

County of Maui Water
Supply

BOARD OF WATER SUPPLY
COUNTY OF MAUI
REGULAR BOARD MEETING
THURSDAY, JANUARY 29, 2004

Held at the Kahului Shopping Center Conference Room, 65 West
Kaahumanu Avenue, Unit 29, Kahului, Maui, Hawaii, commencing
at 9:03 a.m. on January 29, 2004.

REPORTED BY: Katherine Eismann, RDR, CRR, CSR #439

APPEARANCES

Chairperson:

KENT HIRANAGA

Vice Chairperson:

MICHAEL VICTORINO

Board Members:

CLARK S. HASHIMOTO

KENNETH M. OKAMURA

GINNY PARSONS

DOROTHY R. PYLE

Deputy Corporation Counsel:

DUDLEY G. AKAMA

Director:

GEORGE TENGAN

Deputy Director:

JEFFREY T. PEARSON

Board Secretary:

CATHY HOWARD

Staff:

HOLLY PERDIDO

HERB CHANG

PAUL SEITZ

ROBERT VIDA

WENDY TAOMOTO

JACKY TAKAKURA

From R.W. Beck:

RICHARD CUTHBERT

ANN HAJNOSA

(Thursday, January 29, 2004, 9:03 a.m.)

CHAIRMAN HIRANAGA: Call the meeting to order.

In attendance, Kent Okamura, Clark Hashimoto, Mike

Victorino and myself Kent Hiranaga.

Are there any announcements?

Motion to approve the December 23rd, 2003,

minutes.

BOARDMEMBER VICTORINO: So move.

BOARDMEMBER HASHIMOTO: Second.

CHAIRMAN HIRANAGA: Any comments or corrections?

No? All in favor say aye.

(Chorus of ayes.)

CHAIRMAN HIRANAGA: Thank you.

(Ms. Parsons is now present.)

CHAIRMAN HIRANAGA: Is there anyone here that

wishes to provide testimony on the agenda items for the

public? You can provide, yes.

DIRECTOR TENGAN: I would just like to introduce

Mr. Dudley Akama, who is representing the Corp Counsel's

Office today. Mr. Kushi is unavailable today.

CHAIRMAN HIRANAGA: Thank you. You can provide

testimony now or when the agenda item is taken up. So, is

there anyone here wishes to provide testimony?

Seeing none, moving on to communications. A

letter from Duane Wells regarding water conservation methods.

Mr. Wells here?

Okay. Second item, communication letter from

Jimmy Muschietti. Is there anyone here that wishes to provide

testimony regarding this letter?

MR. MUSCHIETTI: I am Jimmy Muschietti.

CHAIRMAN HIRANAGA: Please come forward.

MR. MUSCHIETTI: Sit?

CHAIRMAN HIRANAGA: Yes, state your name.

MR. MUSCHIETTI: My name is Jimmy Muschietti,

M-U-S-C-H-I-E-T-T-I.

CHAIRMAN HIRANAGA: There is a mike here? Use
that mike.

MR. MUSCHIETTI: Jimmy Muschietti. I'm -- should
I just go?

CHAIRMAN HIRANAGA: Yes.

MR. MUSCHIETTI: Okay. As you have in the packet,
correspondence between myself and the Department of Water

Supply. This is regarding upgrade meter. I made an error on the letter where I said five-eighths to three-quarters. It should have been reversed. Three-quarter existing meter. We are trying to get a five-eighths-inch meter.

And the problem I am having here is we were turned down for the meter. And what I'm concerned about, when I bring it to you, is that the lack of cooperation and any support and help from the Water Department.

And there's a history behind this, which I didn't really want to bring up, except it kind of painted me in a corner. But during the most recent thing, when we received

the application, I was in contact with the Department, asking them for some assistance in filling out the form.

And I made several calls to Herb Chang's office and did not receive any calls back. And this is not the first time this happened. Approximately 10 years ago, up in Lower Kimo Drive, up on the Kekaulike Highway, the small wooden tank that they called it the Field's tank -- Harry Field's tank was leaking really badly.

And the Department was called, on numerous occasions, to tell them. This was during one of the early

droughts also. And no calls were returned until I had Henry Kaona, from Kaona Masonry out there, and he was working the backhoe. The backhoe slipped in the mud that was coming on to our property from this leak, flipped over and crushed his foot.

So, at that time, I called the Department, and I told them that neighbors were taking photographs, and there was a liability. And then all of a sudden, they came out, and they put a liner in there.

The second thing I can recall is during the Smith Development, for the -- where they took over the Hagai -- I

think I am saying that correctly -- project on Lower Kimo.

And they had to put in this big water tank, 100 --

150,000-gallon tank. And they surveyed it right next to my

employer's house, so it would be right in his view.

So, I went to Smith Development and started

talking to them. Couldn't it be moved, et cetera. So, I

again went to the Water Department, again to Mr. Chang, and

asked for some assistance, just finding out are you going to

work with us; can it be moved. Maybe made five different

phone calls. None of them were returned.

Went to his office. Stood at the doorway while he

was in there on his computer. Politely waited. Did not look up at all. And out of frustration, I went down to Alan Murata's office, and I told Alan the problems I was having with Mr. Chang.

Alan brought me into Mr. Tengan's office. I spoke with him, and then Mr. Tengan assured me that the water tower was going to be moved up into the water yard, and we wouldn't have problem.

Now we move up to this expansion, and I need help. Same thing. I am not getting any response from Mr. Chang or anyone else when I go there. So, I ended up -- originally

turned it over to Wayne Arakaki, who is here, the engineer.

He had similar runaround problems where he would talk to

Mr. Chang, Mr. Chang would refer him to someone else, which

eventually would refer him back to Mr. Chang, and then nothing

was done.

Most recently, I have written the Department.

Number one, I made a complaint against Mr. Chang, and I have

not heard anything back. That's been probably two months now.

Any response on that complaint at all.

I have asked questions of Mr. Tengan regarding

what is their policy for returning phone calls to the public?

What is their policy for assisting the public? I also asked

him, when he said that it was his own discretion, even if

you -- if this Board said it approved it, that he did not have

to go on the Board's approval, because he had discretionary.

So, I asked him to refer me to those rules and regulations.

That was not responded to.

I asked finally to be put back on the upgrade

list, to receive an application for that. That was not

responded to. And then to be put on the list, that was not

responded to. So, it's sort of a pattern that's been going on

for quite a long time, and it's continued.

In this instance, it's hurting. I am just the caretaker up there. The owners live on the mainland. This is the estate that Princess Kapiolani Kawananakoa used to live in with Mr. Harry Fields, who was a senator here.

And the house has been on the market, and this is affecting that, because we can't really sell the house until this is all dealt with and closed. We cannot close out the building permits until this is taken care of. So, that's basically what I have to say.

CHAIRMAN HIRANAGA: All right. Any questions by

the Board for Mr. Muschietti?

BOARDMEMBER OKAMURA: So, this is just a
communication from Mr. Muschietti.

CHAIRMAN HIRANAGA: The mike.

BOARDMEMBER OKAMURA: Is this a request?

MR. MUSCHIETTI: Yes, I am asking to appeal that
decision. I've -- because he said he would not necessarily
follow your direction, I have also appealed it to the Variance
and Appeals Board to try to get this -- so we can get this
meter.

And, you know, it doesn't -- I have been trying to

point out to him, does it make any sense we would apply for this meter, receive it, and then just not want it? I mean, it doesn't even make any sense. I think it's obvious that we had problems in understanding, you know, how to fill out the form.

I didn't understand about how you -- how you add up to figure out how much you need for water protection, you know, fire protection, any of that. So, that's why I went to the Department as just a citizen, not aware of your policies and procedures, and asking for assistance.

CHAIRMAN HIRANAGA: Yes, Ginny.

BOARDMEMBER PARSONS: Do we know why this was rescinded? Apparently, it was approved and then rescinded.

MR. MUSCHIETTI: He said the 30 days had passed.

BOARDMEMBER PARSONS: What 30 days?

MR. MUSCHIETTI: They have 30 days -- once they tell you you can have the meter, you have 30 days to get everything together.

BOARDMEMBER PYLE: The papers.

MR. MUSCHIETTI: Yeah, and I feel that I had gone up there personally and asked for an extension. Left that on at least one of my messages. I didn't do it really formally,

formal letters and things like that, which, going back, I would have done.

But I feel like we have waited -- and also, I pointed out in one of the policies -- I finally found that you guys have a water -- a website. And it says in there that if you have an error that's excusable, even if it's, you know, a neglecting error, if there's an excuse, then that shouldn't hold you to that 30-day time frame.

And so, I was appealing on that basis, too, that maybe we made errors, on whoever's side. But, you know, why does it have to be so strict and tight, I mean --

CHAIRMAN HIRANAGA: Clark.

BOARDMEMBER HASHIMOTO: Can we have a response
from the Water Department?

CHAIRMAN HIRANAGA: We will get to that. Do you
have a question for --

BOARDMEMBER HASHIMOTO: No.

CHAIRMAN HIRANAGA: -- Mr. Muschietti? You don't.
You can remain out there. I just wanted to provide the
director an opportunity to give additional comments. I know
he's provided us with a staff report, but if he wishes to add
to that.

DIRECTOR TENGAN: Mr. Chair, we have a staff report prepared and submitted to you. Getting back to Mr. Muschietti's letter, the one thing that kind of disturbs me, the part where he says Mr. Tengan informed me that I could appeal his Department's ruling. At the same time, he states that he is not obligated to follow the Board of Water Supply rulings, because he has discretionary powers.

That sounds like an arrogant statement that I wouldn't make. And you know, maybe what I said, at the time, was taken differently. But I just want to say that it doesn't

sound like a statement that I would make. And if the Board has any particular questions, I will turn it over to staff.

CHAIRMAN HIRANAGA: Just looking at the time line here, the Department first provided notice on January 30th, 2003, is that correct? That he was eligible for a water meter?

DIRECTOR TENGAN: I believe the first letter went out January 30th, so he had -- technically, he had until the end of February or the beginning of March to respond to this, to this letter. And it seems that we waited until July to -- to inform him that, you know, that he hadn't respond --

responded in the appropriate time, and that his name would be taken off the list.

CHAIRMAN HIRANAGA: So, the process is that he must fill out this metering size worksheet? Can he also just apply for the meter to document his interest?

DIRECTOR TENGAN: As to the exact procedures, maybe I should turn it over to staff.

MR. CHANG: Depending on the situation, in this particular case, we -- the Department was not sure whether a meter upsize was required. So, this particular application, for this particular situation, a meter sizing worksheet was

submitted along with the certified letter.

And the purpose of this meter sizing worksheet is to determine if the new structures or buildings would require additional water service over and above the capacity of the existing meter.

So, once this work sheet was completed, the Department has an idea whether or not this property actually needs a water meter -- a new water meter. So, that's the first step. And let me get into a little bit -- a little detail.

July of 1999 we got a calculation from Wayne

Arakaki who, I assume, works for the property owner. And it was incomplete, but it showed the existing three-quarter-inch meter was adequate for the proposed project. But again, there was mistakes on the calculations, so we sent them back, but we didn't hear any comments back from Arakaki. So, it's still questionable whether this property does indeed need additional service.

CHAIRMAN HIRANAGA: So, he has a

three-quarter-inch meter, and he's asking for an additional five-eighths inch meter; is that correct?

MR. CHANG: Correct.

CHAIRMAN HIRANAGA: Looking at the letter of
January 30th, 2003, where does it say that he must respond to
this request within 30 days?

BOARDMEMBER PARSONS: I think as a Board, I think
we determined that they would have a 30-day period after the
notification.

CHAIRMAN HIRANAGA: No, but how would the --

BOARDMEMBER PYLE: How would the guy know about
it? It's not in the letter.

BOARDMEMBER PARSONS: Wasn't that in the first

letter that we sent out?

BOARDMEMBER VICTORINO: December 16th.

CHAIRMAN HIRANAGA: We are talking about January, 2000, the first letter saying he's eligible for a meter.

BOARDMEMBER HASHIMOTO: Page 19.

CHAIRMAN HIRANAGA: That's July 18th. The 30 days have already lapsed.

BOARDMEMBER PARSONS: I think it was a public -- it was a public notice, basically, and there were newspaper -- I seem to recall that they did carry it in the newspaper that we were giving a 30 day. So, maybe the Department assumed

that -- it should have been in the letter, but maybe the Department assumed that that was enough notice.

CHAIRMAN HIRANAGA: Yes, George.

DIRECTOR TENGAN: Mr. Chair, with regard to that requirement or the reference made to it is in the first big paragraph towards the bottom, where it makes reference to the water meter issuance rule affecting the Upcountry area.

CHAIRMAN HIRANAGA: I know, but --

DIRECTOR TENGAN: But it doesn't specifically state 30-day period.

BOARDMEMBER PARSONS: Yeah.

CHAIRMAN HIRANAGA: If --

BOARDMEMBER PARSONS: And we did give -- I am
sorry. I think we did give more extension of time in a lot of
cases, too, because I was following it pretty closely while
Herb was working on different files.

And we extended -- especially Upcountry, we
extended the time allotment beyond the 30 days. Didn't we,
George? In many cases?

DIRECTOR TENGAN: We may have with a couple of
them.

CHAIRMAN HIRANAGA: I think the Department should look at this letter that they are sending out if it's a standard form, and specifically inform the applicants that they do have 30 days to respond. Because I don't believe the general population is that familiar with the water meter issuance rule affecting the Upcountry area.

My concern is wouldn't you accept the water meter application first and determine if you are going to approve that application? I mean, to have verbal communications seems -- creates a situation that he finds himself in.

DIRECTOR TENGAN: Was that a question to me?

CHAIRMAN HIRANAGA: Yeah. I mean, it seems like the meters are so valuable to these people, they have been waiting for them for 10 years. I think you need to tighten your process up.

I mean, if someone is genuinely interested in obtaining a meter, they need to show their good faith effort by providing some type of a payment, a deposit. And that should be, I think, requested in the initial letter, saying you must respond to this letter within 30 days and provide your payment within so and so, so that we don't have a situation like this.

BOARDMEMBER PARSONS: Wait a minute. Can I say something about that? Because we did take payments from Upcountry, and we sent them back. So, if we are going to make that kind of policy, we need to make it very detailed that these payments are accepted. If the letter goes out, these payments are accepted, that they -- they have a right of reliance on -- on the process.

CHAIRMAN HIRANAGA: But you can receive the payments. That doesn't mean you are going to approve the application.

BOARDMEMBER PARSONS: Then we have to state that,

too.

BOARDMEMBER PYLE: Yeah.

CHAIRMAN HIRANAGA: I agree with you. Let's put

that in there, too.

BOARDMEMBER PARSONS: Okay.

CHAIRMAN HIRANAGA: I'm just saying the process

right now is very -- it's not very formalized.

MS. PARSONS: Right.

CHAIRMAN HIRANAGA: You know, you are having

verbal communications. There's no documentation.

DIRECTOR TENGAN: Herb, can you review the

procedures when people come in and say that yes, they want to accept the meter, and what procedures are following that with regard to putting up the deposit and filling out the reservation form?

MR. CHANG: We can review the procedure. I am not sure whether -- because page two is missing from this exhibit, which is a whole bunch of other descriptions. Do you have page two?

DIRECTOR TENGAN: Mr. Chair, I notice, if you look to the January 30th letter, the second sentence of the last

paragraph, there is specific reference to the water meter issuance rule and the water system development fee rule. And it refers to the addressee of the letter that these rules apply.

CHAIRMAN HIRANAGA: It appears we are missing page two of the letter dated January 30th, 2003.

BOARDMEMBER VICTORINO: Where is it?

DIRECTOR TENGAN: What happened to page two?

MS. HOWARD: I just copied what Herb gave me. I don't have any page two.

BOARDMEMBER VICTORINO: Let me ask you a question

then. Does that page contain the necessary information on 30 days? I mean, I guess that's something formal. I guess that's all we are asking, and that's all we need to see, if there was something formally written to this gentleman in that regard.

MR. CHANG: Normally, there is a 30 day, but again, it could have been omitted because of these -- we try to do the standard letter, but we modify, and that phrase may have been accidentally deleted. Because normally, there is a 30-day provision in there.

BOARDMEMBER VICTORINO: Herb, the question is, is

there something in writing?

MR. CHANG: I don't know.

BOARDMEMBER VICTORINO: Because if the letter is sent to -- like the two previous Board Members have mentioned. If a letter is sent to me, and I have no idea that there is a 30-day window to work on, then I probably not respond, like this gentleman, in a timely manner.

So, that's what I am asking. This page two, does the page two that we are missing, is there anything in reference to the 30 days?

Well, okay. That's what we need to find out

though. Do you have a copy of the second page?

MR. MUSCHIETTI: No, it's not on mine either, but

I wanted to add -- could I add one more thing?

CHAIRMAN HIRANAGA: Sure. Sure.

MR. MUSCHIETTI: A couple things. I think, at

some point, I was aware of the 30 days. I know that. They

told me. But I think I was in -- what I am saying, I was in

correspondence, maybe in a casual way, with the Department, to

let them know I needed help or was not able to fill this out.

Therefore, I needed time.

Second of all, in regards to what Mr. Tengan just said, in his letter December 16th, 2003, the last paragraph on the first page: To answer your inquiry, I am pursuing an appeal of the director's decision to denied the request, you may pursue your request to the Board of Water Supply. Please be aware the Board of Water Supply reviews and acts on issues in an advisory capacity to the Department of Water Supply. The director of the Department of Water Supply has the discretion to accept or reject the Board's recommendations.

BOARDMEMBER VICTORINO: That is a fact.

MR. MUSCHIETTI: Yeah, but that's what I am

saying. It's almost like saying don't bother, because I have already told you you can't have it, you know.

BOARDMEMBER VICTORINO: Yeah.

CHAIRMAN HIRANAGA: Let me interject, and I guess maybe this is a question for Corp Counsel.

The appeal process is still in place as far as the Board of -- the rules of the Board of Water Supply; is that correct?

DEPUTY CORPORATION COUNSEL: Yes, that's correct.

He is asking, I think, for an appeal to the Board of Water Supply, but the hearing ultimately will be held at the Board

of Variances and Appeals. So, if it has to -- but this Board can act in an advisory capacity in terms of this -- in terms of this denial.

CHAIRMAN HIRANAGA: Isn't that one of the problems is that the rules have not been revised? And I believe that the appeal is made to the Board of Water Supply. It's not made to the Board of Variance and Appeals. And you haven't instituted that formal process.

MR. MUSCHIETTI: Yes, I have.

CHAIRMAN HIRANAGA: Not to the Board of Water

Supply. You have --

MR. MUSCHIETTI: I am sorry. Oh, well, I asked for this appeal. I thought that is what I was doing now.

CHAIRMAN HIRANAGA: This is not an appeal. This is a communication. There is another process.

MR. MUSCHIETTI: When I wrote the director, which his response I just read, I was saying who do I appeal this to? I would like to appeal this decision.

CHAIRMAN HIRANAGA: There is an appeal process.

MR. MUSCHIETTI: Well, then I would say what happened is with the last complaint, I was saying I have asked

for a lot of things and got no response. You can add that to it. I was not advised.

And I was advised by someone else to go to the Board of Variance and Appeals, because they said they would have the power over the director, if he could then say -- say your Board said, yeah, give him the meter, and he said, naw, I don't want to, then that Board would be the one to have the final say. That's what I was told.

And I don't know. I am not -- you know, I am not into the county government.

CHAIRMAN HIRANAGA: If this meter is very

important to you, you may want to speak to legal counsel,
because you may be the first person, since the Charter change,
to try and see what would happen with an appeal -- filing an
appeal with the Board of Water Supply based on -- over the
director's decision. Because I think that's -- yes, Ginny.

BOARDMEMBER PARSONS: Is there a reason why he
can't have his upgrade? I mean, do we have a specific reason
why he cannot have it, other than this time issue?

I mean, is there a physical reason why he cannot
have it? Are we not -- do we not have enough water supply?
Do we need to get Pookela well on line first?

DIRECTOR TENGAN: The only reason because he
hasn't followed or completed the process.

BOARDMEMBER PARSONS: I am sorry?

DIRECTOR TENGAN: He hasn't followed or completed
the process of following the time lines.

BOARDMEMBER PARSONS: And that's our only reason
that we are denying this water meter?

DIRECTOR TENGAN: Well, we got to go out. You
know, if people don't respond, you know, you have been one of
the very ones to push us on these items here. And you know,

if people don't respond, we got to get them off the list and go down the list to other people. We can't leave the other people hanging.

BOARDMEMBER PARSONS: I am not saying that, but he's had conversations with the Department.

DIRECTOR TENGAN: Right.

BOARDMEMBER PARSONS: And we moved so slow last year anyway, that as long as he's had some conversations, he has responded. I am talking about -- when I am talking about getting people off the list, those are people that have not responded period.

I mean, if they don't -- if we send out a notification, and then we send a second notification, and they don't respond, then you need to get them off the list. But not somebody who has necessarily been in correspondence or contact with the Department.

I mean, these are lay people out here, and they don't know how to fill out these forms. They don't know what's required. They don't necessarily -- you don't necessarily take a request for a water meter to an attorney.

So, this is -- they shouldn't have to. This is the public. They should not have to do that. So, if he's

been -- if he's been in correspondence, and there's no physical reason why he shouldn't have it, if you have the water, can you reconsider giving him his water meter upgrade?

I mean, right now, he's -- he's one of many people Upcountry that just needs it in order to move forward, and the longer that we hold these people back, time is money. And it would cost them, which, ultimately, could cost us.

MR. MUSCHIETTI: Can I have one final thing? Just if I am reading this properly, your own Maui County Administrative Rules, Title 16, Chapter 102, Rules and Practice Procedures for the Maui County Board of Water Supply,

under Subchapter 4, intervention in contested cases, extension of time, number three, permit the act to be done after the expiration of a specific period where failure to act is clearly shown to be the result of excusable neglect.

I believe this rule would apply to this situation, because I think maybe we -- I was neglectful, but I did it out of being a lay person. I did it while trying to respond to the Department and get as much help as I can.

So, I think it was an error on my part for sure, in the time frame. But, also, I feel during that time I was

asking for help and an extension. So, that's all I have to say.

CHAIRMAN HIRANAGA: Is it correct that your first formal written communication to the Department was in December 11th of 2003?

MR. MUSCHIETTI: I'm -- probably. I couldn't say for sure. If that's what the record shows, I wouldn't, you know, dispute it.

CHAIRMAN HIRANAGA: This is what I have in my report. So, I am just asking you to confirm if that's your first written correspondence to the Department.

MR. MUSCHIETTI: It probably is the first written, yes. But I was physically there, and I made numerous telephone calls.

CHAIRMAN HIRANAGA: My personal opinion is the issue is with the letter of January 30th, 2003. If we can find, on page two, that it specifically states that he must perform certain tasks within the 30-day period, I think it places more of a burden on the applicant.

If it doesn't state that you have 30 days, then I suggest the Department strongly look at revising their letter. You know, you are allowed one year to -- to lapse before you

started corresponding in writing, and it seems to me to be like a very long period of time.

You know, when you say you have had verbal communications, that's hearsay. Your word against Herb's.

MR. MUSCHIETTI: I understand that, but I think I could back it up, because during that same time, I had been talking to Wayne Arakaki.

CHAIRMAN HIRANAGA: It's still hearsay.

MR. MUSCHIETTI: Yes, maybe so, but I think the facts speak for themselves. I mean, you know, we applied for the meter because we need the meter. And I don't see why we

would just ignore that meter. And I think, you know, we were looking for help.

You have to understand, during this timeframe, the administration change was happening with the Water Department, and that had an effect also on how we were responded to. So -- and, you know, it was only because of the secretary there, Jerry, that I even was able to do this appeal.

She's the only one that even directed me and said, you know, you can appeal this to you guys. So, I am not getting any assistance during that time, but I'm also being

relaxed and laid back, because it wasn't a real hurry

necessarily. And I know how the Departments -- obviously,

other Departments in the state also work.

I worked in Human Services. You know, you don't

push. And I am not an arrogant kind of person to come and say

give me this today. So, maybe, you know, I should have been

more aggressive. But the truth of the matter is, applied for

the meter, need the meter, still need the meter, and would

like to have the meter.

BOARDMEMBER PYLE: Mr. Chair.

CHAIRMAN HIRANAGA: Yes, Dorothy.

BOARDMEMBER PYLE: In listening to what this

gentleman has had to say, it just strikes me that he is an example of what happens to a lot of citizens in this County, which is they have good faith that their County Departments are going to assist them.

And they come in, they use the telephone, they come in in person, and because we don't have the resources or the County does not have the resources, we don't keep track of those things. We don't have phone records. We don't have logs of visitors. It's very unfortunate that we don't, because then we can say, oh, it's your word against his word.

But these are the -- this is the public we are dealing with. They are the ones who pay the taxes. It does really seem to me that in this particular case, given the circumstances, the fact that we can't even find copies of the letters that may or may not have been sent to him -- he may not have even gotten three pages of this letter -- that we should, as a Board, ask the Department to reconsider.

And if there is no valid reason except the fact that he did not follow-up procedure that was not clearly stated, then perhaps they should grant him his water meter.

CHAIRMAN HIRANAGA: Thank you.

MR. MUSCHIETTI: And one final thing on the hearsay you were mentioning. I would also point out that you can go to the Department, to Alan Murata, who is an engineer there. And I went to Alan Murata personally, and I told Alan of my problems with Mr. Chang.

And I didn't want to make a stink or anything, and I just said, I don't know what to do, Alan. So, I have complained to the Department. And you can bring Alan in, and he will tell you I have made numerous phone calls, numerous visits to the Department with no response at all.

CHAIRMAN HIRANAGA: Thank you.

BOARDMEMBER PARSONS: One more thing.

CHAIRMAN HIRANAGA: Go ahead, Ginny.

BOARDMEMBER PARSONS: I would like to, for the

Department, apologize for you not getting return phone calls.

And I -- and nobody else has said that at this point. I am

sure we all feel the same way. And I'm not making an excuse,

but they have been inundated.

MR. MUSCHIETTI: I understand.

BOARDMEMBER PARSONS: They have a workplace that's

just -- it's burdensome. And we probably need -- Herb, of all

people, probably needs a good personal assistant who can at least get back phone calls. Because if he returned every single phone call that he got on a really timely basis, he wouldn't be getting any work done period. So, I am sorry about that. I really am, and this is something we do need to look into.

MR. MUSCHIETTI: Thank you very much.

CHAIRMAN HIRANAGA: I think it's important that we see the missing page two of this letter before a decision is made or a recommendation is rendered.

I think the Department should look at formalizing

the process more, some type of a deposit to show, you know, good faith effort that they really want to proceed. You know, the Department, in their defense, needs to move through this list as quickly as it can, because there are people waiting.

And, so, we need to find out who really wants the meter and who doesn't. So, it's kind of a -- it's a fine line between trying to go back and accommodate someone a year back, when they had their opportunity, versus trying to move forward and accommodate someone who is further down the list who is still waiting for a meter.

So, I can't render a recommendation or a decision

on the recommendation without seeing that second letter,

second page of that letter.

BOARDMEMBER VICTORINO: Maybe we should defer this

matter until we --

BOARDMEMBER PYLE: Actually, Mr. Chair.

CHAIRMAN HIRANAGA: Yes.

BOARDMEMBER PYLE: Can we make the motion, since

it necessarily isn't your decision alone to make that?

CHAIRMAN HIRANAGA: I am just saying personally,

my personal opinion. I am not saying you can't make a motion.

BOARDMEMBER VICTORINO: So, go ahead.

BOARDMEMBER PYLE: Maybe that's not exactly

appropriate to say what your personal opinion is. I move that

as the -- as a Board, the Board of Water Supply recommend to

the Department their reconsideration of this issue based on

the lapse in communication that seems to be the central cause

of this issue.

CHAIRMAN HIRANAGA: Is there a second?

BOARDMEMBER PARSONS: I will second.

CHAIRMAN HIRANAGA: Discussion.

BOARDMEMBER VICTORINO: I guess the only thing I

would have to add to that is I would vote against a motion for the strict aspect that I would like to see the page two of the letter, and that's what I would like to see.

I agree in concept with you, but I cannot render a decision without all the facts in front of me, and I would like to see the second page.

BOARDMEMBER PARSONS: I think the second page would be really nice to see, too. However, we can't even be sure that he received the second page. This is what was given to him out of the file. Perhaps this is all that he received.

And even if they could come up with a second page,

that doesn't mean that it was necessarily mailed to him. I think it's irrelevant at this point.

What is in front of us is what we have to make a decision on. And if you were -- if you were in a court process, Mr. Victorino, the judge isn't going to call a recess and say, oh, go find that other sheet of paper, that other exhibit. It's not going to happen.

This is all we have to go on, and this is what we need to make our decisions on. And the fact that the Department didn't supply us with this is the Department's problem internally, and they need to talk about it.

We need to make a decision based on the information before us and not keep putting off until tomorrow what needs to be decided today.

BOARDMEMBER VICTORINO: Thank you, Miss Parsons.

CHAIRMAN HIRANAGA: Just a reminder. Please don't direct your testimony to other Board Members. Just direct it to the forum, because we don't want to get into a debate. State your opinion, but don't address it to specific Board Members.

BOARDMEMBER HASHIMOTO: Ken.

CHAIRMAN HIRANAGA: Yes.

BOARDMEMBER HASHIMOTO: I agree with

Mr. Victorino. I think I would like to see the second page of it. If they can't come up with it, then we will reconsider, but I think we would like to see the second page and give the benefit of the doubt to the department.

MR. MUSCHIETTI: In closing, can I only say let's assume the second page is here right now.

CHAIRMAN HIRANAGA: I am sorry. You can't comment, because there is a motion on the floor.

MR. MUSCHIETTI: Okay.

BOARDMEMBER PYLE: But I would like to comment.

CHAIRMAN HIRANAGA: Of course.

BOARDMEMBER PYLE: As much as I would hesitate to even say such a thing, at this point in time, anybody could write anything and make it the second page.

CHAIRMAN HIRANAGA: Okay. That's true.

BOARDMEMBER PYLE: So, what are we waiting for?

CHAIRMAN HIRANAGA: For the discussion.

BOARDMEMBER OKAMURA: Mr. Chairman.

CHAIRMAN HIRANAGA: Yes, Ken.

BOARDMEMBER OKAMURA: I think also, if you put it

out, it will give time for the gentleman here to get more testimony or support that he would like to show that he did have communications with the Department during this period.

So, I think I would like to see the second page also. I think we need to make a careful decision, because -- but it's been a good discussion, I think.

CHAIRMAN HIRANAGA: Any further discussion?

BOARDMEMBER VICTORINO: I call for the question,

Mr. Chair.

CHAIRMAN HIRANAGA: All in favor of the motion, please so indicate by saying aye.

(Boardmembers Parsons and Pyle responded aye.)

CHAIRMAN HIRANAGA: Two ayes by Ginny and Dorothy.

Those opposed.

(Boardmembers Victorino, Okamura, Hashimoto and

Hiranaga responded no.)

CHAIRMAN HIRANAGA: The motion does not carry.

Open the floor to another motion.

BOARDMEMBER VICTORINO: Mr. Chair.

CHAIRMAN HIRANAGA: Yes.

BOARDMEMBER VICTORINO: I move that we have this

matter brought up at our next meeting for a decision making, and that the second page either be included, and if it does not exist or we do not have it, then the decision can be made without it.

And I would then, at that point, make a decision, because all the facts would be in front of me. And if not, then that's all I am going to -- that's my motion. So, to bring this matter back at our next meeting to make sure this is an agenda item for our next meeting.

BOARDMEMBER HASHIMOTO: Second.

CHAIRMAN HIRANAGA: Any discussion? All in favor,

so indicate by saying aye.

(Boardmembers Victorino, Okamura, Hashimoto and

Hiranaga responded aye.)

CHAIRMAN HIRANAGA: Opposed.

(Silence.)

CHAIRMAN HIRANAGA: No opposed. Motion carries.

Next agenda item, we have a presentation by R.W.

Beck & Associates regarding the update on water rate increase.

Yes, Mr. Williams.

MR. WILLIAMSON: Mr. Chair, I have testimony.

CHAIRMAN HIRANAGA: Would you like to provide

public testimony at this time?

MR. WILLIAMSON: I would.

CHAIRMAN HIRANAGA: Okay. Let me open this -- one moment. Let me open it up to public testimony before they provide their presentation. And Mr. Williamson.

MR. WILLIAMSON: Good morning. My name is Jim Williamson. I am speaking as an individual, being variously associated with the Maui Meadows Homeowners Association, and I am on the Stakeholders Committee. But I would like to speak as an individual.

My main concern with this whole rate issue is how

the subject of financing of capital improvements will be addressed by this rate review. As you know, the Department of Water Supply rates have historically only been meant to cover the cost of operation and maintenance. The cost of capital improvements is borne by the revenues from the sales of water meters.

This is indeed one of the reasons, I believe, why the cost of water meters is set at what I consider to be a relatively high value, which would -- which happened during the reign of the previous director.

I have been concerned for sometime that the development fund solely derived from meter sales is sufficient to cover the cost of future capital improvements or that the amount available restricts the funding for such timeliness of such development of the necessary additional water sources.

This is particularly important when other sources must be brought on line as soon as possible to reduce the demand on the overpumped Iao and Iao-Waihee aquifers supplying central and south Maui and Paia. Further, increasing costs are expected for Upcountry development.

I believe Beck's terms of reference should include

the whole gamut of water supply costs for Maui, including capital improvements as well as O&M costs. If water meter sales are insufficient to pay for capital improvements, it may be necessary to issue bonds, in which case, the debt service payment would come from the rate base.

In any case, there should be a clear understanding of the scope of water rate increase up front, by all involved, including the consultant and the Stakeholders Committee.

Thank you for the opportunity to testify.

CHAIRMAN HIRANAGA: Any questions for

Mr. Williamson? Thank you.

MR. WILLIAMSON: You are welcome.

CHAIRMAN HIRANAGA: Anyone else wishes to provide
testimony regarding this agenda item?

Okay. I will close the public hearing. I will
invite R.W. Beck to present their -- call for a five-minute
recess, and we will reconvene at 9:50.

(Recess, 9:45 a.m. Resumed 9:54 a.m.)

CHAIRMAN HIRANAGA: Call the meeting back to
order.

DIRECTOR TENGAN: Mr. Chair.

CHAIRMAN HIRANAGA: Yes.

DIRECTOR TENGAN: Today we have Mr. Richard

Cuthbert and Miss Ann Hajnosz from R.W. Beck out of Seattle.

R.W. Beck & Associates are nationally known consultants in the process of rate setting.

I have had experience of working with R.W. Beck in the past, not with Miss Hajnosz and Mr. Cuthbert, but I've worked with the firm, and I do believe they will do a good job for us.

As part of this process, we had asked certain members in the community representing the various segments of

the community to sit in on a committee to kind of discuss the issues and maybe set some direction also in this rate study.

We have on the committee Mr. Bruce Faulkner. I believe he's here today. Mr. Faulkner is with Maui Hawaiian Realty, and he would be representing the Realtors Group.

We have Miss Elliot Krash. I am sure you all know her. She's representing the Kula Community Association. We also have Mr. Jim Williamson. We all know Jim also. He's representing the Maui Meadows Community Association.

We have Mr. Charlie Jencks. Charlie there. He's representing the Maui Contractors Association. We have

Miss Lani Correa. Lani is right there. She's representing the Maui Hotel Association.

I don't see Lynne Woods here today. Do we have a representative from -- anyways, she's agreed to sit in on the committee, too. We have Maui -- I mean, Warren Watanabe.

He's a former Board Member, and he will be representing the Maui County Farm Bureau.

The next person would be Mr. Joe Pluta. Is Joe here? He is representing the West Maui Taxpayers Association.

Scott Jensen, Scott's a staff planner with the Office of Aging. Blossom Feiteira, anyway, Blossom responded this

morning and said that she would be willing to sit in on the committee. She's representing the Hawaiian Community Assets Group.

We haven't had a response from Mr. Danny Mateo, who is the Water Resources Committee Chair, but I believe the Council will be having somebody sitting in on the committee.

And finally, we have Mr. Ron Sturtz. Ron represents the group Maui Tomorrow. And I would like to also suggest that at least one or two members of the Board sit in on this committee also. If the Board would either work with the Board Members and get somebody to sit in on this committee

meetings, that would be great.

We passed out this little chart here. It kind of shows what the relationships and how the work would flow between the Stakeholders Committee, the Board, the Department, and finally down to the Mayor and the Council.

Anyway, this is generally how we would be working, and we probably would be making some revisions to this chart that would go along. So, if you have any questions on the chart, maybe you can come and see me later on.

So, at this time, I'd like to turn it over to

Richard and to Ann.

MR. CUTHBERT: Thank you very much, George. I am very pleased to be here today, as we really are initiating the rate setting process here in Maui.

Our purposes really are twofold. One is to introduce all of you to the rate setting process, explain what we anticipate going through over approximately the next 11 months.

This process is designed to lead to any changes to Maui's water rates that will be effective hopefully next January, if this process goes successfully forward. And to

get your -- solicit your input. There is a lot of interest in water in Maui, and as we talked about future improvements to the water system, all of those have rate impacts and rate concerns.

And, so, I'm very pleased. We were working with the Department yesterday to try and kind of outline how this process might work better, and George has discussed that. I would be happy to address any questions associated with that.

But, with that, we have a short presentation. Ann and I will be sharing that. And then at the conclusion, we will entertain any questions you might have.

We have a short -- let me just look at this for one second.

Okay. Boy, I have done this for about 15 years and technical problems are always very exciting. Just in terms of some introduction about R.W. Beck, George mentioned our firm briefly. We have been actually working water rate issues here in Hawaii for more than 50 years.

We are a Seattle-based national management consulting engineering firm. And the work here goes, really, with each of the islands and the establishment of the water system back in the 1950s. In the last four years, we have

completed rate studies for the Honolulu Board of Water Supply and the Department of Water Supply and the Department of Water both on the Big Island and in Kauai.

What we want to discuss with folks today, first of all, is to review what the scope of services are for the 2004 water rate study here on Maui. We are going to give you an overview of the approach that we anticipate using in setting water rates. Give you an understanding of the rate setting philosophy that we use, as part of that approach.

We are going to give you some background in terms

of comparative water experience of other water utilities.

It's very helpful to look at this in the context of how the water rates here in Maui are compared to the other islands.

We are here, really, to talk also about the role of the Board and the stakeholders in the rate setting process, and then we will give you an idea of kind of the time line we anticipate going through in this rate review process.

Finally, I would like to have an open discussion of anything that comes up in terms of questions that we could address. And if we can't address them, things we can be able to prepare to answer in the future.

In terms of the scope of services for this, we have set this up as a two-phase process. Phase one, revenue requirements analysis. In other words, of determining what are the revenues and the rate proportion of those revenues that the Department of Water Supply needs to continue operating.

This revenue requirements will look out for five years and look at what type of costs, both debt, capital, and operating costs, that we anticipate the Department of Water Supply facing during the next five years; and, therefore, what type of rates they need to support those level of revenues.

The second phase of that, once we have an idea of the overall picture of what type of rate changes might be possible, we will look at cost of service analysis. In other words, who should be paying for those revenues. How the various customer groups get affected by the rate changes.

We will be coming up with three different rate options and a final rate proposal. We will be coming up with a long-term financial planning model that will allow the Department to look at these issues interactively over the future years. We will be attending various public meetings and presentations that will help to sell that to the community

and helping with the preparation of draft and final reports,
the documents in this process.

And with that, I'm going to turn the technical
aspect of this over to Ann Hajnosz.

MS. HAJNOSZ: Thank you and good morning everyone.

It's a pleasure to be here in Maui and beautiful weather,
compared to where we are from in Seattle.

So, as Richard mentioned, we are going to be going
through several phases in this rate study. This is really
kind of a snapshot of the different steps that we are going to

be undertaking in the rate process.

It begins with getting utility information. And we have already gone through that step. We provided a data request to the Department of Water Supply, and, you know, we have been working through getting all the data that we need.

And, so, the types of information include things like customer and usage information, O&M, you know, revenues, and all those kinds of things that are going to help us put together a financial model to project all these elements of the Department's financial plan into the future.

Once we do that, as Richard mentioned, we get into

a revenue requirements analysis. And I am just going to go through this really briefly right here just to give you a big picture. We will go through more details later.

From the revenue requirements analysis it takes us into the cost of service analysis, which is really going to help us determine what are the true costs of service for the different customer classes that we have here on Maui.

Out of that analysis, we will start doing the rate design. And we are going to look at three different rate options for Maui. The big part of the rate design is not only looking at the different types of structures that could come

out of this, but, also, we need to make sure that once we do decide on a rate proposal, if we go back and make sure that we are going to have enough revenues under that particular rate structure. And that's where we have a check adequacy of rates.

Okay. Once we have done all those checks, we can come out with a final rate proposal that will ultimately go through the approval process.

So, let's get into the nitty gritty a little bit about what revenue requirements is all about. It includes things like operation and maintenance cost, and, so, just your

standard labor, materials, equipment, supplies, things like that. We are going to be looking at, you know, what does that really translate into in terms of operating the Water Department over the next five, six years? What does that mean in terms of staffing levels? What does that mean in terms of utility costs, electricity?

You know, we are going to have to get a feel for what we think electricity costs, pumping costs are going to do in the next five years, things like that.

Other operating costs, such as your obligations

for taxes. You have got administrative costs that I know go back to the County government, all these kinds of things.

It's almost a line item analysis. We look at what you have paid in the last three years. We look at what you are going to be paying in the next six.

Debt service is an important component of revenue requirements. This is -- if you take the example of your house, most people have house payments. This is kind of like your mortgage. You have got to pay that every year based on the level of borrowings that you have for capital improvement funding.

So, we are going to be looking at, of course, not only what you are paying, but what you may have to pay in the future to fund capital.

And then there could be capital that's funded strictly from rate revenues. Okay. And, so, we are going to -- we know that the Department has had a policy of funding some capital directly from rate revenues in the past, so that's through the CIP reserve fund. And we are going to be taking a look at that policy. How appropriate is that for the future?

On the flip side of the revenue requirements

analysis is the revenues. So, we will be taking a look at consumption patterns, customer growth patterns to get a better feel for really what -- you know, what do we anticipate for the future on Maui? We will take a look at your historical growth and make adjustments to decide is that level of historical growth going to be appropriate for the future?

And this is where we need input, you know, from you guys, to make sure that those numbers that we are projecting are accurate from the perspective of all the different stakeholders.

We look at things like interest and other income.

I mean this -- this line item, because of the swing in interest rates in the last five years, you have seen tremendous differential in the amount of income that we are getting from interest income for all utilities. So, that kind of has been an item of interest for other systems.

We are going to look at water system development fees, because that's important just because you recently had a change in water system development fees. That level increased significantly. So, we are going to have to figure out how are we going to project revenues from water system development

fees in the future.

Now, in addition to the revenue side, we are also going to look at capital funding. How are we going to fund capital here on Maui? And as I mentioned before, you have got options such as bonds and rate revenue, and we also have a state revolving loan fund. I don't think -- you know, federal and state grants are a pretty small percentage, if any, of any utilities nowadays, but we always throw that in, if there's a chance we can get funding that way.

Other sources could include developer contributions, private contributions, things like that. That

pretty much takes us through the revenue requirements.

Once we get our revenue requirements analysis done, we will have an idea of what the general system rate increase level will be, if any. In other words, we will take what our revenues are projected to be, what our revenue requirements are projected to be, and then we will find out what the rate increase needs to be.

We take that number, the revenue requirements number, and now we are going to have to do a cost of service analysis and allocate those costs of service to the specific customer classes that receive service, that particular level.

So, we like to use this graphic, because it really helps under -- you know, helps you understand the concepts of cost of service. We have a typical water system here with your groundwater supply, your wells, surface water, the treatment plant. You have got your storage. These are sort of the major functions involving water systems operations.

The cost of service study is going to help us assign the -- all these costs associated with these major functions to the customers that receive that service. So, for example, right here we have the direct service customer. This customer is just taking service right off of the transmission

mains. It could be an industrial customer. It could be a hotel. It could be a, you know, a big agricultural processing company.

The costs for this customer would include supply, treatment, storage, and transmission. Those costs would be allocated to that customer. On the opposite side of this white dotted line, you see houses, residential subdivisions, maybe other customers. They are taking service that includes not only this whole piece here, but also the distribution function going right up to the meter, to the houses or the

shops .

These customers would get the full allocation of costs, sources, supplies, storage, treatment, transmission, and distribution. And, so, this, in its most simple form, is really what cost of service is all about.

And it's not nearly as straightforward as this suggests. There are lots of things that are sort of gray areas that we are going to have to make judgments on, based on input from the Department, based on input from the Stakeholders Committee. Okay. But this is, in essence, what we are going to be looking at for cost of service.

In the end, the cost of service summary, one of the summaries that could come out of this -- there are a number of options, but this is sort of a typical cost of service summary.

Now, I know in Maui, we don't have these customer classes, the residential, commercial, industrial. You have got general use and ag. And, so, we will be looking at those existing customer classes to determine, you know, if there are specific costs associated with general service that may differentiate themselves from ag. So, we will be coming up with something like that.

But in the end, this helps us -- this kind of analysis helps us determine the relative costs of ag, to commercial, to general usage. Okay. And from there, we can decide, okay. How far off is the ag rate from its true cost of service? How far off is the general use rate from its true cost of service?

And then we take the next step. We go into rate design. And, so, in the rate design phase, what we are going to be doing is using the results of the cost of service to say, okay, now what do we do with our rate structure?

One of the things we are going to be looking at,

as that previous slide suggested, is whether or not we are going to go with different customer classes, if that makes sense.

Okay. But let's assume that we just stay with the regular class that we have. We are going to use cost of service to adjust rates. Now, this includes or could include adjustments to the monthly service charge, you know, the meter charge that everyone pays. It also will include adjustments to the volume charge, okay, what you do on a per thousand gallon basis.

And we typically will look at other fees including things like fire protection, that sort of thing. This is where we get to, with input from you, make decisions on where we want those rates to be, based on cost of service issues as well as a host of other issues.

Okay. And I will be talking a little bit about those a little later. An important part of the rate design analysis is looking at the specific impacts of the new rates on various customer classes. And, so, we will look at impacts on typical residential family, on a commercial user, on ag, on hotels and other major businesses. We want to -- we want to

understand what the new rates are going to do to these peoples' water bills.

Okay. And finally, as I mentioned earlier, in that overview slide, we check for revenue adequacy to make sure that our rates, when we put them against the usage patterns that we are projecting in the future, are going to return the revenue that's needed to keep the Department stable, fully funded, and also to provide for some rate continuity in the future.

I want to jump into our rate setting philosophy now, because this is where it gets a little bit gray, you

know, and we need to -- while we want to be able to achieve all of these things, we know that we can't do them all together, because they have to be balanced.

First one is promote revenue stability. We absolutely want to make sure the Department is fully funded and financially strong, financially stable. That's of prime importance.

We also want to make sure that the rates reflect the cost of service. This is where it becomes tricky, because if, for example, the cost of service study comes out saying one class is subsidizing the other or vice-versa, you know,

what do we do about that? Is that a policy that we are going to continue in the future? Is it -- you know, is everyone okay with that? Do we need to make some adjustments to that policy? And that's what I mean by it becoming a little bit of a gray area.

We want to make sure that rates are fair, equitable and nondiscriminatory. Again, using the cost of service results, we can determine how equitable they are. But, for example, if the cost of service says a certain class is really not paying their full share, how much of an

adjustment do we want to make?

We need to then decide how far do we want to make that adjustment. Do we want to do it all at once? Do we want to do it over two or three years? That's where the fairness element comes into play. Because I think most people would agree that we want to pay fair rates or an equitable rate, but to have somebody's bill double, in the course of a year, may not seem that fair. We may want to try and phase it in.

Easily understood by customers. We work with some rates that are so complicated, that the utility staff can't explain it to their customers, you know. So, this is where we

again need to balance elements of we can have a very complicated rate structure, that fits cost of service to a T, but how complicated is that rate structure going to be, not only for the customers to understand it, and then change their usage patterns based on that, because that's ultimately what you want your rates to do. To give a signal to your customers to say I need to use water efficiently.

But they must be able to understand what they are doing, and the utility staff certainly needs to be able to understand it. They need to be easy to administer. They need to be -- the utility staff needs to be able to generate --

read the water meters, generate the bills, and collect the revenues for these rates that we are designing.

So, again, we need to balance sort of the issues of fairness and, you know, try to get to the cost of service finish line versus how easy are these rates to administer.

We want to promote rate continuity. And what that means is for -- you know, we can take it all the way down to the household level. We all have our own family budget to manage. Businesses have their own budgets to manage. We want to make sure that people can look at their rate bill or their line item bill on their budgets and say what are my -- what

are my expenses for water going to be into the future?

We don't want them spiking and going all over the place. It needs to be continuous and provide some assistance for people to manage their own budget.

Enterprise fund cost accounting, that just essentially means that the Water Department has got to be fully funded, so their revenues have got to cover their expenses, and their expenses are operating expenses as well as capital expenses. So, that's essentially what that means.

And I think I alluded to this earlier about

providing rate signals to the customer. That really is what you want your rate to do, to be able to say to your customer, if I use my water efficiently, my water bill is going to be reasonable. If I don't use water efficiently, I am going to pay a lot of money.

Okay. And finally, what we are going to be doing is talking to the DWS about policy -- certain policy objectives to be accomplished in this rate study. How much debt do we want to issue? What kind of debt ratio do we feel comfortable with? You know, how do we want to fund future capital? How much should be funded from rates and how much

should be funded from debt? Things like that.

And, so, the Stakeholders Committee, the Board will be hearing us come back to you with questions like that that we will have to consider.

Okay. Because we have done a lot of work on the other islands, we thought it might be helpful for you all to kind of hear what our experience has been and to hear about the different issues that have come up on the other islands, because a lot of them are going to be similar.

There will be, obviously, some specific ones just to Maui, but it just kind of helps put things in perspective.

I start off with this is just a synopsis of DWS's rates and charges. You have a service charge that varies per meter size. So, as the meter increases, you have a higher monthly charge.

Your general use rate, again, over a two-month billing period starts at a dollar 42 per thousand gallons for the first 10,000 gallons. And again, you will hear us talk a lot about monthly bills and things like that. We like to kind of talk about things on a monthly basis.

And, so, for example, here, even though it's a zero to 10,000 gallons, we like to think of that as really

zero to 5,000 gallons on a monthly basis. That is your first block. And when I mean blocks, this is the first block, second block, third block of usage.

Okay. And, so, we are going to try to keep those straight. I know all the other islands also use bimonthly blocks, but you will see there is quite a difference when we get to that.

You have what is called an inverted block rate, which means the higher usage you have, the more you are going to pay on a per thousand gallon usage. And that's

something -- we call that a conservation-oriented rate. It helps encourage conservation.

Agricultural rates are similar for the first two rate blocks, but in the third rate block, you have a declining block rate. Okay. And this is a big issue. No surprise.

For all of the counties, what do we do about ag? Do we -- do we keep that policy? Do we need to look at that more closely and decide whether that's an appropriate policy to maintain?

And then you have the third category of nonpotable rates, all usage at the flat rate of 76 per thousand gallons.

Okay. Now, when we were at the Honolulu Board of

Water Supply a couple years ago, we did a big study for them, and the result was no rate increases projected until January 2005. The primary reason for that was they -- despite a very big Capital Improvement Program, they were really experiencing delays in getting that capital -- all those capital projects pushed out, for a number of reasons, including regulatory-related delays, just purely administrative delays in getting all the appropriate permits and approvals to go forward on their projects.

What we kept hearing over and over again, from all the counties, was that there was a shortage of engineers.

They were having difficulty getting engineers on staff, utility staffs to help them push out these projects. And as a result, for a number of years, they have had large capital fund balances building up, in the current -- you know, based on their current rate schedule.

And they basically said, we can't justify a rate increase at this time. Until we can move our capital programs forward faster, we can't justify a rate increase.

On the Island of Hawaii, they had a big capital program also, but it wasn't nearly as big as Board of Water Supply. But at the same time, they were really trying to

catch up on a lot of capital projects. They needed their rate increases. And they were successful at passing two pretty high rate increases. As you can see, 28 percent and 15 percent rate increase. Both of these rate increases have been implemented, so you will see that their rates are the highest in the state.

In addition to these rate increases, they added a fourth rate block. You recall from Maui we have got three rate blocks. They added a fourth rate block that basically said if you are a really high user, you know, you are really

going to pay a lot of water -- a lot of money for your water

in that last block.

On Kauai, they have a uniform rate structure where

they had one rate for all usage, dollar 78 for all your water

usage, and that had been in effect for a long time. And they

came to us, and they said, we need to get the conservation

message out to our ratepayers. And, so, we designed an

inverted block rate structure for them.

Okay. They passed two 32 percent rate increases

there a couple years ago. And this is a slightly different

story, because they actually implemented the first rate

increase, but because of delays in their capital program, this second rate increase has been deferred. So, again, it's another issue of raising rates, accumulating a lot of money to pay for capital, and then not being able to get the capital accomplished. And as a result, you have significant fund balances building up, and they could not justify another rate increase for the second time.

And I have to mention that when we did all these studies, we did them on a five-year basis, which I think was very, very helpful in helping -- in letting the Department look out five years and say where are we going? We are not

just going to plan for one year. We are going to plan for five years, but there is an option to say do we really need that second rate increase?

Okay. We have got the first one. We know we need that. It will get us through for the first year or two. But after the second year, do we really need that rate -- the second bump?

Okay. This is a slide that shows the Maui rates in comparison to Honolulu Board of Water Supply. And I know there are a lot of numbers here, so I am not going to go through all of them. You can see them yourself. But the one

thing I did want to point out, when we talk about the rate blocks again, zero to 10 thousand gallons, bimonthly period, this is also bimonthly period, which essentially means your first block is 5,000 gallons a month. And Honolulu Board of Water Supply is 13,000 gallons, okay, for the first block.

Okay. And I know with this first block, generally speaking, the 5,000-gallon level is -- could be considered like a lifeline level. So, for people -- for people that really don't use a lot of water, that's probably about the minimum amount they would use. They don't take long showers

and wash their car. They don't have any irrigation, outdoor irrigation. Okay.

It's maybe a single person, you know, older person living by themselves, so that's like a minimum level. Other utilities have opted to set their first block at more of an average -- average water use level for, say, a family of, you know, two or three people.

So, 13,000 gallons, in the case of Honolulu, was about an average monthly water use level. So, as you can see, there are -- this is the policy differential right here.

Where do you want to set your first block? Okay.

This continues with the two other islands. On the Big Island, they have a similar first block lifeline rate. You can call it that. Zero to 10,000 gallons right here. Again, means 5,000 gallons for the first -- for a monthly basis.

Kauai adopted the Honolulu Board of Water Supply approach, where the first block is based on the average use, which in Kauai was really about 11,000 gallons. Okay. But I guess, as I am hearing, as you can see, the high-block users were paying a lot of money on a per thousand gallon basis.

BOARDMEMBER HASHIMOTO: So, the other islands

don't have any ag rates?

MS. HAJNOSZ: They do. They do. These are for general use customers. The Board of Water Supply does have the different residential, commercial, industrial classes, but all the other islands have your general use category.

Not surprisingly, after seeing those water rates, the average for Maui is much less than the three-county average on water service. And this is really a slide that we like to use in public hearings when we are trying to explain the reasons for the rate increase, because putting the water bill up there relative to your wastewater and, you know, solid

waste and electric bills puts things in perspective.

And I know water managers like to get up here and say water, you know, there is no substitute for water, and you are not paying that much relative to what you pay for electricity. Sometimes you put our internet bill up there, internet service provider. You put our wireless providers or -- you know, you are paying more for your wireless phone service than you are for water, some people.

You asked about ag. This is what the ag rates look like on other islands. And they all have pretty much the

same thing, where you have got the first two blocks or the first block similar to the general use rate, then the deep discount for any usage over a certain amount.

The Big Island, they did decide that we are just going to have all usage go at \$1.84, which was pretty much close to the average cost of water there. So, they are really not getting a huge, huge discount on the Big Island at all.

That was a very big issue on the Big Island, that there were strong sentiments that ag needed to pay more of their full share for water -- for water service. And again, that varies according to the different islands, according to

the different stakeholder groups. I am sure that's going to be coming up here.

Finally, we just want to make this one. This is not really part of our study, because we know that you just updated your water system development charge fee. But we just did want to highlight the difference between -- this is for a five-eighths-inch meter. So, on Maui, you are about 6,000. Honolulu has not changed their development fee for a while, but this is for a typical, you know, residential customer. They use fixture units instead of meter sizes.

On the Big Island, they have a practice of giving

a deep discount to the first five-eighths-inch meter, and this is really to kind of say to the people that have held land for ages, decades. Okay. If you just want to build one house on your property that you have had in the family for 20, 30 years, okay. You are going to pay this level. But anybody else -- you know, they are talking about new development, adding capacity to the system. Those types of customers are going to pay something closer to the full cost of what it takes to put in the new water service on the Big Island.

On Kauai, they are in the process of updating their system development fee. We did a study for them and

have recommended about \$4,600. So, this would go up about \$2,000 on Kauai, if that -- if it's recommended and approved.

Okay. So, that's kind of a snapshot of all the experience that we have had on the other islands. We are going to be bringing that to this rate study and hoping to get a lot of input from you on how we are going to tackle those issues. So, I am going to turn this back to Richard to wrap things up.

MR. CUTHBERT: I know it's a lot of information, but we really did want to give you an overview of some of the

issues that can come out in the rate study.

What are the roles going to be for the Board and for the Stakeholder Group? As we talked to the Department yesterday -- and part of what we would like is the feedback on this. There was a process of working both with the Board and the Stakeholder Committee to come up with a joint proposal to the County Council in terms of what rate changes should be adopted here.

So, what we are looking for, at this point today, is to provide input, both for the Board and, to the degree appropriate, for the Citizens Committee, to what types of

issues are important for us to consider in this rate study?

What types of changes should be considered as part of this process going forward? As we move forward, both of these groups will need to make decisions on various planning, financial planning criteria, rate design policies. And those will eventually be incorporated into this rate study.

We are looking for both groups to provide feedback on potential impacts of the new rate changes. So, if Maui decides to adopt a more conservation-oriented rate structure, for example, we would like to identify for you what the impacts of that would be, so that people are not blindsided by

that.

That was a huge issue on the Big Island when they went to very conservation-oriented rates. Some very large users, over on the east side -- I am sorry -- on the west side of the Big Island had very, very large rate impacts. But the Board went ahead there and adopted those, because they felt the funding was important for maintaining the water quality and the water service.

The other aspect for both the Stakeholder Committee and the Board is to attend periodic review meetings and to provide feedback on interim results.

So, what are some of the major issues that we anticipate could be coming to be raised during this process?

Generally speaking, utilities are considered very conservative. They are managed from a conservative perspective. They like to make sure they are kept financially very strong. We will probably propose continuing that tradition. It means maintaining high, high debt service coverage levels, but the level of debt that's being used to pay for capital is one of the issues that needs to be considered.

What level of rate increases are acceptable?

Obviously, capital usually is being funded by debt. Operation and maintenance is being funded by rates. Capital replacement, the payment of facilities that are wearing out can be funded either by rates or by debt.

And, so, the level of rate increases kind of becomes a balancing level between how much debt do we take on versus how much the current ratepayers have.

The level of the rates of the water system development fees is really not on the table here in terms of what we are doing, because it was just adopted, but that has

been a major issue on other islands.

And then the agricultural rate subsidy. On all of the islands, the charges for the agricultural water are below cost of service levels. Whether there should be any increase in that, any change in that, is part of what we are looking for input on. Some very specific issues that we have heard, as we have started this process, is the question of whether there should be rates by customer class. This could be residential, commercial, industrial, agriculture. Multifamily would be another rate classification that can be considered.

Honolulu has customer class rates. The other two

islands do not. Another issue that's been raised, by some people, is the idea of some type of either remote area or high elevation pumping surcharge. As you might guess, it costs quite a bit of money to serve areas that are remote or that have a lot of pumping costs associated with them.

There have been utilities that have adopted surcharges that basically reflect the higher cost of providing water to those communities. Drought rates has been an issue in a lot of the other islands. It's sort of an odd question, because Hawaii has been in a drought situation for 10 years. An argument could be made that we do have drought rates now.

But what we are talking about directly there is some type of -- if there's some type of a curtailment in water use because of severe drought, two things happen. One is because of the drop in the water costs, the revenues go down at the same time that the operating costs go up because of higher pumping.

And, so, some type of an automatic mechanism that says, in that type of situation, a surcharge would go into effect to make up that difference is what drought rate generally represents.

And then the question of the adequacy of the

Capital Improvement Program funding levels. There's been some discussion about what is an appropriate level of reserve, or whether there should be any reserves at all. That's a question that might come up here.

So, in terms of where we go from here, the next steps, in the rate setting process, we will be preparing a rate model and, from that, beginning to develop revenue requirement projections. Again, that will give us a direction in terms of what the change in overall rates would be over the next five-year period.

From that, as part of that, we need to develop key financial assumptions to be used in the rate model. The way we typically do that is we come up with a base set of assumption, working with the County and with the Water Department. And we run those by both the Board and the Citizens Group to make sure that we get -- we are consistent with the -- basically, the community's view of what those assumption should be.

We will be incorporating Capital Improvement Program funding assumptions. That's how much debt would be used versus rate levels. We will get the input from the Board

and Stakeholders on various key policy issues that Ann addressed earlier, and then meet eventually with the County Council.

And this -- that's part of the question that does come up is where does the County Council fit into this process when do we get input to them? Are we at the end? And that's something we would like to group to consider, is should we have some informational meetings with the County Council? Should we come up with a uniform proposal and provide it to them at the end?

Later, after the revenue requirements and the rate

levels are done, phase two of this project will be that of providing a cost of service analysis and rate design.

And, so, with that, we would be welcoming any questions that came out of this or any process-related issues.

DIRECTOR TENGAN: If I recall, you know, the meter charges on the Big Island were the first level.

CHAIRMAN HIRANAGA: Can't hear you.

DIRECTOR TENGAN: As I recall, on the Big Island, the rate operations is that through subdividing of property, the first meter would be at the \$1,190. And the -- creating

like four or five lots, additional lots, the additional lots would be paying the \$5,500. Is that how it still works?

MS. HAJNOSZ: Yes, yes.

MR. CUTHBERT: Yeah, that's sort of a complicated issue. I was over in Hilo on Tuesday meeting with them on a different issue, and I clarified that. That's been quite a controversial issue over there.

The notion was, if we have a local person, they just want to put up one house, we really should not try to be in the way of doing that. That was sort of the intent of that. The way it's been implemented over the years, there's

been some real problems.

One of those is that if someone puts an ohana on their property, that's charged the \$5,500. The idea was, is that really, the \$5,500 is almost a full cost of what it costs to provide the supply and new level, and it's not too different from the 6,000-dollar number that's here.

But, what they did there is they had this charge for somebody who just -- kind of the idea of a local discount. But the implementation of that, as you might guess, has been a little bit hit and miss. You had a question, I think.

BOARDMEMBER OKAMURA: I notice as far as

agriculture use, subsidizing the rates, you base your -- you are going to base the study on the cost of service.

For certain uses, like agriculture, there is an economic benefit. And, you know, that's the reason for having an agriculture rate, because you see an economic benefit to the community. Agriculture depends on a lot on low-cost water.

So, are you going to address the specific issues relating to agriculture? The rates that we could charge, and the economic benefit that we get from -- from the industry?

MR. CUTHBERT: That's a really good question, and

as I said, we have wrestled that, particularly in Kauai and on the Big Island.

Putting that question slightly differently, I think that if you go back, there are some language in the State Constitution that each of the counties will support agriculture. What the exact impli -- what is the role of water and the Department of Water in that help is really the policy question that comes here.

What's unfortunate is, is that the costs associated with providing high level potable water to

agriculture users is very expensive. Providing treatment to it, the storage, and sometimes, in more remote areas, even the cost of it is there.

The benefits, there's no question that I think most all of the customers recognize the value of agriculture. The notion of Hawaiian Islands without any agriculture anywhere, with barren fields, is sort of a notion that most people would like to avoid.

That is an issue that we really are looking at input from the Board. We will provide you a quantification of how much it's costing to provide the water to the agricultural

users. That is what the cost of service provides. We will then show what the current rates are, and we can show you what the differential is. The policy question is, is that an acceptable level of support.

BOARDMEMBER OKAMURA: But let's say if somebody were to water their lawn, for example, there is no economic benefit in that as opposed to somebody who waters a crop. There is some economic benefit to that. So, has it ever been done where you can measure the economic benefits of providing water service?

MR. CUTHBERT: We have not done that type of a

study. I think there could be value to doing it. I know that on the Big Island, there is a considerable effort going into trying to find ways to take agriculture customers off of the potable water system, to really address this issue, and trying to get the State more involved.

A very good example of this would say, okay, this is a State issue. We should have State support. One way of doing this would say, okay, let's get some State support to pay for this agriculture subsidy.

Let's just say there is a million dollars of money coming in, and the cost of service is two million. Instead of

having our ratepayers pay that, instead of having a grandmother living in an apartment pay that, as part of her water bill, let's try and get this out of some type of a tax revenue.

We are not really going to go into the details of that level in terms of what the benefits are of agriculture. What other funding sources there are. That would be appropriate, either through the Board or from, perhaps, the Stakeholder Committee to say let's try and identify what those benefits are, so we can justify it.

I think we are more at the point of just saying what type of level of support should there be for agriculture, and looking for you to provide guidance on that.

BOARDMEMBER HASHIMOTO: Since we are on the subject of agriculture, the State is inputting a bill on a water system with nonpotable water for agriculture. Are you going to be assisting in setting those rates, because I think the Board of Water Supply is going to be implementing or assisting in obtaining of the nonpotable water.

MR. CUTHBERT: I will let George answer that one.

DIRECTOR TENGAN: Setting of those rates would be

done by the State Department of Agriculture. We have an agreement whereby we would be operating and maintaining that water system, but we would also charge back to the state the cost of the operation and maintenance.

MR. CUTHBERT: So, I think that means we are not going to be setting -- helping setting the rates for that.

BOARDMEMBER VICTORINO: Yeah, I think you made a lot of good points that we now have to, with the Stakeholders as well as the Board, start looking at how we approach this. I think a couple of points that I would like to see brought to the forefront, both for the Stakeholders and for ourselves,

you mentioned conservative rates.

I think conservation is very key in everything we do, and our water is a precious resource, and we have got to start to learn to use it in a more efficient manner. And I am talking all aspects of our community.

The other thing is, Maui, we are at a crossroad, because we are heading into areas where development has been, to put it mildly, rapid, and then you have other areas where development has been lagging, and where systems are needing replacement big time, and other areas where accessibility or distance -- you know, portability is another issue with

pumpage.

I think the other area that we are going to really start, you know, to feel the impact is the changing demographics of our community and where can we get the water from. There's battles right now, just like on the Big Island. The east end and west end are tremendously different.

So, we have the same thing here on Maui. The east end, and the west end, and the central have different needs, and the availability of water comes basically a lot from certain sources. And, so, we have got to make sure that all

these approaches that we take now, and the rates we set for the future, which is necessary, like you said, have to be balanced. But more importantly, have to be futuristic in how we look at them.

We are going -- five years out is great, but I think we have got to think further out. And I am not saying set rates further out, but think further out. Because our community, in five years, will change drastically again.

And I think of all the islands growth beyond Oahu, Maui has been -- has been really changing very quickly. I think industrial use and those areas need to be looked at,

because we have never looked at that area.

We have always had two rates, you know, basically agriculture and residential. Maybe we need to look at other rate setting and all that. And the most important thing is, and I think this is the word I want to, you know, emphasize is balance. And I think that's very important.

Because if you use balance, in all your -- your philosophies and making it fair for all, I think no one walks away unhappy. Yeah, not everybody is going to get what they want, whether it's agriculture or other areas, but I think a fair, balanced rate for all is important.

Now, you can scale it, and usage, and drought, and all other things can be thrown in. But I think when you come down, the public will accept what is fair for all. But they will not accept if someone is being enormously used to pay the bill of someone else. And also, the last thing I like to say, is I think having the Council a part of every step we take, informational meetings, is going to be very important.

Because like I say, they make the final decision.

We can recommend to the consumers, but if they don't know what's going on, or they don't feel that that is what they think is right, they are going to just change it all, and we

have worked hard -- not hard for nothing, but maybe not get the results that we so well deserve.

So, I think those are the comments I wanted to make, and I thank the stakeholders for being here. I think that is a great opportunity to meet them, and understanding how they work, and hopefully we will work very closely with them and yourself in getting these rates and something out to the public in the near future, but it's a process that we all have to work harder.

MR. CUTHBERT: Thank you. Those are good

comments.

MS. LEE: I have a question. Why is the Department considering a rate increase? Why are we considering a rate increase? Is there a deficit?

MR. CUTHBERT: At this point, I can answer that. That we are really not considering a rate increase.

MS. LEE: We are just exploring?

MR. CUTHBERT: We are exploring what the relationship over the next five years will be in terms of really the balance between expenses and revenues. I don't know the answer where it will end up. Yes.

BOARDMEMBER PARSONS: I wanted to know whether we are taking into consideration the 1993 study of these CIP for the fire protection, fire flow into this -- into this study that we are doing?

I think we have \$65 million worth of deficiency within the three-mile radius of our fire departments for fire flow. Is that correct? Something in that nature? Have you seen that study?

MR. CUTHBERT: I have not seen that yet.

BOARDMEMBER PARSONS: Because I wanted to answer one of Brenda's questions, because we don't have sufficient

fire flow in most of our neighborhoods, in a lot of our neighborhoods.

And right now, anytime somebody wants to do development or just put a cottage on their property, they may have to come up with thousands of dollars, if not close to a million, in some cases, for improvements to the fire flow, just in order to have fire protection. So, that may be some of the -- I would hope that that's some of what we are looking at.

DIRECTOR TENGAN: Yeah, I think the study refers to -- if I recall correctly, if we were to change out the

lines at the time, that cost would amount to something like \$65 million back in '92 dollars.

In responding more specifically to your question, we anticipate that our CIP monies will be pretty much used up by the end of next -- the next fiscal year, the next budget year. So, we need to look at our revenues. We have to certainly make sure that we have sufficient funds to operate and maintain the water systems.

As it is today, we can only transfer about \$2 million from our general revenues into the CIP fund. With

inflation and additional costs, I anticipate that if we don't have any rate increases in the near future, that \$2 million will be gone, and we will be operating in a deficit mode.

MR. CUTHBERT: Okay.

BOARDMEMBER PYLE: I know that earlier, George said something about wishing to have members of the Board perhaps be with the Stakeholders. So, I'm just wondering if that's appropriate from your perspective, or if you would like to keep the Stakeholders and the Board separate. Perhaps that's the first part of my question. And the second part --

MR. CUTHBERT: Well, I think that our goal here,

going back to your comment of balance, is that we are trying to come up with a rate proposal for this community.

Now, ideally, that will be a proposal that comes from the Board, given the input from the Citizens Committee, to the Council. Now, and one of the things we put on that is we hope that at the end of this process, that the Citizens Committee is providing a letter of support, possibly some suggestions to the County Council from their review of this.

I think that it would be more than appropriate, as part of that process, for some -- because there's probably going to be a number of those meetings, more than the

once-a-month process that this Board has.

If at least one or two of the members of the Board here were involved with that, it would be sort of an ad hoc group that could kind of make sure that they can provide that bridge of some of the long-term decision making that this Board has made in terms of priorities and make sure that that gets fixed into the overall process. So, I think it would be a good idea.

BOARDMEMBER PYLE: So then my second comment is hopefully that Board, at its meeting today, will consider who those members might be, so that we can move forward very

quickly. Thank you.

MR. CUTHBERT: That's a good idea.

MR. STURTZ: I notice there's been discussion
today --

BOARDMEMBER PYLE: Sit down.

MR. STURTZ: Ron Sturtz from the Stakeholders
Committee. I notice there's been discussion today of the
Board and the legislative branch of the government or County
Council. There's been no discussion of our executive branch,
the Mayor's Office, which is very actively involved in

negotiations for existing water supply.

And I just want to encourage this process to include all branches of the government, including the executive branch. Perhaps there is a bridge so the information can flow from the executive branch, to the Council, to the Board, to the Water Department.

There seems to be a lack of communication going on right now, and I would like to encourage you to include the executive branch in your analysis.

DIRECTOR TENGAN: We have a representative here from the Mayor's Office, David Ching. He's an executive

assistant in the Mayor's Office. And I and the Department
itself works very closely with the Mayor on water issues, and
we try to resolve them together. So, we have constant
communication with the Mayor's Office through the Department.

MR. STURTZ: Thank you.

MR. CUTHBERT: Any additional questions at all?

Appreciate your time, and we will look forward to working with
you on this project. Thank you.

CHAIRMAN HIRANAGA: Thank you.

DIRECTOR TENGAN: For those members of the

Stakeholders Committee, I had hoped to put a schedule together

soon, and I will be contacting you and sending you an e-mail or some form of written communication as to the schedule for future meetings.

I need to work with the consultants, who kind of determine when information will be coming back to us that we can share with the Stakeholders Committee. So, I will be working on that and be contacting you shortly.

CHAIRMAN HIRANAGA: I'd like to -- you know, because of the recent Charter Amendment, I'd like to request the Corporation Counsel provide us a formal written opinion as to the roles of the Board of Water Supply to Council and the

Mayor's Office as it relates to this rate increase review.

Specifically, you know, if the Board recommends certain rate increases, does the Council have the ability to either accept or deny or modify? That needs to be clarified.

BOARDMEMBER PARSONS: They always have.

CHAIRMAN HIRANAGA: Because of the recent Charter changes.

BOARDMEMBER PARSONS: But they stated that already.

CHAIRMAN HIRANAGA: Thank you for your comment.

Are you suggesting I not make this request?

BOARDMEMBER PARSONS: Yeah, because I think it's already been stated. You are putting extra work on them. I mean, it's been stated. They came in here, and they told us exactly what -- we went through the rules and regs of what they expected from us, and they have always had -- it has never changed. They have always had the ability to -- to overrule --

BOARDMEMBER PYLE: Rates.

BOARDMEMBER PARSONS: -- rates, and that has not changed.

CHAIRMAN HIRANAGA: Okay. Thank you for your opinion. I appreciate it.

BOARDMEMBER PARSONS: Read the minutes. Read the minutes.

CHAIRMAN HIRANAGA: The other thing is, I would like to suggest, in my opinion -- we can put this up for discussion -- is I would like to recommend one of the Board Members, whose term is expiring, to be placed upon the ad hoc or the Stakeholders Committee.

Because they have been on the Board for almost five years and have the historical knowledge as to why the

Board has been working in whatever direction it has been. So, that would be my recommendation as far as who to suggest to be on this Stakeholders.

BOARDMEMBER PYLE: Can there be two? Let's have two.

CHAIRMAN HIRANAGA: Well, let's discuss it.

BOARDMEMBER PYLE: That was my comment. My discussion. Can we have two?

CHAIRMAN HIRANAGA: I don't know. Can we?

BOARDMEMBER PYLE: Why not?

CHAIRMAN HIRANAGA: How many stakeholders total,

members?

DIRECTOR TENGAN: I think we have about a dozen, but it wouldn't be a problem to have two Board Members on it. If you have more than two on the committee, then the meetings would have to be noticed and all that according to the Sunset law. So, if you keep it at two, my understanding is that, you know, it wouldn't be a problem with regard to Sunset law.

BOARDMEMBER PYLE: Are you suggesting anyone in particular?

CHAIRMAN HIRANAGA: No.

BOARDMEMBER PYLE: Okay.

CHAIRMAN HIRANAGA: Do you have a suggestion or do you wish to volunteer?

BOARDMEMBER PYLE: No, I don't wish to volunteer, because I will be gone from the island considerably in the next four months, and I know that I would not be available.

CHAIRMAN HIRANAGA: Let's open it up to who wishes to volunteer first.

BOARDMEMBER PYLE: Okay. Let's have volunteers first.

BOARDMEMBER VICTORINO: I will volunteer. I have

no problem.

CHAIRMAN HIRANAGA: Mike.

BOARDMEMBER OKAMURA: I would like to see the
schedule first if possible, meeting schedule. Do you have --

DIRECTOR TENGAN: Right now, I am thinking about
maybe about a week before the Board meetings, so that any --

BOARDMEMBER OKAMURA: Thursday.

DIRECTOR TENGAN: -- any discussions that takes
place in the committee can be passed on to the Board at its
next meeting.

CHAIRMAN HIRANAGA: Monthly meetings?

DIRECTOR TENGAN: What's that?

CHAIRMAN HIRANAGA: You are looking at a monthly meeting?

DIRECTOR TENGAN: Right, right.

BOARDMEMBER OKAMURA: But the times are flexible.

DIRECTOR TENGAN: It could be flexible, but I am getting a request that if we have a set date, then it would be easier to commit to the project.

CHAIRMAN HIRANAGA: Nonbusiness hours?

DIRECTOR TENGAN: I am looking at doing it at the same time the Board would be -- the same kind of hours.

CHAIRMAN HIRANAGA: The committee is able to meet during business hours, as far as personal -- these individuals have made a commitment that they can come to these meetings during the day?

DIRECTOR TENGAN: Most of them have, but there have been a couple that asked for a schedule, so that they can appointment an appropriate person to attend, because it would be counterproductive to have, let's say, from one organization, if somebody cannot come or can come to one meeting, the subsequent meeting cannot come, so they would be

sending somebody else. That would be somewhat

counterproductive. So, we would like to come up with a

schedule whereby these people can commit to attending the

meetings.

CHAIRMAN HIRANAGA: Are you going to put a time

limit on these meetings?

DIRECTOR TENGAN: I am looking at two to three

hours.

CHAIRMAN HIRANAGA: Just so it doesn't --

sometimes it becomes counterproductive to meet too long. Good

to say we are going to meet between this time and that time.

DIRECTOR TENGAN: Right. Please understand that the Department, from my point of view, would be acting more as a facilitator for the meetings rather than, you know, running the meeting.

CHAIRMAN HIRANAGA: Okay. So, we have one volunteer.

BOARDMEMBER PARSONS: I was going to say one of the things I think that's crucial to be looking at right now is our agriculture properties and how they are changing. And someone with ag knowledge would be quite helpful.

I know Mr. Watanabe is on there, but I think, from

the Board's perspective, maybe if everybody is in agreement,
ag is a very important issue.

CHAIRMAN HIRANAGA: Clark.

BOARDMEMBER HASHIMOTO: My term is up.

BOARDMEMBER VICTORINO: We are looking for one guy
whose term is coming over, so we would have two guys, one who
is still on the Board and one whose term is ending with the
agricultural background and like that.

BOARDMEMBER HASHIMOTO: I can do.

CHAIRMAN HIRANAGA: It's up to you to commit your
time.

BOARDMEMBER HASHIMOTO: How long is this going to
drag on?

BOARDMEMBER VICTORINO: All next year, I think.

BOARDMEMBER HASHIMOTO: Sure, I will do it.

DIRECTOR TENGAN: I think we need to get something
to the Council by the end of October, so that would be the
working period for the committee members.

BOARDMEMBER HASHIMOTO: I will volunteer.

CHAIRMAN HIRANAGA: So, Mike and Clark have
volunteered to become a part of the committee.

Okay. Thank you very much. If there's no further discussion, we will move on to the next agenda item, which is the status of Board recommendations to Departments -- to the Department.

DIRECTOR TENGAN: Mr. Chairman, we do have a report prepared for you. It starts out with page 29 is a letter to you.

What we have done is we had -- Cathy went through the -- all the minutes of the Board meetings. And when the Board wanted -- whenever the Board wanted to provide some instructions to the Department, she had that listed. And we

had the staff members went through all those and responded to those items.

So, there is about, what? A little over two pages of those. And if you have any questions, we will respond to them.

CHAIRMAN HIRANAGA: I have a question. The meeting dated June 26th, '03, regarding David and Leonora Masters, I can't quite recall what the issue regarded, but the Board moved to recommend to follow the Mayor's and Director's decision to denied his requests. And status or conclusion, the temporary meter was installed as directed by the Mayor's

Office. Could you expand on that, please?

DIRECTOR TENGAN: Yes, a permanent meter wasn't installed at the premises. But upon further follow-up with the Mayor's Office, Mr. Masters was able to convince the Mayor's Office that we should at least put a temporary meter in place, and that's what we have there now, a temporary meter, which can be pulled out, you know, if it doesn't work to have the water services in that area.

CHAIRMAN HIRANAGA: Could you just provide a brief summary of what that request was all about?

DIRECTOR TENGAN: Well, as I recall, Mr. Masters,

his property is off of the Maui Country Estates Subdivision.

However, he was provided water service through the Maui Ranch

Estates water system. He was a customer of the Maui Ranch

Estates water system.

And through the Maui Ranch Estates water system,

he was given two or three meters. When we administered the

project, we were telling all those customers that they would

be entitled to only one water service. However, Mr. Masters,

in appealing -- appealing that through the Mayor's Office, was

able to convince the Mayor's Office that we should at least

provide a temporary meter in place of a second meter --

permitted meter to the property.

CHAIRMAN HIRANAGA: Did he have multiple dwelling

on his ag property?

DIRECTOR TENGAN: I believe there were two or

three dwellings on it, and that's why he needed another meter,

so that property could be adequately served.

CHAIRMAN HIRANAGA: Thank you. I'd like to make

this a regular request for the Board. Whenever we make

recommendations, that once a conclusion is determined, that we

find out what the Director's final decision was or is. Thank

you.

Next agenda item is the proposed fiscal year 2005 capital improvements project budget. I guess, for the new members -- I guess, George, for the new members, maybe you could provide an overview of the budgeting process.

DIRECTOR TENGAN: The budgeting process, for the Department and the Board, has changed somewhat. In the past, the Board was the final authority in approving the budget. However, due to the Charter Amendment, now the way it should work -- but it's not working right in that manner right now.

The way it should work, is that the Department

prepares a budget. Submits it to the Board. The Board reviews and approves the budget and then sends it up to the Mayor's Office.

But because of time constraints, this document that you are looking at right now has already been sent up to the Mayor's Office. This is because of the timing requirements in order to get it to the County Council for review.

So, you know, in order for us to get this to you on a timely basis, we probably should have a draft budget ready by the end of September or October. And, you know, we

just finishing up our fiscal year, and our accounting staff is working with the auditors to close the books and come up with a final report.

It's kind of -- it's kind of difficult to do that, and that's why, you know, we haven't been able to get the Board -- get to the Board the budget on a timely basis.

The operating budget has already been sent up to the Budget Office. But anyway, the Board can still look at these projects, I guess, and come up with recommended changes, if the Board sees any need to change, and we can submit it to

the Budget Office and see if those changes can be made at that level.

CHAIRMAN HIRANAGA: Yes, Ken.

BOARDMEMBER OKAMURA: Mr. Chair, I wanted to ask the Director how the budget items are determined. Because of staff requests or problems that you have or some things, is there a -- you know, how do you arrive at the items that we put on the budget? I know a lot of things speak to repair and stuff like that, but --

DIRECTOR TENGAN: Are you talking about CIP items?

BOARDMEMBER OKAMURA: Yes.

DIRECTOR TENGAN: Yes, staff reviews requests from operations, the field operations, from the people in the plant, from plant operations, and they sit down and meet and determine which budgets should be put on -- put in the budget.

A lot of times, they feel like one of the criteria we use is that a pipe -- certain pipe is giving us a lot of problems during the year. We have to go out on trouble calls. That would be one criteria. And, so, you know, it's the result of several meetings which items are put in the budget.

BOARDMEMBER OKAMURA: So, actually, with the amount of repairs you have and the amount of money you have,

you cannot really go and upgrade the systems, or is that a different item, or upgrades to the system would be part of the Capital Improvement Budget?

DIRECTOR TENGAN: Depending on the cost of it. We do budget every year a small amount for what we call in-house projects. There may be certain pipelines that we can cover within, too, within the budgeted amounts, and we will do those projects in-house.

These projects usually are primarily projects that we would have contractors do.

BOARDMEMBER OKAMURA: So, like if water was

inadequate in a particular area or neighborhood, how -- it has to be bad enough so that it comes to the attention of the Operations Division, and then they would bring the subject up?

DIRECTOR TENGAN: I think I need the question clarified a little bit.

BOARDMEMBER OKAMURA: Yeah. Let's say in one area of a neighborhood, there's not enough water, but your operations staff will know about the particular problem and sort of, in their minds, they prioritize the problem. You know, this is not as bad as this particular area.

DIRECTOR TENGAN: We would have to look at the reason as to why there isn't enough water. It can be the line. It could be the size of the storage tank that runs it empty every once in a while. It could be the source.

We would have to look at the underlying reasons to determine what needs to be done to upgrade the service in an area. And I believe we do that on a periodic basis.

BOARDMEMBER OKAMURA: Thank you.

CHAIRMAN HIRANAGA: I believe Ken brought up a good point. Prior to the Charter change, the Department used to present to us, the Board, a proposed budget. And we used

to have workshops, and we would review their proposed capital improvements.

And there are times when the Board would not agree with the Department's recommendations, and it would either deny or modify or change. And now this process is not -- we are not provided that opportunity. The budget has already been submitted to the Budget Director.

MR. PEARSON: Operations.

CHAIRMAN HIRANAGA: Did somebody say something?

MR. PEARSON: Operational budget.

CHAIRMAN HIRANAGA: I guess I would like

Corporation Counsel to provide us an opinion if this is the proper process intended by the Charter change. I know there are what I would say practical limitations, which may not be the fault of the Department.

But I would like to see if the process is being adhered to as mandated by the Charter. If it's not, then we need to find a way to be in compliance, because to be given a budget after the fact, why even bother opening it.

DIRECTOR TENGAN: Yeah, that's what I mentioned earlier, Mr. Chair, that the Charter Amendment has been very difficult to work with. You know, pretty much we are in the

closing of our accounting records for the previous fiscal year. And, you know, if we were to present a budget on a timely basis to the -- to the Water Board, we would have to practically have the budget ready for review, you know, at the end of September or early October.

And like you say, timing is a real problem on this requirement. Understand, I understand what the Charter requires. The Charter requires that the Department submits to the Board its operational and CIP budgets for review and passing it on to the Mayor and the Council for approval.

CHAIRMAN HIRANAGA: Is it correct that the

Board -- the Board transmits the budget to the Council and not
the Department?

DIRECTOR TENGAN: Well, it goes through the

Mayor's Office.

CHAIRMAN HIRANAGA: But it's the Board that

submits it?

BOARDMEMBER PYLE: Mr. Chair.

CHAIRMAN HIRANAGA: I am asking a question.

BOARDMEMBER PYLE: It's the rules. This is a

whole rules issue.

CHAIRMAN HIRANAGA: That's why I am asking that question.

BOARDMEMBER PYLE: We have no rules. They don't know. We have no rules.

BOARDMEMBER PARSONS: You are asking for something that's not -- that doesn't exist. I mean, you are asking for an opinion on something that doesn't exist.

BOARDMEMBER OKAMURA: I thought, at one time, the -- Mr. Chair, the Corporation Counsel said that the rules are still in place. They are still effective, but until someone says otherwise, we have to go by those rules. I think

that's what he said.

BOARDMEMBER VICTORINO: Yeah.

BOARDMEMBER OKAMURA: I am not sure, but I

think --

CHAIRMAN HIRANAGA: My concern is the Charter

mandates a certain process, and that process is not being

adhered to. And if there's practical limitations, we have to

look -- figure out what the solution is. That's my concern.

BOARDMEMBER OKAMURA: Right. I think that's a

good point.

DIRECTOR TENGAN: Let me read from the Charter a

couple of provisions that pertain to this issue here. Under

Section 8-11.4, powers, duties, and functions of the Board.

The Board of Water Supply shall, one, review and submit, to

the Mayor, the Department of Water Supply's request for an

annual appropriation for operations and capital improvements.

But yet it goes on further: The powers, duties,

and functions of the Director of the Department of Water

Supply, prepare long-range capital improvement plans and

up-to-date water usage development plans and submit it to the

County Council.

Under item four, it says, the Director shall prepare an annual operating and capital budget for the Board of Water Supply's review and submit the Board of Water Supply's requests for the annual appropriation to the Mayor.

So, what this tells me is that the Department should be preparing the annual operating and capital budget, submit it to the Board, and through the Department, it's submitted to the Mayor's Office. Unless I read it wrong, this is my understanding.

CHAIRMAN HIRANAGA: I guess I am asking for clarification from Corp Counsel, because, you know, before the

Charter change, the budgeting process was very --

BOARDMEMBER PYLE: Involved, I know.

CHAIRMAN HIRANAGA: And right now, we have no involvement, and it's a concern.

BOARDMEMBER PARSONS: He's asking us to review what he puts forth.

CHAIRMAN HIRANAGA: It's already been submitted. There is nothing to review.

BOARDMEMBER PARSONS: Well, it's not been acted upon by Council and accepted. So, if we have a problem with it, then the issue should come up.

CHAIRMAN HIRANAGA: So, is the Department planning to provide a workshop to go over the budget, or are you just presenting us this, and saying go through it and tell us if you want any changes?

DIRECTOR TENGAN: If the Board wants to, we can hold a workshop.

CHAIRMAN HIRANAGA: And if we determine that certain -- that the Board wishes to make recommendations, which are contrary to the Department's budget, what do we do?

DIRECTOR TENGAN: We --

CHAIRMAN HIRANAGA: Communicate that.

DIRECTOR TENGAN: We can communicate that to the Budget Office or to the Mayor's Office.

CHAIRMAN HIRANAGA: And what timeframe does this need to be done by? This communication needs to be provided to the Council by when?

DIRECTOR TENGAN: I am not that familiar with the Council process in approving the budget. But, you know, Departments appear before the County Council Budget Committee, I believe, individually and go over the budget items. So, there might be some time before the Department goes to the --

before -- before the Department appears before the Budget
Committee to -- for budget review.

CHAIRMAN HIRANAGA: So, you don't know exactly
when the Department --

DIRECTOR TENGAN: I don't know what the Council's
schedule is.

BOARDMEMBER PYLE: Traditionally has it been
March, or April, or May?

DIRECTOR TENGAN: Yes, traditionally, we used to
get the budget to the Board in March. But under the Charter
Amendments, we have to -- and the Budget Office requirements,

we have to get the operating budget in to the Budget Office by
January.

BOARDMEMBER PYLE: When does the Council have
their hearings generally in the past? Has it been in April
or --

DIRECTOR TENGAN: This would be following --
probably in March or so.

BOARDMEMBER PYLE: So, that should be an
indication of when they will intend to do it again this year.

MS. MORRISON: Mr. Chair, my name is Sherry
Morrison. I am an Executive Assistant to Councilmember

Tavares.

Just as a point of information, the Charter requires the Mayor's Office to submit a budget to the Council by March 15th of every year. So, within the timeframe between now and March 15th, it appears there's some open time. But the Council doesn't receive it until March 15th. And even then, it's under review, and the Council would, of course, I am sure, take input from any citizen.

CHAIRMAN HIRANAGA: Well, I guess I am wondering if the Board Members are interested in going through this exercise?

BOARDMEMBER PYLE: We should be.

BOARDMEMBER VICTORINO: Move we can conduct a workshop at the earliest convenient time for the entire Board. And, so, then we can review, go over and make recommendations that would be forwarded to the Mayor's Office.

CHAIRMAN HIRANAGA: Or the Director.

BOARDMEMBER VICTORINO: Or to the Director to forward to the Mayor's Office, whichever the proper procedure is.

CHAIRMAN HIRANAGA: Is there a second?

BOARDMEMBER PYLE: Second.

CHAIRMAN HIRANAGA: Any discussion? So, no

discussion. So, I will call for the vote. All in favor say

aye.

(Chorus of ayes.)

CHAIRMAN HIRANAGA: Against?

(Silence.)

CHAIRMAN HIRANAGA: So, if you could schedule a

workshop for us.

DIRECTOR TENGAN: It might help us to know when

the Board would want to have this workshop, early February,

or --

CHAIRMAN HIRANAGA: I guess if you can identify a date and time, and Cathy can determine if the Board Members can attend, and you can provide the public notice.

DIRECTOR TENGAN: So, we will work directly with you instead of working --

CHAIRMAN HIRANAGA: I am available as soon as you are ready.

BOARDMEMBER PYLE: Does it seem like since most of us seem to have Thursday mornings available, that it should be on a Thursday morning, so it doesn't necessarily interfere

with too many other schedules?

CHAIRMAN HIRANAGA: Yeah, that's fine. We can
work with --

BOARDMEMBER PYLE: So, let's aim for a Thursday
morning.

DEPUTY CORPORATION COUNSEL: Mr. Chairman.

CHAIRMAN HIRANAGA: Yes.

DEPUTY CORPORATION COUNSEL: To clarify, do you
still want this opinion regarding the budget?

CHAIRMAN HIRANAGA: Yes, I would like that to be
clarified.

DEPUTY CORPORATION COUNSEL: Okay. Even if George has read this section to you, it's fairly clear. And you also want that other opinion regarding the issue of rate increases?

CHAIRMAN HIRANAGA: Yeah, the roles of the various entities.

DEPUTY CORPORATION COUNSEL: All right. I will pass this on to Ed Kushi. And bear in mind that as far as a workshop, we need to issue a proper notice.

CHAIRMAN HIRANAGA: Right. Okay. Next agenda item is other business. Receipt of Boardmembers' requests for

agenda items to be placed on future agendas. Yes, Ken.

BOARDMEMBER OKAMURA: Mr. Chairman, several people have come to testify with regards to needing or regarding conservation programs. And I know the Department does foster conservation and things like that. But maybe I would like to discuss with the Board the possibility of recommending that the Department look into the feasibility of having a conservation program with budgeting some monies budgeted to carry on a conservation. Is it -- is it feasible to do it? That would be a question that we would discuss on the Board on our next meeting possibly.

CHAIRMAN HIRANAGA: Well, I will let the Director answer, but I believe they do have a conservation program. I think that he could maybe expand on it for you.

BOARDMEMBER OKAMURA: Yeah, you know, what's been -- I would like to discuss it on the Board maybe next meeting. But maybe what's been done in other areas, and, you know, kind of results they had. Is it worthwhile for the Department to do it?

CHAIRMAN HIRANAGA: Sure.

BOARDMEMBER VICTORINO: I think I would like to expand on that, Mr. Chair, and have a presentation on exactly

what the Board is doing at this time. Yeah. What -- yeah,
what the Department is. I am sorry. Excuse me. I meant the
Department is doing as far as conservation is concerned. If
Jacky could do something, because she's really active in that,
please.

CHAIRMAN HIRANAGA: Yes, Dorothy.

BOARDMEMBER PYLE: Not to just beat a dead horse,
but could we please have some kind of an update, report,
indication that something is happening to the rules?

CHAIRMAN HIRANAGA: Well, I believe that the
Council is trying to retain special counsel to review the

rules, but there's some problem with them being able to do that.

BOARDMEMBER PYLE: Perhaps someone from the Council would like to come and explain what the problem is, or, you know, we keep getting put off. And it is now going -- it's been over a year since the Charter change, and we have no rules to operate under, which, as you have just found out, leaves us completely in limbo, and we have really no purpose.

CHAIRMAN HIRANAGA: Might it be appropriate then for an update from Corporation Counsel.

BOARDMEMBER PYLE: That would be good.

CHAIRMAN HIRANAGA: At our next meeting, if

Corporation Counsel could --

BOARDMEMBER PYLE: And perhaps communicate with
the Council to ask them to explain what's going on.

CHAIRMAN HIRANAGA: I guess I would like to have
something placed on the agenda. The Mayor announced that he's
planning to or has come to agreement to utilize the H Poko
wells for use in the Central Maui area, primarily
Spreckelsville, and Kuau, and Paia, taking Paia, Kuau, and
Sprecklesville off of the Central Maui water system and

placing them on this H Poko system.

And some citizens have expressed concerns about this area being placed totally dependent upon water coming from H Poko because of the DBCP issues. And I guess in other areas where wells are being treated, there's been like 100 percent dedication and have been a mixture of nontreated water with treated water. So, I think a further discussion on the implications of placing this area solely on the H Poko wells, it would be of interest. Any other requests?

Okay. Next agenda item is the Division Report. I

don't think I received Division Reports. Is it in the packet?

BOARDMEMBER PYLE: Yeah, they are here.

BOARDMEMBER VICTORINO: Was it?

CHAIRMAN HIRANAGA: Sorry. They were hiding. Any

questions or comments regarding the Division Reports?

(Silence.)

If not, this meeting is adjourned. Thank you.

(Adjourned, 11:33 a.m.)

"By Water All Things Find Life"

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