County of Maui Water Supply

BOARD OF WATER SUPPLY
COUNTY OF MAUI
PUBLIC HEARING

Held at the Skybridge Conference Room, Maui Community College, Wailuku, Maui, Hawaii, commencing at 6:00 p.m. on June 19, 2000.

REPORTED BY: LYNANN NICELY, RPR/RMR/CSR #354
IWADO COURT REPORTERS, INC.

A P P E A R A N C E S

Members Present:
Peter Rice
Clark Hashimoto
Howard Nakamura
Bob Takitani
Orlando Tagorda
Adolph Helm (on Molokai)

Staff Present:
David Craddick, Director
Fran Nago, Secretary
Mike Quinn, Fiscal Officer
Jacky Carroll, Public Relations Director
Punie Barrows (on Molokai)

IWADO COURT REPORTERS, INC.
TRANSCRIPT OF PROCEEDINGS
Public Hearing
June 19, 2000, 6:00 p.m.

MR. RICE: Let's open the public hearing. The hearing is now in session. This public hearing has been called to obtain public input for the proposed Operating and CIP Budgets for the fiscal year

2000-2001. I would like to take this opportunity to welcome all of you to this hearing. Those of you who took time out of your busy schedules, we appreciate your interest. Is there anyone?

Present at the Maui office is co-chairs of the finance and the CIP committee, Peter Rice and Howard Nakamura. We have directors Orlando Tagorda, Clark Hashimoto and Bob Takitani; director David Craddick; board secretary Fran Nago; Mike Quinn, fiscal director; Jacky Carroll, public relations director. I believe on Molokai we have director Adolph Helm and Punie Barrows. There is a lot of people in that room, Adolph. Who did I miss? Anybody? And the court reporter.

Notice of the public hearing was published in the appropriate journals, state and county, and the Maui News, both on June 5th, 2000. Copies of the budget are available for review.

We have one written testimony presented before the meeting by the Kula Community Association which we'll put into the record. Are there any other testimonies to be given today?

MS. NAGO: No others.

MR. RICE: No other testimony from Maui. How about from Molokai? Any testimony from Molokai?

MR. HELM: No, none here.

MR. RICE: Thank you. Okay. So we don't have to worry about the orderly handling of the testimonies. I'm going to turn this over to Mike Quinn to do the presentation.

MR. QUINN: Good evening, board members and interested members of the community. My name is Mike Quinn. I'm the fiscal officer for the Department of

Water Supply. Sitting next to me is Jacky Carroll. She's the administrative assistant to the director of the Department of Water Supply.

We are pleased to bring to you tonight, present to you tonight fiscal year 2001 budget. The Department's mission statement is to provide clean water efficiently, and we believe this budget tonight that we will present reflects the theme of that mission statement.

The proposed budget for fiscal year 2001 consists of two parts, the Operating Budget and the Capital Improvements Budget. Generally the Operating Budget provides for continuing service to our customers by funding operations, maintenance and equipment expenses. In addition, the Operating Budget provides for debt service payments and revenue transfers for system replacement due to the depreciation of our current system.

The capital improvements portion of the budget outlines the projects for system replacement and system expansion or additions. Expansion and operating revenues are accounted for separately.

The proposed budget projects total receipts to be $28.6 million, which is an increase of approximately $1.2 million, or 4.3 percent over the estimated current fiscal year total receipts.

Direct operating expenditures are projected to be about $25 million, which is $1.9 million or 8.2 percent over the estimated current year-end expenses.

Operating revenues are primarily derived from water sales. In fact, 98 percent of our operating revenues come from water sales and this slide that you have in front of you basically outlines the major sources of our funding. We have water delivery which essentially are metered sales, we have monthly charges which are service charges that we charge our

customers, we have a small amount that comes from fire flow -- providing fire flow protection, and we also have a small amount for installation and jobbing revenue. And these funds are used for funding operations expenses, maintenance expenses, equipment expenses, debt service expense, and system replacement. If there is any money in addition, we will transfer that for system replacement expenses and projects.

Revenue from water sales is a function of water consumption and water rates. Fiscal year 2001 will represent the fourth year of a five-year increasing rate schedule. And what you have on your screen now is the water rates that will be in effect July 1st, 2000 for this upcoming fiscal year 2001. And as you can see, there is a separate tier for agricultural consumers. In our continued effort to support our farming community, we have a preferential rate for our ag consumers.

We are projecting that water rates will increase about 5 percent in fiscal year 2001 and that we will have an increase in revenue of about 7 percent from water sales over the current fiscal year. We anticipate water consumption to increase between 1.6 percent and 2 percent.

Interest income is projected to be about $1 million, which is about $0.6 million or $600,000 less than this year. Interest income is directly affected by the spend down of our cash balances, primarily on CIP projects.

The Operating Budget is comprised of three large expense items: Payroll, debt service, and electricity expenses. The electricity expenses will come under the services portion of the budget and we will discuss these very shortly.

Payroll expenses are projected to be about $6.9 million for an increase of $0.8 million over the

current fiscal year-end estimate. The fiscal year 2001 projection includes a provision for 27 vacant positions which have been funded to reflect the expected date that they will be filled. It should be noted that for the past few years, actual payroll expenses have been below budget primarily because of unfilled vacant positions. There are no provisions for bargaining unit pay increases in this upcoming fiscal year budget.

Materials and supplies expenses are projected to be $2.5 million, which is about $0.1 million or $100,000 over the current fiscal year 2000 estimate.

We anticipate spending about $200,000 more on chemicals due to a new cleaning regime for our membrane filters in the treatment facilities.

The services portion of our budget, we are projecting expenses of $7.1 million or an increase of $0.9 million, which is 14 percent over the current year's estimated expenses. The primary reason for this increase is electricity costs. We anticipate continued high energy use adjustments to our electrical bills. In addition, we are anticipating a possible electric rate increase in the second half of fiscal year 2001. Also, we have allowed for increased pumping costs due to dry weather conditions, particularly upcountry.

Electricity costs are projected to be $5.4 million, an increase of $0.7 million over current year estimates. This is an area of great concern that we will be focusing on that particular expense item in the upcoming fiscal year.

Also included in this segment of the Operating Budget expenses is a total of $248,000 for professional services. In addition, in our continued effort to protect our water resources, we have allocated $236,000 for watershed protection and monitoring. A schedule of these items appears on page

7 of the proposed budget.

Debt service is another significant expense that we are faced with. Currently the Department has $54.6 million of outstanding long-term debt. Debt service for fiscal year 2001 is projected to be $5.6 million. However, it should be noted that $426,734 of debt service on the $5.1 million portion of the 1993 refunding bond issue is being paid out of a Water System Development fund.

Equipment expenses are projected to be about $0.7 million, of which $317,000 is projected for eleven vehicles in our continuing effort to replace our aging fleet. A detailed listing of equipment requests is included in the budget packages on pages 11 and 12.

Finally we have the Other Costs category. We have no significant increases that we anticipate in this category. However, we have allowed for $85,435 in rental expenses for the NASCA baseyard facility. It should be noted, however, that we have not paid these expenses to date and that we have contested these charges.

We have also budgeted in this category $100,000 for potential claims and judgments, although to date we have not charged any expenses to this category.

And for the purposes of this particular presentation, slide presentation, we have included in the Other Costs category a county overhead expense of $500,000, an employee benefit expense of $1.7 million, and an insurance premium of $75,000.

Again, I would like to re-emphasize our concern about the electricity costs. We are projecting $5.4 million for this upcoming fiscal year. It's an area of great concern and we will be focusing very closely on this particular expense item in the upcoming fiscal year.

Another item I would like to re-emphasize is our watershed protection and monitoring commitment of $236,000 for such things as miconia removal, watershed partnerships in West Maui, East Maui, and Molokai, and Iao Aquifer monitoring.

The proposed Operating Budget projects a $4 million transfer to the Capital Replacement Fund to be utilized for replacement projects and/or contingencies that might arise during the course of the year. In that sense, we have to be flexible to allow for unforeseen circumstances. In fact, we also have a line item of about $3.4 million for working capital and an emergency fund.

Over the past three years, we have had the benefit of an increasing water rate schedule. We have two more years remaining on this five-year rate schedule. If we had not had these rate increases, we would have been in jeopardy of not having been able to cover our operating expenses, including debt service. Our infrastructure replacement needs are substantial and even with the rate increase, we are not able to generate sufficient revenues to cover our depreciation expenses which are on the order of $8 million a year.

In addition to the challenge of funding replacement requirements, we face other challenges in the following fiscal years. We will be faced with increases in the employee -- our contribution to the employee retirement system, impending bargaining unit payroll increases. Also as stated earlier, we only have two more years remaining on our five-year rate schedule, so we face some pretty serious challenges in the upcoming fiscal years. But at least for this budget, we are proud to be able to transfer $4 million for CIP projects, which leads us to the capital improvements portion of the budget. And Jacky Carol, the administrative assistant to the director, will proceed with that portion of the budget.

MS. CARROLL: Now we are going to focus on the capital budget. As compared to the Operating Budget, these are the tangible things such as pipes and tanks. The capital improvement program is for infrastructure replacement and expansion. CIP also provides for an efficient organization and for the protection of our precious water resources.

The capital improvement program is funded one year at a time and we also maintain a five-year plan and a long-term project list. These are discussed and adjusted by staff every quarter in preparation for the annual updates.

The proposed budget projects spending $15 million for 64 projects. The CIP budget consists of both replacement and expansion projects, each with a separate source of funding. Money for capital improvement comes from revenues, bond issues, development fees, outstanding balances, and contribution from federal, state, or county entities.

System replacement projects will be funded primarily from the capital reserve fund and the proceeds from the 1998 General Obligation Bond funds. The expansion projects will be funded with Water System Development fees paid by new services to cover source, storage, and transmission, and also with the Central Maui Source funds.

In addition, we have anticipated funding from the state of $2 million which is to be used for the Lower Kula reservoir design.

The source of funding for regulatory compliance projects varies depending on the requirements. And like system replacement, money for improvement and efficiency comes mainly out of revenue or bond funds.

The Department of Water Supply has $15,014,000 in projects planned for fiscal year 2001. Funding for these projects comes from various sources: From the

capital reserves, $5.73 million; from the 1998 General Obligation Bond fund, $1.9 million; from the Water System Development fee, $4.12 million; $1.69 million from the source fund; and $1.5 million from state funding.

The largest sources of funds this year is the capital reserve, followed by the Water System development fund. It is important to note that the Water System Development fees are the primary source of system expansion funding. We estimate receiving about $1.4 million in the upcoming fiscal year from which about $0.4 million is need for debt service; thus on an annual basis, only about $1 million is available in additional revenues for projects. The Department is currently reviewing the Water System Development fee.

The source fund, the $1.69 million, is a restricted fund that predates the Water System Development fee which was implemented in April 1993. We are spending down the final balance in the source fund.

In selecting projects, we consider community input and we also look at regulatory requirements and resource issues. We consider problem areas and demand trends, also the needs for source and storage to sustain system reliability through drought and other high demand times. We consider system operations and consistency with the community plans, and of course the Board of Water Supply's priorities. We take into consideration trends in demand and system growth and also anticipated impacts of community plan and zoning decisions.

Note that the Department of Water Supply system is made up of five separate systems: West Maui, Central Maui, Upcountry, East Maui, and Molokai. By far the largest system is the Central Maui system which has about half of our services, approximately 15,600 services in Central Maui. The next largest system is the Upcountry system with about 8,800 water

services. The third largest in size is Lahaina, the West Maui system, with about 2,800 services, then Molokai with 1,500 services, and Hana with 500 services. Keep this map -- this idea of the five systems in mind because later on in the presentation we'll show you a summary of the capital improvement program by area.

The Department of Water Supply has several program priorities and these are what the capital improvement program funds will be used for: Ensuring compliance with federal and state safe drinking water regulations, reducing withdrawals from the Iao Aquifer. We are currently at 18.2 mgd for the monthly moving average. Also reducing the effects of drought, particularly upcountry. Replacement and construction of transmission and distribution pipelines where needed. Pump replacement, reliability facilities management, and efficiency in automation.

One of the Board of Water Supply's priorities is compliance with the EPA Safe Drinking Water Act. That includes $100,000 for the lead and copper compliance program.

Another board priority is to plan, organize, and control activities necessary to reduce the draw on the Iao Aquifer. One of the steps in achieving this goal is utilizing North Waihee as a new source. $600,000 is devoted to North Waihee source development.

The board will implement and develop plans to reduce the impacts of drought on our customers, especially in the Upcountry area. $200,000 is allocated to repair the Waikamoi flume which was built in 1923 and is in dire need of repair. Staff Completed an emergency repair job in February when part of the flume washed out and had to be rebuilt from the ground up. Two other trestles are scheduled for repair next fiscal year.

Fourth priority on the list is developing and

implementing a storage development plan to upgrade critical areas of Maui. As part of this priority, $1,050,000 is dedicated to the replacement of the Alae tank in Kula.

These are just some examples of the projects we'll be working on next fiscal year. Take a look at the capital improvement program handout for the entire list of projects. You'll probably see some projects in your own community.

The following categories and dollar amounts represents the major areas of focus and prioritization for the proposed CIP budget: $280,000 for projects necessary to ensure compliance with EPA Safe Drinking Water Regulations; $1.5 million for projects necessary to reduce the draw on Iao Aquifer; $3.5 million for drought mitigation; $3.4 million for storage development; $4 million for pipeline replacement; $110,000 for pump repair and replacement; $1.3 million for new system elements and reliability projects; $325,000 for property and facilities maintenance; and $700,000 for conservation, automation, and efficiency efforts.

Funding for these projects will come from operating revenues, expansion funds, and from the bond issue.

So you can see many good things are coming down the pipeline next fiscal year for all areas of our community. This shows how much is going where. You can see our first priority is Upcountry, nearly $9 million will be going to the Upcountry area. Second is Central Maui, approximately $2.5 million going for Central Maui. The third largest dollar amount goes to projects that will improve the water system in all areas and that is $1.85 million. Fourth is East Maui with $.68 million, then West Maui with $0.51 million, and Molokai with $0.15 million. You can see we've got a busy year ahead, but all these things are going to bring us back to that

mission statement: To provide clean water efficiency. Thank you.

MR. RICE: Adolph?

MR. HELM: Yes.

MR. RICE: Do you have anyone enter the hearing there on Molokai that would like to give testimony?

MR. HELM: No, we don't, Mr. Rice.

MR. RICE: Thank you, Adolph. We have Melissa Prince here walked in during the presentation who would like to give a testimony and we are going to turn it over to her.

MS. PRINCE: Hello and good evening, everyone. I'm here to make a presentation because I'm concerned about the drought and the effect that the -- how it's connected do the Kahului power plant.

Before I start that, I just wanted to review some things. The first one is on the water cycle.

When it rains, water falls to the earth. Some is absorbed and used by plants and animals. Some rain falls on the ground. Some falls in the ocean. When the sun warms the earth, evaporation occurs. When water vapor rises into the atmosphere and cools, clouds form through condensation.

Clouds are made up of millions of tiny water droplets. When the water droplets grow so large that they can no longer stay suspended in clouds, then rain occurs.

Okay. I have another picture. Acid rain occurs when moisture from the air combines with sulphur dioxide and nitrogen oxides from power plants, car exhaust, volcano vog and forest fires such as cane

burning, to form acid compounds. The burning of fossil fuels such as natural gas, petroleum and coal increases the amount of carbon dioxide in the atmosphere, which contributes to the green house effect. The green house effect occurs when gases in our atmosphere trap heat.

Global warming means that global terms are rising. One reason is the increase of green house gases in our atmosphere.

I'm concerned about the smoke coming from the Kahului power plant. According to a Check It Out article in the Maui News on May 22, 2000, the smoke coming from the stack is exhaust from 50-year-old electric generators. These were installed between 1948 and 1954, and there was a law passed that any generators installed before 1977 were not required to have scrubbers on them. This means that these generators are pouring out pure unfiltered pollution into the air. This is blowing over shopping centers, residential areas, schools, and the hospital, and can cause many health problems.

It is my belief that this pollution is not only going to cause acid rain, but is also contributing to our droughts. If pollution causes the temperature to rise, how can clouds form since they need cool air for condensation? Iao Valley, the source of much of the island's water supply, is right in the path of this pollution. My opinion is that the water cycle in Iao Valley and the West Maui mountains is being damaged by the pollution from this power plant. I call for the Kahului water plant's immediate closure. Thank you.

MR. RICE: Thank you, Melissa. Is there any other testimony?
The director has raised his hand.

MR. CRADDICK: What I would like to say is that we have three jobs that bid in this last week and I think we have two more jobs that will bid in this next

week. The last three jobs were three quarters of a million under-funded for what they bid at, so we will have to address that issue in this upcoming budget because we are not going to be able to award those jobs. And if it keeps going with the jobs that are going to be bidding in this next week, it may go above that three-quarters of a million number that we are short on right now.

MR. RICE: Those are CIP projects?

MR. CRADDICK: Yes. One is the Kanoa 1 and 2 outfitting wells for North Waihee aquifer; one is the pipeline on Molokai, Kamehameha 5 Highway; and the other one is Puuomalei Triangle road up in Makawao.

MR. RICE: Okay, we have a joint finance committee and CIP meeting I think scheduled sometime next week.

Adolph, is that all from Molokai?

MR. HELM: Yeah, that's fine over here, Peter.

MR. RICE: Okay. There appears to be no other testimony, so unless there is something else to be said from this room, this hearing is closed and the meeting is adjourned.

(WHEREUPON, the meeting was adjourned at 6:40 p.m.)

*"By Water All Things Find Life"*

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