

County of Maui Water
Supply

BOARD OF WATER SUPPLY
COUNTY OF MAUI
PLANNING COMMITTEE MEETING

Held at the HGEA Conference Room, David K. Trask, Jr. Office Building, 2145 Kaohu Street, Room 207, Wailuku, Maui, Hawaii, commencing at 1:00 p.m., on August 13, 2001.

REPORTED BY: JEANNETTE W. IWADO, RPR/CSR #135
IWADO COURT REPORTERS, INC.

A T T E N D A N C E

CHAIRPERSON:
KENT HIRANAGA

BOARD MEMBERS:
MICHAEL NOBRIGA
JONATHAN STARR
ORLANDO TAGORDA
CLARK HASHIMOTO

DIRECTOR
DAVID CRADDICK

DEPUTY DIRECTOR
GEORGE TENGAN

DEPUTY CORPORATION COUNSEL:
HOWARD FUKUSHIMA

FISCAL OFFICER:
MICHAEL QUINN

ENGINEERING:
HERBERT KOGASAKA

IWADO COURT REPORTERS, INC.

TRANSCRIPT OF PROCEEDINGS
BOARD OF WATER SUPPLY
Planning Committee MEETING
AUGUST 13, 2001, 1:00 P.M.

CHAIRMAN HIRANAGA: I'd like to call the Planning Committee meeting of the Board of Water Supply to order. Today is Monday, August 13, 2001. In attendance is committee members Orlando Tagorda, Mike Nobriga, Clark Hashimoto, and Jonathan Starr, Director Craddick, and staff members Herb Kogasaka and Mike Quinn, and Corporation Counsel Howard Fukushima.

Today's agenda item is Water System Development Fee Revision Committee Discussion/Recommendation. I guess I'd like to start the meeting off to open to Board discussion if they believe, a committee discussion if they believe the Water System Development Fee rule should be handled within the Rules Committee or within the Planning Committee. Yes, Mr. Starr?

MR. STARR: I think that there's some of it that should be handled by the Finance Committee, so thank God my Operations Committee doesn't have any part. Perhaps I mean there are different questions, and perhaps, you know, I hate to have the round robin where it gets passed from committee to committee to committee. Perhaps, you know, the different committees can look at different parts. But to me, the big question is the number.

CHAIRMAN HIRANAGA: I intended for the review of the fee amounts to be kept within the Planning Committee. So it's whether the review of the verbiage for the rule itself, whether that should stay within the Planning Committee or should that be in the Rules Committee.

MR. STARR: I think that's really for you and Mike, whatever you and Mike want. I know it would be fine with me.

MR. NOBRIGA: Because of the nature of the charge of the Planning Department, I chose to participate in this committee. The full knowledge that a lot of discussions that

we hear here will most likely also be needing to be addressed in the Rules Committee. Therefore, you have like almost an overlap, and you have like a twin basis here whenever we review whatever comes up heretofore within the Planning Committee. That's why I'm here.

The fee, the whole process of the system department rates or fees would possibly be more apropos to the rules nature, because what we decide and set forth in this committee does have the impact of a rule. So I can see your point. I would rather somebody else handle this than the Rules Committee, because I really wanted to move ahead with looking at our current rules and seeing how we can make it more understandable and germane to the public.

MR. STARR: You know, I think that there's a lot to be said for Planning doing it, simply because if you are making plans for the future, this is the money that's going to pay for the implementation of those plans. So that kind of goes hand-in-hand. This is creating the money to look ahead, and the purview of planning I guess is looking ahead, so that kind of makes some sense.

MR. FUKUSHIMA: Excuse me, if I may, Mr. Chairman. Is this committee going to be considering a new rule or are you going to be working with the old rule, plug in the old value, and if there are some changes that the department suggests or some changes that the public is concerned about or some provisions that the public is concerned about, to do it in that fashion, or are we reinventing the wheel and starting from scratch? I mean just so the other members and myself get an idea of what the Chair's direction is.

CHAIRMAN HIRANAGA: I'm open to suggestion, gentlemen. Jonathan?

MR. STARR: I think the biggest job that this committee and then the Board has is going to be public education, the job of public education, and making sure that what we come up with gets clear sailing through the public process and through the Council and through the Mayor. So in that we are going to really need to be able to justify very clearly, and this has been a problem in the past. So, you

know, I think that's the main, you know, going to be the main task. We can all pick a number out of the air, but that number picked out of the air won't fly unless it's got a whole lot of force of logic and studies and showing that this is tied into our plans ahead of us.

CHAIRMAN HIRANAGA: Mr. Craddick?

MR. CRADDICK: This proposal before you is not a rehashing of the whole makeup of the rule, this is basically taking the way we did it before and getting numbers updated from 1993. And there are some house cleaning types of amendments. Like for instance, the state law requires that we put interest in the account. We haven't been doing that. That is in here, that is in here. And I believe, you know, if you will forgive me there, I did talk with Peter just before this meeting. He said he made the assignments knowing the workload the other committees had. So I think he very consciously assigned this to you, and you can check that. But that's what he said.

CHAIRMAN HIRANAGA: Mr. Nobriga, did you have something?

MR. NOBRIGA: Yes. Going back to our esteemed Corporation Counsel's kind of question, would the concluding document of what we work on concerning water development and rates or fees still be subject to a public hearing?

MR. CRADDICK: Yes.

MR. FUKUSHIMA: You know, I think that if you are going to change your value then that is in effect amending the rule, and that calls for a public hearing. Although in the bigger scope I don't really think the number is that important, I think the public is going to think it is. So with that change, I think you would have to go to public hearing as well as getting Mayoral and Council approval.

CHAIRMAN HIRANAGA: Well, the Chairman's intent or feeling is, because I am a junior member of this Board, I was going to open it up to discussion from the other senior members before I try to determine what my position will be. I know

what Mr. Craddick said is the Chairman wishes, but I'm open to discussion. Yes, Mr. Nobriga?

MR. NOBRIGA: Even though you're the junior member, except for Orlando, we have never worked on this before. So this is just about as new to us as it is to you.

MR. TAGORDA: This is new to me.

MR. NOBRIGA: We haven't touched this before.

MR. CRADDICK: Not since 1993 has this been touched.

MR. TAGORDA: Like I said, again, I agree with our Chairman that the verbiage of this was system development should go to the Rules Committee, and whatever numbers, you know, the fee structures and the schedules that the department changed could be taken into the Planning Committee. So whatever substantive changes to our current fee can be discussed.

Like I said, again, there are new things that I'm aware that is going to be changed that needs a public hearing, the numbers that they gave us now, which is the rates for the different sizes of meters that we have. There is a big difference in the changes. So I think we should really discuss why those changes are appearing now or are being handled now, or we can probably throw some questions to the Director how did he come up with such numbers in comparison to the old rate and the new rate that he's trying to recommend to this committee to be looked at.

CHAIRMAN HIRANAGA: So Corporation Counsel, if it is the committee's wish to inform the Board that it is their intention to limit the scope of their review to the fee amount and their jurisdiction to the Rules Committee, would that be via a motion, submitting a recommendation to the Board?

MR. FUKUSHIMA: I suppose it could be done in a motion. I mean if that's what you want to recommend to the Board, that the only thing that's going to be discussed here is the fee, and the other portions of the proposed rule will go to the Rules Committee.

CHAIRMAN HIRANAGA: Yes, Mr. Starr?

MR. STARR: You know, thinking about it, and especially the comments that Mr. Rice, our Board Chair, put forward through the Director, I really think we should handle it here. I think that the Rules Committee has started to do a really good job in going through all of our rules, and if that's going to, even with the tenacity that the Chair and that committee is starting to show in going through it, it's a huge project. And I'd hate to see this process get sidelined.

And in any case, you know, most of the members, all the members of that committee can participate in the discussions over here, but I think that this is something of such importance. And we're also in a period when it's probably politically good to do it. I know that most of the Councilmembers have expressed that they would be supportive of this sort of thing now. And you don't know what happens after another election cycle, or when you are in the middle of an election cycle it gets harder to do this sort of thing, whereas now I really feel is the time to strike with this.

So my suggestion is that if that's okay with -- it seems like Mr. Nobriga feels that that would be okay. My feeling is that handling it here would help us keep it on a front burner and get it done. I certainly, you know, respect your ability to handle it and to dig into it. You certainly are no junior to any of us when it comes to dealing with values and how it affects property and the people of the County, which is the only important stuff here.

CHAIRMAN HIRANAGA: Clarification. Mr. Nobriga, was it your intent to -- did you prefer that the rule verbiage be handled in the Rules Committee or stay in the Planning Committee?

MR. NOBRIGA: The rules of verbiage should be handled by the Rules Committee.

CHAIRMAN HIRANAGA: So it's contrary to what Mr. Starr said.

MR. NOBRIGA: I have a hard time understanding Mr.

Starr when he talks. I usually wait to read the minutes to find out what he said.

MR. TAGORDA: I am not going to disagree with whatever discretion you have on this agenda item. If you feel that we are going to handle the verbiage and the fee structures of this item right now, it's your discretion, Mr. Chair, and I will really abide by that discretion.

CHAIRMAN HIRANAGA: Thank you. Mr. Hashimoto?

MR. HASHIMOTO: Mr. Chairman, if we are going to split it up one in Rules and one in Planning, I'd rather see it all in Planning and we will just take on this. Since we are all members of the Rules Committee anyway, you know, I mean --

MR. FUKUSHIMA: I was just wondering, if I may, Mr. Chairman, if anybody on this committee thinks that the present rule needs fixing. You know, quite frankly, I am not aware of any problems with the present rule. Given the philosophy of the Board when it adopted this, I am not aware of any implementation problems with this rule. And it could be that you really are just talking about the numbers.

CHAIRMAN HIRANAGA: So it may be just a cursory review.

MR. FUKUSHIMA: I mean if the department or any Board member is aware of any present problem with the rule, I mean this is the time to fix it. But again, I think we're just dealing with the fees.

MR. TAGORDA: That's right.

MR. STARR: We may decide, for instance, to go the way Honolulu goes where they're charging the actual customers per fixture unit.

MR. FUKUSHIMA: You are just talking about the numbers. But if, again, the philosophy is going to change, you are going to go by fixture numbers or go as far as differential rates among the districts, then I could see messing around with

the language of the rule. But again, if you are going to have a countywide fee that is consistent, then hey, you have got something in place already, you just need the numbers.

CHAIRMAN HIRANAGA: Mr. Craddick?

MR. CRADDICK: The methods of determining a development fee are basing the fee on what is already in place or basing the fee on what you hope to build at some future time. The reason why the Board went this way is because there were no successful lawsuits this way against anybody.

CHAIRMAN HIRANAGA: Mr. Craddick, you are not really addressing how to determine the fee.

MR. CRADDICK: Let me get back at it, and what Howard is saying and what you guys are deliberating. This is what is called the system buy-in method. We are not buying into some pie in the sky. We know what's there, we know what the costs are. It's very easy to determine the fee amount. So we are not changing any of that in this proposal. Whether you base it on fixture units, meter size is irrelevant on the methodology that you use to come up with the amount.

One thing, the only thing that I have talked to you about is we have seen that basing it on meter size is kind of a problem. And I would ask that you defer that discussion about whether you go from meter or fixture units to by the gallon. Something like that certainly could be deferred to the Rules Committee. It's not that important that we resolve that right now. But if we're going to drift away from the buy-in method, then everything, the study that's done, everything is useless.

CHAIRMAN HIRANAGA: Well, we haven't addressed that topic. We are just talking about whether the verbiage of the rules should be with the Rules Committee or the Planning Committee. I guess my priority is to try to expedite review of the fees so that it becomes a reality.

So if it's the feeling of the Corporation Counsel and certain members of this committee that the verbiage will not be requiring a substantial amount of review and change, then I'm more than willing to keep it within the Planning Committee, as reflected by the wishes of the Chairman of the

Board, as was conveyed to us by the Director.

MR. STARR: My belief is we should keep it here, let's do it.

CHAIRMAN HIRANAGA: We don't really need a motion.

MR. TAGORDA: That's your discretion.

CHAIRMAN HIRANAGA: So having determined that, I'd like to I guess move on to the next subtopic, which is basically discussion of the fees itself.

MR. NOBRIGA: Could I have the Chairman's indulgence? Going back to the wording, we have been supplied with a document from staff, I presume. I want to complement them, first of all, for being proactive at this level, actually getting something ahead of time. I do notice some minor housekeeping proposals put forward. So it kind of goes back to Howard's original question which was never answered, which basically was, does the staff feel that the current rule is broke? And although we did allow the Director to talk, I didn't think he answered the question.

CHAIRMAN HIRANAGA: On this red light copy, Mr. Director, did you incorporate any substantial changes or is it primarily housekeeping clarification purposes? Some of the members have received a copy of this today, so they're at a disadvantage.

MR. CRADDICK: I would consider all these changes housekeeping. Probably the biggest one, if you notice, the word "fees" is changed to "rates." That's neither here nor there. Do that or not do that as you choose, it doesn't make any difference to me. I think it just helps in another matter.

MR. NOBRIGA: Excuse me, Mr. Chairman.

CHAIRMAN HIRANAGA: Yes?

MR. NOBRIGA: What would be the purpose there on page 8-2 -- oh, no, never mind, I withdraw that -- wait now, I

stay confused now, I'm sorry. Bracketed items are removed, right, and underlined items are added. So there is an addition of something about recapture State Department acceptable water. That has to have been --

MR. CRADDICK: Do you see the bracketed part about the retrofitting? This previously came to the Board to allow people who did retrofitting to count that as a source, and therefore not have to pay that portion of the source fee. And I'm sorry, but this draft that I took, I took off from that draft of it and I made the changes based on that one. I didn't go back to the original rule and make the changes on that. I'm sorry.

So that whole portion about the retrofitting should all be underlined. And I'm just, you know, rather than coming back to the rule in the future, if somebody came up with some method of providing potable water or the Department of Health acceptable potable water, that it be recognized as a source of water, that's what we are trying to do there. It's not a substantial thing, you know. Whether you wanted to leave that alone and not do anything with it is fine.

Like I said, the only thing that needs to be done is the interest thing, and that's near the back of it. And that's state law anyway, so there's an argument that you don't even need to be doing it. The state law authorizing impact fees says all the money plus the interest goes into a fund, and we are not putting the interest in a fund right now.

MR. NOBRIGA: Thank you, Mr. Chairman.

MR. STARR: Mr. Chair, I just got doubly confused now from that. Are you saying that the stuff, the wording -- excuse me, Howard, I'm speaking here. The wording that's in brackets, is that supposed to be underlined, is that what you said, David?

MR. CRADDICK: Only that particular sentence in the source definition.

MR. STARR: So in other words, you are including retrofitting, plumbing fixtures to be the same as developing source? Are you suggesting that we add that?

MR. CRADDICK: No, that's being taken out. That was a previous suggestion.

MR. STARR: You just said that it should be underlined, which means that's something being added.

MR. CRADDICK: Technically speaking, yes. But at this point here I say throw everything out, any change in that word, the definition of "source," and leave it. I mean we have spent enough time on it already, more than we should.

MR. TAGORDA: Mr. Director, do not confuse the Board members about your idea about retrofitting. The Board didn't pass this idea of yours of retrofitting.

MR. STARR: So we're crossing out the line?

MR. TAGORDA: Don't confuse us about this.

MR. STARR: We're crossing out the retrofitting. As far as I'm concerned, that's crossed out.

MR. TAGORDA: Because a lot of people don't consider this a new source of water, see, because a lot of things happen when you retrofit a fixture.

MR. CRADDICK: Orlando, it's bracketed to be crossed out.

MR. STARR: You just told us it was the same as underlining, David.

MR. CRADDICK: It is what it is right there before you.

MR. TAGORDA: Mr. Chairman, to get these things going, I think we should concentrate on the substance of this recommendation by the Director about the fee. I think that's all it is. The rest are not substantive enough for a public hearing. But I think the rate structure that the Director is trying to propose to this committee needs to go to public hearing, because it will affect them.

CHAIRMAN HIRANAGA: So we can review the language of the rules at a subsequent time. We should address the proposed new rates.

MR. STARR: Before we do that, could I make a request? I would like a copy of the old one exactly as it is now existing so I can compare.

MR. CRADDICK: You have it right there.

MR. STARR: I'd like a copy of that to be distributed to committee members.

MR. CRADDICK: Everybody has it.

MR. TAGORDA: He just gave it to us.

MR. STARR: Okay, fine.

CHAIRMAN HIRANAGA: So looking at the proposed new rates, I personally prefer the word "fee" versus "rate." A fee indicates a one-time thing, and a rate infers a recurring charge or recurring usage. But we will talk about that later, I guess.

MR. CRADDICK: Kent, again, that was put in because if we charge by the gallon instead of by the fixture unit, it will have a fluctuating affect to it.

CHAIRMAN HIRANAGA: That hasn't been decided.

MR. CRADDICK: So that's why I say that's the most substantial thing in here.

MR. STARR: Mr. Chair, does everyone have the Mullins report? I haven't actually gotten into it yet, but we do have it here. We had this guy Mullins look at our fee schedule. And I remember when he came back and I think he reported, it was a Committee of the Whole he reported to, right? He talked about the two ways of setting fees, and one

is, if I remember right, was the buy-in method, where you take all of the plant and divide it by, you know, find its present value and divide it by the number of users and then say if anyone knew it would cause that much money to create usage. And I believe that the fee structure we have is based on those numbers.

Now, I think that there was a good increase in fees. There is another way of doing it though, and I believe that the other way of doing it would create much larger numbers, and that is to look at what real costs are going to be to develop water and transmission and storage in the future. And with the uncertainties and with the fact that all the cheap and easy water has been developed, and now the stuff we are going to develop is going to be either from deeper wells at higher elevation or for one reason or another because of EPA compliance, it's all going to cost a lot more than it did in the past.

And I believe that talking with him at that time gave us a number in the \$9,000 range, just kind of roughly doing some analysis. I would like to have some data based on doing it that way, which I don't think we can ask for those larger numbers, but I think that by having the analysis done that way showing the larger numbers it will make what we're looking for, if we are looking for these numbers here, look a lot more conservative, which I feel they are. I just gave you a copy of the Honolulu rates, and what we're asking for here is right at what the Honolulu rates are right now.

MR. HASHIMOTO: The new schedule?

MR. STARR: Yes. You know, I apologize for not making copies for everyone, but to me this looks, you know, at least the five-eighths inch looks right. I don't know how we projected -- how did you project these other numbers, David?

MR. CRADDICK: They're all based on the area ratio of five-eighths to all the others. Like if you put down the area of each one of these and you put the percent increase on the area of the meter, that same percent increase is times the five-eighths inch meter. That's the way the sizing of the meters works. But could I add something in here?

CHAIRMAN HIRANAGA: Yes, Mr. Craddick.

MR. CRADDICK: The fee that came up to around \$8,000 or \$9,000 from Allen Mullins was if we broke it out by water system, that's what Upcountry would have to pay. And I think at the time I don't think anybody was ready. They pay the same rates as anybody else. And I don't know whether the Board actually said, don't do that, and separate Upcountry out from everybody else, because the fee will be much lower. It will go up for Upcountry; it comes down for everybody else. So I don't know whether you want to get into that. If you do, he did go through the numbers once already.

CHAIRMAN HIRANAGA: Mr. Starr's request is to provide some type of comparison between the equity method and the incremental method. My question is, would the staff be able to prepare those types of numbers for comparison purposes within the next 30 days?

MR. CRADDICK: I would have to say no. The reason why is you have to theorize what it is that you are going to be building. And without that list of projects, I mean I can pick some numbers out of the sky and come up with it in 30 days, but it wouldn't be worth the paper it was written on.

CHAIRMAN HIRANAGA: You have to know what your future demand would be to determine the capacity that you need, which would then determine the volume of scale required for the improvements.

MR. CRADDICK: That's exactly right, and you are guessing at that. We know that the system, system-wide we are increasing about half a million gallons a day. We know in order to supply half a million gallons a day we know this fee will go from about -- we currently bring in about what, a million and a half a year, don't we, Mike? With this increase we expect to bring in about two-and-a-half million a year, and we know that will cover what the system is currently increasing at.

If you are going to try and do more than that, make more water available than what's being demanded, it is going to cost you more money. I don't know as anybody is going to rush

in and use it, although they might. Those kinds of things are theory. And Howard was bringing up earlier that there's a provision where you have to pay that back if you don't use it.

With the buy-in method you have already built the system. They're reimbursing you for what you have already built, so there's not a chance of having to pay anything back.

CHAIRMAN HIRANAGA: Mr. Starr, do you think as part of our education program you could just explain the differences in methodologies and the unknowns with regard to the incremental cost method?

MR. STARR: We did a thumbnail incremental, and I know at that time we were talking about the East Maui Water Development Project and some of the large costs, like crossing Maliko Gulch, and the pipeline and drilling the wells out there. I think that was how we came up with some big numbers. I know it was done off the cuff, and I remember there was a conversation also with the Mayor to that effect.

But I'd like to see if there's something we could develop that would just give us some more ammunition, saying it will probably in reality be even more expensive, and we take a conservative approach. I'd hate to go in with these numbers and have it look like, "Well, they're asking for this, we will give them half of the increase." You know the Council has a way of doing that sort of thing.

And I would like to see us try to develop more ammunition to show that we're coming in with something that's realistic and, if anything, conservative, which is what my belief is that we're doing. We are not asking for a pie in the sky, we are asking for something. What it really costs now, it will cost more tomorrow.

CHAIRMAN HIRANAGA: Yes, Mr. Craddick?

MR. CRADDICK: There was another kind of study done under the 1992 Water Use and Development Plan. The number of projects were listed, and an actual fee amount was figured out. Now, I forget whether that did it by system or by each, like one for Molokai, one for Lanai, and one for the rest of Maui, or if it was by separate water systems, I forget.

But I can tell you that the most conservative

approach always is basing the fee on what you have already built. There is no discussion about what it costs; you know what it costs. You might be able to make a little bit of an argument of how the Engineering News Record Construction Price Index changes, but that's a nationally publicized price index, it's available to anybody on the internet. It's not secretly arrived at, which the 1993 one used something called a Symplex Construction Price Increase, which is not available to everybody. And we specifically told them no, we want one that is available to anybody, anybody can find it out any time they want. There is nothing secretive about what went into the price index. And that's the only change we made here, was using that Engineering News Record Construction Price Index, rather than the one they used previously.

CHAIRMAN HIRANAGA: Mr. Craddick, I don't think anybody is challenging at this time the validity of the equity buy-in method. The question is do we want to spend time gathering data, other than the incremental cost method assumption, in order to use it as a way of confirming that the equity buy-in method is a better method. I think we're challenging the methodology of the equity buy-in method.

The question that Jonathan is proposing is, can we provide comparisons. For me, I don't want the department spending unnecessary time if it's not going to produce usable information. If it is going to provide usable data, then we might explore that.

MR. CRADDICK: I think what it is more is the department is doing it themselves and somebody will say, "Well, you just jury-rigged the numbers to make it show more." You know, whether that's true or not true, I don't even like to get into that argument.

CHAIRMAN HIRANAGA: Any thoughts from the other committee members?

MR. TAGORDA: Mr. Chairman?

CHAIRMAN HIRANAGA: Yes, Mr. Tagorda.

MR. TAGORDA: Can I follow up on something that I

pick up on this new rate that you just mentioned, Mr. Craddick. This rate here is applicable to the Upcountry district, Upcountry people only, these new rates, something like that?

MR. CRADDICK: No.

MR. FUKUSHIMA: It's countywide.

MR. TAGORDA: It's countywide, okay. But under the study that we have in front of us, these numbers here, they pick up, they added the treatment plant costs.

MR. CRADDICK: That's right.

MR. TAGORDA: And Kahului and areas where we use the Iao aquifer we don't have anything. So you minus that one. What will be the proper rate for people that lives here without utilizing the treatment plant?

MR. CRADDICK: Orlando, if the committee wants to suggest a different methodology, then do it. But I told you that this method was based on the same way, what's called the system buy-in method. And we have not done it system by system, we have done it for our entire system specifically to get away from arguments like that. Because the minute you start basing a fee on a separate system you have to put it in a separate fund for that system.

MR. TAGORDA: But that's how the study tells us, Mr. Craddick, this Schedule A on that Allen M. Mullins study.

MR. CRADDICK: What's the date on the front?

MR. TAGORDA: What date is this?

MR. CRADDICK: Is it a January 10th draft report?

MR. TAGORDA: January 10th. Schedule A, page 1 of 1.

MR. FUKUSHIMA: Page 22 on the bottom.

MR. STARR: What page number?

MR. CRADDICK: Right here, Jonathan.

MR. HASHIMOTO: Schedule what?

MR. TAGORDA: Schedule A. You see, if you look at your meter sizes, and then on a different column you get source, transmission, storage, then you come up with a total development charge, which is in your new rate structure.

MR. CRADDICK: Again, that's assuming that you spread it over everybody. If you keep it just in a certain system, that number goes astronomical for Upcountry. So we just asked them to break it out as separate from source, but that's as far as it went. This is just to look at a different method of coming up with the fee, it is not, you know, if the Board wants to break it out as that, right away you are going to raise the question, "Hey, my water is being treated, why is the --" .

MR. TAGORDA: Instead of your --.

MR. CRADDICK: Orlando, you are getting into a whole definition. You have to add into a whole definition of what treatment is, you have to justify why you are charging it to some and not to others. If you want to get into that, fine, it's your choice.

MR. QUINN: Orlando, I understand your point, but keep in mind also on the other side of the coin our general rates don't do that either. So if it's the Board's wish to go that way, you are going to open up a whole lot of issues, and we are going to start charging Upcountry people more for water usage also. If you start breaking things out by district, that's a big decision that the Board would be making.

Cost of service basically is what you are talking about. And the purpose for this, to take the whole system and use those numbers, was so that we were consistent with the prior study and also consistent with the way we apply expenses

on our general rates. As you know, it's islandwide, it's not system by system.

MR. TAGORDA: I really have a problem with this, Mr. Chairman, because with this kind of increase, what, 57 percent or something like that, this is going to be passed on to consumers and property owners.

MR. CRADDICK: No, Orlando, that's wrong.

MR. QUINN: Orlando, only the new persons pay. Keep in mind our assets since March than doubled. These figures represent 1990 financials, and our meter services have only gone up a little over 19 percent. So obviously the current customers that we have have a much higher equity, larger equity in the system than they did back in 1990. And I guess the idea is now it's time to revisit this and look at those numbers and charge the new people that are coming on board accordingly so that they pay their fair share. That's the reason for the big increase.

CHAIRMAN HIRANAGA: One second, Mr. Starr. Did you say 1990 or 1999 figures?

MR. QUINN: The 1993 study when these -- I mean when this current rule went into effect in 1993.

CHAIRMAN HIRANAGA: This current study is based on the 1999 figures?

MR. CRADDICK: 1999 assets, not fees.

CHAIRMAN HIRANAGA: Right.

MR. QUINN: The current structure that we have now.

CHAIRMAN HIRANAGA: The current structure is based on the 1999 assets.

MR. QUINN: The assets have grown over the ten years, have more than doubled, that's the reason why this rate

is increasing over the current rate, which was developed back in 1992, 1993.

CHAIRMAN HIRANAGA: Yes, Mr. Starr?

MR. STARR: Okay, this is something I feel very strongly about for several reasons. I think we should not start to break this up on a district by district cost of service basis, because I think that it will just end up in a huge battle over how to do that, and I don't think we will be able to get increases. I just think that it will create a lot of disharmony in the community if we start to talk about what water costs in different places. Should it cost more in Kihei than it does in Kahului because it has to run farther through a set of pipes? Should it cost more in Hana or should it cost a huge amount of money in Keanae because it's a very small system?

So, you know, I just feel that that's one of the things that we have kind of -- that's kind of inherent in our type of governance, is that we try to average things out and have the impacts, spread the impacts over the larger community and not, you know, try to figure, otherwise we will be looking at every single house and trying to figure out how much it costs to supply water to that particular house. You know, it's not so simple if you start to take out the Upcountry system and you have to deal with lanes of transmission lines for the other systems.

My feeling is, out of fairness, we should keep it at one rate, though when we get to the other issue that will be before our Board, which is the actual rate fees, we may decide to make some adjustments for pumping costs and so on. But as far as development, I feel that's probably the first thing we should settle, is if indeed we are going to keep it at one number for everyone. And my belief is that out of fairness, and also out of just being able to avoid creating a war between all the different communities, and allowing those people who would detract from us to have a way to attack us very easily, we should keep it simple and just have one set of fees.

MR. TAGORDA: I agree with him totally Mr. Chairman, but how can we be out of fairness to people that doesn't utilize a treatment plant? How are you going to give them some

kind of -- how are you going to explain this to them? Are you going to go, you know, what kind of number are you talking about?

MR. STARR: I think it all evens out, Orlando. They don't have treatment plants, but you don't have the expense of drilling a well, you don't have -- and wells are going to get expensive. Maybe, you know, we were lucky with Iao aquifer, having a good source close to where we needed it. But now that's over, now the wells are going to be far, far away from the people. So that's going to be expensive. You can see in this chart here that the transmission is by far the largest cost, you know, even a lot more than the treatment or the source numbers. The transmission is the biggest numbers. So probably the biggest problem would be those people that live the farthest part of the pipeline.

MR. HASHIMOTO: Mr. Chair, I agree with Mr. Starr, I think we should keep it at one development or one system fee, you know, because people down here don't have to go through restrictions and the people Upcountry say, "How come we are on restriction and they're not?" You know, there's two stories on every side. To keep it simple, I think we should keep it under one.

MR. TAGORDA: Let's not hide something from the people that lives here, just trying to say that okay, these expenses here are going to be in your storage or your source expense, and then not saying to the people in Kahului and Kihei. They will ask you questions, "What is this \$5,450? How did you come up with it?" They will question you about it.

MR. STARR: The answer is that we average it out. We are going to put a pipeline to Honokahao, and we are going to service 17 people there. It's going to cost us hundreds of thousands of dollars. Can we go and charge each of them \$50,000 for a five-eighths service? We can't, you know, it don't work that way.

CHAIRMAN HIRANAGA: I recognize Mr. Tagorda's concerns. Personally, I feel the impact. The fee amount is, to me, insignificant, if you want to have it separately

identified. I believe we should stick to a single rate per meter size.

MR. NOBRIGA: Say that again.

CHAIRMAN HIRANAGA: I believe we should continue with a single fee per meter size.

MR. CRADDICK: Countywide.

CHAIRMAN HIRANAGA: A single fee per meter size.

MR. NOBRIGA: Thanks, huh. The way it stay now, okay, thanks. Going back to methodology, my interpretation of the fees, development fees is to service the department and the community in the year 2007. So no matter which way, you can do the buy-in method or incremental cost method, it is our responsibility to make sure we have enough of everything for 2007, not what we needed in 1999.

CHAIRMAN HIRANAGA: Okay, possibly the department can update the numbers used for the analysis to more recent figures.

MR. NOBRIGA: What would help me decide is to have a summary impact from the other departments in the County that are affecting where we need to service with water.

CHAIRMAN HIRANAGA: Projects in progress?

MR. NOBRIGA: What the Planning Department has on the table. You know, you have the buildup of Maui Lani, Wailea 670, the rest of the development in Makena. What happens when we finalize what currently is on the books for Upcountry, and what's going to happen in five years Upcountry? Do we have a release of meters Upcountry in five years? If we are not going to release meters Upcountry in five years, then I cannot see asking for these kinds of rates if we are not going to release no meters Upcountry.

CHAIRMAN HIRANAGA: Aren't you starting to stray to

the incremental cost method if you are asking for projections from various departments on what their potential demand will be in the next five to ten years?

MR. NOBRIGA: No, because we still, no matter what happens, no matter what happens, we are going to be needing to provide this service, so we still are in a buy-in method for the rates that are generated.

CHAIRMAN HIRANAGA: Well, like the 670 Wailea subdivision has been off and on, off and on, so you never know when they're going to pull the plug on it. You are projecting for this demand, but then they put the project on hold.

MR. CRADDICK: Can I say something here?

CHAIRMAN HIRANAGA: Yes, Mr. Craddick.

MR. CRADDICK: This fee, again, you know, based on a system that is already there, I know I'm fairly confident we can give out a half million gallons a year. If suddenly the demand jumps up to a million gallons a year we are going to be collecting almost double this fee with no change, just using this schedule. Because a lot more meters are going to be issued and a lot more money is going to be coming in.

So we actually projected back in 1993. If consumption had continued to increase or the meters had increased according to the way it did in the latter eighties, we would be collecting four million dollars a year on the fee. And of course we haven't, we have only been collecting about a million and a half, because the number of meters that we are giving out is about I think 500 or 600 a year, that's all. So if that were to suddenly jump way up, we will be collecting a lot more money.

MR. STARR: Mr. Chair it's good to have an optimist in the room. I am more of a pessimist, and I don't see where the water is going to come from if we start to add a million, you know, gallons a day or a million and a half gallons a day per year. We have one more well to go out on that side, then we have a lawsuit and all of that that makes the East Maui system not happening. I mean we may be towing in icebergs from

Alaska or something if we get to that point, or not issuing meters at all. So I hate to use that argument, that it's that easy.

I personally feel that the next, you know, 10 million gallons or 20 million gallons a day of water that we are going to develop is going to be a lot more expensive. I know that the Honolulu board is just in the process of ordering a desalinization plant, even though they know the cost is going to be phenomenal. They say that over the next 10 or 15 years the cost of developing new sources for them is going to go so sky high that paying \$8 or \$10 a thousand gallons is going to be cheap in comparison.

So anyway, I do believe that the numbers that we have here are realistic numbers that we should try to get. We should go into it armed with as much data as we can. I am not as much of an optimist as the Director. I think if we go into it as we have, as this Board has sometimes in the past, and not had enough ammunition, we will not fair as well as we could. So I agree with Mike that we should try to gather as much data of what we are going to have to do in the next five years as possible.

I think that we can -- I'd like to update Mullins by a couple of years also because, you know, right now what we have here, the \$5,450, that's a 1999 number and we are already a couple of years past it. And really, as Mike says, we should be developing 2007 water, because that's probably halfway between now and the next increase. So maybe, you know, if we can add a couple more years on to this we will have a slightly higher number. And even if we don't get that, it will help us. I want to make sure we get the 5500 bucks and we don't end up coming up short for that.

MR. CRADDICK: You are going to get what you asked for or nothing.

MR. STARR: That's not been the case.

MR. CRADDICK: The Council and the Mayor have no way to adjust it.

CHAIRMAN HIRANAGA: Mike, can you update the assumptions to whatever data you feel the numbers are dependent

on? So June 30, 2000, December 31, 2000, or June 30, 2001.

MR. QUINN: The last audited statement was as of June 30, 2000. So shortly we will have 2001.

CHAIRMAN HIRANAGA: What is "shortly"?

MR. QUINN: The actual audited statement, we are talking a couple of months away. So we can have preliminary numbers, we have the numbers. But there is no disputing the fact that our assets have doubled. People are coming in to the system based upon 1990 numbers.

MR. CRADDICK: Mike, you are trying to say get it up higher. We can do that.

MR. QUINN: So as far as the 5500, I think that's a valid number. The Big Island's number projected for 2003 is about the same, 5500. So yes, the answer is we can update them.

CHAIRMAN HIRANAGA: Can you use unaudited numbers up to June 30, 2001?

MR. QUINN: Right.

CHAIRMAN HIRANAGA: When would you have that for us?

MR. CRADDICK: Board meeting time.

CHAIRMAN HIRANAGA: The August Board meeting, for discussion purposes?

MR. QUINN: Committee meeting?

CHAIRMAN HIRANAGA: General meeting.

MR. QUINN: They would be estimates, they won't be exact.

CHAIRMAN HIRANAGA: It would give us an indication.

MR. QUINN: All right. I didn't have a chance to review the old rule, but this construction cost index increase, is that currently in the old rule or is that something new in this new rule?

MR. CRADDICK: That's added. All of that is added in using the following methodology, that whole paragraph was added in. It was just a schedule that was stuck in there before.

MR. STARR: What are we talking about?

MR. CRADDICK: We are talking about that added paragraph.

CHAIRMAN HIRANAGA: 8-3 up above there. It's an annual adjustment for inflation, basically, an inflation adjustment.

MR. STARR: This language in this paragraph, is that legal the way it's written?

MR. FUKUSHIMA: Under the present rule?

MR. STARR: No, under the proposed.

MR. FUKUSHIMA: What's the language?

MR. STARR: The cost of living under 16A-3.

MR. FUKUSHIMA: It's a source of a way of measuring the increase.

MR. STARR: My feeling is that this should be worded differently. That it should be simply, "The below rates shall be adjusted annually for cost of living increase or decrease based on," you know. The wording should be like that, instead of talking about the installation, land costs, and outstanding debt and all of that. I think it should just be a very simple cost of living paragraph. What's here confuses me.

MR. CRADDICK: That's how the fee was determined, that paragraph.

MR. STARR: We don't have to talk about that, let's talk about just a straight cost of living increase. I think this will be subject to challenge.

MR. FUKUSHIMA: This is just a methodology of how the figure was arrived at.

MR. CRADDICK: The Mayor asked for it, he said he wanted to see the fee be self-adjusting and not come to the Mayor and Council every couple of years.

CHAIRMAN HIRANAGA: Jonathan doesn't have a problem with it, he just says there's too much verbiage in there that the fee will be annually based upon.

MR. CRADDICK: Is that what you want? If that's all you want, then put that in there, but that's not how the fee was determined. What's in here is how the fee was determined, that's how it was determined.

MR. STARR: Dave, I understand that. But we're talking about a cost of living adjustment, and all it should be talking about is the cost of living adjustment, because the fee, we are setting a fee and then we are going to adjust it by the cost of living rate based on the construction cost index, and that's all it should state in there.

CHAIRMAN HIRANAGA: So you're saying basically delete the first sentence?

MR. CRADDICK: Well, we can propose some language for that. And again, I will just say that the Mayor asked for that language to be put in there.

CHAIRMAN HIRANAGA: I guess I'm primarily concerned about the language. Does anyone wish to comment about this annual adjustment, because it does impact the fee? So it wouldn't be a static fee until the next review, the fee will be

increased possibly. That's another point, it will be adjusted only. Usually it's only adjusted upward, it's never adjusted downward. It would never go below the 5450. Typically it does not adjust down, it would just be left unchanged.

MR. STARR: My feeling is we should have it, it's a good thing, but it should be just straight cost of living. We shouldn't -- if we are going to -- the alternative would be every year to go and take our assets and then divide it out. But I would rather just have a cost of living adjustment, it's a lot simpler to manage.

CHAIRMAN HIRANAGA: Any other comments regarding the annual adjustment?

MR. NOBRIGA: I don't have any comment about the annual adjustment, but I would like some provision for all the applicants on the Director's list so that they still come in to the system at the current rate.

MR. HASHIMOTO: Grandfathered.

MR. NOBRIGA: Because it's not fair to them that the rate is going up and they're still waiting for their meters, although they applied some 10, 15 years ago and died waiting.

MR. STARR: If we did that though, it means that everyone who will -- we will have a rush to submit applications. I'm not just talking about Upcountry, I am talking about all of a sudden you will get a thousand meter applications from Wailea.

MR. NOBRIGA: Upcountry is the only place where we have one list in one file cabinet someplace.

MR. STARR: There's a way of doing that and not causing a rush on meter applications. I would be willing to do that.

MR. CRADDICK: There would be a rush in any case for the central area.

MR. FUKUSHIMA: Could you make it retroactive as long as it's expressed in the rule?

MR. STARR: But do it retroactive to, you know, January 1 of this year or something, or last year, ten years ago, whatever.

CHAIRMAN HIRANAGA: I didn't quite understand you.

MR. STARR: Mike wants to make sure that those 800 applicants Upcountry I guess are grandfathered in at the old rate.

MR. NOBRIGA: The current rate, not the old rate.

MR. STARR: The current rate. But I don't want to just make it anyone who has got an application for a meter in. So we are talking about making it retroactive possibly to January 1, 1991, or some other point in time.

MR. NOBRIGA: No, I just --

MR. STARR: Give me a time frame.

MR. NOBRIGA: I'm just saying whoever is currently on the list are entitled to the current meter development fee.

MR. STARR: You say "currently." What date?

MR. NOBRIGA: January 1, 2001.

MR. STARR: Okay, that's what I meant.

MR. HASHIMOTO: That also should include the Hawaiian Homes.

MR. NOBRIGA: Hawaiian Homes is in there.

MR. HASHIMOTO: Are they on the list?

MR. NOBRIGA: They're on the list.

MR. HASHIMOTO: They are.

MR. CRADDICK: I don't know if they're still on the list, but they do have their meters and they have paid their source and storage portion.

MR. NOBRIGA: Get one list get the names on top, that's how I know.

MR. CRADDICK: There will be a rush to try and reserve meters, and I think the meter fees should be effective as of the date they put the meter in, not if they reserve it today and they don't put in the meter for two years, and in four months we approve the meter fee and they get the current rate a year and a half after the fee is passed. I think at the very least we can make it that should a meter be reserved, that they pay the fee at the time the meter is actually put in.

CHAIRMAN HIRANAGA: I want to limit the discussion to the fee amounts without really going into rule language, because it seems like we're straying into rule language now.

MR. CRADDICK: That's what was going on.

CHAIRMAN HIRANAGA: If you could just focus on the fee schedule as it pertains to amounts. As far as the annual adjustment, no one has an objection to that?

MR. TAGORDA: You're saying that even after, that's the one? Cross index?

CHAIRMAN HIRANAGA: The annual fee adjustment.

MR. NOBRIGA: That's good.

CHAIRMAN HIRANAGA: One other thing I wanted to bring up was on this annual adjustment should we put some type of language that says that it still should be reviewed every

ten years? Because the adjustment is only to reduce the change in fee, it will not necessarily mean that the fee is fulfilling its purpose. It still needs to be reviewed maybe once every ten years.

MR. STARR: Well, I thought about that too. You know, either you can make it sunset, which is probably not a good idea. It might be to just put wording in to recommend that this be reviewed after ten years, and let whoever is the Board handle it. The other thing is that my feeling is that we shouldn't use ENR, but we should use CPI, because I think there's more confidence in the Consumer Price Index than in the Engineering News Record. It's a more widely known index.

MR. CRADDICK: But it's not based on construction costs. It's not based on anything related to the cost of the projects.

MR. STARR: That's okay.

CHAIRMAN HIRANAGA: Well, we can bring that up for discussion.

MR. FUKUSHIMA: Why don't you do something for comparison, Dave.

MR. CRADDICK: I don't know that there's any record that we can go to that keeps the Consumer Price Index. This list goes back to 1913.

CHAIRMAN HIRANAGA: CPI, I'm sure you can go back and find the last ten years.

MR. CRADDICK: Yes.

CHAIRMAN HIRANAGA: So not being too familiar with the procedure here, I guess what I have noted down here in the recommendation of the committee to be voted upon is that we are going to have a single rate per meter size, we are going to recommend the use of the equity buy-in method in the proposed rates per meter size, and then we include the CPI or some type of annual adjustment with a recommended 10 year review period.

And also emphasize educating the public during our hearings process in order to encourage adoption.

MR. STARR: I would be willing to make a motion to recommend that out to the Board.

CHAIRMAN HIRANAGA: Is there a second?

MR. HASHIMOTO: Second.

CHAIRMAN HIRANAGA: Okay, any discussion?

MR. STARR: Just that are we going to -- as far as all the wording and all of that, we will leave that for either another committee or for it to get kicked back to work out the fine tuning of the wording, is that right?

CHAIRMAN HIRANAGA: Yes, I wanted to take that up at another committee meeting. Also, Mr. Quinn is going to provide us an updated fee schedule so if we feel that we want to review that further we can always defer this matter back to committee after the August general meeting before we send it out to a vote.

MR. STARR: I'd still like to see if we can get some type of rough thumbnail of an incremental approach. It's not going to be really defensible, but I think it might be useful if we get into an argument in the Council, to be able to show another set of numbers. But that's not part of my motion.

MR. CRADDICK: We can do that, that's not a problem. We can get whatever we can get together.

CHAIRMAN HIRANAGA: I'd like to ask the staff to be prepared to discuss that in further detail in the general meeting.

MR. CRADDICK: Can I throw in one thing on that 10 year requirement?

CHAIRMAN HIRANAGA: Recommendation for 10 year review.

MR. CRADDICK: I don't know why you would want to limit yourself to that, because if let's say all of a sudden demand did start increasing real fast and you had to issue debt in order to do the East Maui plan. Because Jonathan is right, the East Maui plan is going to cost lots of money. This will not cover all of it.

CHAIRMAN HIRANAGA: It's a recommendation.

MR. CRADDICK: Why limit yourself to having a review in 10 years? I think you are going to do the review when you have do it.

MR. STARR: How about ten years or sooner if deemed necessary by the Board. You know, I do want to comment though a little bit on what David was saying because, you know, I think we did work it up and it seemed like we were coming up to \$10,000 is what the real cost of a five-eighths meter was. My own belief is what happens though is that there is the differential between, you know, \$5,000 and \$10,000. A lot of that is coming from state and federal money and developers and other sources.

So even though it probably is going to cost us \$9,000 to \$10,000, if we can get five-and-a-half, somewhere between five-and-a-half or \$6,000 from the meter user, the rest of it we can get from other sources and we can stay afloat. So that's why I feel like we can survive in that kind of number range.

CHAIRMAN HIRANAGA: Any further discussion? If not, I'll call for the vote. All in favor of the motion please indicate by saying "Aye."
(A chorus of ayes).

MR. TAGORDA: With reservation.

CHAIRMAN HIRANAGA: Thank you, the motion is passed. If there's no further business, this meeting is adjourned.

(The proceedings were concluded at 2:30 p.m.)

IWADO COURT REPORTERS, INC.

"By Water All Things Find Life"

Department of Water Supply
County of Maui
P.O. Box 1109
Wailuku, HI 96793-6109
Telephone (808) 270-7816
Fax (808) 270-7833

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