County of Maui Water Supply

BOARD OF WATER SUPPLY
COUNTY OF MAUI
BUDGET WORKSHOP

Taken at the County Council Conference Room, Seventh Floor, Wailuku, Maui, Hawaii, commencing at 9:00 a.m. on May 17, 2001 pursuant to Notice.

REPORTED BY: GLORIA T. TAVARES, RPR/CSR #262

Members present:
Peter Rice, Chair
Clark Hashimoto
Mike Nobriga
Jonathan Starr
Orlando Tagorda
Kent Hiranaga
Howard Nakamura

Staff present:
David Craddick, Director
George Tengan, Deputy Director
Howard Fukushima, Corporation Counsel
Mike Quinn, Fiscal
Herb Kogasaka
Jacky Takakura
Holly Perdido
Charlene Suzuki
Ellen Kraftsow
Tony Linder
Mike Cabral
Dexter Lau
Walter Hoger
Paul Seitz

Robert Vida
Andy Pascua
Shirley Falcon, Secretary

Others present:
Elliott Krash
Sally Raisbeck

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CHAIRMAN RICE: I would call to order the Board of Water Supply, Maui County budget workshop. Today is the 17th, 9 a.m. at the seventh floor of the county building. Present are board members Howard Nakamura, Orlando Tagorda -- let the record reflect the board members who are here so we don't have to read their names every time. Members of the public who are here -- do we have a sign-in sheet?

MS. FALCON: I have Elliott Krash and Sally Raisbeck.

CHAIRMAN RICE: Everyone else here is staff?

MS. FALCON: Yes.

CHAIRMAN RICE: Okay. Let the record reflect the names of everybody that's here. Board members, with your indulgence, I think -- let me outline how we're going to go through this workshop today; so in the interest of everyone getting off to do what else they have to do, we can do it. The first section of the meeting -- let me back up. I want to emphasize the workshop today is part of the budget process, which means that today is not the last, the only, or the first time you are going to get a chance to give input. What I would like to do is give Mike a chance to go through -- Dave, whoever, anybody on the staff that you guys are going to allocate to do it -- a quick presentation, let's say take 20 minutes, go over the assumptions, go over any important variance information they have with us. At that point, we'll go around the room, each board member can ask a question or questions of staff with regard to the budget. We can get consensus on things that we agree on. We'll make decisions at that point. If not, we'll wait on -- if there are any contentious items, we'll wait for the last half an hour and we'll go through those items one by one. I think we can be out of here by 10:30 in that regard.

Before we start that, is there any testimony from members of the public? Sally?

MS. RAISBECK: No, thank you, sir.

CHAIRMAN RICE: Elliott Krash?

MS. KRASH: No, thank you. I'm here to learn.

CHAIRMAN RICE: David? Some of this may be redundant because most of the people attended the finance meeting yesterday, but I think you can --

MR. CRADDICK: One thing I'll say here, I was looking over the county general plan and it talks about a Maui County road management program that under the -- providing for the balance development of water sources, transmission systems for visitors, agriculture, residential and commercial uses consistent with the Maui County growth management program, which we understand doesn't exist, and then it keeps talking about this growth management plan and a number of other points here.

Without that, I'm not quite sure what they are talking about. And they seem to use the word "transmission" and they mean -- I suspect they mean distribution system. Because it says develop and approve transmission system to provide better fire protection. We don't provide any fire protection on the transmission systems that comes up in distribution systems.

Other than those idiosyncracies of the plan, I think the CIP generally meets that. And I'll leave the specifics on the strategic plan to the various points.

And getting into the operation budget, we had the vacancy there and their suggestion to move those down to -- moving them out of the regular budget to the bottom line in here, not necessarily eliminating them, and my suggestion on that would still be to -- a lot of the divisions expect they are going to fill those positions between here and the end of the year, and not necessarily move all of them, but the ones that they don't get filled by the end of the year here, it will be moved down.

Beyond that, the specifics on the variances I'll turn over to Mike and the individual division heads.

MR. QUINN: Mr. Chairman, as you said, some of this will be repetitive for most of the board members that were here yesterday. To compile what I said yesterday, the documents that I'll be talking to was a document that was faxed to board members on May 10th. Draft documents of the operating budget.

And in terms of operating revenue, water sales accounts for fully 98 percent of our operating revenues. So obviously water sales are a critical component of our revenues. Projecting water sales for fiscal year 2002, I projected an increase of a little bit over $2 million or 7.7 percent over the fiscal year 2001 estimate.

The way I arrived at that is I took -- the estimate number for this fiscal year is I have actual revenues through April 30th and I estimated May and June revenues for this fiscal year, and that's what I used for the year-end estimate for fiscal year 01.

And I projected a 7.7 percent increase for the next fiscal year, taking into account that we'll be in our fifth year of our rate increase, and I have also factored in an adjustment for an assumption that our new services will increase about 2 percent. Therefore, the operating revenue is projected to be $29,136,500.

Interest income, for the benefit of the board members there's a schedule, Schedule D, I believe it is, which addresses interest income. Essentially, what I did is I broken out balances that are not affected by the CIP and balances affected by the CIP. That's important because, obviously, the balances affected by CIP are a function of how quickly we spend down money on our projects.

So my assumption on the CIP portion of the funds was I took the beginning balances that are projected on your CIP cash flow chart, which we'll address later, and I put the ending balances and I averaged them out and I used an interest rate of 4.5 percent. The county currently gets a higher return on its monies; but as everybody knows, the interest rates have been plummeting, and as of yesterday they went down further.

As a matter of fact, three-month treasury bills hit their lowest point in seven years. So that's why I'm projecting 4.5. I am not an interest rate guru. That's a guess on my part. And I have discussed this with the county treasurer to get a feel for the current rates the county is receiving. Therefore, I'm projecting 1.1 million in interest income.

Other receipts is primarily billing for services that we provide for the county's sewer division. As you know, the sewer billings appear on our bills and we provide services for the wastewater division in terms of meter reading, customer service, collections, all those billing related functions. So we come up with a subtotal total receipts of $30.5 million.

One of our major expense categories is payroll. The first item, we're projecting that to be $7,285,000. There was a lot of discussion yesterday regarding payroll. There is a schedule relating to that and that is Schedule C, and what we have done on Schedule C is we have listed each division within the department, their current vacancy, and the funding related to those vacancies.

As you'll see in some cases, we are projecting funding those for half a year or a quarter of a year. If you will look under water treatment plant, you'll see half pay, quarter pay, and a correction that I made yesterday on engineering, the engineering program manager, that is a half pay also. So vacancies account for 599,000 worth of that payroll of increase.

We have tried to list comments on each one of these open positions so board members can get a feel for the status of those. For instance, in fiscal, the customer relations assistant job, a test will be given any day. They have already picked a list of -- have a list of prospective applicants that qualify.

We interviewed yesterday for the cashier position. We anticipate filling that next week. So in terms of fiscal, I anticipate filling all of those jobs by the end of this fiscal year. And you can sort of self-explanatory the notes on the other divisions.

One of the issues that came up yesterday was how to treat these vacancies. There was talk about -- suggestions about having a separate line item. The only thing is we were not sure how -- there is still the issue of what we do with jobs that probably will be filled by the end of this fiscal year. As it is in my case in fiscal, I am about to fill most of those jobs within a month. So again, Schedule C is the breakdown of the payroll.

In addition, we have accounted for -- in the payroll, we had to account for a provision for pay increase, which is a union contractual obligation that we have. So we're anticipating that. Provision for reallocation simply means, on the payroll sheet, simply means for people that get promotions, basically, within the fiscal year.

So that's a big number. The payroll number is a big number and I know the board has been concerned in the past about vacancies and that's why we tried to highlight those vacancies in that schedule.

Perhaps in the interest of time, we could refer to a variance schedule which essentially recaps the variances. That's Schedule B. What we have done on that schedule is we have taken the 2001 -- this fiscal year-end estimates is our best guess at the time of where we were going to come in and we compared it to the 2002 budget projections and come up with the variances.

And under each category, for instance, payroll, we just discussed the raises, the vacancies, we have listed the major categories that account for those variances. And I'm going to briefly highlight the reason for those variances.

And the reason the division heads are here and the rest of staff, is they can get very detailed, and if any of the board members want to question a particular item in a lot of detail. And I may refer to the division head if I don't know a specific answer.

In materials and supplies, chemicals account for $100,000 of that $358,000 variance. And 90,000 of that 100 is allocated to the water treatment plant and primarily for a corrosion control program that -- it's going to begin July 1st -- or June 1st. So that's essentially the purchase of chemicals for that program. That's the reason for the increase in the chemical under materials and supplies.

I think yesterday a question was brought up about postage, and we have postage increasing $22,000. The essential problem there was basically our estimate for this fiscal year end is a little low. We estimated 63,000; we'll probably come in around $72,000. Most of our postage is for the Honolulu -- the billing program that Honolulu manages for us.

In addition, we have had some additional mailings over there regarding an active mailing of delinquency notices which has resulted -- I think is a big part of the reduction, as we saw yesterday, in our write-offs. So essentially we have underestimated our year end for 01. So that's why it looks like such a high variance.

And our postage has increased, of course the postage rate went up, but our postage is also going to increase. We have a mailing machine downstairs and it costs us $5,000 to load that machine up when we load it up for stamps, and we anticipate doing that three times next year as opposed to usually twice that we do it. That's a timing issue. I think we're close to having to do it right around July 1st. So that's one of the reasons. That's $5,000 a shot.

I think there was a lot of discussion about office supplies yesterday. What's in there -- in our case in fiscal, we have a $10,000 variance and that's primarily because we basically haven't spent much money this fiscal year. So when we compared, we basically kept with the same budget number. I think I can reduce that by about $5,000.

That has desks for new employees, replacement of various office equipment in there. Planning also has experienced some increase in their employees and there is some projections for new equipment and desks for those people. So that's primarily what accounts for that variance. As I said -- I don't know if planning --

MR. CRADDICK: No, she's --

MR. QUINN: I can't speak for planning. In my case, I could probably reduce that, because I anticipate since we're filling these jobs by the end of the fiscal year, we can purchase that equipment, those office equipment this fiscal year rather than bring it on into next year.

MR. CRADDICK: On the office supplies, the criteria, I guess right now, if it's less than $500, we don't put it on the capital list. So that was the change I think that was made sometime in the last year.

MR. QUINN: Yeah. We used to list that under equipment portion of the budget. And the equipment portion of budget has gone down, as you'll see later.

With respect to services, electricity is the primary component that we have allocated. Well, as you know, we have asked the board for a budget amendment for this fiscal year budget and there's a slight increase in next year of $179,000, and in anticipation of continued high energy surcharges and dry weather. That's something I can't predict. I just have to allocate for it, and hopefully we don't have to come back to the board next year for an adjustment.

I'm going to make the board aware that under services, under contractual services, a big portion of that -- $47,000 of that $88,000, we have been notified by the Honolulu Board of Water Supply that they are considering raising our rates for the billing service. Initially, I fell off the chair with contemplating a 300 percent increase in the per mailing. Right now it's about 21 percent.

In support of that, that number has not increased for years, 21 cents per mailing item is the charge. So I followed up with them and they had not made a decision as to the order of that increase, if at all. It may not increase; but we have factored in a portion of that increase, a good portion of that is because of that. That may not happen.

On the other hand, it may be worse. I don't anticipate a threefold increase in one shot though, and I think they are reluctant to do that, even though they made that statement.

Lab operation services have increased and I believe Andy Pascua's group is doing more testing. I don't know -- Andy, you want to add to that? Isn't that correct?

MR. PASCUA: Which one are we counting?

MR. QUINN: Lab services, just basically, aren't you doing more testing in your lab?

MR. PASCUA: Yeah, we're doing sampling for unregulated metals and plus we're doing led and copper and it's something that we didn't project in our last budget.

And this year because of the added expenses, we're requesting that extra funding because there's a lot of testing and we're sending all of our samples out to Montgomery Labs in California. So that's where the expense is. It's an outside company that's doing our testing.

MR. QUINN: Essentially, those are the variances. We're prepared to speak to any other variance, I just highlighted some of the ones that got discussed yesterday. On any one of those categories, we have a detailed breakdown of each expense item.

I would like to say that employee benefits, we projected those to increase. We anticipate our contribution to the retirement fund to increase. That was a statewide. For two years we had the luxury of having a low contribution. That was a decision made at the state level and now we're back to an increased contribution on employee retirement benefits.

Health related benefits have increased and that's proportionate to our payroll increase, if, in fact, we have that and fill those vacancies. All the employee benefit issues are basically a percentage of -- those numbers are a percentage of our overall payroll, and we get those percentages from the county and we apply them to our payroll, and that's how we come up with those numbers.

County overhead charge has remained low. For some reason under this new administration, we have had a very low overhead charge. So we have no issues with that. That's why we have budgeted $500,000 and we anticipate coming in significantly lower than that.

MR. HIRANAGA: What's the overhead charge?

MR. QUINN: It's for corp counsel and all the other departments that -- MIS, that supports us, finance. What they do is they take a percentage and they allocate the charges to us based on -- well, each department has their criteria. There's a study that's done by the finance department every year, but I forget the name of that study.

They allocate these charges to the various departments. It's a very thick study. But again, it's dropped considerably over the past three or four years.

MR. HIRANAGA: Thank you.

MR. CRADDICK: Can I embellish that a little bit? The overhead charges is something that's been an ongoing source of irritation for about the past nine or ten years. This amount here that they charge was something that was a carryover from when the water department was under the county, as near as I can tell on this order of magnitude.

In Honolulu, it's been found that it's illegal for the county to charge this overhead charge to the Honolulu Board of Water Supply, because they tried to do the same thing, because none of the other counties paid this charge.

Now, there is something that I agreed to back -- I don't know when it was, '94 maybe, that we would pay some percent of our payroll. And mainly because I guess the payroll benefits and stuff went way down, I think this went down. Now, I don't know if we're going to see a rise in that.

But in fact, this overhead charge is not based on anything that we can put our hands on. And I can show you an agreement with the county where we have a service, an exact service that they are providing for that.

Granted, in general, corp counsel does provide services, we do have some services from personnel, and we do our financial stuff through fiscal downstairs. But all the items like the checking account charge, every check we have written we pay a bill on that, we pay our own electricity charge and it's all separate from this. Those things are not included under this overhead charge.

If they were, I probably would keep my mouth shut, because I know we're getting something for it. But there really is nothing that I can show you that we're getting for

CHAIRMAN RICE: Duly noted for the moment.

MR. NOBRIGA: You pay for a custodian?

MR. CRADDICK: We pay a share in that, I believe.

CHAIRMAN RICE: Are you done, Mike?

MR. NOBRIGA: No.

CHAIRMAN RICE: Not you.

MR. QUINN: David is right, we do get a lot of support from MIS division, some from finance, and obviously a lot of work is done by corp counsel. So there is no question that MIS supports us. I don't want to dismiss some departments. Management information system, they have been very helpful to us and even in instituting an accounting system and the baseyard over on Molokai.

CHAIRMAN RICE: Based on this year's actual -- this budget, we're reducing the number we have been using before. We don't need to pick our battles here.

MR. CRADDICK: That's the way I looked at it.

CHAIRMAN RICE: We noted your concern and we'll talk more about that.

MR. QUINN: I just want to mention one more thing. Under other costs, this came up yesterday and it should be noted under claims and judgment. There is a schedule for claims and judgment. We budget a hundred thousand dollars usually in the fiscal year. That's what we're doing this year. There's a very good chance that we won't even approach that, but we do that to cover ourselves for any potential claims and judgments.

We also have an item for baseyard rental and as the board knows, we have not paid that. There have been no demands on us to pay that this year and we have not had any for next fiscal year either. So I don't anticipate that. Those numbers are inflated to the extent that there's a good chance very little of that money will be spent, if any. And I'm open to questions from the board.

CHAIRMAN RICE: You want to start, Jonathan?

MR. STARR: One thing that I would like to see is we're looking at the delta in these numbers, the differential, but we don't actually have the amounts. It makes it a little bit difficult to analyze. Because if we realize the auto expenses going up 32,000, but, you know, I don't know what it is.

MR. QUINN: We're prepared to talk about that.

CHAIRMAN RICE: What it is, is we get the detail of the proposed budget, but we don't get the detail of the estimated year end. So you recapped the variance by category in total.

MR. QUINN: We did that considering I did not want to overwhelm you people with paper, that's all.

MR. CRADDICK: If you take this year and you minus that variance, you will have what the current year is. What we estimate by the end of the year.

MR. STARR: The first question, of course, is how do we cut down these increases? Because we're not getting that much of an increase in our income stream. So how do we start to manage some of these costs, what process should we use, if any?

CHAIRMAN RICE: Okay.

MR. STARR: Could I make that a question to staff here?

CHAIRMAN RICE: Sure.

MR. CRADDICK: I could do a good one. Maybe Mike can do better on the auto. If you want to spend a few hundred dollars in buying new cars, we can certainly cut the auto expense down tremendously. But for $32,000, you have to put in about $300,000 worth of new vehicles. And I'll leave that up to Mike to give more detail.

The diesel fuel, I believe in the diesel fuel and they were running the all-day costs for Kanoa and Hamakuapoko come into the diesel fuel; isn't that correct? And we started running the Kanoa No. 2 well last year in March. I don't believe that was covered, and I don't think we thought we would have it running this entire year this year. So money is in there for that on those two items there.

CHAIRMAN RICE: I don't think -- maybe I misinterpreted Mr. Starr, but I don't think he meant he needed a whole analysis right this second. I think it's a challenge to the department, given that revenues are going to increase by 7 percent, expenses can't increase by 10 percent. It doesn't work that way.

There are factors that we can avoid, but we then have to compensate for that. So I think that's the message. And before we end up with a final budget, I think that's the challenge that we're going to lay back on the department.

And I would make a comment that's related to that. If your projected year end is X, which means that's the money you spent this year, you don't take your budget and then add 7 percent. You justify why you are at X, and then you have a reasonable increase over your actual.

Just don't say, well, I spent less, but I have budgeted -- I only spent 1500 but I had 10,000 so I can get 12,000 this year. It doesn't work like that. You get 7 percent of 1500. Unless there's some other factors.

MR. QUINN: That did not take place.

CHAIRMAN RICE: I'm not saying --

MR. QUINN: I don't want to offend these guys here. This is a tremendously long process, and beginning in December, January, we sit down with every division head and their staff and we go over every one of these subobject codes line item by line item.

We tell them where they are as of December and we annualize that number, and then we say, you know, what are you going to do that's different next year to justify an increase. We start basically from ground zero. So they come up with the things that they think are going to change it. We don't just pull that budget number. We don't wing it.

MR. CRADDICK: Another thing that you have to understand, this whole thing is an estimate. There's nothing real about any of this. Other than that --

CHAIRMAN RICE: I wouldn't say that.

MR. CRADDICK: It's a number we try to work at.

CHAIRMAN RICE: Howard, you are next.

MR. NAKAMURA: I have no questions, Mr. Chairman, perhaps when we come to capital I will have, but not now.

CHAIRMAN RICE: Orlando?

MR. TAGORDA: No comments for now, Mr. Chairman.

MR. QUINN: I might add, on expenses, if you look at our year-end financials, this department has done a very good job. You check the income statement and you will see a very slight increase in expenses year to year. Once all of the accounting is -- those are audited statements.

MR. CRADDICK: Even though the budget gets approved, we don't just -- it's not just carte blanche during the year.

CHAIRMAN RICE: I understand that.

MR. QUINN: The results are what the board wants; but perhaps -- I get the message, perhaps in some cases the budget might be inflated, but the end results on the audited finances are that expenses are under extremely tight control in this department. I'm not making that up. Those numbers are audited and available for anybody from the public to look at.

CHAIRMAN RICE: I think that's a good point to make in defense of the management of the department. But I think our ability to project more accurately, then, is just something we need to work on.

You can show a trend of actually controlling expenses, and expenses not exceeding let's say 2 or 3 percent; but then when we promote a budget that's far in excess of what you've actually been doing, you raise your own kind of -- create your own kind of doubts.

MR. QUINN: Again, we have been addressing that issue. One major category is payroll, and then benefits related to that. To that extent, that affects the budget dramatically.

CHAIRMAN RICE: Go ahead, Clark.

MR. HASHIMOTO: I have no questions.

CHAIRMAN RICE: I know Mike does.

MR. NOBRIGA: Under materials and supplies, what is stores?

MR. QUINN: Stores is our inventory that we keep in the warehouse for pipes, fittings, meters, meter boxes.

MR. NOBRIGA: Of the 44,000 deviation, what is the total -- what's the net total that you are working off of to get to 44 more?

MR. QUINN: Basically, the increase, the $44,000 increase is because of -- and I am glad you brought this up because I think we may be able to save a little bit of money here. We had anticipated spending $200,000 next year on meters and try to wrap up the radio read implementation. We're down to like under a thousand meters that have to be put in. The actual number is 700 meters.

Since we have accelerated that this year, I feel comfortable -- we just took a look at the numbers last night in terms of how many meters have been installed in the past month and --

MR. NOBRIGA: What's the total?

MR. CRADDICK: 600,000.

MR. QUINN: At any rate --

MR. CRADDICK: Stores total? 600,000 total on page 5.

MR. NOBRIGA: 600,000 and this costs 44,000?

MR. QUINN: I think we can reduce that number.

MR. NOBRIGA: What would help me is if you put the percentage. Do this again, but yeah, next to all of these deviations put a percentage of total. Because it looks like a big number, but when you compare that to your actual, there's a small percentage. The other question I have is --

MR. CRADDICK: That one is 7 percent.

MR. NOBRIGA: Computer, on the services. Actual computers or as computer services?

MR. QUINN: It's computer services. Again, as I mentioned before, we're anticipating a possible increase from the Honolulu Board of Water Supply.

MR. NOBRIGA: To HP?

MR. QUINN: That's the major issue.

MR. NOBRIGA: Phone, 18,000 more in phone. You have a rate increase on phone?

MR. QUINN: Plant operation, $9,000 increase. Is that due to SCADA at all? That's what I have down.

MR. PASCUA: I reviewed the phone expenses that plant operations had last year, and last year I guess projection was like 42,000; but because we had made a lot of changes out there without SCADA and we took out a lot of phones, and looking at the operating expenses up to March 31st, I think it showed like 18,000 already spent out of the 42,000. So we won't be seeing the 42,000 that we projected using, because of the changes that we made in the system on -- the phone lines we were utilizing that we're not utilizing anymore.

MR. NOBRIGA: If you are not going to be utilizing, how come there's an increase?

MR. PASCUA: I projected -- for my division, we went down lower.

MR. QUINN: No, no. Andy, what are you saying, we went down lower in terms of anticipating this year-end's estimate?

MR. PASCUA: Yeah, I put in a lower number than what I estimated last year.

CHAIRMAN RICE: It looks like there's some savings from what Andy's saying. We saved money, but we budgeted what he had last year. It looks like there is probably some --

MR. NOBRIGA: Two more questions. On the other cost, how much is this? An additional 12,000 for publication.

MR. CRADDICK: I can answer that one. The AWWA, we have three programs; one, a member of AWWA; two, a member of the research foundation; and now three, a new one is the bench marking group. And that bench marking group costs us, I believe, $7,000 to be a member in that.

One year we were written up in our audit that we didn't compare our financials and stuff like that with other people. And this APOC group that does this, we automatically get a membership in that group to do these comparisons. And if we were to go join that group directly ourselves, it was $9,000. So under AWWA, I don't know, because there's a --

MR. NOBRIGA: Why is it called publications? Publication is like magazines.

MR. CRADDICK: It's publications and subscriptions and each one of these AWWA things are considered as subscriptions.

MR. NOBRIGA: Question for Ellen Kraftsow. Conservation, an additional $43,000 for conservation. How much money was expended during the last year's drought conservation efforts?

MS. KRAFTSOW: I would have to check on that. I actually didn't spend any particularly for the drought because what I do with the radio stations and the newspapers is I buy a bulk rate for the whole year, and then I just run the ad during the time. So I can go back and back calculate it, but I already -- it's like the money is already there, we already have an account with them and I just pull them, I run the ads as needed.

MR. NOBRIGA: What is the additional $53,000 for?

MS. KRAFTSOW: Couple of things. Typically, a lot of conservation stuff gets bought around towards the end of the fiscal year. The first six months doesn't show it. This year we have just been doing -- finally, having needed more fixtures, we have needed more -- it's been fine.
And we're just now getting to the point where I got the proposals for the next round, which I was going to bring to you in June or July, whichever. I had the plan to bring them in June. For the next media packages, we're only running out now.
We still don't need movies until next fiscal year, but that will be coming during next fiscal year, and we're only now getting to the point where we might consider buying pictures. So it's more a matter of what we have in inventory

and when we need it and how does it roll over.

MR. NOBRIGA: Thank you.

CHAIRMAN RICE: Kent?

MR. HIRANAGA: Yeah. Since I'm new here, I guess I find the report fairly difficult to understand. I wanted to propose a format and I'm not sure if your software allows for this type of comparisons.

But my experience is it's a lot easier to analyze these budgets and forecasts if we have percentage changes on all of the major line items and the percentage changes would be like the 2001 estimate versus 2001 budget, 2001 budget versus the 2002 budget, and the 2001 estimate versus the 2002 budget. And just having percentages if you can fit that on one spreadsheet.

Because I think Jonathan and -- without knowing the dollar amounts that you are comparing and what the delta is, these 10,000 -- we don't know if it's a 1 percent variance or if it's a 25 percent variance.

MR. QUINN: For each line item, you mean?

MR. HIRANAGA: I could put it on the board there just to kind of give you an idea.

MR. QUINN: No, I understand. We thought of that before, actually, and it makes sense. I would have to reformat the spreadsheet, that's all.

CHAIRMAN RICE: I think it would be a good thing. The board seems to have -- kind of all have the same comments in that regard. Because what happens in the case of Mike's first question about stores, it's a 7 percent increase. But in the other question to Ellen about conservation, it ends up being a 200 percent increase.

MR. CRADDICK: Can I go into that a little bit more, about conservation?

CHAIRMAN RICE: I don't want to talk about conservation yet. We'll get back to that. We'll deal with

Kent's suggestion to change the format.

MR. HIRANAGA: If you want to compare the 2001 budget to the 2002 budget, you don't want to forget the budget because then it shows what type of integrity there is in the 2001 budget. So that kind of gives you a feeling for how strong the 2002 budget is.

MR. QUINN: We have a -- I did not hand it out, but we did cover that already.

MR. HIRANAGA: The 2001 estimate, you said, is April 30th year to date.

MR. QUINN: March 31st.

MR. HIRANAGA: It would be helpful if you labeled that as we get these drafts, if you put year to date March 31st, so we know you are estimating the balance, the last three months or whatever. It would be nice to have the actual year to date, just so we know what that actual number is. If the software does not provide for that, I don't want you folks --

MR. QUINN: It's something we can work towards.

CHAIRMAN RICE: Don't you actually download that stuff to a spreadsheet that you prepare?

MS. PERDIDO: Yeah, we do.

MR. QUINN: We have a lot of sub-spreadsheets that have the year-end estimate and as actual as of December -- initial case of December 2000, and then those sheets all get summarized into these sheets. We do have the subsidiary sheets. We do not have the percentages.

In the past we have just supplied the board with sort of a schedule of percentages to -- but if we wouldn't increase the paper, if we could figure out a way to do it on the one spreadsheet. One of my objectives is to reduce the amount of paper that the board gets.

MR. HIRANAGA: I want to stress that, you know, if this is something that's going to take an extraordinary effort, we can work towards it for next year. But it's just comments.

MR. QUINN: I think that would be more appropriate to work towards. It would involve a considerable amount of changes and the system would not accommodate that right now. Which is why I try to come up with these variance schedules so that -- to address that issue which you bring up. Because I can't put it --

MR. HIRANAGA: For me, I look at percentage change, then I look at the dollar amount involved; but without knowing the scale of that dollar amount, you don't know if it's a big thing or not. The other -- anyway, those are my -- one of my comments.
The other thing I think would be helpful is, on your schedules of hires, if you could put that in writing versus verbalizing, like put what quarter you intend to hire that person. Put first quarter, second quarter. Because you are saying some of the salaries are like -- you are anticipating 50 percent salary.

MR. QUINN: Did you see the schedule?

MR. HIRANAGA: The other ones are -- are a semi-full pay.

MR. QUINN: You can see in many cases we're actively recruiting, but there are no names on the list. We tried to list the specifics for every vacancy.

MR. HIRANAGA: For me, if you put anticipate being hired the first quarter, second quarter.

MR. QUINN: Okay.

MR. HIRANAGA: It's just a --

MR. QUINN: It's difficult for us to do that, especially when there are no names on the list. It's difficult for us.

MR. HIRANAGA: It's an estimate. If you think it's going to be difficult to fill the spot, you should put fourth quarter. If you think it's relatively soon, you put first quarter. Then we know it's a three-quarter --

MR. QUINN: That's why we have half pay, we assume we'll fill it, you know --

MR. HIRANAGA: The ones that are left blank, you are assuming you will hire them in January -- in July?

MR. QUINN: In many cases they will be hired before the end of this fiscal year.

MR. HIRANAGA: It would be helpful for me if I had a head count per department.

MR. QUINN: We don't have that -- we were not presenting that today. But based on the decisions that -- you should have -- did you get a chart?

MR. HIRANAGA: I hate to be -- it's better -- if you are saying you have five vacancies, we look at the head count, you have 30 employees, we know that --

MR. QUINN: We have that. We'll hand it out. We have a chart, basically the existing chart, and based on the decisions the board makes today and approves, then it will reflect that in the proposed organization and -- but that's why I did not bring it up today.

MR. HIRANAGA: That way at a glance you can see if, you know, like in waste treatment you have seven vacancies, if you have 70 employees, that's not a big deal; if you have 15 employees, that's a big deal, because you are at half the staff.

MR. QUINN: Okay.

MR. HIRANAGA: My last two questions was, what is the insurance comprised of?

MR. QUINN: A few years ago we tagged on to the county's insurance policy. This was major coverage for anything over $500,000, self-insured up to $500,000. That $75,000 is based on last year's budget -- the risk manager, the county has a new risk manager, he is in the process of negotiating sending out for bids on the insurance this upcoming fiscal year. He told me to go with that number until he gets a better number.

MR. HIRANAGA: That's an allocation.

MR. QUINN: Yes, an allocation.

MR. HIRANAGA: You said you have not been billed for the baseyard, what is that?

MR. QUINN: That's a complicated issue.

MR. CRADDICK: Let me try that one. Up until 1995, we had a 25-year lease on the baseyard. In 1993, they told us that the price was going to increase. I think it was a number of years before they finally came up with a price. But somewhere around 1997 or so, they actually came up with a price and what it was going to increase to. We objected to that and that objection is still out there in never, never land.
But we budget for this basically because we're on a month-to-month rate down there. We still don't pay anything, but if we get -- what's going to happen is, is the current arrangement that we have says we can go in there with no charge until this is resolved. But then when it's finally resolved, theoretically there's a bunch of back years we may have to pay. So at some point we may be looking at many hundreds of housands of dollars.
But we budget this every year just in case. You know, so we have at least one year covered.

MR. HIRANAGA: Should that be set as a reserve?

MR. CRADDICK: I recommended it to the board, but they said no. Leave it at that.

CHAIRMAN RICE: Kent, there's an argument that it may never be charged, as much as there's -- probably, I think, is valid as the argument that it might be charged. That's the quandary that we're in.

MR. FUKUSHIMA: If I may, Mr. Chairman. There is a lease not amended or modified which provides for the rate or the lease rents that we're paying presently. They have indicated, the state has indicated they wanted to charge some more, but they made no effort to modify or amend the lease that we have with them. So it's our position that the lease speaks for itself.

MR. HIRANAGA: But they have not been billing for the existing --

MR. FUKUSHIMA: I'm not aware if they have.

MR. QUINN: They have one letter stating the back rent, and a proposed current rent. Our corp counsel challenged it along with several other agencies in the state and that's the last we heard.

CHAIRMAN RICE: That was two years ago.

MR. QUINN: Two years ago.

MR. FUKUSHIMA: It's not only here on Maui. The other --

MR. QUINN: It's the result of an audit by the federal government.

MR. CRADDICK: What happened was the FAA, I guess, gives a lot of money to the airport system every year and they said that they have to start charging market rates for these lands, otherwise they are not going to pay what they pay to the state.

MR. QUINN: For non-airport related activities they had to charge more.

CHAIRMAN RICE: Anything else, Kent?

MR. HIRANAGA: That's it.

CHAIRMAN RICE: My turn. Maybe instead of going through each of these variances, because I think there's a lot more variances that need to be discussed. For example, under materials and supplies, if you have MR supplies -- is that an

$80,000 variance?

MR. QUINN: Which category?

CHAIRMAN RICE: Under materials and supplies, you've got MR supplies, which I assume is maintenance -- machinery and repair supplies, right, in Schedule B?

MR. QUINN: Oh, I'm sorry.

CHAIRMAN RICE: Look at Schedule B. Machinery and repair supplies, if that's an 80 or even if it's a 60, it's a huge increase over -- if the budget is 132, it looks like an 80 to me, so that means the budget last year was 52. How's my math?

MR. CRADDICK: No, that's not correct. I think this goes back to what Kent was talking about. These variances are based on the year-end estimate, not last year's budget.

CHAIRMAN RICE: That's fine, perfect. It makes it worse. If the year-end estimate is 80,000 less than 132.5, it's 52.5. An $80,000 increase on an actual expenditure of 52.5 is 140 percent or something. So my point --

MR. NOBRIGA: Mr. Chair, my page shows 31,000 under materials and supplies. 31,000. Underneath on the services, maybe under the R&M, probably add up to 66.

MR. QUINN: I see 31,000 under materials and supplies.

CHAIRMAN RICE: I see machinery and repair supplies, code No. 6031. It's under the category of materials and supplies schedule. I'm using this as an example to point out that I think what we need to have done in short order by the department is to provide us with a list of the variances, and where the variance exceeds 7 percent of estimated year end, then we should have an explanation.
And David wants to jump in on conservation. I don't buy Ellen's explanation.

MS. KRAFTSOW: That was not my whole explanation.

CHAIRMAN RICE: I want to get into it. We're not going to argue about it. If you would do those variance explanations in writing, then we could address them I think more easily and more quickly than we can by going -- so combining on the suggestions, if you would then take the variances in the proposed budget versus estimated year end.

MR. QUINN: Those that exceed 7 percent, if there are 7 percent or less, we don't need an explanation. Those that exceed 7 percent, written explanation. It could be a side schedule that you could fax around to all of the members of the board.

MR. TAGORDA: Sounds good to me.

CHAIRMAN RICE: Everybody fine with that?

MR. TAGORDA: Right.

CHAIRMAN RICE: That way we don't have to look at each individual one.

MR. QUINN: Okay.

CHAIRMAN RICE: Payroll. Just so we can come to some agreement here, because we have talked about that, and we all agreed we were going to add a separate line item for the payroll that reflects positions not hired currently. Unless they are going to be hired before the fiscal year starts.

MR. CRADDICK: Do you want every single one or like 75 percent or 80 percent of that?

CHAIRMAN RICE: If they're not going to be hired by July 1, then they go into that separate line item.

MR. CRADDICK: All 100 percent.

CHAIRMAN RICE: Whatever the schedule is here. You mean a hundred percent of their payroll?

MR. CRADDICK: What I'm trying to do is get it to where you don't have to deal with each one of these. I mean, I think it's reasonable to expect that at least 25 percent of them probably will get filled maybe within the year. So if you leave some variance, some amount that they have some discretion with, and leave the lion's share with you, then you are not going to be dealing with minutiae at every board meeting.

CHAIRMAN RICE: Let's back up. We have, last year the number was 690,000, positions that were unfilled. We adjusted that because I think initially, Mike, you listed them all at their full salary. We talked about the fact that they are not going to get hired by the beginning of the fiscal year, so there was no sense budgeting for all of that if they were going to be hired throughout the year.

That's why Mike did the half quarter thing on this one; right? I wouldn't change that. All we're doing, versus having one lump line item for payroll, is to move these to a second line item so we can better monitor the hiring of these people. That's all. That's all I'm asking for.

The other question I have with regard to this list of non-hires, is there any change in the staffing from last year, this schedule, this work chart, with the number of staff per department, does this represent any new hires over --

MR. QUINN: No expansion. We haven't had expansion in three or four years.

CHAIRMAN RICE: Am I making myself clear?

MR. NAKAMURA: I think David has a good suggestion. Realistically, I think it's very unlikely that we're going to expend that amount for the positions over the course of the year. So even if we do have a lump sum for funding the filling of these vacancies, I think you could take a percentage of this amount, the 599, 80 percent, 75 percent.

CHAIRMAN RICE: I would be in favor of that. I don't think that's what he is saying.

MR. CRADDICK: No, that's what I'm saying.

CHAIRMAN RICE: You can estimate what percentage you think is realistic and explain it in a note. I don't have a problem with that.

Okay, we talked about that. Okay, anything else we want to pass on to --

MR. STARR: I have one question, I might have just missed it. Why are employee benefits up 54 percent?

MR. QUINN: Employee benefits were up for several reasons. One is, in the past couple of years our contribution to the employee retirement program was very low, and that was due to a state decision that the county could contribute a much lower percentage. Those two years are over, so that percentage has increased now. That's a state mandated item.

Secondly, employee benefits are inflated to the extent that the payroll is inflated for vacancies, because it's a percentage of our payroll.

MR. STARR: The payroll is not inflated 50 percent.

CHAIRMAN RICE: No, the number we were just talking about, the non-hires. So when you adjust this as a percentage, you'll adjust benefits accordingly.

MR. QUINN: That's right.

MR. STARR: That seems like a lot. Do we have an unfunded liability from previous years? How large is that?

CHAIRMAN RICE: No, I don't think so. I think the percentage is large because we had relief for the last two years and now we're back to the old level. We had this huge increase, I believe.

MR. QUINN: Right.

MR. CRADDICK: I will tell you one unfunded liability that you do have is comp time, which is probably around the order of a quarter million to $300,000. That doesn't show up anywhere, audit or budget.

CHAIRMAN RICE: I don't want to hear that.

MR. TENGAN: For my personal clarification, is it the intent of the board on the second line item for payroll that whenever we fill a vacancy from that line, that we come to the board for approval or just to report?

CHAIRMAN RICE: No, we don't need approval. This schedule of staffing has not changed. The mere reason we're putting it on a separate line item is we have this ongoing vacancy situation.

MR. TENGAN: I just wanted a clarification if we needed to come back to the board for approval.

CHAIRMAN RICE: Not for approval. If you are creating a new job, then we'll add to that.

MR. CRADDICK: I guess I stand corrected, it does show up in the audit.

MR. STARR: The other item which is -- I want to go back to the item we were talking about yesterday, and I don't know if this is the time to do it, about the capital replacement fund and the Brown and Caldwell model. Do you want to take that now?

MR. CRADDICK: Are we going on to CIP?

CHAIRMAN RICE: I want to do CIP. I don't know that we --

MR. QUINN: We can do it during the CIP discussion.

CHAIRMAN RICE: Yeah, okay.

MR. STARR: Can I at least mention what the issue is?

CHAIRMAN RICE: Go ahead.

MR. STARR: This budget is based on a $4 million contribution to replacement; in other words, replacement of pipeline, replacement of plant. But we had that Brown and Caldwell study which showed if we collect $4 million in two years, if we spend what we need to spend to keep our plant up to snuff in two years, we'll be going down below zero. And that if we need to -- if we are going to fund it so that we have a capital reserve to properly replace our plant, we have to really put in $8.1 million and its annual equivalent over the next several years. It's my contention that we should have that in our budget, even though it would be showing us having a very large operating loss, it is a more true reflection of what is really happening.

And in the past we had hardly been taking any contribution to it. So we have been fooling ourselves. I would like to see if we could implement a change as the process goes along and be honest with ourselves about what our true position is.

CHAIRMAN RICE: I think that's a good point, and I think the board members should think about that before we get to the final stage of budget approval. If you're not familiar with the Brown and Caldwell report, I think Mike has distributed it, but we can get you a copy. There is a computer model that we have.

MR. QUINN: I may not have mentioned this before, but this GASB 34 ruling is going to -- we will have no choice but to take a look at all of our infrastructure assets, whether we're depreciating it properly, and because the Brown and Caldwell study takes it one step further and talks about what it would cost to replace those assets, which is a very critical factor.

So next year you are going to see a whole change in the financials which has been mandated nationwide and will be subject of a lot of work on our part and the county in trying to restructure the financials to accommodate. This is one of the biggest changes in government and county that we'll be faced with.

And the intent and thrust of it is to convey accurately to the public the condition of your infrastructure and whether you are funding the replacement of that. That's the thrust of it.

CHAIRMAN RICE: That's all we have been talking about. We're in total agreement.

MR. QUINN: We have no choice but to do that. The Brown and Caldwell study and all those things will come into play in the beginning of the next fiscal year. I guess that's another subject, though, for future.

CHAIRMAN RICE: We should add it in there. Yeah, Mike?

MR. NOBRIGA: Probably going to be amending this, but you know how we also talked about that Lanai thing, the watershed?

MR. QUINN: Yeah.

MR. NOBRIGA: Are you going to show --

MR. QUINN: The 20,000 -- or the 50,000, no, we're going to just handle that with a grant. Separate control for pass-through money.

CHAIRMAN RICE: No, he is talking about yesterday's meeting when he asked about the --

MR. QUINN: The 20,000. I don't think we should show that.

MS. KRAFTSOW: That's fine. However, the county works as long as we can live up to our requirements.

CHAIRMAN RICE: So you'll look into that and make the appropriate amendment next time.

MR. TAGORDA: Mr. Chair, may I make a few comments with regards to the Brown and Caldwell study. Because to me I think we're not supposed to solely be dependent on the findings of Brown and Caldwell with all of these different consultants. What I mean is we employ more, aside from Brown and Caldwell, and then we compare their reports. We cannot be solely dependent on their findings about this department.

CHAIRMAN RICE: Philosophically, I think I would agree with you that we employ a consultant and it's incumbent on the board to take that consultant's recommendation and then deal with it, yes, no, different, whatever. I think in the case of Brown and Caldwell specifically, ironically, probably not ironically, probably for good reason, the 8.1 million is very close to our actual depreciation number.

While there are probably some areas where there's not overlap, it's pretty close. That number is going to be -- we don't like the fact that we have to have that, but it is -- I think it's pretty close to the real number for us to do that.

MR. CRADDICK: One other thing you have to consider, this is a model. It's not anything that Brown and Caldwell is saying there's a number of assumptions in there, those assumptions can be changed. And the number is going to be different. So to say that it's something from Brown and Caldwell that somebody has to go get something to compare, anybody can enter numbers into that model and the results will change.

CHAIRMAN RICE: Yeah, that's a very good point, and that's exactly why you don't go entering in new assumptions just so you can get the number you want out of there. You make real assumptions about useful life, replacement costs of the assets.

MR. CRADDICK: Interest rates.

CHAIRMAN RICE: Interest rates and those kinds of things. Sure, it's not a perfect science. Will a pump last one or two years more than you think, yes; but it may last one or two years less than you think. So it's a working model, but I think it's a necessary model.

MR. CRADDICK: Very good.

CHAIRMAN RICE: Anything else on the operating budget, capital, CIP?

MR. CRADDICK: Can we take a break here?

CHAIRMAN RICE: One minute.

(A recess was taken.)

CHAIRMAN RICE: Let me call the meeting back to order. Let me say something for -- who is missing? Some of us are new, and I ran into the same situation that Kent did last year with the budget and finances and things that I was used to

in business that are different in public life.
We have done things differently in the department over the years and I think that in some years staff gives a schedule and the next board says we don't need it and they put it away and the next board says they want it. So I think, not to be a decision that's made today; but over the course of this budget approval process, maybe we can come together on a format that we all like and Mike can do that from now on. Think about that. We had some good suggestions by Kent.

MR. QUINN: Some boards have asked for almost no information and other boards ask for a lot of details.

CHAIRMAN RICE: You knew last year we were an active information seeking missile here. Kent has now impressed me with his financial wherewithal. He may become the new chairman of the finance committee.
Okay, CIP.

MR. CRADDICK: There are three things that were passed out here. There is this little map, and that goes to page 44 of this book right here. That we passed out -- it wasn't passed out previously. The next thing is, this here is just to -- so everybody knows what the general plan is, and then there's this one here that has -- Ellen, how about if I let you explain that one there?

MS. KRAFTSOW: This is the community plan boundaries, and the project numbers correspond to your books and lists and everything. It shows which projects are in which community plan area, and it also shows the list of projects in each community plan area.
This is not the whole story about implementing the community plan, but it shows the implementation matrices for the community plans for the water department. So you can look at each one and relative to those matrices.
I will say, though, for instance, in Makawao, Pukalani, Kula, right up-front, the number one goal, policy and objectives, they talk about developing infrastructure for ag and making that a goal and policy, but then they don't put it in the implementing actions in the back.
So you can't really look at these implementing actions alone; but it was sort of what could we give you by

tomorrow, you know, in terms of something you could look at and immediately compare. This is just a little thing that will help you equate projects to community plans.
If you want -- I don't know how you want to do this, if you want to have Mike go over the front page or me. I think you understand it basically already. We have the page numbers of the projects on the table and more description in the books. I don't know what's the board's pleasure in terms of reviewing this.

MR. QUINN: May I reiterate what I said yesterday. Another option for the board is not to transfer $4 million into CIP. If they want to retain it in the emergency fund, that's just an option. We currently are transferring $4 million dollars into the CIP reserve fund from the operating budget.
An option the board has is to only transfer $2 million; therefore, the emergency capital line item on the operating budget would increase by $2 million. I would just throw that as an option, if you guys decide to do that later on.

CHAIRMAN RICE: I think that's something that the board needs to consider before we finalize the budget, and I think the issue is the decision about what the emergency working capital fund level should be, and then as we talked earlier, the amount that we're going to put into the capital improvement line item.

MR. NAKAMURA: Perhaps just an overview for now, Mr. Chairman, without getting into specific projects in view of the time constraints.

CHAIRMAN RICE: I think that's a good idea and I think we probably need another discussion where board members can bring questions on specific projects back.
Mike, you want to do an overview? Or David?

MS. KRAFTSOW: I can do that.

MR. CRADDICK: On CIP.

MS. KRAFTSOW: In terms of meeting board objectives, the board at one point set certain bullets, source -- compliance -- getting out of Iao Valley, source storage and so on. The overall funding for those amounts is right on the front page by board program.

By district, there's about a million or so in projects for any district that would affect the whole system, or that are not district specific. There's about 4.95 million for Central Maui. Just under a million for Hana. About 1.8 million, a little over that for West Maui. About 670,000 for Molokai, and about 8.7 for Upcountry. Those are rough numbers.

MR. STARR: Could you repeat that again?

MS. KRAFTSOW: About 1 million in just things that could go anywhere, like small pipeline replacements. That's for wherever you need it, you know, those kinds of things.

About 4 or 5 -- 4.9 some odd million for Central. About .97 between -- just under a million for Hana. Lahaina has 1.8. Molokai has about .67. Upcountry has about 8.7. I'm rounding those numbers out so it's not going to come out to exactly -- that's how it breaks down by district.

A lot of these are projects that are scheduled for construction now that has already been designed in previous years. Another thing that we looked at, of course, is which pipes have been breaking and are in need of repair. There are some items to comply with zoning or with other programs of other departments, such as some of the Kihei lines and the Kaunakakai line are in concert with public works, so we arranged our schedule to work with them. The Wailuku is, because of the Wailuku town and development of the planning department.

There are several for pressure or flow concerns, and then there are some where -- for the zoning. Those are the kinds of things we looked at.

CHAIRMAN RICE: So the detail of the projects that's behind here is by type of work; i.e., Iao source drought.

MS. KRAFTSOW: These are Bob's bullets, the bullets that the board agreed to at some point as their programs and their program priorities. This database was originally designed so that it can print by district, by project classification, by board program, by source of funds. You can have it printed out any way you want.

And it was designed -- we looked at -- first we looked at all the maps and we looked at any place where the lines were substandard. We also drew in -- this was before we had our GIS system -- the zone section and parcel over a fire protection map set, so we can identify everywhere that was substandard for zoning.

Then we did our forecast, then we looked at the planning department's forecast, our own forecast and a couple other forecasts. And we said okay, this is what we have now in terms of storage, this is what we have now in terms of source, this is what we have now and this is what the forecast would demand by standards, and this is where we're short and this is what we're going to need.

And we made this -- it's like this thick (indicating), the book of projects for the next 20 years. The book is arranged in order of our fire protection map set. When we printed it, it was over a thousand dollars. It was like 1500 to $2,000 to print, plus that was with staff doing all the collating, which took two and a half days. So we have not made a habit of printing that too often with all the pictures and everything. But that's how the CIP was designed initially.

And for the GIS, we have been doing an inventory and the hydraulic model of all the lines and the sizes and the ages, which got fed into the Brown and Caldwell model, and which we also used in the CIP. It needs readjustment and improvement, but that's sort of how the CIP is done. And every year it's updated based on what we actually have and what is actually breaking. You can obviously change things around.

I'm not sure what else you want to know about this year's CIP.

CHAIRMAN RICE: Questions?

MR. STARR: I got very confused about where the line is between operations and projects that should be funded under operations, which include, say, pipeline replacements, and where we're talking about system expansion, which should be completely and totally segregated and paid for under meter fees, basically the water development, source development and then transmission and storage fees.

MS. KRAFTSOW: There's a field in your database that's on your sheets called "improvement or expansion." It's shortened but it's there and it's got either an I or E. If it has an I, it's basically an improvement project and if it's got an E, it's basically an expansion project.

MR. STARR: My feeling is that we should be dealing with two completely separate sets of paper, because I think we do have a tendency to commingle, even it's commingling in our own minds. But I know that --

CHAIRMAN RICE: You can sort this by source of funds; right?

MS. KRAFTSOW: I can sort it by improvement or expansion. Yes, and by source of funds.

MR. QUINN: It is by source of funds.

MS. KRAFTSOW: Yeah, it's by source of funds on these sheets. This is by board program and source of funds, but I can make it -- I can separate improvement and expansion. It's very flexible.

CHAIRMAN RICE: It might be good to look at it that way.

MR. CRADDICK: Actually, it really is, because the minute you know the reason for the fund, the minute you know the reason for the fund, it's already separated that way. So if you know that the capital reserve fund is only replacement stuff, that's all it is. The water development fee, source, storage, they are all expansion -- well, I take that back. The storage fund can be used for either.

MS. KRAFTSOW: The capital reserve, like if you have a well that -- it's not really replacement, that Waikapu well.

MR. CRADDICK: It's not adding new source.

MR. QUINN: Essentially, David is correct. Capital reserve is replacement fund. Those other water system development funds, which is depleting very fast, and source are used for expansion projects.

CHAIRMAN RICE: I think I may -- I'm considering appointing a committee to deal just with the water development

fee to move forward. I think that's an important component that we need to deal with.
Any other questions? Yes, Mr. Nakamura.

MR. NAKAMURA: Couple of quick questions. Mike, what is the total of the amount that has been encumbered from prior year projects, "prior year" being FY 2000 and back, just ballpark?

MR. QUINN: I can get you that in one second. You had also asked, board member Nakamura, in this particular budget that you have in front of you, how many projects are being carried over. That's approximately $5.3 million worth of projects.

MR. NAKAMURA: Last year's capital budget, as I recall, was about 16 million, so you are going to spend or encumber approximately 11 -- 10 or 11 million this year, by the end of the year?

MR. QUINN: Almost $11 million and/or encumberable (sic). Year to date expended is 5.9 million and current encumbrance is 5.1. It probably would be good if I gave these reports to the board so they have it for future reference.
It breaks down every one of our projects as to what was carried over from last year, what is currently encumbered, and what has been spent on each project. As the board knows, we have a lot of projects we're tracking yet.
While you are talking, I'll just --

MR. NAKAMURA: Maybe while you are doing that, I can ask Dave a question. What is our -- how are you organized to implement capital projects, Dave, in your engineering section, how does that work? How big of a staff do you have to pursue the implementation of these projects?

MR. CRADDICK: The design portion of it is mainly handled by -- once it's designed, you know, it goes out for construction and it's handled by the district engineers, and that's the current organization.

MR. NAKAMURA: So in the design section, how many engineers do you have?

MR. CRADDICK: One.

MR. NAKAMURA: You have one engineer handling $18 million of CIP, plus some additional number of carryover projects?

MR. CRADDICK: Only the design portion of it, not the construction portion of it.

MR. NAKAMURA: No, I'm talking about design.

MR. KOGASAKA: We're trying to distribute some of the design section to the district -- to the other -- other projects. Each of the districts. The number was just that -- that's what we came out with, but the intent is to try to distribute the design out a little bit more. Balance out the load.

MR. NAKAMURA: We can discuss this in greater detail later. I guess my concern is, basically, just as we appropriate funds for capital projects to be sure we have a mechanism that we can implement them on a reasonable basis, expeditiously, and if there's a need for the department to get some assistance in having that done, then we should look at that. A lot of these projects are important projects and we need to move forward.

MR. CRADDICK: Can I ask where you are getting the $18 million figure from in design projects?

MR. NAKAMURA: The total CIP proposed for this year is 18,200,000.

MR. CRADDICK: Not all of that is design.

MR. NAKAMURA: I did not say it's all design. It's all construction -- it's design and construction. It's a total CIP budget. I don't think there's any question about that. All I'm saying is that every year we seem to have a fairly high percentage of projects that cannot be implemented for some reason or other. And if it's a matter of getting some help on the design end, which is the front end, then we should look at that. That's all I'm saying.

CHAIRMAN RICE: Jonathan? You know what, we have another meeting scheduled at 10:30. So we'll recess, convene, recess, and then go back into it.

MR. FUKUSHIMA: Certainly.

CHAIRMAN RICE: So I'll recess the workshop.

CHAIRMAN STARR: I'm going to convene the operational review and evaluation committee and recess.

MR. FUKUSHIMA: You are in recess --

CHAIRMAN STARR: Recess until the call of the chair.

CHAIRMAN RICE: I'm going to call back to order the workshop on the budget. Go ahead, Jonathan.

MR. STARR: Couple of items. One is the $350,000 for the Ulupalakua to Kanaio. Is that -- I know we were discussing that in another meeting yesterday. Is that the same project? Is that based on one of those -- is that a material cost that you took for that?

MR. CRADDICK: That's what we had budgeted this current year. That's all.

MR. STARR: Okay. In other words, that's -- you just took a number that was budgeted in a current year and moved it forward?

MR. QUINN: It's carrying over, yes.

MR. STARR: I see the Pulehu source project, Pulehu well and transmission project. I'm not sure what that is, but I see we have been spending money on that. Where is that going to? What have we spent that $49,000 on?

MR. CRADDICK: What are you looking at, Jonathan?

MR. STARR: I'm looking at this -- it's a current fiscal year that Mike just handed out. It's under drought. I see we spent $49,000 on that item.

CHAIRMAN RICE: Pulehu well and transmission, PJT, is that what you're looking at, 41755?

MR. STARR: Yeah, what are we doing with that?

MR. CRADDICK: That is to test the Pulehu well.

MR. STARR: What?

MR. CRADDICK: That's to test the Pulehu well. The one that's existing there, what is called sometimes the North Kihei well.

MR. STARR: The one that's out on the plantation?

MR. CRADDICK: Right. Is that correct, Andy?

MR. PASCUA: The 7500 that's encumbered is what I had projected for a contract that I worked out with the installer. As far as the 41,000, I don't know.

MR. STARR: I would like, at a future date, an explanation of that.

CHAIRMAN RICE: Sure. Could you get that for Mr. Starr? Very good.
Any other questions?

MR. HIRANAGA: Mr. Chair, just a comment. I wonder if the department can label these, you know, draft one, draft two. Because I have these two reports that have different ending cash balances and I'm not sure which of them is the more current version.

MS. KRAFTSOW: There were some projects that after we had passed out the initial draft to the board, the engineer came back and said we can get these done faster.

MR. HIRANAGA: It would be nice if you said draft one, draft two, draft three. Also on the operating budget if they can label those, because I have two versions.

MS. KRAFTSOW: I have a list of carryover projects if you want that. I think somebody mentioned that.

CHAIRMAN RICE: Mr. Nakamura requested that.

MS. KRAFTSOW: Do you want me to go through that?

MR. NAKAMURA: Not now. I wanted to know what the total was. But I guess the total of all the balance available from both the current fiscal year and prior encumbrance is like almost 12 million, right, Mike?

MR. QUINN: Correct, eleven-nine, yeah.

MR. NAKAMURA: That's a significant amount of money.

MR. TAGORDA: Um-hm. Mr. Chair?

CHAIRMAN RICE: Yes, Orlando.

MR. TAGORDA: If I may continue Mr. Nakamura's questioning in line of that. Out of the 18 million, Mike, budgeted for CIP, how much really is for fiscal year 2001, 2002, excluding the 12 million, and how much is for pipe replacement here? It's not 7 million.

MR. QUINN: 7.4 is for pipeline.

MR. TAGORDA: The 7.4, what I'm asking is how much is the new project for pipe replacement this 2001, 2002? You exclude the prior encumbrance as an old project that we never finished.

MR. QUINN: Under pipeline replacement, the projects that are carried over -- you have pipeline replacement --

MR. TAGORDA: Maybe if you can do something for me, I would like the staff to highlight those.

MR. QUINN: I can calculate it right now for you. I can read them off for you if you want. You want me to read them off or just hand it to you?

MR. TAGORDA: Go ahead if you want to. I believe most of these are old projects under pipeline --

MR. QUINN: Ai Street, Aina Kula -- for $50,000. Aina Kula waterline.

MR. TAGORDA: What year did that project start, Mike?

MR. QUINN: That's a carryover from this current fiscal year. Aina Kula, we would have to reference the other sheet.

MR. TAGORDA: I think that's a lot of project for you to --

MR. QUINN: First encumbrance on that project was in 1999.

CHAIRMAN RICE: Why don't we get a list. You don't have to do it right now.

MR. TAGORDA: You don't have to do it right now, Mike.

CHAIRMAN RICE: He just wants to know what projects are new pipeline replacement.

MR. QUINN: This list I handed out, Orlando, the way you read this is you look at -- the first column is prior year encumbrance. Anything in that column is a carryover into this year's fiscal budget, 01 we're talking about now. So the working budget becomes the prior year encumbrance plus the amended budget, which is this year's budget, then your total working budget, then you have year to date expended and current encumbrance.

So it's very easy to tell which is the current project and which is the carryover project. Anything in the prior year encumbrance column is a carryover project. You can see -- that's for this fiscal year 2001. For instance, if we go to pipeline replacement, we see that 2.357,591 is the prior year encumbrance for pipeline replacement.

Then you have this year's current budget which is 5.865 which gives us a total working budget of 8.2, and out of that we have expended 3.1 and we have encumbered 1.6. Then we have your balance there. So we have to track, from a fiscal standpoint, we have to track all prior year projects plus the current year projects. That's how you read this.

MR. TAGORDA: Okay.

MR. QUINN: That's the purpose of it, so that you can see what the total is and not just -- obviously, we're not just dealing with the current fiscal year's budget. There's carryover.

MR. TAGORDA: Mike, your 89 G.O. bond on your CIP. You have a beginning cash balance of 70,000. Is that right?

MR. QUINN: That's correct. That's the Iliahi project that's been discussed at the board.

MR. TAGORDA: In your operating budget, that G.O. bond did not show up here.

MR. QUINN: No.

MR. TAGORDA: Because that money is already encumbered?

MR. QUINN: It's gone. It's not an issue.

MR. CRADDICK: It's not in the operating budget. It's not part of the operating budget.

MR. QUINN: No, he is saying it's not listed as a bond.

MR. TAGORDA: It's not listed on the G.O. bond. That's what I want.

MR. CRADDICK: Actually, 89 got refunded.

MR. QUINN: It was refunded. Once that project is completed, very shortly we hope, we can go in.

CHAIRMAN RICE: Any other questions, board members?

MR. QUINN: Very important issue here that I forgot. We have -- and this has to be approved by the board. On this schedule that you have in front of you, we have taken the DBCP fund and transferred it, you'll see, into the capital reserve fund. So that's an issue the board has to approve. That money is sitting there, it's accumulating interest.

There is a resolution existing by the board that we're to come back to the board to utilize that money. So that's an issue that I wanted to bring up.

My assumption, and I don't know if the board agrees, that money is sitting there and it could be used for CIP. I don't see any restrictions other than the restrictions the board has put on us by virtue of that resolution.

MR. STARR: Aren't we spending that in Napili?

MR. QUINN: We have not spent a dime of it.

MR. STARR: What --

MR. QUINN: There's a resolution saying --

MR. STARR: What do we pay for the contactors at Napili with? And what do we pay for the contactors at Hamakuapoko?

MR. CRADDICK: There are different sizes: one is 15 ton; the other is 10 tons. There's no comparison between the two projects.

CHAIRMAN RICE: He is saying what funds were used to pay for those. We didn't use it.

MR. QUINN: No, we haven't used it.

MR. STARR: What, we haven't used it?

MR. QUINN: No.

MR. STARR: Shouldn't we be using it for that?

MR. QUINN: That's why I bring it up. There's a resolution thing, we have to come back to the board to utilize those funds.

CHAIRMAN RICE: We should put that on the next agenda.

MR. QUINN: I want to make note --

MR. STARR: We're spending the money.

CHAIRMAN RICE: We're spending the money for the things it was designed for. So then we should requisition that on a regular basis, and then we'll have -- refer it to finance, then we'll make a recommendation. What Mike is saying is putting the whole amount in capital reserves.

MR. CRADDICK: That's what we have done in here. So if you don't want to do that --

MR. STARR: No, we don't want to do that, if we spend it, it gets filled back up again.

MR. CRADDICK: What?

MR. QUINN: I don't understand.

MR. STARR: Isn't there -- doesn't that fund get replenished when we spend it on DBCP projects?

MR. CRADDICK: No.

MR. QUINN: If we dig a well that has DBCP in it, we're entitled to a reimbursement, but that's over and above these monies. I'm not sure --

MR. CRADDICK: Maybe what you are thinking of is the operating cost, is that what you are thinking about? Every year there will be operating costs that will go into that fund and --

MR. STARR: No, when we get, not the full amount for existing wells, but we get a partial --

MR. CRADDICK: That's what this is. That's all we're ever going to get, unless another --

CHAIRMAN RICE: And we have operating costs.

MR. CRADDICK: He is talking about existing wells, that's all we're ever going to get for existing wells, unless another well goes bad. If another well goes bad, yes, we'll get more. But there's no regular money coming in.

MR. STARR: So we should be spending this again -- we should be spending this since this is the money that we got to pay for that.

CHAIRMAN RICE: Yes. So I guess that's something for the board members to think about when we approve the budget. Do we want this money in this account? You don't have to make a decision on that now.

MR. QUINN: There's no restrictions on that.

MR. STARR: I have a question here.

CHAIRMAN RICE: Go ahead.

MR. STARR: What's the -- how much is in our budget for water system development, including source, storage, and transmission?

MR. QUINN: In the budget. We have in the water system development, we have 5.2 million and in source we have 1.4.

MR. STARR: Storage is another --

MR. QUINN: Storage is not an issue.

MR. STARR: So almost 7 million. How much have we received in source development income?

MR. QUINN: In water system development, we anticipate approximately $1.4 million in roughly a year from water system development fees.

MR. STARR: So in other words, we're getting about 1.4 and we're spending about 7. I just want to point that out.

MR. QUINN: If in fact we spend that money this year, you know --

CHAIRMAN RICE: Mr. Craddick is very happy that you are pointing it out. As I said earlier, it's something that's one of our priorities for this coming year, and my intention is to employ a committee to deal with that water source development fee recommendation.

Anybody who thinks they might be interested might talk to me between now and the next meeting. In the interest of -- did someone say something here?

MR. HIRANAGA: I have a question. As these items come up that need our attention, are these going to be provided to us as bullet points in a summary of what has been discussed today? Or are we supposed to be taking individual notes to remind ourselves that these are important items to be discussed? I'm not sure what the procedure is, I know we have a court reporter, but versus pouring over minutes --

MR. QUINN: What has happened, Fran, who is not here, they supply annotated agendas. I'm not sure about the timing. You won't have that -- maybe that's the issue.

MR. HIRANAGA: When we see the next draft, is there a summary of the changes that were questioned?

MR. QUINN: We can supply all of that.

MR. HIRANAGA: So we don't have to pour over all the numbers here. You made the comment about the DBCP, that should be footnoted here on the report saying attention to this -- versus a verbal comment. I mean, if it's important -- you determine the importance of it, because we don't want to have 20 footnotes. But whatever you feel is significant should be footnoted.

CHAIRMAN RICE: What I would like to ask the board members is, between now and the board meeting next week, is if you have comments or suggestions regarding CIP, would you direct them to Howard, who is the chairman of that committee, so we can come to some agreement at the next meeting about the next step. Which is then to approve a budget to go out to public hearing, which is not approving the budget finally; it's

just to bring it to the next step.
So we're going to get the information from staff on the variances and we're going to get information to Howard's committee and CIP and we're going to try to come to some agreement on a budget that we're going to take to public hearing at the next meeting. Does that sound reasonable with everyone?

MR. HIRANAGA: Which meeting is that?

CHAIRMAN RICE: Next week Thursday, the 24th. It's not approving the final budget. We're just a step in the process.
Is there anything else? Info that the board members need, want? Okay, we're going to adjourn the workshop. Going once. Adjourned.

(The deposition concluded at 11:00 a.m.)

"By Water All Things Find Life"

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