County of Maui Water Supply

BOARD OF WATER SUPPLY
COUNTY OF MAUI
FINANCE COMMITTEE MEETING

Taken at the David Trask Building, Room 207, Wailuku, Maui, Hawaii, commencing at 9:05 a.m. on June 5, 2001.
Reported By: Rachelle Primeaux, CSR #370

ATTENDANCE:
Members Present:
Peter Rice, Chair
Kent Hiranaga
Mike Nobriga
Howard Nakamura
Jonathan Starr

Staff Present:
Traci Fujita-Villarosa, Corporation Counsel
George Tengan
Fran Nago, Secretary
Holly Perdido
Walt Hager
Herb Kogasaka

CHAIR RICE: I call to order the meeting of the Finance Committee, Board of Water Supply. The date is June 5th, HGEA conference room, David Trask Building, Room 207. Present Committee Members are Mike Nobriga, Howard Nakamura. Board of Water Supply Member Jonathan Starr, and I think Kent Hiranaga is here. Deputy Director George Tengan and staff.

MS. VILLAROSA: Traci Villarosa filling in for Howard Fukushima.

CHAIR RICE: Traci, wonderful. You usually sit

right here. Honorable Traci. Okay. The first item on the Finance Committee agenda is the request from David Myers for a water bill adjustment. And you saw his handwritten note. And I received from the Director communication this morning.
I don't know if the other members got a chance to see this. David Myers has water service, account number and his address. Mr. Myers' 9/12/00 meter reading was much higher than his normal bimonthly billing. A courtesy notice was sent to Mr. Myers on 9/15/2000 to information him of excessive consumption. A meter accuracy check was conducted by DWS personnel on 10/3. The meter tested indicated that the water meter was functioning properly. There is no record of line breaks or problems on Holopuni Road during the time period from July to September. On 12/7/2000, Mr. Myers called to contest his bill. Since the high usage, the water bill has not been paid on a regular basis. The total amount is 708.18. The contested amount is 283.70, which leaves a balance due of 324.48. From the investigations made, the water billed went through the meter. The Board passed a resolution to enforce Rule 3-16(a), which do not allow for reduction in a water bill; therefore, it is recommended that the request for a water bill adjustment be denied. From the Director.
Yes, Howard.

MR. NAKAMURA: Two questions. At one time when we made the conversion to the hand-held meters, there were some aberrations in meter readings. That didn't necessarily occur in this case?

MR. TENGAN: It shouldn't have. The meters would just record what water went through the meter.

MR. NAKAMURA: Secondly, is the meter consumption still high, or has that subsequently been dropped back down to normal levels?

MS. PERDIDO: It dropped back down to normal levels. It was that one high period, and it's down to the normal levels.

MR. NAKAMURA: So that was not the period in which we were making a conversion?

MS. PERDIDO: No, no, that was, no, this meter was changed prior to that. And we also did a check -- we always check to see if there was any work done in the area. We check to see if -- we have the base yard go and recheck the meter, and they came out that it was working properly.

CHAIR RICE: Nothing has been changed. So now that the consumption has dropped, apparently, the meter is still accurate?

MR. TENGAN: The only problem I can foresee is that if the meter was installed during the meter reading period and we picked up the wrong study meter reading, then that could result in erroneous billing. When was the meter installed?

MS. PERDIDO: I don't have that with me.

CHAIR RICE: But the problem with that theory, George, is that the meter was -- was according to him, prior to this billing, that the readings were normal. Then it went up, and now they're normal again.

MR. TENGAN: That's why I said the only problem I can foresee is if the meter was reinstalled where we put in a new meter and we picked up the wrong study reading for the meter.

CHAIR RICE: But we ought to find that out pretty quickly.

MR. TENGAN: Apparently, we didn't do that because he's saying here that he was using -- having a normal bimonthly billing, and then it went higher.

CHAIR RICE: Okay.

MR. NOBRIGA: I don't see any compelling reason to grant the request. I don't know if the Chair would like to recommend some more tests be done, but I'm of the position that I move to deny.

MR. NAKAMURA: I second that motion.

CHAIR RICE: Okay. There's a motion on floor and duly seconded to deny the request for a water bill adjustment. Any comments?

MS. VILLAROSA: George can give the Department a call to find out when that meter was installed just to clarify that issue that was raised.

CHAIR RICE: We'll still be here talking, so we --

MR. HIRANAGA: Question.
CHAIR RICE: Yeah, Kent.

MR. HIRANAGA: So the average usage is 300-something if you kind of do a historical review?

MR. TENGAN: This is the first time I'm looking at this letter here, and I haven't seen any -- I really don't know anything about the history of this situation here.

MR. HIRANAGA: Does your staff have any idea what his average usage typically runs?

MR. TENGAN: Holly would probably know, but she's on the phone right now.

MR. HIRANAGA: Did anyone do sort of a site visit to see if he has a swimming pool?

CHAIR RICE: He has a pool. He says so in his own letter. He says in his handwritten letter that he has a pool, but he has not had water in it for three years. And he also indicates that if there was a leak, he would see it somewhere, and there doesn't appear to be a leak. The curious thing -- I'm sorry, go ahead, Kent.

MR. HIRANAGA: $300 a month, that's a lot of consumption. My bill is not even close to that. I don't know what your bills are like. $300 every two months, I don't know what he's doing with water.

MR. NAKAMURA: He is up in Kula, so he may have a big property.

MR. STARR: I had an irrigation problem and we went through, oh, $1,700 two months in a row with, you know, a leak in my drip system before we realized it. It's real easy to go through three, 400 bucks worth of water if you have a leak. You know, it's pretty trivial.

CHAIR RICE: I guess I thought it was odd that it took him so long to send this notice. Is Holly checking right now?

MS. VILLAROSA: Yeah, she's checking.

MR. NOBRIGA: You want to defer the vote and move on to the second --

CHAIR RICE: We have a motion on the table here. We can approve subject to any other information.

MS. VILLAROSA: We can recess.

CHAIR RICE: Why don't you withdraw your motion and defer it back to the back of the agenda.
MR. NOBRIGA: Withdraw my motion.

MR. NAKAMURA: I withdraw my second.
CHAIR RICE: And we'll defer this to the end of the meeting. Request for Adam Patel of Upcountry Flowers for ag rates. Adam is not here. I think he indicated when he was at the meeting that he had recently purchased the property and it was purchased zoned residential; is that correct?

MR. HIRANAGA: Rural.

CHAIR RICE: Rural?

MR. HIRANAGA: Uh-huh.

CHAIR RICE: In the absence of Mr. Patel, I wonder if we should defer this item until probably next month because he's out of town. Is there any objection to that, or is there anyone who feels like they want to take action on this issue? Mr. Nakamura.

MR. NAKAMURA: I don't feel like I want to take action, but I believe this issue has come up before, George, and isn't the problem that either the rule was amended or there was some kind of change where the ag rate was not applicable in land zoned rural, that it was within in the State Land Use Rural District?

MR. TENGAN: Yes, it had to be zoned ag.

MR. NAKAMURA: It had to be zoned ag, and that was a result of a rule amendment?

MR. TENGAN: A rule amendment maybe four years ago when we had the new rates adopted.

MR. NAKAMURA: I recall a similar instance coming up with a gentleman in Pukalani, I believe it was, and at that time, I believe we asked that the rule be reviewed because ag use is a permitted use in State Land Use Rural District. And it seems a little unfair if someone has a bona fide ag operation that they are being, in effect, discriminated against by virtue of the fact that they're not an ag district where the policy permitted in the past them to get an ag rate, especially since, as I said, State Land Use Regulations permit and, in fact, somewhat encourage ag use in a rural district. So I think there needs to be, you know, a wider scope to this rather than just this one question.

CHAIR RICE: I think that's something that the soon-to-be new Rules Committee should add to their rule review and get that cleared up, so we'll defer that issue until the next meeting. Okay. Holly is back.

MS. PERDIDO: The meter was installed March 18th, '96. His readings are kind of erratic. July 19 to October 4th was about 33,000 gallons. That was an average, and then he had readings like up to 61 was his May reading. March was 42, so it's pretty erratic, but it's nowhere near 180. Just that one billing September 12th was 180.

MR. TENGAN: Holly, a question I was asked whether we did a site investigation of what kind of activities occur on the property. As an example, does he grow any crops?

MS. PERDIDO: Yeah, I don't think, we usually don't go and check their property.

MS. VILLAROSA: So the meter was installed in July?

MS. PERDIDO: '96.

MS. VILLAROSA: And this question is for what?

CHAIR RICE: 2000.

MR. NOBRIGA: September 2000.

MS. PERDIDO: And his readings are real sporadic. They were, like November '99, it was up to 58,000. Then it drops. January was 12,000 of this year, so it's really varied.
MR. NOBRIGA: Seeing no compelling reason to approve the request, I move to deny it.

MR. NAKAMURA: Second.

CHAIR RICE: Moved and seconded to deny the request for the rate adjustment. Any comments, questions at this point? All in favor, say "aye."

VOICE: Aye.

CHAIR RICE: Opposed, "nay."

(No response.)

CHAIR RICE: Motion carried. Denied. The next and last item on the agenda is a review of the Brown & Caldwell report, and the reason this item is on the agenda is it relates, directly relates to our budget process that's coming up. And I hope everyone had a chance to review this.

And I know -- I did think about having the model here to fool with, but I at the last minute decided I didn't want to do that. I think we need to have Mike here to work the model. I think it is an exercise that we want to do at some point as a committee or together or jointly or separately however. But I think what's really important at this point is to understand the assumptions in the model, and I think we need some reports printed from the model to tell us, and I've spent some time on this. There is -- who is going to talk to the model, Holly?

MS. PERDIDO: I'm not that familiar with the model. Are you more familiar with it, Ellen?

CHAIR RICE: If you look on the report, in the report on Page 3-19, at the bottom of the page, there's an asset replacement log. Okay. I would like that printed for the 20-year period. The reason I think that's important is if you read the report, there is assumptions made, there are replacement assumptions made and there are refurbishment assumptions made by the type of asset. And without seeing where those replacements and refurbishments lie, by just fooling with the funding, we're assuming that all the assumptions made in this model are correct. And I'm coming from the position that we need to know that all those assumptions are correct or that we agree with them. Some of them aren't necessarily black and white, it's yes or no. Some of them have to do with the assumptions made by useful life, and I'm not really talking about replacement costs.

If we have stacked a bunch of refurbishments up in a certain year, that's going to cause our cash outlay to be very high in that year and it's going to cause us to be funding for that, and we need to understand that. And if you look at some of the charts in here, you can see on page 3-12 all these replacements are weighted heavily in certain years, and we need to find out what's been assumed and what's being replaced in those years I think. That's my personal opinion.

MR. STARR: I actually find this pretty conservative, if anything, you know, looking at the way that they replace items like pumps. I look at a pump as having a 50-year life, which is an awful long time, you know, and they're only talking about replacing the motors and controls every 25 years.

I think we tend to do that -- even, you know, technology forces us to do that a lot faster than that. So they're taking 25 percent of the cost to replace the motor of the asset after 25 years. I find them very conservative. That's why, you know, I find this kind of, you know, I -- it was almost shocking to me to see how much money it says we're really going to need, and I believe it. I think that maybe there will probably be areas where they're low and there are probably going to be areas where they're high. But all in all, my guess is it looks -- you know, it looks pretty good, if anything, on the conservative side. And we better find ways to fund this in the future, otherwise, we'll be creating a lot of unfunded liabilities.

CHAIR RICE: No, I agree. I think the number is real. My point is there may be, based on assumptions made, a lot of things stacked up in one year, and our ability to move them away from all being done in the same year is going to make our funding different. Because if we're trying to fund for, you know, $25 million worth of work in one year, we've got to build the fund to that level versus having smaller amounts in successive years. So I think that we have to understand what's being replaced and refurbished in what years. And by running that report that I asked for, I think we're going to see what assumptions are made in what years.

MR. STARR: Could I make a request.

CHAIR RICE: Sure.

MR. STARR: Could we schedule another, you know, an actually working workshop and ask the Brown & Caldwell fellow to come in and have it running on a laptop and give us an hour or two where the individual members can actually play with the thing and ask him questions.

CHAIR RICE: Sure.

MR. STARR: And do what-if analyses on a laptop if that's possible. I mean, otherwise, I would be willing to take the software home. It runs on Excel. You could probably do the same thing and fool with it.

CHAIR RICE: I don't have a problem getting a workshop with Brown & Caldwell together. Where are they?

MS. PERDIDO: Ken Harlow, who created this, is in the mainland in California I think, so I could find out when he's going to be out here.

CHAIR RICE: We're going to have to make some decisions about funding but I think the understanding of the model needs to go on, and the workshop can be whenever it's convenient.

MS. PERDIDO: I can check with him.

MR. NOBRIGA: I don't think we actually need to get the author of the program to come back before we internally have a chance to play at it. I think if we use our own personnel first before we go outside and back to the author, it may be more educational.

CHAIR RICE: Well, that's why I think when Mike is here, he can do the same thing, a workshop.

MR. STARR: Okay. As long as we can actually have it here running on a PC, you know. I had asked if that was possible today, and I understood they don't have a computer. The Department doesn't actually have the thing running I'm told.

CHAIR RICE: And I would run that by Mike to be administering this, but I think we need to think about the assumptions, so that's where I'm coming from. The other thing that's interesting in the report is 45 percent of the pipe replacement assumptions are basically guesswork. Did you see that in the beginning?

MR. STARR: They didn't have the dates.

CHAIR RICE: They didn't have the data. The pipe database is incomplete. Many segments lacking material, 45 percent. So assumption, and that's, I understand why. I'm not criticizing anybody in the Department. But that means that assumptions were made about 45 percent of the pipe replacement.
And a question that comes up, Howard's CIP Committee has got a lot of pipe replacement. How does that dovetail with the replacement schedule?

MR. NOBRIGA: It was working CIP that's been there for five years.

CHAIR RICE: We're going to fix that, right, Howard?

MR. NAKAMURA: I hope so.

CHAIR RICE: And I think when we print that report that I asked for, we'll be able to see. I mean it would be interesting to see if there's pumps and pipes that are scheduled to be replaced in the report that we don't have in the CIP budget, which doesn't mean that they have to be done now, but it means that we have to adjust the model.

MS. KRAFTSOW: Every single pump we own is in the CIP database, but what gets replaced every year is based on what the field tells us we need.

CHAIR RICE: So then what do we do? Then we have to go back to the model and make the model the same as what we do in practice. We can't have the field guys come in and say the pump needs to be replaced. Okay, we replace it, but the model says it needs to be replaced last year. And we leave it that way. Then the model will become totally useless.

MR. STARR: I don't think it's that simple though, because, you know, to ask how come we're only replacing so much pipe this year. Well, that's all the assets, and that's all the manpower we have.

CHAIR RICE: That's another factor.

MR. STARR: Whereas, maybe we should be replacing a lot more of it.

CHAIR RICE: I agree, that's another factor. All I'm saying is that we have to -- the model and reality have the work together, you know. The assumptions about the useful life are one thing, and they can't be perfect. Nobody is being criticized for that. And the amount of work we can do in a year is also another thing. We can have scheduled $25 million worth of replacement work, and if we have no staff to do it, that again doesn't make any sense.

MR. NAKAMURA: I agree with your comments, Mr. Chairman, about the need to keep the model updated and the need to understand the assumptions. I think it would be a worthwhile exercise, as Mr. Nobriga suggested, if we have Mike Quinn here with the model and we play with some of the numbers, you know, at some point, we need to review the assumptions. But if you look at that exhibit that you referred to, you know, the big hits start to come around 2015. Up until 2015, it's almost manageable on an annual basis. You know, you're running in the five to $8,000 range of requirement. But when you hit 2015 it's when it starts to jump to 10, 12, 15, 20. And, you know, my -- one of the things I was looking at when they made the presentation was they talked about the so-called stepped options where they came up with 7-and-a-half million for X number of years and six million for five years. And I think there's some possibilities of playing with those numbers where, number one, you don't have that big jump from six to 18 at 2015, you know, because I think we could reasonably afford something in the six, seven, $8-million range annually even today assuming that the projects could be implemented.

CHAIR RICE: Right.

MR. NAKAMURA: You know, I think we could probably play with the numbers and come up with a reasonable plan. Then, of course, the question is how valid are the assumptions.

HAIR RICE: That's why, and I'm not downplaying the need to fool with the model and look at these different scenarios. But when we start doing that, I think we have to be fairly in agreement with the assumptions. Interest rates and borrowing rates, we can do that in a few minutes with Mike. But when I see all these expenditures lumped into a certain time frame and I read the report and it talks about making just generally 10-year, 15-year assumptions about refurbishment, we probably need to look at that and say, yeah, and take into account what we can do in the year. And then say, yeah, we can do that or, no, we're going to move those.
Then when we have those assumptions down and in the model, we can then look at funding. Because the first time you do a study like this, you know, there's a lot of work to do. It's just looking at the volume of pipeline, assets being 715 million, we could probably tweak it a little bit. Once we're confident about where the expenditures fall, then I think the funding will get a little easier.

MR. NAKAMURA: I wonder if, you know, there's a desire to talk to the consultants rather than having to come down here. Is it practical to try to go to like the R & D Park and teleconference with them for an hour and a half? I don't know if the state of the

art --

MR. STARR: I bet they could run the model over

the --

CHAIR RICE: Why don't we do this. Why don't we get a workshop set up with Mike with the model. And between now and then, if we get the report that I asked for and we circulate it to everybody so we can look at the assumptions for the next 20 years and we can become armed with our own feelings about the assumptions for the workshop, then make those changes, and then we can fool with the funding. Because there's other -- you know, Howard suggested after the initial review last year that a stepped program might be more palatable.
And, in fact, I think if you look at the three scenarios, which they suggested, I thought the last scenario, which is effectively a stepped program, made the most sense because you didn't get a peak. You get more of a steady funding level before it drops.

MR. STARR: As long as we realize it's a stepped option we're talking about, you know, somewhere in the $7 million range. That $2 million we've been putting aside so far is not going to cut it.

CHAIR RICE: Yeah, and Howard, you raised it at the CIP meeting, but we can come to a financial arrangement with six or $7 million and not be able to do all those projects in a year.

MR. NAKAMURA: Right. Ellen, in the proposed '02 CIP, do you have any idea when you lump together all the replacement projects what that total might be, pipeline replacement, pump replacement?

MS. KRAFTSOW: We're trying to run Paradox right now on my computer. I tried to run that program for you, and my computer has been crashing every time I try to use Paradox, so we're trying to reload it. But I can get that to you.

MR. NAKAMURA: I mean you can do it manually. The pipeline replacement is basically one big amount and the rest of the projects.

CHAIR RICE: And we can get that replacement needs by area.

MS. KRAFTSOW: Yeah, everything capital reserve is replacement. That's about 5.8, but I don't know, some of these other ones are mixed. That's just the pipelines.

MR. NOBRIGA: We are starting to build up the funds so we can actually --

MS. NAGO: If you guys want this on the record, you've got to speak up and one at a time. I'm sorry, she doesn't know who to take down.

MR. STARR: The 1980's construction boom.

CHAIR RICE: He said it was the 1980's construction boom.

MR. NAKAMURA: You need a flag, Fran.

MR. NOBRIGA: So Mr. Chairman, is this committee's -- is this committee entrusted with making a recommendation to the Board that a certain -- of the two options that the Board authorize the following of that option, is that what are you are looking for out of this discussion?

CHAIR RICE: Well, I don't know that we want to make a recommendation yet until we've looked at some of these assumptions and we've fooled with the model a little bit, but I think what we wanted to talk about in terms of what numbers to use for the budget under the capital replacement line item. And the prior system that we used was whatever money we were able to generate from operations would roll into capital and so the budget zeroes out when, in reality, we know that that is not the right number.
Okay. The base line scenario has us at 4 million and it shows that to be an inadequate amount, so if you looked at scenario 3, we're starting at six

in that range, six, seven, 6.5 I think it is. Should that be the number that goes in the budget that gets sent out, which will show a deficit? That's the question.

MR. NAKAMURA: But the question that came up at the last meeting was can we consider a deficit budget. I know the County -- the County budget has been to be a balanced budget and the question came up whether or not the Water Department was subject to that same restriction.

CHAIR RICE: Well, and if we didn't have a deficit, what would happen is you would be taking the money out of our working capital. See, if you take all of our working capital, you end up with 6.6. And I mean I'm not going to recommend -- I think the working capital money needs to be set aside in a bank, and there was an assumption made to come to some number, right?

MR. STARR: I think it's a Catch 22 because if we don't do it, it's almost impossible to justify the kind of rate structure that we need to be able to get it. If we do it, then we're showing, you know, we're showing a deficit budget, which isn't a good thing either. I believe there is an accounting mechanism for doing this, you know, which does, in a sense, create an unfunded liability that can get, you know, that can occur if it gets funded. And if it doesn't, it doesn't cause any problem.

And I think maybe Mike would be the person to help us find a way -- a way to deal with that, but I think unless we show it, I think it's going to be very hard to justify the rate increases that we would need to be able to keep our system adequately maintained.

CHAIR RICE: I know we're back at the same discussion we had that day, and I think the solution for now is to footnote a capital improvement line item and say that, you know, based on the Brown & Caldwell report received by the Board of Water Supply in November of the year 2000, the current funding level is inadequate for future replacement needs or some such language, but that's the message. And I think at least that acknowledges it until we all can agree what the numbers should be from Brown & Caldwell. And then we get the accounting advice from Mike. Agree on that?

MR. STARR: I would just like to see that it should be between six and $8 million, that it should be some actual range in there.

MR. NAKAMURA: And I think conceivably it is this year in that range, the proposed expenditures.

MS. KRAFTSOW: Replacement is at least nine, about nine.

MR. NAKAMURA: Yeah.

MR. TENGAN: Clarification. Did you want the statement in the budget notice?

CHAIR RICE: Yes, I do. I want it in the -- if we -- no, not in the public notice. But if people get the budget package that want it, in the budget package, it should be footnoted. That's where it should be. That would be kind of crazy to take one item out and put it in the notice. You were writing what I was saying, weren't you, Holly? I knew that. And some such language like that, if you feel like you need help with it, I'll -- but I think certainly acknowledging that we have that liability until we come to the agreement on the numbers I think is the right thing to do. Everybody in agreement, committee members? No objection? Board members present, Kent?

MR. HIRANAGA: No objection.

CHAIR RICE: Jonathan?

MR. STARR: Sounds good.

CHAIR RICE: Okay. That's what we'll do, and I'll work with Fran to schedule a workshop when Mike gets back. But Holly, run me those reports on that, and then I can give you my own feedback. Is there any other business to come before the Finance Committee?

Adjourned.

(The meeting adjourned at 9:40 a.m.)

IWADO COURT REPORTERS, INC.

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