

WATER RESOURCES COMMITTEE

Council of the County of Maui

MINUTES

July 1, 2015

Council Chamber, 8th Floor

CONVENE: 9:05 a.m.

PRESENT: VOTING MEMBERS:
Councilmember Gladys C. Baisa, Chair
Councilmember Michael P. Victorino, Vice-Chair
Councilmember Robert Carroll
Councilmember Elle Cochran
Councilmember Don Couch
Councilmember Stacy Crivello
Councilmember Mike White (in 9:10 a.m.)

STAFF: Kimberley Willenbrink, Legislative Analyst
Clarita Balala, Committee Secretary

Ella Alcon, Council Aide, Molokai Council Office (via telephone conference bridge)
Denise Fernandez, Council Aide, Lanai Council Office (via telephone conference bridge)
Dawn Lono, Council Aide, Hana Council Office (via telephone conference bridge)

ADMIN.: Paul Meyer, Deputy Director, Department of Water Supply
Holly Ficke Ho, Waterworks Fiscal Officer, Department of Water Supply
Helene Kau, Assistant Waterworks Fiscal Officer, Department of Water Supply
Herbert Chang, Engineering Program Manager, Department of Water Supply
Edward S. Kushi, Jr., First Deputy Corporation Counsel, Department of the Corporation Counsel

OTHERS: Rosemary Robbins

PRESS: *Akaku: Maui Community Television, Inc.*

CHAIR BAISA: . . .*(gavel)*. . . Will the regular meeting of the Water Resources Committee please come to order. Today is July 1, 2015 and it's approximately five minutes after 9:00 in the morning. First of all, I'd like to introduce myself. I'm Gladys Baisa, the

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Chair of the Committee and with me this morning I have the Vice-Chair of the Committee, Mike Victorino.

VICE-CHAIR VICTORINO: Aloha and good morning, Madam Chair.

CHAIR BAISA: Good morning. And I have Robert Carroll. Good morning, Mr. Carroll.

COUNCILMEMBER CARROLL: Good morning, Chair.

CHAIR BAISA: Elle Cochran.

COUNCILMEMBER COCHRAN: Aloha. Good morning, Chair.

CHAIR BAISA: Good morning. Mr. Couch.

COUNCILMEMBER COUCH: Good morning, Chair.

CHAIR BAISA: And Ms. Crivello.

COUNCILMEMBER CRIVELLO: Aloha and good morning, Chair.

CHAIR BAISA: And excused for the moment is Council Chair, Mike White, and I don't, I think he'll be joining us as soon as he can get to the floor. I also would like to ask everyone who might have a cell phone if you would please remember to put it on the silent mode if you're in the Chamber and I will remind myself so that we don't have any music interrupting us. And with us this morning, we also have joining us from Administration, we have Paul Meyer, the Deputy Director of the Water Department.

MR. MEYER: Good morning, ma'am...Madam Chair.

CHAIR BAISA: Good morning. We have Ed Kushi, our Deputy Corporation Counsel.

MR. KUSHI: Good morning.

CHAIR BAISA: Good morning, Ed. And also with us from the Water Department we have Holly Ho, the Fiscal Officer.

MS. HO: Good morning.

CHAIR BAISA: Good morning. And we have Helene Kau, the Assistant Fiscal Officer.

MS. KAU: Good morning.

CHAIR BAISA: Good morning. And in the back there, we have Herb Chang, our star Engineer. Thank you for being here. We really appreciate all of you being here to help us this morning. And also, I have my Committee Staff. I have Kimberley Willenbrink, our, my Legislative Analyst and Clarita Balala, the Committee Secretary. Welcome to

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everybody. And, Members, thank you very much, 9 o'clock morning meetings are always difficult, but what a group I have there, all ready to go. All, in our District Offices, we have Dawn Lono in the Hana Office. We have Denise Fernandez in the Lanai Office and Ella Alcon in the Molokai Office. Members, public testimony this morning will be limited to the item on our agenda today. Folks, if you wish to testify, please sign up at the desk located in the 8th floor lobby or at one of the District Offices listed on the agenda. Testimony will be limited to three minutes and upon request, a minute to conclude. At three minutes, the light will turn yellow and at four minutes, the light will blink red. If you're talking at the four-minute mark, I will kindly ask you to stop and appreciate your cooperation. When testifying, please state your name and if you are representing anyone besides yourself. We have established connections to the District Offices and to be fair, we will rotate through each of the sites. Hana Office, Dawn Lono, do you have anyone wishing to testify?

MS. LONO: Good morning, Chair. This is Dawn Lono at the Hana Office and I have no one waiting to testify.

CHAIR BAISA: Thank you so much, Dawn. The Lanai Office, Denise Fernandez, do you have anyone wishing to testify?

MS. FERNANDEZ: Good morning, Chair. This is Denise Fernandez on Lanai and there is no one waiting to testify.

CHAIR BAISA: Thank you, Denise. The Molokai Office, Ella Alcon, do you have anyone wishing to testify?

MS. ALCON: Good morning, Chair. This is Ella Alcon on Molokai and there is no one here waiting to testify.

CHAIR BAISA: Thank you very much, Ella. Staff, do we have anybody in the Chamber that would like to testify?

MS. WILLENBRINK: Yes, Madam Chair. We have one testifier, Rosemary Robbins.

CHAIR BAISA: Thank you, Staff. Ms. Robbins, if you will please come forward?

. . .BEGIN PUBLIC TESTIMONY. . .

MS. ROBBINS: Good morning, everybody. Happy New Year, FY 2016 kicking in today.

CHAIR BAISA: Good morning.

MS. ROBBINS: Here on WR-2, the Independent Auditor's Report. I'd just like to give a quick history. Several years ago I was curious, it seemed to me that some of the stuff that I was observing and maybe I wasn't getting the whole picture would have been helped by an auditor, so I went to the payment group there, the one that establishes the

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salary, the Salary Commission, I guess, and when I got the outline at the meeting, there were capacities and then salaries for these folks, these are all pretty much appointed by the Administration and everything was filled in with the exception of the auditor. And I knew that we had voted about that in the elections, so I asked, do we have an auditor? And simultaneously I heard yes and no. And there was no money attached to that. So I asked and the deal was, yes, we did have one and I said, okay, so and I took my pencil, so can I fill in what that person is getting for salary? Well, it hasn't been established yet. And come to find out they had put out a salary that was less than what the denominators were for the other one. So I thought, okay, so I sat and listened and indeed, we now have the auditor's report that's this morning's item and it also gives financial statements for it from 2013 and 2014 for the Water Department. So and we're already now a day longer than halfway through 2015, but at any rate, I did get a hold of that. I read those materials, couple of things that I, and I also testified on this on the 3rd of June last month, but I went through those items. And just to point out some of the things that are really scary in that it does identify that it's up to the Administration to set that to begin with and then the Council to respond to that and do the legislative production on that. But something that really stressed me was that the, there was a need for the County to change what it had listed as assets when it was floating bonds to other capacities. So apparently, we looked better than we really were at that time and the volumes of numbers going through here, but I compliment the person for having made out this response and have done a good job seems to me on that auditor's report. I'm concerned because as the question had come up back on the 3rd of June, where is the development plan for water that's required in the County Chapter. And then yesterday, when I opened my mail, I had a communication from the Water Department. This looked achingly familiar and it says that in the first quarter of 2014, I understand, it says right in here, they're required to do sampling, 4 samples every quarter, so that's 16 a year when you go through that and this letter came along and said, darn it, that they took zero in the first quarter of 2014 and indeed found contaminants of trihalomethanes and haloacetic acids. Those are the same findings that we had with the Upcountry Oversight Committee on the contaminated water in the early 2000s and we're being notified in FY 2016 that there was a problem with those from 2014? Who's doing the oversight? Where is the plan that we can read so that some people who have the opportunity to have worked on those things in the past, can bring forward --

MS. WILLENBRINK: Four minutes.

MS. ROBBINS: --what has been brought about. We still know we're having wastewater problems, but I have some good news to end up with this. Maui Engineer Moves Mountains to Complete the Particular Project. This person graduated from UMass cum laude degrees in Civil and Environmental Engineering. They're the kinds of backgrounds that we need, the environmental deals. And PS, this morning's KITV 4 announced that...

CHAIR BAISA: If you could please conclude.

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MS. ROBBINS: Surely, yeah, that we're going to have only the second state in the country an Environmental Court.

CHAIR BAISA: Thank you very much.

MS. ROBBINS: You bet.

CHAIR BAISA: Members, any need for clarification of the testimony? Seeing none, thank you.

MS. ROBBINS: You're welcome.

CHAIR BAISA: Chair would also note the presence of Council Chair, Mr. White.

COUNCILMEMBER WHITE: Good morning, Chair.

CHAIR BAISA: Good morning. Thank you. Ms. Willenbrink, is there anyone else who would like to testify?

MS. WILLENBRINK: No, Madam Chair.

CHAIR BAISA: Thank you very much. Okay. Let me check one more time with the District Offices to make sure that no one has shown up and that we missed them. Hana Office, Dawn, are, is anyone there?

MS. LONO: The Hana Office has no one waiting to testify.

CHAIR BAISA: Thank you. Lanai Office, Denise, anyone there?

MS. FERNANDEZ: There is no one waiting to testify at Lanai.

CHAIR BAISA: Thank you. Molokai Office, Ella, anyone there?

MS. ALCON: There's no one here on Molokai waiting to testify.

CHAIR BAISA: Thank you very much, ladies, I appreciate it. Since there is no one in the gallery or in the District Offices that would like to testify, Members, without objection, Chair would like to close public testimony for today?

COUNCILMEMBERS: No objections.

CHAIR BAISA: So ordered. Thank you very much.

. . .END OF PUBLIC TESTIMONY. . .

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ITEM 3: GRANTING OF A NON-EXCLUSIVE PERPETUAL EASEMENT TO MAUI ELECTRIC COMPANY, LIMITED (WAILEA) (CC 15-81)

CHAIR BAISA: Let us proceed. Members, we have one item...we have two items on our agenda today. And our first item is Granting of a Non-Exclusive Perpetual Easement to Maui Electric Company, Limited (Wailea) (WR-3). The Committee is in receipt of County Communication 15-81, from the Director of Water Supply, transmitting a proposed resolution entitled Authorizing the Granting of a Non-Exclusive Perpetual Easement on the County of Maui Real Property Situated at Honuaua, Wailea, Maui, Hawaii, to Maui Electric Company, Limited, for Electrical. The purpose of this resolution is to grant a non-exclusive easement of approximately 2.083 acres for electrical purposes to Maui Electric Company, Limited, through and under County property located at Honuaua, Wailea, Maui, Hawaii, identified as TMK: (2) 2-1-008:096. Mr. Meyer, if you could please explain a little about the request before us, I'd appreciate that very much.

MR. MEYER: Thank you, Madam Chair. We have the Director of Engineering Program here to answer any detailed questions. I can say to you that there is a bit of a misconception or mistake in the material. This is not an easement of 2.083 acres. The entire land area of our parcel where our tank, upper tank is located at Wailea is the two-acre parcel. The actual easement that will be granted, non-exclusive easement that will be granted to MECO is about 2,000 square feet and it is shown on the map in the material which is provided to you, so that's a little bit misleading. This is a customary easement whenever we have tanks and pumps and that sort of thing, MECO has to run their electric lines onto our property or onto the County property and for that, of course, they need easements for those electrical conduits. Should the Committee have any detailed questions, I'd ask again, head of our engineering group to try and answer them. We've exhausted my knowledge of this.

CHAIR BAISA: Thank you very much, Mr. Meyer. Mr. Kushi, do we need to correct anything in this paperwork to correct this...I don't know how to characterize this, the state, the way it's stated? I don't want there to be a glitch after the meeting and we say, well, we didn't clarify exactly what we're doing.

COUNCILMEMBER COUCH: Madam Chair, while he's looking for that?

CHAIR BAISA: Yes, Mr. Couch?

COUNCILMEMBER COUCH: I just note that in the resolution, it says that the County owns the property that is approximately 2.83 [sic] acres. It doesn't say that's it's granting the easement of 2.83...083 acres to anybody.

CHAIR BAISA: Okay.

COUNCILMEMBER COUCH: So just FYI.

CHAIR BAISA: Thank you.

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COUNCILMEMBER COUCH: That's all I see in the reso.

CHAIR BAISA: Okay.

VICE-CHAIR VICTORINO: And, Madam Chair?

CHAIR BAISA: Yes, Mr. Victorino?

VICE-CHAIR VICTORINO: There's some other challenges in this and I really believe that this is substantial enough that it should go back and get corrected because there's a lot of misinformation here, but I'll wait to see what Mr. Kushi says. Go ahead.

CHAIR BAISA: Mr. Kushi?

MR. KUSHI: Madam Chair, call for a recess, please.

CHAIR BAISA: Alright. There'll be a short recess. Please don't leave the room. . . .(gavel). . .

RECESS: 9:20 a.m.

RECONVENE: 9:23 a.m.

CHAIR BAISA: . . .(gavel). . . Will the meeting please come back to order. Mr. Kushi, if you can please explain.

MR. KUSHI: Yes, Madam Chair, about the reference to the 2.083 acres, that's the entire parcel that the County owns, which is under the easement document, the last page, which is MECO's form is TMK: (2) 2-1-008:096, that's the entire parcel. The easement itself is sketched out on the bottom portion. It's not the, typical MECO easements are not really surveyed metes and bounds, so according to the Department, the shaded area represents about 2,000 square feet. So in my opinion, the reso, as well as the MECO easement is sufficient.

CHAIR BAISA: Okay. Thank you very much. Members, any further questions along that line? Okay. Is there anything else that anybody wants to discuss about this?

VICE-CHAIR VICTORINO: Yes, Madam Chair.

CHAIR BAISA: Mr. Victorino?

VICE-CHAIR VICTORINO: As I brought up about the resolution being approved by the two-thirds of its members and, Mr. Kushi, if you would address that, please?

CHAIR BAISA: I'll ask Corporation Counsel to respond. Mr. Kushi?

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MR. KUSHI: Yes. The reference to sections of the Maui County Code 3.44.020, 030 and 070, in that as I recall, that normal process is that you do an appraisal and you get, it's a, you know, a third-party sale actually to, when you conveying County property. But in this case, it's a utility and we need that easement. We've never done appraisals for MECO easements, but again, you need a two-thirds majority vote to pass the final resolution to waive those requirements.

CHAIR BAISA: Thank you, Mr. Kushi. Mr. Victorino?

VICE-CHAIR VICTORINO: No, thank you for that clarification.

CHAIR BAISA: Anything else that anybody...Mr. White, yes?

COUNCILMEMBER WHITE: Yeah, just to clarify. This easement is being provided in order to have MECO provide service to us if it's on our property, is that correct?

MR. MEYER: That's correct.

COUNCILMEMBER WHITE: So it seems logical that we wouldn't ask for an appraisal on all the other things that go along with that. So thank you, Madam Chair.

CHAIR BAISA: Thank you, Mr. White. Any further questions? Anything else you want to discuss? If not, the Chair would like to make a recommendation.

COUNCILMEMBERS: Recommendation.

CHAIR BAISA: Chair's recommendation is that the Committee approve the item before us.

VICE-CHAIR VICTORINO: So moved, Madam Chair.

COUNCILMEMBER WHITE: Second.

CHAIR BAISA: We have a motion by Mr. Victorino, seconded by Mr. White. Any further discussion? Mr. Couch?

COUNCILMEMBER COUCH: Does that include filing of this?

CHAIR BAISA: Yes. Thank you. Any further discussion? Seeing none, all those in favor, say, "aye".

COUNCILMEMBERS: "Aye".

CHAIR BAISA: Opposed, "no"? Motion carries with one, two, three, four, five, seven...with seven "ayes" and no "noes". So motion carries.

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VOTE: **AYES:** **Chair Baisa, Vice-Chair Victorino, and Councilmembers Carroll, Cochran, Couch, Crivello, and White.**

NOES: **None.**

ABSTAIN: **None.**

ABSENT: **None.**

EXC.: **None.**

MOTION CARRIED.

ACTION: **Recommending ADOPTION of resolution and FILING of communication.**

CHAIR BAISA: Thank you very much, Members, and thank you, Water Department.

ITEM 2: INDEPENDENT AUDITOR'S REPORT (CC 15-69)

CHAIR BAISA: Members, the second item on our agenda today is the, Item 2 for today is our Independent Auditor's Report, WR-2. The Committee is in receipt of County Communication 15-69, from the County Auditor, transmitting the Department of Water Supply's Financial Statements and the Supplementary Information with Independent Auditor's Report for Fiscal Years Ended June 30, 2014 and 2013, submitted by N&K CPAs, Inc. Members, you may remember that during the Budget Session, we received a very lengthy summary and explanation of the report from the auditors and Staff has handed out an excerpt of the minutes from that meeting for your reference. It's kind of a thick packet that you have here, probably more than a dozen pages. This morning, we're going to hear from the Department, how they plan to utilize this information. So, if Mr. Meyer or whoever staff person you would like to delegate this to would please take over. Give us your name and please proceed.

MR. MEYER: Thank you, Madam Chair. As you know the agenda item before you was discussed as Chair represented at the March 30th Budget and Finance Committee meeting. At that meeting, Mr. Blake Isobe, the principal of our auditors, N&K CPAs shared that his firm issued an unmodified opinion on the Department of Water Supply's financial statements for the Fiscal Year Ended June 30, 2014. Page 4 of the auditor's report states...

COUNCILMEMBER COUCH: Madam Chair, could he get a little bit closer to the microphone.

CHAIR BAISA: Mr. Meyer, if you could get close to your mic. They're having a hard time hearing you and I'm sure the audience is, too.

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MR. MEYER: I'm sorry.

CHAIR BAISA: Thank you.

MR. MEYER: Page 4 of the auditor's report states in its opinion and I quote, "In our opinion, the 2014 Financial Statements referred to above present fairly in all material respects the financial position of the Department as of June 30, 2014 and the changes in financial position and its cash flow for the year then ended in accordance with the County principles generally accepted in the United States of America", close quote. Needless to say, we're pleased with a clean opinion. There's no comments, no material weaknesses cited in the report and we continue to work towards increased timeliness and efficiency. If the Committee has any questions regarding the DWS Financial Statements as presented this morning for the Fiscal Year 2014, we'll be happy to try to answer them. If research on our part's necessary, we will certainly provide a written response to the Committee. Thank you.

CHAIR BAISA: Thank you, Mr. Meyer. Any of the references, the resources that are with Mr. Meyer, want to say anything? No? You're just here as, for resources. Thank you. Members, any questions? The purpose of my bringing this up today is this is an item sitting in my master agenda and we did go through this extensively during the Budget. But in order to file it, I had to schedule it before you today, so if anybody has reviewed minutes and come up with any additional questions or anything you'd like clarified we have the resources with us today. But if you don't, that's okay, too. So, anybody? Mr. White?

COUNCILMEMBER WHITE: Thank you, Madam Chair. No, I'm comfortable with the audit findings and I think all of us recognize that the Department of Water has a very, very good financial team. And so I'm appreciative of your bringing it up, but I have no discomfort with anything that they're doing. So, I'm okay.

CHAIR BAISA: Thank you very much, Mr. White. Anyone else?

VICE-CHAIR VICTORINO: Madam Chair?

CHAIR BAISA: Yes, Mr. Victorino?

VICE-CHAIR VICTORINO: In reviewing the report, again, overall, I have no challenges or major questions, but one of the notes that stuck out at me was No. 10, which falls under un-accrued sick leave and there's a substantial amount of money in there. And it's very concerning with what we're going through to know such a large sum sits out there to be taking care, taken care of at a later date. Now, I know the Department and you're not the only department, so I didn't mean to just focus on that, but it was such a glaring number that I'm afraid...you want to know what page it is, I apologize. I should tell you what page it is, right? And I lost it 'cause...

COUNCILMEMBER COUCH: Thirty.

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VICE-CHAIR VICTORINO: Page 3.

COUNCILMEMBER COUCH: Thirty.

VICE-CHAIR VICTORINO: I mean, 30...3, I'm sorry. Okay. That's right. Yeah. Page 30 and so that \$5 million-plus seems to, you know, stand out and I don't know if, you know, again, if there's anything we can do, but I think it's something to be aware of. And that's the only reason I bring the subject matter up. Others were not quite as glaring, but that one in particular stood out. And so, I don't know, Madam Chair, I just thought I'd bring it just for the record and maybe at a later date we can sit down and have a discussion, but I think that's all, basically all done by our collective bargaining, so it's not something we can just change if we so wanted to. But again, just so long as the Department's aware and the public's aware that it's there and that we have to take care of it at a later date and try to set aside as much as possible. That's important. So, that's all I have to say, Madam Chair. Thank you.

CHAIR BAISA: And thank you very much, Mr. Victorino, for raising that. You know, we could discuss this at length because there are a number of things like that, including Mr. Hokama frequently brings up the issue of un-booked CTO, which is a liability also, a huge liability and we don't book it. So at some point, we might have to pay these things. Let me ask Staff if they have anything they'd like to reply to from an accounting standpoint or?

MR. MEYER: Well, as Member Victorino points out...

VICE-CHAIR VICTORINO: Can you get closer to the mic, you seem to...

MR. MEYER: As you point out --

CHAIR BAISA: You have a very soft voice.

MR. MEYER: --the amount may seem high, but it's certainly within the contractual amount and within limits, otherwise it wouldn't be sick leave, it would be leave without pay, so it's part of the contract. It's something we continually try and take a look at and we certainly are diligent in when per contract, the sick leave goes over the time allotted, we get doctor's notes and that sort of thing and our Administrative Officers and operating departments are, try to be as diligent as we can within the confines of the contract we have to deal with.

VICE-CHAIR VICTORINO: Well, thank you. And that's all I think we could expect at this point, and the other issues maybe at a later date, you know, we need to sit down and talk, not in this Committee, but maybe in another committee, the discussion on what we need to do as far as collective bargaining is concerned, yeah. Thank you, Madam Chair.

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CHAIR BAISA: Thank you, Mr. Victorino. I think that might be a real good issue for your Committee 'cause, you know, it's a big issue about fringe benefits in general. Mr. Couch?

COUNCILMEMBER COUCH: Thank you, Madam Chair. I understand the number is high, et cetera, except for the fact that it's, I'm not sure if it's a liability because once the employee leaves, they don't get paid for that sick leave; however, they do get time credited for their sick leave. So I'm not sure what the dollar balance is. Is it better to have, pay them for their sick leave or allow them to accrue that as part of their retirement benefit, so that would be the interesting thing to look at if, in, I'm not sure if it's Budget and Finance or Mr. Victorino's, to get an answer as to what's the better for the County issue.

CHAIR BAISA: You're absolutely right, you know, when my husband retired, I don't know how many hundreds of days he had piled up because he never stayed home --

COUNCILMEMBER COUCH: Right.

CHAIR BAISA: --sick or not. And it does help with the retirement --

COUNCILMEMBER COUCH: Right.

CHAIR BAISA: --computation, so it could affect us financially long-term. But anyway, Mr. White?

COUNCILMEMBER WHITE: Thank you, Madam Chair. To say that it doesn't cost us anything is just not right. It is time that they're credited with, but that means that they leave their job and they get paid for the entire amount of sick leave that's been accrued.

CHAIR BAISA: Correct.

COUNCILMEMBER WHITE: So to say that that doesn't cost us anything is just not quite accurate.

CHAIR BAISA: Right.

COUNCILMEMBER COUCH: Actually, Madam Chair, point of order, they don't get paid for the sick leave. They, you don't, you get paid for vacation.

CHAIR BAISA: One at a time, guys.

COUNCILMEMBER WHITE: Let them tell us what they do.

CHAIR BAISA: Yes. Holly, would you please help?

MS. HO: Okay.

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CHAIR BAISA: You can tell we get passionate about certain things--

MS. HO: Yes.

CHAIR BAISA: --and one of them is money.

MS. HO: Okay. One of, this is a note and it does say un-accrued sick leave. That just shows how much is in, you know, how much is owed to employees, but it's only owed if they take their sick leave.

CHAIR BAISA: Right.

MS. HO: If they do not take the sick leave and they leave the County, they lose it unless they retire and then it will be credited to years of service. So that's why it's not in our financials, it's un-accrued. The other comment on vacation and CTO, we do accrue CTO and vacation, so that is something we are required to pay if someone does leave the County.

CHAIR BAISA: So in the Water Department, you actually accrued a CTO?

MS. HO: Correct. And I'm pretty sure the County does, also, but I can't...

CHAIR BAISA: I'm not really sure, 'cause I've heard like I said, Mr. Hokama mentioned it many times that he's concerned about what's out there in terms of CTO. So it might be something I'll check with him. Thank you.

MS. HO: Yeah. But we do accrue it.

CHAIR BAISA: Very good. Thank you. That's important because that's cash.

MS. HO: Yes.

CHAIR BAISA: You gotta pay. Okay. We had a bunch of hands up over here. Ms. Cochran?

COUNCILMEMBER COCHRAN: Oh. Thank you, Chair, and good morning. Thank you, Department, for being here. Just and thank you for the minutes that you had supplied and I was kinda browsing through some of Mr. Isobe's comments and he does seem to have some recommendations for the Department. It's not totally clean and hey, everything's hunky dory, I mean, I know you folks are doing the best job you can, but just flipping the page, I right away see a couple. And one of 'em is in regards to reconciliation of CIP, you know, the construction work in progress, accounting for it and in a timely fashion so we can thereby get the CAFR, you know, in a timely, on a timely basis. So that was one thing they had noted and found it as a material weakness. And another was a recommendation about the formal process to review and confirm access rights to your different systems. I guess you folks do not have formal policies and procedures to, for user access and what have you and passwords,

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so I'm not sure if Department can, if you don't mind, comment on these two, you know, suggestions or recommendations by auditor that I just came across.

CHAIR BAISA: Thank you, Ms. Cochran, not a problem at all. That's why we're here to talk about this.

COUNCILMEMBER COCHRAN: Okay. Great.

CHAIR BAISA: Today it's the last chance before we file it.

COUNCILMEMBER COCHRAN: Okay. Great. Thank you.

CHAIR BAISA: Go ahead, staff.

COUNCILMEMBER COCHRAN: Thank you. And, Members and Chair, Department, Pages 8 and 9 is where I'm looking at in the minutes of March 30th that Chair had passed out to us. So it's in that, the first recommendation is in the first part of the, oh, has opening comments and then the second is on this Page 9 at the top. So, if you folks want to...

MR. MEYER: Thank you. The comment in the Budget and Finance Committee Minutes relating to the County's overall audit, I believe it's called the single audit, relates to a reclassification from one asset account to another. The comment doesn't say there's a lack of control or any questionable practices in terms of controlling capital projects. Let me say that first and foremost, we, when we undertake capital projects within the Water Department, those are subject to a bid and evaluation and award process per the County rules and regulations and that's very tightly controlled. The bids are reviewed by three people before they're awarded. When a project is underway and money is actually paid to a contractor, we have inspectors and a project engineer assigned to each job and they review the work in place, the materials stored, et cetera. Every time there is a draw request or a payment request, that payment request once it's approved by the inspectors and the engineer in charge, then goes to the Fiscal Department. It's reviewed and signed off on by two people, at least two people in the Fiscal Department. After that it goes to either the Director or myself for review and signature. So there're, at a minimum, five probably as many as seven people who sign off on any draw request in connection with any capital projects. So the propriety, the propriety, the sufficiency and the correctness of those draw requests are adequately reviewed. If there's a loan involved it may go to Department of Finance or to Safe Drinking Water Branch as well if it's an SRF loan. Only then is a disbursement made against a construction project. This question really...and it's booked to a construction-in-progress or a work-in-progress account, which is the asset account, you book things to while they're under construction. This refers to the GAAP rules, the Generally Accepted Accounting Principal rules, which say that once an asset is put into service, and act, a tank is filled with water, a pump is actually pumping water, a waterline is full of water and it's delivering water to your customers, it should be according to GAAP, taken out of construction in progress or work in progress and moved into the actual asset account. It should be reclassified the amount

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of the cost of that, net cost of that should be moved from a, for example, work in progress to the tank or work in progress to the line, et cetera. Many times when our construction projects are underway, there are sort of tag-end items that aren't completed by the contractor and the engineer is not ready to sign off on complete transfer because the project isn't complete. There may be as-built drawings. There might be warranties on the equipment that haven't been delivered. There may be operations and maintenance manuals associated with certain equipment. There may be paint specifications that haven't been delivered or completed, ends that may take a number of months after the asset is put into service and as a result, the engineers and the inspectors doing their job are reluctant to sign off and close the capital project because there are still things that need to be done to protect the people, to protect the Department and to hold the contractor to do his job. So that's the reason that sometimes this reclassification can lag, the asset be actually being put into service. And that puts, that's a challenge because you've got the engineer on one hand doing their job, making sure that things are done correctly and you've got the accounting folks and our fiscal group that are charged with the auditors of following GAAP and actually reclassifying the assets on a timely basis when they're put in service. We have developed and there was a lag, there was a number of projects that weren't reclassified if you will and accounted for according to GAAP. They were still in construction in progress. We developed a new system and our fiscal group is working around that right now to rectify that situation so that we are more correctly following GAAP, but also accounting for the kind of control you really need in place over construction projects. Sorry for going on a little bit, but it's a little bit of a detailed kind of a thing and I want to make it clear. This is not a lapse in control. It's not a lack of accountability. It's just the opposite. It's a good control and we're putting in place a system that will also reflect that ...(inaudible)... the accounts. I'd like to ask Holly to comment on that as well.

CHAIR BAISA: Ms. Ho?

MS. HO: Yeah. As Paul has mentioned, we are actively working on, with the engineers and our staff, to close a lot of the projects. And it's been a challenge and we will continue to get it done and hopefully this, if not this audit, for sure by next audit, the 2016, it'll be looking a lot better. But it has been a challenge and we are working to get it completed.

CHAIR BAISA: Thank you.

COUNCILMEMBER COCHRAN: Okay. Yeah.

CHAIR BAISA: Ms. Cochran?

COUNCILMEMBER COCHRAN: Thank you very much. 'Cause one of the things that was highlighted in his comments, too, was that they were, I guess, things considered construction in progress and he said it should have been expensed as repairs and maintenance. So I mean, you say you have seven people that sign off on these things and yet, something like that was overlooked. That's a big, you know, construction,

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repair and maintenance, I mean, we just had this discussion yesterday in Mr. Hokama's Committee and it, you know, it's, means way two different things. So I appreciate, Chair, that Department is aware and is looking into this and improving the system that we have. So I, by no means really, you know, saying, they're being horrible about this, I understand, it's a lot to take care of, and it does also state, a lot of agencies have to coordinate here, Department of Finance, yourselves and everything so, it's, I appreciate them understanding and being aware. So thank you very much. But I did have and I can have other people ask, but I have that other thing in regards to formal policies and procedures for users and passwords as in accessing your information in your system?

CHAIR BAISA: Staff?

MS. HO: Okay. Yeah. So, this comment was regarding the CC&B Billing System that we use and we actually are in the, Oahu or Honolulu Board of Water Supply is in control of the passwords and everything. We do submit them to them and I noticed maybe five months ago we did change all our passwords. So we're kind of, it's beyond our control, but we will make sure there is documentation how they go about setting up the controls for the passwords.

COUNCILMEMBER COCHRAN: Okay. Alright. Very good. Thank you.

MR. MEYER: As you know, as the Committee knows, we have a number of issues and problems with the Honolulu Board's computer system, it's called CC&B. One of which is the password control. We've made those known to our auditors and it's known to them, and as a matter of fact, the password was just changed yesterday for all of our users on the CC&B System. But that is really minor compared to the other problems we have with that system.

COUNCILMEMBER COCHRAN: Thank you. And sorry, Chair, if I can ask one more?

CHAIR BAISA: Oh, please go right ahead.

COUNCILMEMBER COCHRAN: And this is in regards to our actual booklet, the audit on Page 12, item, note 1, item 5 and it's about doubtful accounts and accounts receivable for past due. It's kind of a big chunk for Year End June 30, 2014, over \$220,000 of past due versus the previous year down, you know, it's only down at 72,000. I mean, those are big chunks of money that we are due. So how do we go about collecting or where are we with this? Hopefully the number hasn't gone up?

MR. MEYER: Thank you very much. Again, it, I don't want to sound like a broken record, but we did have in the introduction of this in conversion to the CC&B System with Honolulu Board, we had a number of bills that were estimated and they, it wasn't that our meter readers didn't generate the data necessary to prepare correct bills, it's that the Honolulu Board was unable to process those data and get the bills out correctly and on time. As a result, we did have some disputes. They were nothing compared with Honolulu Boards. Honolulu Boards at one point had over 45 percent of their bills

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on estimated basis and it was a big problem; so, we had a minor problem and that shows up as disputed bills or as past due receivables. One of the issues I'd like to bring up is that most municipal water companies have the ability to create tax liens for unpaid amounts in the property tax bills. And as a result, the municipal utilities do not have any unpaid or past due amounts. They don't have any bad debts. That's a quick and easy way to make sure that your water bills that are past due get paid is if you can create a lien as you can with property taxes and other issues on the actual property itself and it would ease our problems in terms of collection in situations where there's a foreclosure in particular and a property may change hands. Thank you.

COUNCILMEMBER COCHRAN: Okay. Thank you.

CHAIR BAISA: Thank you. Ms. Cochran?

COUNCILMEMBER COCHRAN: I think Ms. Ho wanted to add.

CHAIR BAISA: Ms. Ho, anything you want to add?

MS. HO: Yeah. I just wanted to point out, it's accounting procedure. It's an allowance for doubtful accounts. We're setting up an allowance to, you know, for us in the future if we have accounts that have to be written off. We do have a very low percentage of bad debts. We do many, we have collectors. We have, we lock meters. You know, we do lots of things to try to collect the debt. But this is like I said, it's an allowance they set up that we can for, you know, things that are uncollected, that if we have to write it off.

CHAIR BAISA: So it isn't an actual liability? It's an allowance just in case you have it?

MS. HO: Correct.

CHAIR BAISA: Okay.

COUNCILMEMBER COCHRAN: Okay. Oh, and Ms. ____ is raising her hand.

MS KAU: Chair, I wanted to add that we think that relatively speaking, our revenue for 2014 in water sales was in excess of \$54 million and so the allowance of 224,000 is relatively immaterial, and again, it's just an allowance.

CHAIR BAISA: When you look at it that way, it sure is. Any further questions?

VICE-CHAIR VICTORINO: Madam Chair?

CHAIR BAISA: Mr. Victorino?

VICE-CHAIR VICTORINO: Not so much questions, but couple of quick comments. You know, first of all, you know, we gotta compliment the Water Department because they

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do a fairly good job. You know, if you look at this report in totality, it is a very good report. It also reminds us all that Mr. Taylor and the Department does need the money to start moving and getting their own billing system. We have long been dependent on Oahu and I understand when we first started for the expenses that we were doing as an individual County versus joining them was a big savings. But those times have changed and so we need to have control. I think this is one of the big challenges we face is we have all these questions which in some cases we have no control on, passwords and various other issues. And if you remember when Oahu changed their billing system, what, two years ago, they had an enormous amount. There were people that were getting bills that were almost identical to what they had gotten and then three months later, were getting five and six thousand dollar bills. Remember? Watch the news.

CHAIR BAISA: Yes.

VICE-CHAIR VICTORINO: It had showed that, right? And that, we were very fortunate, we were pretty much immune to that. We got a few, but not like Oahu, and you're right, it was almost 47 percent of all the bills were in dispute at one point in the Board of Water Supply in Honolulu. So this is why I'm just putting the gauntlet out there that we need to change, we need to move now. And if we want to keep the hamstring in and tying their hands, then leave it with Oahu. You know, I'm all for the change. Let's do it and do it as expediently and as quickly as possible. Thank you.

CHAIR BAISA: Thank you, Mr. Victorino, for the reminder that we're trying to get our own system so that we are no longer vulnerable by depending on Oahu. I don't like that either. I'm sorry. Any further questions about the audit? Seeing none, Chair will entertain a recommendation to file County Communication 15-69.

VICE-CHAIR VICTORINO: So moved, Madam Chair.

COUNCILMEMBER CRIVELLO: Second.

CHAIR BAISA: We have a motion by Mr. Victorino, seconded by Ms. Crivello. Any further discussion, Members? Seeing none, all those in favor say, "aye".

COUNCILMEMBERS: "Aye".

CHAIR BAISA: Opposed, "no"? Motion carries with seven "ayes" and no "noes".

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VOTE: **AYES:** **Chair Baisa, Vice-Chair Victorino, and Councilmembers Carroll, Cochran, Couch, Crivello, and White.**

NOES: **None.**

ABSTAIN: **None.**

ABSENT: **None.**

EXC.: **None.**

MOTION CARRIED.

ACTION: **Recommending FILING of communication.**

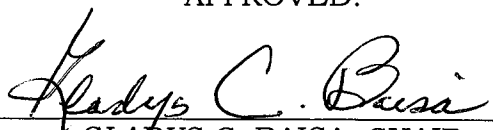
CHAIR BAISA: Members, that is our agenda for today. We've completed it. Chair would like to thank you very much for your work today. I would like to thank the Water Department for being here today with their resources to help us, you know, do our work today. I'd like to thank Mr. Kushi for being with us and my Staff. And without further ado, Water Department, thank you very much and congratulations, we can now move on to the next audit report, right, which is going to be even better than this one.

MR. MEYER: Thank you, Madam Chair. And thank you, Members.

CHAIR BAISA: Okay. So without further business, the meeting is adjourned. . . . (*gavel*). . .

ADJOURN: 9:52 a.m.

APPROVED:



GLADYS C. BAISA, CHAIR
Water Resources Committee

wr:min:150701

Transcribed by: Joanne Bista

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CERTIFICATE

I, Joanne Bista, hereby certify that the foregoing represents to the best of my ability, a true and correct transcript of the proceedings. I further certify that I am not in any way concerned with the cause.

DATED the 2^{3rd} day of July, 2015, in Kahului, Hawaii

A handwritten signature in cursive script, reading "Joanne Bista", written over a horizontal line.

Joanne Bista