Supply has historically struggled with the cash handling function. In 2010, an IT and cash handling audit was conducted after the Department found that theft had occurred over a period of twelve years, resulting in a loss of over \$75,000.00. A separate cash handling audit in 2017 provided the basis for this follow-up. During the 2017 audit, it was determined that the Department had responded by consolidating responsibilities into one role, effectively giving an individual unchecked authority over several consecutive steps of the cash handling process. This did not adequately address the risk; rather, it changed the risk. Their 2017 report found weaknesses and offered seven recommendations to address segregation of duties, monitoring and oversight, enforcement of policies and procedures, and training. They are pleased to report to the Board that when they returned to conduct the follow-up this year, they found that the Department had built a robust, controlled framework, proper segregation of duties and redundant checks and balances to ensure oversight and a competent staff trained to do their work. As of July 2, the Department had draft policy and procedures which it still needed to publish and disseminate. In total, five of their recommendations were fully implemented. One was resolved, and one was partially implemented. At their follow-up, the Department had implemented a new cash handling software--Northstar CIS, which had many built-in safeguards. They segregated its incompatible duties, performed redundant reconciliation, and conducted surprise cash counts. To give an idea of how well the Department’s monitoring oversights were functioning during their review period, they noted the Department-wide daily revenues of between \$140,000.00 to \$350,000.00, and they

observed the accounting team detecting a 3-cent variance in a daily deposit. They credit this to vigorous oversight activities performed daily and monthly at different levels and alignment with best practices. They have been encouraged by the strides the Department has made in the short time its current leadership has been in place, recognizing that cash handling is an inherently risky process, and requires continual monitoring and assessment. The results of their follow-up has been placed on their remediation tracker, available on their website at hawaiicounty.gov. The Department is free to contact them once they implement the final item and coordinate a time to verify the improvement and make changes to their tracker. He asked if there were any questions from the Board.

Mr. Ney asked about the incident with the theft and if that person was discovered and the funds were collected back.

Mr. Benner replied that this is from the 2010 audit, to provide some history, and is outside the scope of what they were looking at in reference to the 2017 follow-up. The individual no longer works for the Department of Water Supply. There was a prosecution and a plea.

Chairperson De Luz asked, in regards to the updated and enforced policies and procedures, they had indicated that once the Department has the opportunity that they have implemented what they believe is within the context of being acceptable for them, they will contact Mr. Benner for review.

Mr. Benner replied that was correct. What they will ask is that the Department disseminate it, conduct that training that has a little bit of time to take hold, and they will be happy to come back in, note that it has been implemented, and then change that tracker status.

The Manager-Chief Engineer thanked Mr. Benner and his staff for their work with the Department. The Department approaches audits as an opportunity to do better, and Mr. Benner and his staff have been very collaborative. He also thanked Ms. Gray and her staff for making the changes and going through this process and being open to improving.

Chairperson De Luz commented that this particular Board has fiduciary responsibility, which is very unique from most other County boards. He appreciated the presentation today and asked if, during Mr. Benner's next opportunity to review, they could do a flow chart of the process, which would make it easier to understand how it was and what changes were made. It would be easier to follow than a commentary, especially for some who may not have much background in what was presented. He also thanked Ms. Gray and appreciated the fact that significant changes were made. The variances mentioned were miniscule in regards to the total receipts received.

Mr. Benner stated that they had an interesting perspective during this audit because they were conducting two cash handling audits in different departments at the same time—the Department of Water Supply being one of them. They actually had somewhat of an apples-to-apples comparison of the control framework they were looking through at each step of the process; and as his staff went out and tested the processes, they were consistently impressed with this Department at every level of the process. They think other departments could benefit from shadowing some of these processes.

Mr. Kekela asked what the frequency of these audits are or if they occur after an incident.

Mr. Benner replied that cash handling is something they will do surprise cash counts on, on an ongoing, monitoring basis. They try and take a risk base approach, so if they see that a particular department is transacting higher dollar amounts than others, they would be prioritized to review. Several reviews of this Department have now been done; and at this time, what they ask is that the Department consistently reassess their program.

Mr. Hirakami asked what the acronyms PUBS and CIS stood for.

Ms. Gray replied that PUBS was the Department's old public utility billing system. CIS stands for Customer Information System.

Mr. Ney asked if there is more than one person handling the cash; and if so, whether a daily internal audit is done with a ledger to reconcile at the end of the day, which would quickly put a halt to any issue.

Ms. Gray replied that the deposits are checked daily and deposited in the bank daily, and the process is checked by the Department's accountant. At the end of the day, the cashiers balance the cash receipts and turn it over to the accountants who do the daily audit.

Chairperson De Luz asked if there were any further questions. There being none, he thanked Mr. Benner and his team. They left the meeting at 10:12 a.m.

6) **POWER COST CHARGE:**

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Departmental power costs from all power sources increased since the last Power Cost Charge rate was determined. The Department proposes to increase the Power Cost Charge from \$2.75 to **\$2.87** per thousand gallons as a result of this increase. Power cost charges over the past two years were as follows:

<u>Effective</u>	<u>PCC</u>
September 1, 2022	\$2.75
July 1, 2022	\$2.48
May 1, 2022	\$2.34
March 1, 2022	\$2.02
November 1, 2021	\$2.15
June 1, 2021	\$1.85

Before the Power Cost Charge is changed, a Public Hearing should be scheduled to accept public testimony.

The Manager-Chief Engineer recommended that the Board approve holding a Public Hearing on October 25, 2022, at 9:45 a.m., to receive testimony on increasing the Power Cost Charge from \$2.75 to \$2.87, effective November 1, 2022.

MOTION: Ms. Keolanui moved to approve; seconded by Mr. Ney.

The Manager-Chief Engineer noted that this is for the evaluation period of July and August. It is a reactive measure, based on the actual cost of power. He hopes for some relief because the preliminary evaluations of the September numbers look slightly lower. The next evaluation period is September/October. Again, this is a pass-through charge.

Ms. Keolanui asked, in the past couple of years, what was the highest that the rate has gotten.

The Manager-Chief Engineer replied that this is it, what is presented here. The Department's Energy Management Analyst basically does an average to figure out what the cost per kilowatt hour is, and it is well into the 40s or above mid 40s.

The Deputy added that it is about 45 cents per kilowatt hour right now. For a frame of context, in March of 2021, it was 28 cents per kilowatt hour.

Mr. Hirakami stated that it would be interesting to show it as a percentage increase as well, rather than just the dollar amount because back when there was another spike in fuel prices, at that time, \$4.00 was outrageous and now it is way over \$5.00. The percentage would be interesting to study, rather than just the cost because, of course, the price will probably never go down below that last spike; but just to see the comparison in percentage increases in the years where fuel prices really spiked, then you could justify it more. Following spikes in fuel prices, it affects electricity prices, which affects the delivery of water.

The Manager-Chief Engineer stated that was a good suggestion.

Chairperson De Luz stated that he has not studied the new Inflation Reduction Act and did not know if there will be any funds available for utilities in regards to efficiency. There might be opportunity there. He would also be happy to see if Hawaiian Electric would consider a time-of-use program with this utility, based upon what transpired last month with their Hāmākua generating plant being down and their other generator at Shipman in use. His understanding is that this island, Maui, and Oahu have independent rate studies that determine the actual PUC rate so if they could look at it, maybe it could look at getting this Department on the PUC docket and attempting to see if there is capacity. From what he gathered, time of use creates more efficiency for the utility so technically their cost does not necessarily go up but they would be sharing that savings on a time of use. Aside from that, the reality is even if you get more efficient in other areas other than a power purchase agreement, the efficiency you gain in photovoltaic only reduces your expenses. It does not reduce the cost of electricity so the rate payer does not benefit from it but the Department does, and it has an impact on operating expenses. He would be happy to initiate a discussion with Hawaiian Electric if that would be appropriate.

The Manager-Chief Engineer stated that he is always open to discussing options with Hawaiian Electric.

Chairperson De Luz stated that he thinks it is going in that direction but not as quickly as he would like. He mentioned his last electric bill was 33% more than last year at the same time, with less usage. It may be time to be a little more innovative in that regard.

Mr. Hirakami stated that he did the math; and to give an example, if this new rate increase goes into effect November 1, 2022, from June 1, 2021, that is 17 months and over that period, it would be a 55% increase. That is quite substantial and if you look at historical times where the rate of gas spiked and affected electricity, that would be interesting to compare.

The Manager-Chief Engineer stated that it basically parallels those trends and that percentage calculation can be used to verify that.

ACTION: There being no further discussion, Motion was carried unanimously by voice vote.

7) SOUTH HILO:

A. **JOB NO. 2020-1146, HILO OPERATIONS BASEYARD EMERGENCY GENERATOR REPLACEMENT – REQUEST FOR ADDITIONAL FUNDS:**

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

At the May 24, 2022, Water Board meeting, a request for additional funds of \$50,363.00 was approved. The correct amount should have been \$50,465.00.

Original Contract Amount:	\$1,384,052.00
Original Contingency Amount:	138,348.00
1 st Additional Funds Request (approved at 5/24/22 Water Board meeting):	50,363.00
This (2 nd) Additional Funds Request:	<u>102.00</u>
Total Revised Contract Amount:	\$1,572,865.00

The Manager-Chief Engineer recommended that the Board approve an increase in contingency of \$102.00 to Isemoto Contracting Co., Ltd., for JOB NO. 2020-1146, HILO OPERATIONS BASEYARD EMERGENCY GENERATOR REPLACEMENT. If approved, the total revised contract amount shall be \$1,572,865.00.

MOTION: Mr. Ney moved for approval of the recommendation; seconded by Ms. Keolanui.

The Manager-Chief Engineer apologized that the incorrect amount was inadvertently provided at the May 24, 2022, Water Board meeting. Staff caught it and this is to basically do some housekeeping. Because it was approved before at that certain amount, it had to come back for another approval for that \$102.00.

ACTION: Motion was carried unanimously by voice vote.

8) NORTH KOHALA:

A. **JOB NO. 2016-1045, CONSTRUCTION OF THE HALA‘ULA WELL DEVELOPMENT - PHASE 2 - REQUEST FOR TIME EXTENSION:**

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

The contractor, Goodfellow Bros., LLC, is requesting a time extension of an additional 63 calendar days based on Hawaiian Electric’s estimated completion to have power to the well site by the end of September. Upon completion of Hawaiian Electric’s improvements, the electrical, controls, and plumbing sub-contractors will need to complete installation of equipment as well as the wiring from the Hawaiian Electric service to the various equipment.

Ext. #	From (Date)	To (Date)	Days (Calendar)	Reason
1	11/18/2020	7/31/2021	255	Excessive delays due to land ownership changes and lack of site access.
2	7/31/2021	11/30/2021	122	Delay in receiving the pump installation permit from the Commission on Water Resource Management (CWRM).
3	11/30/2021	2/28/2022	90	Delay in receiving the pump installation permit from CWRM.
4	2/28/2022	6/30/2022	122	Delay in receiving the pump installation permit from CWRM and power from Hawaiian Electric.

5	6/30/2022	9/30/2022	92	Delay in receiving the pump installation permit from CWRM and power from Hawaiian Electric.
6	9/30/2022	12/2/2022	63	Delay in power from Hawaiian Electric.
Total Days (including this request)			744	

This delay is beyond the control of the contractor.

Staff reviewed the request for the contract time extension and finds the request for the additional 63 calendar days to be justified. *Note: There are no additional costs associated with this time extension.*

The Manager-Chief Engineer recommended that the Board approve a contract time extension of 63 calendar days to Goodfellow Bros., LLC, for JOB NO. 2016-1045, CONSTRUCTION OF THE HALA‘ULA WELL DEVELOPMENT - PHASE 2. If approved, the contract completion date will be revised from September 30, 2022, to December 2, 2022.

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

The Manager-Chief Engineer stated that this project has been a while, as seen in the table; and he has personally been in contact with Hawaiian Electric regarding the scheduling of power. For a project like this, power is crucial and is needed to install equipment to test the well. He thanked Mr. Inaba and the project engineer and project inspector for maintaining a good working relationship with Goodfellow Bros., LLC. Although the project has been long, they have been good about keeping their prices when they did not have to. They have been more than fair in working with the Department to get the project completed. This project will help the system in Kohala.

Mr. Hirakami asked if the power issue was independent of the permit and was not dependent on getting the permit.

The Manager-Chief Engineer stated they are two totally separate issues.

Mr. Hirakami noted there have been about 500 days of just permitting and asked, in those 500 days, who was responsible for getting power there, the contractor or the Department.

The Manager-Chief Engineer replied that primarily, it was the Department. How it normally happens is the consultant will provide the plans, Hawaiian Electric will do their engineering and cost estimate, and then the Department has to pay for power.

Mr. Inaba stated that power was paid earlier this year. During the original construction timeframe, the Department was working with Hawaiian Electric to get three-phase power to the site because there was none up that road. It took some time for their engineering to get their plans and contract together and get the amount due to the Department. That amount was paid as soon as the amount was given. This last delay was more challenging than initially thought because they now had to transfer live wires from the old polls to the new polls. They are on site and work should be finished this week.

Mr. Ney asked what happens if there is a breach of contract and liquidated damages is sought if the overrun in time is due to the Department and if there has ever been an issue where the Department has had to shell more because equipment is tied up at the project site.

Mr. Inaba replied that if the agency causes the delay or it is not the contractor's responsibility, the contractor will request for additional funds. The Department keeps a good working relationship with the contractors and tries to be fair.

The Manager-Chief Engineer added that it does not happen a lot, but there have been cases; and the contractor has to make their case.

Mr. Hirakami noted that although it says in the footnotes that there are no additional costs associated with this 63-days' time extension, over the period of 744 days, there have been costs incurred and he wondered how much it would be.

Mr. Inaba replied that the change orders reflect the current labor and material prices and equipment costs, but there is no increase for contract unit prices. If it is part of the contract, Goodfellow has not charged what is commonly termed as escalation fees.

The Manager-Chief Engineer added that the information could be provided to the Board, but whatever changes orders there were would have fallen within the project contingency. There was also some work in State highways.

Mr. Inaba stated there was some work in the State highway and some additional work along the main road where there was a trench patch. The Department worked with the contractor, and they both participated in paving the entire road because it was not in great condition to begin with and may have resulted in pointing blame on the contractor.

Mr. Hirakami stated that was understandable but wondered if there is a time cost.

The Manager-Chief Engineer replied that it was not directly because of the time extensions.

Chairperson De Luz suggested that there may be a footnote added to this, what he would call a dashboard of the project, where a comment is added if there was any increase in contract due to time and material. This would help the current Board members who were not involved in the approvals along the way in this project. This project has a great dashboard and managing the information would be the way he looks at it.

ACTION: There being no further discussion, Motion was carried unanimously by voice vote.

B. JOB NO. 2019-1105, KA 'AUHUUH #2 BOOSTERS A, B & C REPAIR – REQUEST FOR TIME EXTENSION:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

The Contractor, Beylik/Energetic A JV is requesting a contract time extension of 108 calendar days, due to delays from the vendor for shipment of the booster pump assemblies, and work required to rewire the manufacturer furnished motors.

Staff reviewed the request for the time extension and the accompanying supporting documentation and found that only 66 calendar days of the requested time to be justified. *Note: There are no additional costs associated with this time extension.*

Ext. #	From (Date)	To (Date)	Days (Calendar)	Reason
1	1/8/22	2/8/22	30	Delays due to work required to rework pump to meet contract requirements.
2	2/8/22	4/15/22	66	Delays to shipment of the booster pump assemblies and rewiring of motors furnished in the wrong voltage.
Total Days (including this request)			96	

The Manager-Chief Engineer recommended that the Board approve a contract time extension of 66 calendar days to Beylik/Energetic A JV, for JOB NO. 2019-1105, KA'AUHUUH #2 BOOSTERS A, B & C REPAIR. If approved, the contract completion date will be revised from February 8, 2022, to April 15, 2022.

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

Chairperson De Luz noted that this is an after-the-fact approval and asked if the job is completed, noting the last extension went to April 15, 2022.

Mr. Takamoto replied that it is. The main issue encountered with this job was that Booster C pump was ready; but the vendor did not want to send it out until the boosters for A and B were ready. When Booster C was received, it was determined that the dimensions were wrong and was not checked before ordering the equipment. The contractor did internal work on their cost to reuse the part was received. Staff evaluated the contractor's request and determined that out of the 108 days requested, only 66 days were justified.

Mr. Ney asked if the problem was attributed to the manufacturer or to the pump.

Mr. Takamoto replied that the discrepancy was due to the contractor because in the contract, it is clearly stated that the contractor is responsible for taking field measurements of the equipment before they place an order.

Mr. Hirakami asked if the other departments of water supply in Hawai'i use the same vendors for these types of discharge heads, pumps, etc.

Mr. Takamoto replied that they all have the same contractors, and the contractors tend to use the same vendors.

Chairperson De Luz asked if this project is completed because he does not see it in the CIP completed project list.

The Manager-Chief Engineer replied that the project is essentially completed; but it is not on the CIP spreadsheet because it is a Repair and Maintenance project rather than a construction project.

Chairperson De Luz suggested a tracker for projects like this to make easier to understand.

ACTION: There being no further discussion, Motion was carried unanimously by voice vote.

9) SOUTH KOHALA:

A. **JOB NO. 2020-1160, PARKER #2 DEEPWELL REPAIR – REQUEST FOR TIME EXTENSION:**

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

The contractor, Beylik/Energetic A JV, is requesting a contract time extension of 14 calendar days, due to delays from the vendor for shipping the materials required for modification of the discharge head, which was beyond the control of the contractor.

Staff reviewed the request for the time extension and the accompanying supporting documentation and found the 14 calendar days to be justified. *Note: There are no additional costs associated with this time extension.*

Ext. #	From (Date)	To (Date)	Days (Calendar)	Reason
1	02/28/2022	05/02/2022	63	Replacement of existing discharge head due to column assembly exceeding lifting capacity of discharge head plate.
				Replacement of nine (9) damaged column pipes due to incidental work.
2	05/02/2022	05/16/2022	14	Delays to discharge head manufacturing.
3	05/16/2022	09/30/2022	137	Delays due to modifications of the discharge head.
4	09/30/2022	10/14/2022	14	Delays to shipping of materials for modification of discharge head.
Total Days (including this request)			228	

The Manager-Chief Engineer recommended that the Board approve a contract time extension of 14 calendar days to Beylik/Energetic A JV, for JOB NO. 2020-1160, PARKER #2 DEEPWELL REPAIR. If approved, the contract completion date will be revised from September 30, 2022, to October 14, 2022.

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

Ms. Keolanui asked if there are any additional costs associated with the days that were part of the extension.

Mr. Goodale replied that there were none as far as this extension, although there were for some of the other items. This delay is due to manufacturing and delays in shipping to get the materials here.

Mr. Ney asked if this was the project where they could not unscrew the column pipe.

Mr. Goodale replied it is, but as far as this specific request, it is just to add time.

Mr. Hirakami commented that although there is no cost to the Department, there is a delay in water being distributed, which means loss of income for the utility.

The Manager-Chief Engineer stated it has always been a challenge. There is a liquidated damages schedule contained in the Department’s General Requirements and Covenants, which is a very simplistic table based the amount of delay in calendar days. It is always a challenge to attribute a dollar amount to a day of delay because every situation is different.

Chairperson De Luz commented that there is a very finite amount of vendors available for this type of work; and from his time on the Board, he saw that the Department goes to great lengths to ensure there is communication with the vendor because should they become unable or not permitted to bid on a project, it reduces the bidding pool even more. If they do not work with each other, you may not get what you want done.

ACTION: There being no further discussion, Motion was carried unanimously by voice vote.

10) NORTH KONA:

A. NOTICE OF THIRD ASSIGNMENT OF EQUIVALENT UNITS UNDER WATER AGREEMENT [LA 10, TMK (3) 7-8-010-078 AND LA 26, TMK (3) 7-8-010-004] DATED APRIL 4, 2012:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Kamehameha Investment Corporation (KIC) and the Trustees of the Estate of Bernice Pauahi Bishop (KS) are requesting to assign equivalent units (EU) in accordance with the Water Agreement dated April 4, 2012, and executed with the Water Board. The assignments are requested as follows:

KIC Land Area	Parcel	Pre-Assignment (EU)	Post-Assignment (EU)
LA 10	(3) 7-8-010-078	150	150
LA 10A	(3) 7-8-010-090	40	40
LA 1	(3) 7-8-010-044	101	188
LA 26	(3) 7-8-010-004	349	209
LA 6	(3) 7-8-010-049		1
LA 6	(3) 7-8-012-004		1
LA 6	(3) 7-8-012-007		1
LA 6	(3) 7-8-012-061		1
LA 6	(3) 7-8-012-065		25
LA 6	(3) 7-8-012-098		24
	Total	640	640

Section 3 of the 2014 Water Agreement provides for the reassignment of equivalent units. All parcels indicated on the above table are included in Exhibit 1-1 of the agreement. Further, the term of the agreement is for 20 years, or until 2032.

The Manager-Chief Engineer recommended that the Water Board approve the requested assignments and authorize either the Chairperson or Vice-Chairperson to sign the approval form, subject to review as to form and legality by Corporation Counsel.

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

The Manager-Chief Engineer noted that Mr. Inaba had given the Board a graphic of the area and explained that, per the agreement, if the developer wishes to reassign water units within the area established in that Agreement, the requirement is to bring it to the Board.

Mr. Inaba stated that this is within Section 3 of the 2012 Agreement and was also included in the 2014 First Assignment.

Mr. Ney asked if there was a term on the water units or if they are in perpetuity.

Mr. Inaba replied that they have up until 2032. Once they install a service going to the property, then the units are attached to the property at that point.

Mr. Ney stated that the Permitted Interaction Group has not really gone into the discussions yet concerning more water within the existing infrastructure but he thinks from a revenue and growth standpoint, the more the existing infrastructure can be utilized to sell more water, the more revenue can be generated. He guessed that is where the Department has to find the balance where if there is not a lot of cost associated with new infrastructure, then as much of that should be done as possible.

Mr. Hirakami stated that it looks like the major shift is in moving water units from Land Area 26 to Land Area 1. Land Area 1 is behind the Keauhou Harbor, which is not well developed.

Mr. Inaba stated they are doing this in preparation for proposed developments.

Mr. Hirakami asked about Land Area 26, which appears to be part of the golf course, and it looks like a small development of perhaps townhouses by the coast.

Mr. Inaba clarified that the green color is an overlay. Land Area 26 is shown on the bottom left. There are more but they are not included in the graph as it would become confusing.

Chairperson De Luz asked if the green area is KIC's land, the Keauhou master plan that they have.

Mr. Inaba replied that their KS/KIC master plan shows the properties that they own.

Chairperson De Luz asked if it is correct that KIC is the developer and these lands are deeded to them, KIC is their proprietor and KS is their trust.

Mr. Inaba replied that was correct.

Chairperson De Luz stated that his understanding is that KIC has a master development program for the Keauhou area and he believed all of the light green on the graph is an area that is encumbered by that master development program.

Mr. Inaba added that the blue area is KS land. It is hard to see every one of them on the graph.

ACTION: There being no further discussion, Motion was carried unanimously by voice vote.

11) MISCELLANEOUS:

A. DEDICATIONS:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

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 dedications.

1. Grant of Easement and Bill of Sale

Grantor: West Hawaii Business Park LLC

Subdivision No. 19-001890

Tax Map Key (3) 7-4-008:076 (Road Lot 1)

Honokōhau 1st, North Kona, Island of Hawai'i, Hawai'i

Facilities Charge: \$233,805.00, Date Paid: 12/23/2020

Final Inspection Date: 8/25/2022

Water System Cost: \$993,522.00

2. Grant Easement (Water Meter)

Grantor: Robin W. Ledson Trust

Lono Kona Subdivision

Tax Map Key (3) 7-5-022:018 (portion)

Keopu 2nd, North Kona, Island of Hawai'i, Hawai'i

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

MOTION: Mr. Bell moved for approval of the recommendation; seconded by Ms. Hugo.

Mr. Inaba provided exhibits to give the Board an idea of where these dedications are occurring.

Chairperson De Luz asked for clarification if the West Hawai'i Business Park easement is the entity Lanihau Investment as he may have a conflict. (Mr. Inaba replied it was.) Chairperson De Luz then recused himself because he has had business with them. He transferred the chair of this motion to Vice-Chairperson Hirakami and would be recusing himself from the vote.

Vice-Chairperson Hirakami asked if there was any discussion. There being none, he called for the vote.

ACTION: Motion was carried by seven (7) ayes (Mr. Bell, Mr. Hirakami, Ms. Hugo, Mr. Kekela, Ms. Keolanui, Mr. Ney, and Mr. Sugai) and one (1) recusal, Chairperson De Luz.

B. MATERIAL BID NO. 2022-11, FURNISHING AND DELIVERING SPARE 400 HP MOTOR SET, PUMP CABLE, AND STEP-UP TRANSFORMER FOR THE DEPARTMENT OF WATER SUPPLY:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Bids were received and opened on September 15, 2022, at 2:00 p.m., and the following are the bid results.

SECTION	DESCRIPTION	Beylik Drilling and Pump Service, Inc.	Derrick's Well Drilling and Pump Services, LLC
1	400HP MOTOR SET	\$175,000.00	\$134,092.00
2	PUMP CABLE	\$135,700.00	\$77,296.00
3	STEP-UP TRANSFORMER	\$174,000.00	\$82,612.00

The estimated cost for the pump and motor set and refurbished motor, respectively, were as follows:

- 400HP Motor Set: \$120,000.00
- Pump Cable: \$70,000.00
- Step-Up Transformer: \$100,000.00

The Manager-Chief Engineer recommended that the Board award the contract for MATERIAL BID NO. 2022-11, FURNISHING AND DELIVERING SPARE 400HP MOTOR SET, PUMP CABLE, AND STEP-UP TRANSFORMER FOR THE DEPARTMENT OF WATER SUPPLY, by Sections, to the following bidders for the amounts shown above, and that either the Chairperson or the Vice-Chairperson be authorized to sign the contract(s), subject to review as to form and legality of the contract(s) by Corporation Counsel.

Section 1 – 400HP Motor Set to Derrick's Well Drilling & Pump Services, LLC

Section 2 – Pump Cable to Derrick's Well Drilling & Pump Services, LLC

Section 3 – Step-Up Transformer to Derrick's Well Drilling & Pump Services, LLC

MOTION: Ms. Hugo moved for approval of the recommendation; seconded by Ms. Keolanui.

Ms. Hugo mentioned that the estimates are so different and asked what it signals.

Mr. Goodale stated that they have been through this type of discussion quite often; and seen, engineering staff's estimate costs are probably more in line than what the actual cost came out to be. They were a little low in a couple of places and a little high in others; but, again, this represents the vendor that particular contractor is going to go with. The primary thing is that the equipment meets our specifications so we are not getting anything that is second rate. Everything meets the specifications that were drafted. Staff goes through the process of reviewing each item to make sure what they are supplying meets specifications. Going back to the question of why one contractor would be so much higher, we do not know the answer, other than they go to the vendors they always have and if they are giving them higher prices, then they are not going to get the bid.

Mr. Hirakami noticed the large difference in bid prices and thought that, from the looks of it, one company did not want the bid so they bid extremely high, whereas the other company did their homework to determine how much it would really cost, which is why it is closer to the engineering estimate. That is the danger of only having two acts in town. Although there is not much competition in this business, this kind of bidding just indicates they do not want the bid and they let the other guys have it this time.

Mr. Ney thought it was good that the Department has the material bids are per line item because if they are ever aggregated, you would know if they have a way of trying to mark up or have a profit margin.

Mr. Sugai asked if there is a shelf life on spare motors or transformers and if there is a problem with what they used to call rock rot where the equipment sits and things go wrong with it.

Mr. Goodale replied that, obviously, these things are supposed to be built to last and there is expectation they will last a long time. The downside is the warranty because when the Department takes possession of it, the warranty clock starts ticking. It is a balancing act because you want to make sure to have the equipment available so that when something occurs, it is here and avoids a long lead time.

The Manager-Chief Engineer clarified a couple of things. Going back to speculation on the bidding, his understanding is that different contractors represent different vendors and different manufacturers. In this particular case, the Department specified out a slimline arrangement which is basically the smaller diameter pump, motor, cable, and assembly; and like the car industry, you have your Mercedes and your Fords. Most likely one of these contractors represents the Mercedes line so that might also reflect in their bid amount, versus the other one using the Ford line. He did not want to get too much into speculation on bidding tactics, but that may be the more likely explanation on the differences between the two bids. Along the line of what Mr. Sugai asked, the Department always tries to balance the longevity of the pump and motor, especially in the submersible units. They are long in length and supposed to be oriented in a vertical direction, but the Department does not have that type of storage capacity so they are stored horizontally. It has been mentioned to the Board on previous occasions that it is not the ideal way to store it. For other things like pump cable and transformers, they are not mechanical. As Mr. Goodale mentioned, the Department wants to ensure it has redundancy with the 400 hp motors and is trying to design new repairs so that a common pump motor can be used. Hopefully this motor can be utilized in an upcoming repair before it goes through its warranty period.

Mr. Ney asked if there have ever been any manufacturers that would start the warranty when the Department commissions it or puts it into use.

The Manager-Chief Engineer replied that once they deliver it, the clock starts.

Mr. Ney stated that what he was trying to get at is that some of the electrical equipment has a cycle life and sometimes they start the warranty when it is commissioned, not the date of purchase.

The Manager-Chief Engineer replied that the Department has not had that luxury.

Mr. Bell stated that, in his experience, it is the same for boat parts. It is all when you accept it.

The Manager-Chief Engineer stated that it is because they do not have control over what you do with it once you get it.

Mr. Hiramaki asked if, when the engineers come up with an estimated cost, they have a threshold; for example, if all the bids come 200% over estimate, if there is a threshold where it would be put out for rebid.

The Manager-Chief Engineer replied that if there is a situation like that where there is only one bid, there are provisions in Hawai'i Revised Statutes which require a fair and reasonable assessment to be

done; and it is up to him, as Chief Procurement Officer, to decide whether to proceed with the award or to rebid.

Chairperson De Luz asked if the Department has the opportunity to procure directly for this type of equipment or if it is represented by individual entities and you would have to go through them.

Mr. Goodale replied that you are very rarely going to see the Department's ability to buy direct from the manufacturer. A lot of times, these companies are not buying direct from the manufacturer either. They are buying from someone who might also be the representative for it. An example would be if you were going to buy a Caterpillar tractor. You would not go straight to Caterpillar; you would be going to whomever their representative is; and that is essentially who Derricks Well Drilling and Beylik Energetic are going to.

Chairperson De Luz stated that in all indications with the Inflation Reduction Act, there were some additional monies that went specifically to water utilities to upgrade water systems because, apparently, there is a significant deterioration of municipal water systems in the United States. Perhaps it might be good to take a look at the Department's current inventory of items to get a feel of what the supply issues will be for next year. From all indications, the supply chain logistics will not improve in 2023. The Department may want to take a look at having to include more lead time in planning for some of these items to ensure you can get them.

Mr. Goodale stated that was a good point because in the early 2000s when the Recovery Act was around, the same thing happened where there was a lot of competition across the country. These are the things that, here in Hawai'i, we are used the fact that you have to plan ahead because you know you are going to be competing against a lot of other utilities that are going to be asking for the same things.

ACTION: There being no further discussion, Motion was carried unanimously by voice vote.

C. MONTHLY PROGRESS REPORT:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Mr. Ney asked about the groundbreaking for Lālāmilo 10-million gallon reservoir and if the date has been firmed up.

Mr. Inaba replied that it has not been firmed up yet. The appraisal should be done in a couple of weeks and once that is completed, the landowner wants to meet and discuss. They wanted to hold off on the groundbreaking for now.

D. REVIEW OF MONTHLY FINANCIAL STATEMENTS:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Chairperson De Luz stated that everyone should have a revised income statement which was handed out before the meeting today. He asked Ms. Gray to review.

Ms. Gray stated that staff noticed an error in the Excel formula in the Income Statement sheet, which affected the change in operating income between the two years, as well as the net income; but it is still

positive. A lot of the items listed on the cover sheet will show continuously throughout the months because of the significant change between the years.

Mr. Ney asked if the rate increases approved by the Board provided the Department with a buffer that it felt comfortable with. There have been a few comments from the public asking why the rate is going up. If the rate study could somehow be communicated to the public and show that the rate does not increase with no reason. It increases because of operating costs.

The Manager-Chief Engineer stated that the rates have played a role; but Ms. Gray and her staff have also been working hard to get the reimbursements from external funding sources, which has helped improve the Department's cash situation.

Chairperson De Luz suggested having a quarterly or mid-year report go to the customer, such as how the water quality reports go out, letting customers know that the Department appreciates their understanding that the water costs went up and part of the increase to their bill is to supplement the aging water system replacement as well as CIP projects, which were not adequately funded in the past. The Department needs to catch up and is probably five years out before it gets to the point where reserves will equate to at least the replacement projects. This will look significant in regards to the Department's cash on hand; but in reality, it is looking to have sufficient resources to avoid having to borrow to replace them. Something to the customer, in layman's language, may help them understand their bill and remind them that if they have issues, to contact the Customer Service line. It could also be in an annual report where a message goes out to the customer base. Communication is key and the message going out could include how to conserve water to offset costs. He also noticed that the annual audit is beginning and Ms. Gray and her staff would be busy for the next 30 to 45 days. He asked if it would be completed in November and if the Board would have a report at that point.

Ms. Gray stated that if all goes on schedule, as was last year, the audit was finished in November and the report was ready for the Board in February.

Mr. Hirakami thought it was a good suggestion of a report going out as an insert with the water bill semi-annually because customers may not understand their bill. They might just look at the bottom line; but if the reasons for the rising costs are explained, such as the power cost which is passed on from the electric utility, it might be good for customers to know that the Department is looking out for them.

Mr. Ney also thought that was a good idea because people in Hawai'i really feel the pinch, economically. If the bills start going up too high, people start to complain.

Mr. Hirakami wondered if it could be included with the quarterly water quality reports, being not only about water quality, but about water efficiency and explaining the reason the bill has increased.

The Manager-Chief Engineer stated that the water quality reports are now mostly online and only available in print by request. There are always ways to do a better job of communicating to the customers.

Chairperson De Luz also commented that the Department is most likely reviewing the facilities charges as well, as it may need to be updated. He recalled a couple of months ago that the Department was reviewing the facilities charges but could not recall the last time it was done.

The Manager-Chief Engineer stated that it is a part of the updated Water Rate Study. It might be time for another update because the discussion today about the formulation of rates might be a good time for a refresher on what is going into the most current water rate study.

Chairperson De Luz mentioned Department of Transportation changes such as rights of easement in regards to connection of laterals which will increase the Department's cost.

E. N&K CPAs, INC., PLANNING COMMUNICATION TO THE WATER BOARD, FISCAL YEAR 2022 AUDIT:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Copies of the planning communication letter from N&K CPAs, Inc., to the Water Board were distributed to Board Members to provide information on the current audit for Fiscal Year 2022.

Ms. Gray stated that this is their introductory letter to the Board letting the Board know that they are beginning their audit with the Department. They have already started some field work.

Chairperson De Luz stated that, as the letter indicates, they will be starting from September and plan to get done by November. The final report to the Board will be issued sometime in the first quarter of next year.

Ms. Gray mentioned that the auditors have indicated that if the Board has any specific questions, they can be relayed to the Department for forwarding to them.

Mr. Hirakami asked if they provided an estimated cost of the audit.

Ms. Gray replied that it is included in their contract with the County; and she believed last year, the Department paid a little over \$21,000.00.

F. MANAGER-CHIEF ENGINEER'S REPORT:

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

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

1. North Kona Wells – the Deputy reported that for this month, twelve of the fourteen wells are in operation or available to use. One update for Makalei Well, the developer is working with our Engineering Division on scheduling a pre-construction meeting for the repair and hopefully in the next month or two, there will be additional updates.
2. Update on Establishment of Permitted Interaction Group, Re: Capacity Expansion – Ms. Keolanui stated this should be kept on the agenda and wait until Mr. Lopez is back next month as he has some updates he has been working on.
3. Retiree of the Department of Water Supply – Mr. Goodale announced that Ms. Audrey Kualii will be retiring at the end of this month. This one in particular going to have an impact. Audrey originally worked for the County of Hawai'i Civil Defense Agency since 1990 and began with the Department of Water Supply in 1995. She is going on 33 years of service. She began with this Department as an Account Clerk and moved up to her current position as Clerk-Dispatcher I in 1998. She is known as the person who can do it all--everything from payroll to timesheets to work orders. If you need to know something, she is the one to go to.

Staff around her are trying to get all of what she knows ‘downloaded’ before she leaves; and there is much appreciation for her actually staying around a little longer than she had originally planned to help in that effort. She is definitely not one that we are going to lose her phone number anytime soon. She is an extremely valuable person and has a lot on her plate for the next few days, which is why she chose not to be at the meeting today. She will be sorely missed and everyone wishes her all the best.

**G. EXECUTIVE SESSION REGARDING POTENTIAL DISPUTED SETTLEMENT -
JOB NO. 2016-1056, WAI‘AHA DEEPWELL REPAIR, DISTRICT OF NORTH KONA:**

The Board anticipates convening an executive meeting for the purposes of an attorney-client confidential discussion regarding the above-entitled matter.

Pursuant to Section 92-5(a)(4) Hawai‘i Revised Statutes, the purpose of the executive meeting is to consult with the Board’s attorney on questions and issues pertaining to the Board’s duties, privileges, immunities, and liabilities. A two-thirds vote is necessary to hold an executive meeting, provided that the affirmative vote constitutes a majority of the Board.

Chairperson De Luz asked if a motion is needed first.

Mr. Yoshimoto replied that one is needed.

Ms. Hugo asked if the Motion would be to go into Executive Session for both Items G and H.

Chairperson De Luz stated that his understanding was that the Board would go into Executive Session for this one, come out, and then go back in for the next item.

Mr. Yoshimoto stated it would be cleaner if the Board wished to do it that way. It could be done collectively, but he would recommend separately.

MOTION: Ms. Hugo moved that the Board enter Executive Session to address Item G on the agenda; seconded by Mr. Ney.

Chairperson De Luz asked if the vote should be roll call or voice vote.

Mr. Yoshimura replied that voice vote can be done, as long as it is clear which way the Board members are voting.

ACTION: Motion to enter Executive Session for Item G was carried unanimously by voice vote. Chairperson De Luz stated that there is the two-thirds required.

(Executive Session began at 11:34 a.m. and ended at 11:45 a.m.)

After exiting Executive Session, Chairperson De Luz announced that the Board had an updated review by the Department and Counsel. No action was needed at this particular time.

**H. EXECUTIVE SESSION: MANAGER-CHIEF ENGINEER AND DEPUTY EVALUATION
FOR CALENDAR YEAR 2022:**

The Board anticipates convening an executive meeting to consider the evaluations of the Manager-Chief Engineer and Deputy for its annual performance review, as authorized by Hawai‘i

County Charter Section 7-4.6(d) and Hawai‘i Revised Statutes (“HRS”), Sections 92-4 and 92-5(a)(2). The Board wishes to have its attorney present, in order to consult with the board’s attorney on its questions and issues pertaining to the board’s powers, duties, privileges, immunities, and liabilities pursuant to HRS Section 92-5(a)(4). A two-thirds vote of the members present, pursuant to HRS Section 92-4, is necessary to hold an executive meeting, provided that the affirmative vote constitutes a majority of the board.

ACTION: Mr. Ney moved that the Board enter into Executive Session for Item H on the agenda; seconded by Ms. Hugo and carried unanimously by voice vote.

(Executive Session began at 11:47 a.m. and ended at 12:09 p.m.)

Chairperson De Luz announced that the Board had a discussion to defer to next Board meeting for possible action.

I. **MANAGER-CHIEF ENGINEER AND DEPUTY EVALUATION FOR CALENDAR YEAR 2022:**

Chairperson De Luz asked if there was any testimony for this item. There being none, he continued with the agenda item.

Chairperson De Luz announced that this agenda item will be deferred to the next Board meeting.

J. **CHAIRPERSON’S REPORT:**

Chairperson De Luz stated that he had asked that this be placed on the agenda and asked the Deputy to provide an update.

The Deputy reported that the Cost of Government Commission for the County of Hawai‘i had sent a letter in July to the Board Chair and Vice-Chair with the questions outlined in the handout provided. They requested a response to their questions, and Vice-Chairperson Hiramami came up with the draft responses, which are also in line with the Department’s thinking. For transparency purposes and for the rest of the Board’s awareness, when he talked with Chairperson De Luz, it was decided that it would be prudent to place this under the Chairperson’s Report as the proposed responses and to wrap it up by having the Department convey the responses to the Cost of Government Commission via the Mayor’s Office.

Chairperson De Luz thanked Mr. Hiramami for his responses. He had requested this to be placed on the agenda under his Chairperson’s Report so the Board Members could take a look at it. He has no issues with the responses and they are articulated very well, which goes to Mr. Hiramami’s experience on other boards.

The Board concurred with the responses. Chairperson De Luz called for a motion to accept the responses that are presented, as drafted by Vice-Chairperson Hiramami.

ACTION: Mr. Kekela so moved; seconded by Mr. Sugai.

Mr. Hiramami stated that he had written out his responses to start the conversation.

The Manager-Chief Engineer stated that he and the Deputy were not comfortable with speaking on behalf of the Board. The questions were to the various boards. The Cost of Government Commission was anxious to get a response, but it was felt that it should have action taken on it by the full Board.

Mr. Ney asked if this has to do with making the cost of board meetings more economical or what the basis was.

The Manager-Chief Engineer replied that he did not want to guess what their basis was.

Chairperson De Luz thought that it goes to the optimization of resources; but collectively, not only the Board but also within the context of the Board's responsibilities and how management is managing their area. This Board is very different from almost all of the other boards where it has fiduciary responsibility and is held at a higher level than most other boards which are administrative in function. The Police and Fire commissions have a bit more authority, but not in regards to budget and those kinds of things.

Mr. Hiramami stated that they are basically looking for a fair and equal representation of the island. They are looking for transparency in government and response to the public. Those are the main areas they looked at for effectiveness of the board.

Mr. Yoshimoto asked if the Board would be signing off on the letter since the correspondence from the Cost of Government Commission was directed to the Board.

Chairperson De Luz stated that was correct. The Department will prepare the letter for his signature and have a forwarding memo to the Cost of Government Commission.

ACTION: There being no further discussion, Motion was carried unanimously by voice vote.

12) ANNOUNCEMENTS:

Next Meeting:

The next meeting of the Water Board will be October 25, 2022, 10:00 a.m., at the Waimea Community Center; 65-1260 Kawaihae Road, Kamuela, Hawai'i, followed by a site visit to the Waimea Water Treatment Plant. Chairperson De Luz stated that the community center is right next to ball park, and next to HPA's Middle School. As you make the turn coming down to Kawaihae, it is the first building after the park. The meeting is preceded by a Public Hearing on the Power Cost Charge at 9:45 a.m. and followed by a site visit. He suggested in regards to the site visit that it be made for after the executive sessions. The sooner they are done, the sooner the site visit can follow, which should take about an hour.

The Manager-Chief Engineer stated that the site visit is part of the meeting; therefore, Sunshine Law applies. Participants need to be within the group in order for recording and Minutes to be taken.

13) ADJOURNMENT

ACTION: Mr. Hiramami moved to adjourn the meeting; seconded by Mr. Ney and carried unanimously by voice vote.

(Meeting adjourned at 12:21 p.m.)

Recording Secretary

APPROVED BY WATER BOARD
OCTOBER 25, 2022