

County of Maui Water
Supply

BOARD OF WATER SUPPLY

COUNTY OF MAUI

BUDGET WORKSHOP

WEDNESDAY, JANUARY 12, 2005

Kahului Shopping Center

Kaahumanu Avenue

Kahului, Maui, Hawaii

Reported by: Katherine Eismann, RDR, CRR, CSR #439

APPEARANCES

Chairperson: MICHAEL VICTORINO

Vice Chairman: KENNETH OKAMURA

Board Members: KENT M. HIRANAGA

SALLY RAISBECK

RALPH JOHANSEN

Corp Counsel: EDWARD KUSHI, JR.

Director: GEORGE TENGAN

Deputy Director: JEFFREY T. PEARSON

Board Secretary:

CATHY HOWARD

Staff:

ELLEN KRAFTSOW

HOLLY PERDIDO

PAUL SEITZ

ALVA NAKAMURA

(Wednesday, January 12, 2005, 10:34 a.m.)

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CHAIRMAN VICTORINO: Call the meeting to order.

Board Members present, Ralph Johansen, Sally Raisbeck. Thank

you, Kent Hiranaga, for coming. Kent Okamura and myself, Mike Victorino.

Welcome. Thank you for being here. I have public testimony. I have one person wanting to speak -- wanting to give public testimony. That's Dick Mayer. Dick, I'd like to call you up at this time if you are ready.

MR. MAYER: Where do you want me to sit? The mike there?

CHAIRMAN VICTORINO: The mike there, Dick. I am sorry. Go ahead. And thanks everybody for your patience. I truly appreciate it. Mr. Mayer.

MR. MAYER: Do I need to bring it up here or leave

it here?

CHAIRMAN VICTORINO: I think you have to turn it

on.

MR. MAYER: Okay. One, two.

BOARDMEMBER RAISBECK: It's a good idea to hold

it.

MR. MAYER: It doesn't come any further. Oh,

there it goes. Thank you very much, Board Members. And what

I'd like to do is comment on two items you have on your

agenda, the Stakeholders and then its implication for the

budget. I went through the Stakeholder's report, and there's some terms and some other concepts that I'd like to elaborate on.

One is a mixture, an integration of the two terms, low income and seniors, as if they are one in the same group. I would like you all to consider the fact that seniors may not be low income. And, in fact, in Maui County right now, we have many seniors moving here, from elsewhere in the country, who are extraordinarily high income people. And we have many young couples, single mothers, et cetera, who are very low income.

So, if you do make any adjustments for special groups of people, I would urge you, do not make it for seniors, but rather make it on the basis of need for low income people.

Okay. Second item, in the -- if you take out your Stakeholders Report, I would urge you to take a look at attachment seven, because I want to make a couple comments on that, very back of the report.

Conservation was stated as being one of the goals, professed goals. But, in fact, the rates, as they came out,

are not nearly progressive enough. And, in fact, when you really look at it, they are not progressive at all in terms of going -- in other words, allowing for or encouraging conservation.

And just to use as an example here, if you look at the chart there on -- it's attachment seven, the one that says general rate customers. There are two pages on attachment seven. Take the first one where it says -- and let's just look at the two-inch meters at the bottom of that chart, if you follow along with me, the two-inch meters.

And you will see here on the left side there,

there are three different levels, 300,000, 800,000, and one million gallons. Okay. So, you go up in the usage that you are using under that rate structure. And then let's just jump to the proposed rate structure, and look not to last two columns, but the third one in from the right, and you will see there where it says the average dollars per thousand gallons. And you will see it actually goes down.

As a person uses more water, it goes from 2.73 per thousand, down to 2.61, down to \$2.60 per thousand. Okay.

The point is, obviously, that this is certainly not conservation if using more water actually you are paying a

lower rate per thousand.

So, whatever rate structure you set up, I would hope that it is progressive, just as taxes are progressive. In other words, the more you use, in this case, the higher the rate structure and not use a rate structure such as this. And if you look up at the other meter size, just pick that as an example, you will see the same thing. And you will look over on the right-hand side, the very right-hand column, and you will see, for example, the percentage rate increases. This is a proposal coming to you from your Stakeholders.

And they are saying what we really want to do is

push conservation, but if you look at the right-hand side there, you will see, for example, once again looking at that two-inch meter, it drops from 13.5 percent increase down to 13.1, 13.1.

In other words, the increase is larger on the small users rather than on the largest users. This is something that I think should not be done. The one exception on all this is on the residential customers. On the residential customers, the top three rows across, which is the 5/8th-inch meters, there -- in fact, if you will look at the

right-hand side, you will see that the percentage increase does go up the more you use. But, unfortunately, the average cost per thousand gallons, if you look at that third column in, you will see it goes from 263 to 241, and then I think it's 248 there.

That's certainly not quite as clear that you are really encouraging conservation there. So, please, whatever rate you eventually agree upon, make sure that, in fact, the big users, for each meter size, pay more per thousand gallons.

Third item, something you may want to consider, because one of our major problems here on Maui in building up

to capacity for water development growth storage tanks, is the fact that there's some times of the year where we have tremendous demand on the system. And you may want to consider a seasonal rate surcharge.

For the months, for example, from May to October, you may want to say -- and I am using an arbitrary number here -- we are going to have a 20 percent increase in rates during that period, because that would then help pay for the reservoirs, and the other storage containers, and the other things which we need more to build to take us through the various drought periods. That's something I would urge you to

consider.

Next, the service charge -- I have five items all together. Number four, the service charge, right now, if you look at that same chart that I have there, and you look over on the left side there -- excuse me. If you look at that same chart, where -- the right-hand box, which says the proposed rates, and you will see there, to the left column, the left column of that chart, it shows that for 5/8-inch meters, it's \$13 per bimonthly period, then \$17, et cetera. It goes up -- those rates go up on a bimonthly basis.

I'm not sure that the large meters are paying the

proper service charge. I think they are undercharged. And what I'm saying is that the size of a meter doesn't necessarily go up by the inches diameter, but rather by the cross-section, the area of a meter. And therefore, for example, rising as it does there, the highest meter, eight-inch meter is not just eight times bigger than a one-inch meter, it's by the square of the radius, and, therefore, the rate should be much higher. And I will give you a chart in a minute that will show what those numbers should be.

And lastly, the capital improvement projects.

This is one I'm -- we had a discussion here while we were waiting for the meeting to begin, and who should be paying for it. And I would like to use a simple analogy.

Imagine that you were living on a street with, let's say, a hundred houses on it, and you folks had spent all the money building up, putting in the pavement, putting in the street, paying your taxes, getting everything done. And all of a sudden, at the end of your street, which is a dead-end street, somebody comes along and says I want to put in a development which is going to have another hundred houses on

it and improvements, a new development.

And we are going to ask the existing taxpayers, the existing people who live in the first part of the street, to pay for our expansion down the road there. In fact, it's going to cost a million dollars to build the road up another half mile for the next group of people, but we are going to throw the cost back on the existing people. And the existing people say, no, why should we pay for your development? You are going to be using our part of the street, the first part, and you are going to use the other. We will never use your part.

What I am saying is that new developments should pay for their own improvements, their own expansion, et cetera, and not throw that back on people who have already paid for all the infrastructure in the system.

And so, in looking at the report, I don't see any clear distinction being made, by the stakeholders, in the recommendation for the rate increases, as to how much should be paid by all of these very large new developments that are going in, whether it be Wailea 670, or Makena, or out in Haiku, or Upcountry, or whoever or wherever it might be.

What I think we need to do is take a look at the

development fee that's being charged, which has stayed at around \$6,000 for several years, and make sure that that number is proper to pay for all of the new developments. We are talking about new wells in Waihee.

Let's assume, for a minute, that nobody moved to Maui. That we kept our present population. We wouldn't need all those new developments. What we would need to do is spend money for upgrades, and fire protection, and maybe making sure the system is maintained. But what we need to do is figure out that development fee. And I think going out to the public

with a 12 percent proposal hides completely the fact that the Department is very much in need of money to pay for a lot of new improvements, and we need to put out there the development fee at the same time for customers and not just the water usage rates going up. Thank you. And thank you for the time.

CHAIRMAN VICTORINO: Thank you, Mr. Mayer.

Normally, I would let a lot of questions be asked, but because we have a lot of stuff that needs to be done -- unless you have an urgent, urgent question for Dick, I'd like to move on.

Does any Board Member have an urgent question?

Then I will say thank you very much, Dick. We will take note

of your things. And if you would give us that chart --

MR. MAYER: I will.

CHAIRMAN VICTORINO: And thank you very much.

MR. MAYER: Okay. If there is -- I will be available afterwards. If you get through, I will be available for questions.

CHAIRMAN VICTORINO: Thank you, Dick. I hate to be pushing this along, but at this time, I'd like to call on who, Holly, Ann, Michael? Michael. Michael Quinn, who is the facilitator for the Stakeholders Committee.

MR. QUINN: Good morning. I'd just like to update

you quickly on the -- sort of the results in that letter that the Stakeholders Committee came up with proposing a new rate. But I'd like to preface -- before I get into the letter itself, I'd just like to give an overall view of the feeling of the committee as I -- as I see it.

There was a -- the primary concern of the committee was that there needs to be a dramatic increase in the level of CIP productivity by the Department, and you will see that theme surfacing throughout the letter. In fact, some of the committee members described the current condition of the water infrastructure on this island as in a crisis

situation.

And basically, the concern was there's been a wide disparity between what the Department budgets for CIP, on an annual basis, and what actually gets encumbered or expensed on an annual basis. And in this case today, now that the Department is under the County, the Department actually has 18 months to spend CIP allocations as opposed to the prior where it was 12 months, just for clarification.

So, for instance, in fiscal year 2004, the budget was about 22 million, and in a 12-month period, about four to

five million got encumbered or expensed. On the 18-month cycle, about 14.7 million got expensed. So, you had a shortfall, on a 12-month basis, of \$17 million and on an 18-month basis 7 million. And the same kind of scenario in 2003, you had a shortfall.

And we could go back several years and look at that. There's been a consistent shortfall. And the concern was that we keep this -- there's so much catch-up that has to be done, in terms of funding that has lapsed in the past, that we have got to do business differently.

Now, there's some valid reasons why the Department

has run in -- recently run in to some problems, and they are drastically low in terms of open staffing positions in the Engineering Department. I think right now there may be as many as five positions outstanding.

And that was another concern of the committee, and they were trying to help the Department figure out a way to accelerate that hiring process to the point where they invited the Mayor at the last -- to come to the last meeting. He was unable to make it, and they also invited the Director of Personnel Services, and the -- I wasn't there, but I believe the Assistant -- the Deputy Director appeared.

And the focus of the committee was how can they
and how can Personnel accelerate this hiring process, because
it's very difficult, not only to get qualified engineers, but
just to get engineers, apparently, in today's environment.
So, there is a short-term reason why the Department is in that
situation.

But, above that, the committee felt that the
Department needed to look at the process. How is the CIP --
how does the CIP process -- how does it function? What are
the steps involved? Let's take a whole new look at it. Think
out of the box. Can we outsource more? Can we share with

private sector? Can we advertise on the mainland? Can we offer financial incentives to the engineers to attract new engineers?

So, all these suggestions came up, and merely in an attempt to help the Department accelerate this process.

Should we look at -- should the Department be looking at a totally different way of functioning in the Engineering Division as far as the CIP process?

It's not just the function of getting new people, but maybe we can combine small pipeline projects, for

instance. So, there was all sorts of feedback from the committee and suggestions as to how they may improve the productivity of the CIP process stream.

So, again, I just wanted to emphasize, before I get into the letter, that that was the primary concern. That we cannot continue to play catch-up, and we have to do things differently. And that was the driving force behind the incentive to beef up productivity in the Engineering Division, so that they could do \$25 million a year.

Now, the recommendations themselves are summarized on attachment five, page nine. I hope everybody has that.

There are seven of them. And I'm going to touch on them real quickly, because I'd like to open it up for questions.

Recommendation number one is does the CIP implementation plan -- again, there's that theme of the CIP. The Director has come up with a plan to hopefully improve productivity within the Engineering Division and improve that whole CIP process. So, he has come up with that plan, and it addresses some of the things that I just mentioned, aside from increasing the staff and filling vacant positions.

Recommendation number two, the committee thinks that the Board and the committee should both have progress

reports regarding the success of the implementation plan, not only how much money are we encumbering, say, on a quarterly basis or expensing, but how is the plan that the Director has come up with progressing. Are we able -- have we had any additional problems hiring new staff? Are we changing the process?

Recommendation number three, again, geared towards the CIP process. The committee recommended that a management audit of the DWS Department be conducted in fiscal year 2005. Now, I am not going to go into that in detail, but that, for future reference, in attachment five, page two, were some of

the suggestions that the committee had. Again, I mentioned some of them before.

So, the first three recommendations so far are all CIP related. The committee felt, again, that we need -- this island needs -- not focusing on expansion at all, just maintaining the system. You have at least 750 miles of pipe on this -- that you are responsible for at this point. That's a lot of pipe, and it's very expensive per foot to put that pipe -- install new or reinstall the pipe that's in there.

Recommendation number four, the proposed rate

adjustment. The committee recommends a system-wide rate increase of 12 percent. Taking into account the rating policies mentioned above, the result is an increase of approximately 12.2 percent for general rate customers, an increase of approximately 7.2 percent for agricultural customers, and an increase of approximately 6.2 percent for nonpotable customers.

Again, there seems to be some concern, by members and testimony from the public, about the portion of this rate increase that is geared towards expansion. It is not geared towards expansion.

Expansion funding comes from the Water System

Development Fee and goes into that fund, and those funds are to be used for expansion, expanding source, and only for that.

There is not a commingling of the rates that we pay, on a bimonthly basis, and expansion funds.

Recommendation number five, the need for future rate increases. Again, goes back to the CIP productivity. If the Department can display the ability, over the next year or two, to accomplish a significantly higher level of CIP, then, obviously, there will be a need for future rate increases.

Recommendation number six, plan to move to

customer-based rates. There was a lot of concern, on the committee, regarding this kind of a structure. For instance, maybe hotels would have their own rate structure, general residential consumers would have their own, certain commercial establishments would have another rate structure. And one of the attractive things about that rate structure, as we discussed with Ann at R.W. Beck, is that's a better mechanism for focusing on conservation, because you can fine tune each customer class based on their consumption patterns.

However, we did not move forward with that

suggestion, for this particular rate proposal, because there

was not sufficient data available to do so. But one of the things that the Department and R.W. Beck are currently doing, I believe, is looking at that to see if they can come up with sufficient data to provide the Stakeholder Committee and the Board with information regarding that kind of a rate structure. So, we held off on doing -- recommending that for this particular increase.

Recommendation number seven, there were several items that came up that we thought would -- we couldn't take action on now but they were issues for future consideration.

One is creation of a capital reserve fund which the Department has had in the past, but I understand, under the County administration, they are not allowed to do that anymore.

Feasibility of low income water rates, again, addresses the comment that Dick Mayer made. The focus is on low income and should not be on just senior or -- and low income should not be grouped together.

Development of an overall Department of Water Strategic Plan. We also felt that there should be some priority on developing a strategic plan by the Department. In my review of other -- and I think Ann may be able to

substantiate this -- of other utilities, certainly in Hawaii and on the mainland, that have had very success -- a lot of success with the rate increase process, there's a very definitive strategic plan which outlines the strategy of the Department. The public knows about it, they are well aware of it, and, therefore, there are not a lot of surprises. You can have small increases on an annual basis and avoid rate shock. So, again, we felt there was a need for a very strong strategic plan.

And something that's come up many times,

expediting completion of water use and development plan,

because that's a critical factor also.

And the determination of appropriate levels for the DWS. This rate increase relies on debt in the future. Issuance of debt in the future would rely significantly on the increase on the issuance of debt. And since the Department is under the County now, there are certain -- there may be certain debt issuance restrictions that the County administration has and the County Council has. So, the whole issue of debt should be examined closely with the administration and with the Council to see if there are any specific guidelines that would impact the future funding of

CIP projects, especially, you will see, in 2010, where there's a large reservoir that's proposed for Upcountry. And there would probably be a whole combination of moneys to support that, but some of that would probably be debt.

So, at any rate, that's the summary. Again, the primary concern of this committee was that the status of the CIP productivity level needed to be accelerated dramatically. And that is just -- basically, from April through December, that was the primary concern of every meeting. As a matter of fact, we many times didn't get to all the items on the agenda

because of that concern. Anybody have any questions?

CHAIRMAN VICTORINO: If you would keep your questions condensed and to the subject matter, because I do have Ann. I want her to give her presentation, so I will open the floor up to questions. Ralph.

MR. JOHANSEN: First of all, I think this Board should recognize the amount of effort and time that you have put into this as a committee, and I think that the results show.

I am glad we had this discussion before this meeting, and I am glad we are having this meeting before the

community discussions, because we can clear a lot of things up very quickly and avoid a lot of controversy.

One thing I hope I -- my point in making this motion was that there be a very clear demarcation between maintenance, O and M, and new growth throughout. Whether it's some kind of capital reserve fund or however the expenses are going to be paid for, those two items should be very clear all the way through.

One, we got this information just the night before the last meeting, and I understand there are good reasons for that. Staff time was short and everything else. But that's

the reason why I voted against it. I didn't have enough information to approve anything.

I wonder about this whole business about seniors and low income. I know that implementation of anything about seniors and low income is being deferred because further study is required. I'm just curious. How much can we avoid reinventing the wheel here? There must be information from public utilities all over the world that we can use here without doing a specific survey of the situation in Maui County.

Another thing I want to make -- another point I

want to emphasize is that a lot of people here -- I can see that we may get a response when we want to make the beneficiaries of new growth pay their way, that the whole County benefits from that. I can see that response as being a reasonable one on its face.

One problem is, I lived in Kihei where people were chockablock. The number of cars in front of houses was just enormous. A lot of them were transients. A lot of them weren't paying their way for whoever was holding the bag on their property. People are treading water.

And I think that should be kept in mind, that the investors in new development are awash in capital. Nobody can argue with that. And I just -- I want to anticipate the fact that people may say we are all profiting from that growth.

MS. HAJNOSZ: Okay. Can I address Ralph's issues?

CHAIRMAN VICTORINO: Ann, you can go ahead and get started.

MS. HAJNOSZ: I don't really have a whole presentation. I was really here to address the questions that came up. So --

CHAIRMAN VICTORINO: Okay. Go ahead.

MS. HAJNOSZ: I want to address Ralph's questions.

Some of these might address Dick's also. With regard to the growth issues, I am hearing loud and clear really, from the first time -- I think from the Stakeholders' standpoint, as Mike noted, we didn't get into these growth issues much, but I think it will definitely serve us -- serve all of us and serve the cause to have a bit of a discussion in the Stakeholder letter, perhaps, to just really distinguish between what's going to be paid for growth, how growth will be paid for, or is being paid for, and what this rate increase really means in terms of a growth versus O and M type of split.

CHAIRMAN VICTORINO: Okay.

MS. HAJNOSZ: So, I think we can definitely put something in there to address it and clarify it.

With regard to seniors issue, I think this has evolved into sort of a semantics issue where people kept saying low income, seniors, and almost using them interchangeably. We know that's not the case.

And, so, towards the end of our discussion, we really were focussing on the low income and, you know, making it a point that mainly for the low users and assuming that, you know, these people were -- some people with limited

income, we would try to keep the rate increase to a minimum.

And I know that there are low income users in multifamily houses, for example, that are very high users, because they have large families. We can't have a rate proposal that is going to address all these issues. There is an issue for future consideration, that the Department may want to tag on to an existing low income support program, if it's administered through the Department of Education or the school lunch program or something, where families are already qualified, prequalified to receive low income assistance. We

might consider providing low income assistance for the rates -- for the water bills.

So, that's how we are going to address it. I am going to go into the letter to make sure that we are talking about low income though and not seniors specifically.

CHAIRMAN VICTORINO: Other questions for Ann?

BOARDMEMBER RAISBECK: This is just a comment and not exactly a question. But if the letter could much more clearly explain what part of the rate increases will contribute to O and M and what part of it is more focused on development necessary to permit growth, if that can be more

clearly presented, I think it would be helpful.

MS. HAJNOSZ: Okay. We can do that. And just so -- I want to make sure everyone is clear. There are really two main components that are driving this rate increase, operation and maintenance, that includes labor, equipment, and all those kinds of things, and capital.

And the capital component can be split down further between growth and renewal and replacement. Okay. So, just to make sure we are all on board in terms of semantics. We have got operation and maintenance, capital, and capital gets further split between growth and renewal and

replacement. And those are the four things that we will key off and make sure that those are clear in the letter.

BOARDMEMBER RAISBECK: Thank you.

CHAIRMAN VICTORINO: Thank you, Sally. Thank you, Ann. Other Board Members have questions? Kent.

BOARDMEMBER HIRANAGA: Mike, so you invited the Director of Personnel Services. So, you know, the biggest problem, I guess, evidently, is lack of staffing. And the reason that there's a lack of staffing is because of the wage being offered is too low to attract qualified individuals.

So, I have been on the Board almost four years,

and every year it's the same thing. We are understaffed. We can't get staffing, because they are underpaid. Did the Deputy Director have any suggestions to address that issue?

MR. QUINN: I was not at that last meeting, but Ann was, but I will just comment on that. The committee knew that this situation -- knows that this situation exists, and that's one of the reasons why they wanted the Mayor there and the Director of Personnel Services, is to see if there was some way of just putting the focus on the Water Department and really trying to help them out.

And, for instance, the idea of giving -- there's such a thing as a shortage differential that the Department's -- some of the people in the Department's treatment plant operation get. And we -- I was told that on the Big Island, the engineers do get that shortage differential. So, that was one of the suggestions.

And I will let Ann answer directly what the Deputy said. But knowing that and knowing that it's still going to probably be difficult -- oh, and by the way, the shortage differential, if you are recognized as having that, I believe that allows you to advertise on the mainland. And, so, you

are going to a much broader audience. And, you know, you can maybe possibly -- like the treatment plants attract people just that want to come over here and work and live here, because it's such a great place to be.

But aside from the staffing issue, things like sharing with the private sector, perhaps, outsourcing, combining things. Let's not just be stymied by the fact that the Department can't -- is having trouble getting additional engineers. Let's try to do things differently, also, that might be able to work while we are out there trying to recruit. But that's a long-worded answer to your question,

but there was a lot of things that revolved around that issue.

Ann.

MS. HAJNOSZ: Just, I think, to clarify, whoever was at that meeting please correct me if I am wrong. But what I heard the Deputy say is that the Department is able to hire a higher salary scale than what would typically be the case under normal hiring situations. And, so, that -- that higher scale approaches what they would be able to hire in a shortage situation. So, declaring a shortage may not necessarily get you engineers just because they are getting paid slightly more, because right now they can get paid at the J scale.

Something like that.

But just to let you know, I graduated from the University of Hawaii in Engineering. I recently received their Bulletin, Alumni Bulletin. Eight graduates in the spring of 2005. That's all. And, so, we are talking not only about not having enough engineers just working out there, but we are not even, you know, pushing them out. They are not in the university that is at a rate that is sustainable, not only for Maui, but all the counties are in the same situation.

What the Deputy also said is that engineers are

not the only position that there's a shortage in. I mean, there is a tremendous shortage, county-wide, for other staff. And, so, they are, you know, focusing their -- it's not only engineers that they are worried about. They are focusing their efforts in a lot of different areas.

That being the case, the Department has to really make more -- really take an aggressive stance on making sure the engineering piece gets a lot of attention and they are devoting enough resources to get -- to getting engineers from either the mainland or wherever.

CHAIRMAN VICTORINO: Ken, you have one.

VICE-CHAIRMAN OKAMURA: I wanted to ask about the five year CIP funding. On page -- attachment five, page one, you said that over five years, I guess, you are going to go for 105 million conservation bonds. And on page -- attachment five, page four, it shows the debt service that we are paying now. I think our current debt load is about 30 million, 30 to 40 million.

And I was concerned that in the projected fiscal year 2006 revenue requirements, on attachment five, page four, the debt service of \$6,137,450 doesn't seem to show any increases in capital, in general obligation bonds, debt

service. So, it would be the following year that we are going to pay debt service.

But I'm concerned that you are not showing those numbers, because if our current debt service debt is about 30, 35 million, whatever it is, and we are going to almost triple that, currently, we are paying 6 million a year in debt service. I was concerned that we are going to be paying a lot in debt service, let's say three, four years from now.

And I also notice that you do have some projections for the estimated increases needed. I guess on attachment five, page three, table three, you show how much of

that increase would be needed, I guess, to fund the capital increases -- capital increase or to pay for our debt service.

So, those -- do those numbers cover the debt service?

MS. HAJNOSZ: Yes, they do. And what we have done, Ken, is try to defer a lot of the debt service by saying that the bonds would basically be funded in the second half of the fiscal year. So, we are basically delaying all the debt service six months, you know, for every fiscal year.

So, the 105, yeah, sounds very big, and this

number has certainly not been -- you know, this is one of the concerns of the Stakeholders Committee is that is that debt level even a reasonable level? You know, but what we wanted to really show, in our projections, is some sort of five year or multi-year analysis that said if this is the direction we are heading in, this is what the rate increases would be.

And given the -- we definitely don't know if that's even an acceptable level. You know, it's just not -- we can't really even go there. It's just too far in the future at this point.

VICE-CHAIRMAN OKAMURA: I'm sure you have the

numbers on what the debt service would be if you worked with the 105 million general obligation bonds. And maybe I don't need to see those now, but I would be concerned about that.

Also, you know, it's good to say that we need to fix the system, but we really got to project the financial responsibilities that we have and how much of the rate increase actually -- if these numbers, if these percentages on attachment five, page three, are correct, then we can work with those and try to see what the actual is. Because these are the compounded increases, right?

MS. HAJNOSZ: Uh-huh.

VICE-CHAIRMAN OKAMURA: You have increases from year to year. So, although they total up to about 18 percent or 18.5 percent, compounded, it might be like compared to today's rate, what, maybe 25 percent or so.

MS. HAJNOSZ: Yes.

VICE-CHAIRMAN OKAMURA: So, I would like to see those figures, and that's the main question that I had. I think the previous -- the testifier brought up some good points about looking at -- you know, some issues to look at maybe for future committee meetings or future agendas. But I think, as a whole, Mike -- and thank you. I think the

committee did a nice job, and the report was very thorough and presented much of the information, you know, in the form of a concept of what the increase would be like.

Not that I would agree with it, you know, agree with all the increases, but I think you spent a lot of effort, and the committee, I think, did a good job of putting a lot of time. And I know that although you are looking at trying to expend the capital -- get capital expenditures done and to improve the system, we really would have to look at the debt load that the customers would have to pay for next year and

the following year as well. Thank you.

MR. QUINN: I think that's an additional reason why you will note this proposed rate increase is for just one year. The committee definitely wants to see how the Department progresses in terms of getting new -- more engineers in and if they do change the process and are able to do more CIP.

So, it's strictly limited to one year. And actually, this 12 percent increase, I believe, is only funding 15 million of the 25 million-dollar CIP proposal. If, in fact, the Department is able to display the ability to do over

the 15 million, then the Department would borrow the extra funds from the County's general fund and, of course, have to pay it back. It would be a loan.

So, there's some contingencies built in there, again, all focusing on whether the Department can increase its CIP productivity. But your overall point about debt service is well taken. Once we get past this year, and if we do, in fact, progress the way we hope to, then debt service and the size of the issuance of the debt becomes critical. And the unknown factor is what will the Council and the administration go along with, because that's basically increasing the debt of

the County.

VICE-CHAIRMAN OKAMURA: Yeah, but I -- yeah, but I think you -- in this form, you progressed over five years what capital expenditures will be needed, and I think you are looking down that road. It seems like the whole committee is looking down that capital expenditures line. But I was just concerned about the five million over five years of general obligation bonds.

MR. QUINN: That's a real valid concern.

VICE-CHAIRMAN OKAMURA: Yes. Thank you.

CHAIRMAN VICTORINO: One minute. I would like to

say, at this point, the Stakeholders Committee, as stated earlier, has done a fabulous job. I understand and I attended a few of the meetings, but I understand your whole concern. And I think all of us share that concern as far as what the Department's capabilities are, shortfalls, how we can solve these problems unilaterally, you know, with the Stakeholders, the Board, and the people getting involved wherever we can.

But the public has to understand one important thing. That we are growing very rapidly. And when I say growing, I'm not even talking expansion now. I am not talking

about development. I am talking about just the people that are here, their needs are growing. And we have got to be able to meet those needs.

They have to understand there are obligations that come with those needs, and that part of it is we must show them what we are doing with their money, have accountability. And I think that's the bottom line. All the concerns we have talked about today is important, but we have to show that we are accountable with the public's money.

If they give us 12 percent increase, we have got to show we are going to do something with repairs,

maintenance, keeping good, quality water flowing to their homes, no matter where they live. And I think that's very important.

And I think you folks have focused in on that.

You have made all your recommendations, based upon those areas, and I think right now the Board, as well as the public, so long as they are informed properly, will understand what you have done and embrace it. Not accept it and I'm not saying they are going to take everything verbatim, but I think they will embrace it.

So, Mike, you and your group have done a fabulous

job, along with Ann, and I think right now we are at that point where what we need to do is make sure the public understands. I think that's been always our biggest problem, is we always have this fear of not telling the public what we are doing. We have got to be honest and tell them and tell them the rationale. And I think once they understand, I think they will embrace it. I think they will embrace it and support it. Ralph.

BOARDMEMBER JOHANSEN: I have five very quick questions. First of all, as things stand, there is new development. There is new growth. There is new expansion

going on within the Department. I don't understand -- if this 12 percent is to finance ongoing operations, including new growth, I don't understand the present demarcation between the two.

Maybe I am missing something that you have already explained to me, but I don't understand that. That's number one.

The second is what can be done to accelerate the process of setting up guidelines for low income? It sounded to me as if it was something kind of off there in the future,

when I read the discussion in these recommendations.

The third thing is are their County financial guidelines which govern the way in which this money can be accrued and accounted for. I don't know, now that the Department is under the County, how that differs.

The fourth thing has to do with WS, the water usage development, the plan that the Department is to come up with. What can be done to accelerate that, so that we have a better idea of what kinds of projections are appropriate?

And the last thing has to do with notice of community meetings. The first community meeting, in this

tentative schedule which was worked out on the basis of what's available in the public meeting places, it comes in six days. The community doesn't know anything about this. They don't even know that they are faced with an increase.

We discussed this before the meeting. I understand that there are going to be notices going out. I think they should be posted in every public place. I think there should be as much publicity as possible about these meetings considering what people are faced with, not just now, but in the future. Thank you.

CHAIRMAN VICTORINO: Thank you, Ralph. Kent.

BOARDMEMBER HIRANAGA: Just one comment and no response is required. In your recommendation number three, a management audit of DWS, I would like to suggest that if this audit is performed, that they also look at the possibility, long term, at seeing if the Department would operate more efficiently if it was fully autonomous from the County, such as, I believe, the Honolulu Board of Water Supply operates in a fully autonomous basis.

MS. HAJNOSZ: I think they are still semi.

MR. QUINN: All the other boards are semi-autonomous. We are the only one that's --

BOARDMEMBER HIRANAGA: If they are semi-autonomous, if that might be a long-range solution, because I know that with staffing, you are dealing with bargaining units, and you are dealing with the unions. And somehow if you could separate the Department, so they become its own bargaining unit, maybe that's a way of increasing the base scale.

Because if you are going to increase the base scale for engineers in the Department of Water, you are going have to address Public Works. So, you are dealing with the

entire County structure, so looking at the long-term potential.

CHAIRMAN VICTORINO: Okay. We will take that under advisement, Kent. Okay. Any other questions?

BOARDMEMBER JOHANSEN: Just one more question, which was brought up by what Kent just said. And that is cannot services be contracted out with the funds that are allocated for CIP? I mean, five engineers can be contracted for in that money, so that helps.

MR. QUINN: One of the problems is a lot of the work is currently outsourced, so we focussed on that. A great

deal of the work is outsourced in the Engineering Division.

So, that is a good suggestion, but that won't -- since so much of it is outsourced already, that's not going to solve the problem entirely.

Just in general, this committee was really willing to work with the Department and wanted to help them, and that's why we had the Personnel Services folks in there, to see if there was some way of putting some pressure on them to help the Engineering Division get some folks in there. Because the committee has a real can-do approach, business-like approach, you know. And if we are not going to

get the people right up front, well, what else can we do?

Let's outsource. Let's share with private sectors. I have heard several people say that can be very successful, sharing with the private sector.

Let's redo the process, but let's not just sit back and let the situation continue where we lapse millions of dollars every year. They just said that -- we just can't afford to do that anymore, and that was just overwhelming consensus on that part.

Again, the growth versus, you know, expansion issue never came up once. We never told the Department how

they should allocate their funds. We just said do it. Get it done. You figure out how you want to allocate it, but what do you need? How much money do you need, on an annual basis, to start catching up with all these projects that have been lapsed over the past 10 years?

CHAIRMAN VICTORINO: Thank you, Michael. Any other questions? If not, Ann, do you have anything else you would like to comment on, please.

MS. HAJNOSZ: I am just wondering if you want me to address any of the comments from Dick Mayer.

CHAIRMAN VICTORINO: Do you have time? How long

you got?

BOARDMEMBER HIRANAGA: I have five minutes.

CHAIRMAN VICTORINO: Five minutes. Briefly.

MS. HAJNOSZ: Yeah, briefly I can do it. Cathy,

could you just pass out those handouts? I think that will

help.

Let me first address point number four, the meter

service charge and the table that Dick has here. And it's

absolutely right that the way, in rate-making methodology, we

set our service charges based on a meter equivalent ratio

that's tied to the 5/8th-inch meter.

We have not adjusted the current ratios that are in effect right now, and yet we have done a cost of service study that basically said that the 5/8th-inch meter for, you know, \$6.50, really, the cost of services is much higher.

It's something like \$12. It should be closer to \$12 a month.

But we had to consider a couple things. We didn't want to do rate shock on everybody and to double that, you know, number one. And then we just decided that since we weren't going to change any of the rate structure in this round, we didn't want to fuss with the ratios between the

different meter sizes.

And, so, you know, while we were aware of the -- this meter equivalent ratio that we typically will use, we also need to balance that with how close we move to cost of service to avoid, you know, rate shock and major rate changes on our customers.

But we will definitely take that up into consideration when we move -- if we move to a different rate structure or when we -- when we adjust rates for fiscal year '07.

Okay. I think the handout that Cathy just passed

out to you, I was kind of holding in reserve to see if anybody had questions on this. It addresses the conservation goal and why we are keeping our rate structure -- proposing to keep the rate structure the way it is, even though we know that it's not the best conservation-oriented rate structure.

We did look at several different rate options, and they are mentioned here in the Stakeholder report. And the one rate option that we really considered quite a bit was moving toward rates by different meter sizes. Okay. And that would be a surrogate to going to customer classes. This is

similar to what the other counties have.

And, so, instead of having to collect a whole lot of data and getting into a very onerous data collection effort, we thought let's consider moving to rates by meter size. So, we did this analysis. You can see, on the first page --

UNIDENTIFIED MAN: Excuse me. Does anybody have a white Honda truck parked in the alley? No one in the alley.

Okay, excuse me.

MS. HAJNOSZ: On first page, very quickly, on the very top, this kind of gives you an indication of rate block

steepness. The steeper the blocks, in terms of the actual rates, the higher the degree of conservation you are going to get. So, if you look at the County of Maui, you have got 35 percent, 58 percent, and then you don't have a fourth block. But you compare that to other counties, you will see that their rate blocks -- their rate structures are much steeper, meaning that the rate in the last block is much higher relative to the first block. That's the ideal conservation-oriented rate structure.

Next we looked at how much consumption was in each of those blocks. Another indication of a very conservation

oriented-rate structure is to have a small percentage of people in your highest block, because that really means that the price signal is getting through. People don't want to pay that high rate, so they are conserving. They are being pushed into the first and second blocks.

For the County of Maui, in most cases, you can see that they are -- they have got the highest percentage in their last block. So, we are fully aware of the problems with the current rate structure. What happened was -- and we can skip to maybe the third page here -- is what we did was we looked at Maui's consumption, the very top, the first half of it and

looked at where the consumption was.

For the 5/8th-inch meters, the typical
residential, you can see that they are pretty much split
between the first, second, and third block, 27 percent, 30
percent, 43 percent. Look at the higher meters. They are all
in the last block, right? They are effectively on a uniform
rate.

So, you have got a very complex rate structure, in
terms of even though it is a three block rate, you have got
some people on an inverted three block. You have got some

people on a uniform rate.

We considered moving to the structure right below.

This is similar to what Kauai has. Okay? With that you can see a very stark example is the eight-inch meter, the bigger meters. Now, instead of being at the very top block, they are all on the first block. And what do you think that did to their rates? It just -- they plummeted. They just went really low, and that's shown on the next page.

That's a very abbreviated version of it, but the long and the short of it is even though we had wanted -- we thought that would be a good rate structure for Maui, in the

end we decided we can't move in that direction because of what's going to happen to the large customers. It's just not going to send the right signal. In fact, it would send the opposite signal to large customers. Their rates would go down by 20 percent.

That's when we took a step back and said, you know, maybe customer class rates are the way to go. That way we can tailor the rates to the specific consumption patterns of the residential unit, residential customers, and the nonresidential customers, and there may be a split between hotel or small or large commercial. We don't know yet. We

are looking at those data options right now.

But we are hoping to -- you know, we are very focused on conservation. We want to get to a conservation-oriented rate structure. We felt we didn't have the data available in the format we needed right now to do it, so we thought it would be better to take more time to evaluate that option and then move to it the next year.

CHAIRMAN VICTORINO: Anything else you want to address? That was it? That was all the --

MS. HAJNOSZ: Yeah, I think that was it.

CHAIRMAN VICTORINO: Okay.

BOARDMEMBER RAISBECK: I have a question,

Mr. Chair.

CHAIRMAN VICTORINO: Go ahead. And make the question real quick, because he has to leave. I am sorry.

BOARDMEMBER RAISBECK: What is the status of the contract between the County and/or between the Department and your company? How -- are you funded for additional work? How long?

MS. HAJNOSZ: For the initial work that -- you know, we have got enough money, because we didn't do -- we had

some optional tasks that we didn't do. For example, we didn't look all the way at district based rates, because we did a cost of service analysis. And the Stakeholders basically said, no, we don't want to go there.

So, we have an optional task that we haven't completed, and we are going to be using that to investigate the initial piece of the customer class rates.

BOARDMEMBER RAISBECK: And is there a time period that this occurs?

MS. HAJNOSZ: We are looking probably to early summer that this effort will be -- that that piece of it will

be expended, and I am going to be talking to the Department about, you know, continuing and how they want to move.

BOARDMEMBER RAISBECK: Thank you.

CHAIRMAN VICTORINO: Thank you. Ken.

VICE-CHAIRMAN OKAMURA: Mr. Chair, I move that we accept this report and pass it on to the Mayor. Are we ready for me to make a motion?

CHAIRMAN VICTORINO: He's making a motion to accept the report.

VICE-CHAIRMAN OKAMURA: Accept the report.

CHAIRMAN VICTORINO: Do we have a second on that?

VICE-CHAIRMAN OKAMURA: What are your --

BOARDMEMBER JOHANSEN: What's the question?

BOARDMEMBER HIRANAGA: Motion to accept and to
recommend approval? What's the motion?

VICE-CHAIRMAN OKAMURA: To accept the report and
to move it on to the next step which is the Mayor.

BOARDMEMBER HIRANAGA: Recommend approval.

VICE-CHAIRMAN OKAMURA: Approve the report.

BOARDMEMBER HIRANAGA: Second.

CHAIRMAN VICTORINO: It's been moved and seconded
to accept the report and approve the report and move it to --

move it to the -- I guess to the Mayor's Office. I guess

that's the next place. Is that where it next goes?

MS. HAJNOSZ: Yes, but what I am thinking is that what you are also going to be doing is take the feedback from the public.

CHAIRMAN VICTORINO: The public, yes.

MS. HAJNOSZ: So, you might want to add, you know, with --

CHAIRMAN VICTORINO: Do you want to amend it with public input? Just amend it.

VICE-CHAIRMAN OKAMURA: I will amend it to add any

public comments that we have in today's meeting to the -- to
the package that we send to the Mayor.

BOARDMEMBER JOHANSEN: Second.

CHAIRMAN VICTORINO: So, I have -- we have first

the amendment to the main motion is to make sure that all
public comment that comes out of the public meetings, the
public hearings, be also included in this when it's forwarded
on to the Mayor. Okay. Any discussion? All those in favor
say aye.

(Chorus of ayes. Boardmember Raisbeck silent.)

Opposed?

(Silence.)

Do we have -- because we have to have five or it
doesn't pass, Sally.

BOARDMEMBER HIRANAGA: Abstention is an aye.

BOARDMEMBER RAISBECK: I am sorry. I would like
to -- I know Kent has to leave, and I am sorry. But --

BOARDMEMBER HIRANAGA: I will just leave.

BOARDMEMBER RAISBECK: Yeah. I would like to be
clear about who this is going -- I mean, what's going to be
going to the Mayor?

CHAIRMAN VICTORINO: Okay. What it is, first of all, the first amendment is with public input. Okay. We are going to have these public hearings, and all the public hearings and all the information that is gathered, all the concerns, is going to be incorporated with this when it's forwarded to the Mayor.

BOARDMEMBER RAISBECK: Can we not wait until the 27th in that case? Okay.

MS. HAJNOSZ: The only concern is if some of these meetings -- you know, given the concerns over the public notice, you know, I am not -- I have been hearing that this

needs to go to the Mayor at the end of January, but then I have also heard today that it might not need to go until February. So, the public meetings could roll over even -- you know, we could push back the public meetings to give ample notice.

BOARDMEMBER RAISBECK: May I propose an amendment to -- I would like to propose a further amendment, which would be that the report be forwarded to the Mayor and to the Council as a preliminary report from the Citizens Advisory Committee. That we will be forwarding public response to

meetings that will be held within the succeeding weeks.

But I would emphasize the preliminary nature of this report, since it will be supplemented by results of the public hearing. Is that a possibility? And forwarded not just to the Mayor but to the Council as a preliminary report from the Stakeholders Committee.

BOARDMEMBER JOHANSEN: If that's a motion and it's in order, I second it.

BOARDMEMBER RAISBECK: Well, this is an amendment to the motion.

CHAIRMAN VICTORINO: That is an amendment to the

amendment to the main motion. Okay.

CORPORATION COUNSEL KUSHI: Mr. Chair, you can't do that.

CHAIRMAN VICTORINO: I was just about to say we can't do that.

CORPORATION COUNSEL KUSHI: Take the first amendment.

CHAIRMAN VICTORINO: Take the first amendment. Let's do the first amendment. I got you. All those in favor of the first amendment signify by saying aye.

VICE-CHAIRMAN OKAMURA: Aye.

(Chorus of ayes.)

CHAIRMAN VICTORINO: Opposed.

(Boardmember Raisbeck and Boardmember Johansen
opposed.)

Two oppose, Sally and Ralph.

CORPORATION COUNSEL KUSHI: Now you are back to
the main motion which can be amended by the motion.

CHAIRMAN VICTORINO: Now that can be amended. Do
you have a question?

BOARDMEMBER HIRANAGA: This report will be
forwarded to the Council --

CHAIRMAN VICTORINO: She's suggesting --

BOARDMEMBER HIRANAGA: -- and needs approval by the Council to implement the rate change, right? They are going to conduct public hearings.

CHAIRMAN VICTORINO: I think that is going to happen also. I think the Council has the ultimate say, right, in this one as far as the rates, the way it's structured right now, right?

BOARDMEMBER HIRANAGA: They are going to have public hearings?

MS. HAJNOSZ: Yes.

BOARDMEMBER HIRANAGA: I think they view that as recommendations of the Stakeholders.

MR. TENGAN: Mr. Chair, if I may. We will not be holding public hearings but we will be holding public informational meetings.

CHAIRMAN VICTORINO: Informational meetings.

MR. TENGAN: Right. Now, at the time the Council takes up the budget in preparation to enact the budget under ordinance, I would think that at that time the public will be providing to the Council also as part of the budget hearings

that the Council holds.

CHAIRMAN VICTORINO: Okay. Sally -- unless anybody has anything else, Sally, will you restate your motion using public hearings, right? Public information, just to get it right.

BOARDMEMBER RAISBECK: I would like to amend the main motion to say that the Board of Water Supply is forwarding to the Mayor and to the Council the preliminary report, by the Water Stakeholders Committee, which is an advisory -- Citizens Advisory Committee, that we will -- we have accepted this report, but it will be supplemented by the

results of multiple public information meetings that will be held within the coming weeks.

CHAIRMAN VICTORINO: Do we have a second?

BOARDMEMBER JOHANSEN: Yeah, I second.

CHAIRMAN VICTORINO: Okay. It's been seconded.

BOARDMEMBER JOHANSEN: I just wanted --

CHAIRMAN VICTORINO: Yes.

BOARDMEMBER JOHANSEN: I just want to make sure that that motion said that the information that comes from these public meetings is going to be forwarded to the Mayor.

CHAIRMAN VICTORINO: Yes, yes.

BOARDMEMBER JOHANSEN: Okay. I second.

CHAIRMAN VICTORINO: Okay. Any discussion?

VICE-CHAIRMAN OKAMURA: Just one quick point. I

think the Charter says that the Board will pass this on to the

Mayor and then --

BOARDMEMBER RAISBECK: I am sorry?

VICE-CHAIRMAN OKAMURA: The Board will pass the

proposed increases to the Mayor who will then present to it

the Council, I think. I think that's the way it's supposed to

be, but doesn't matter.

BOARDMEMBER RAISBECK: I am sorry. My motion is

that the report -- preliminary report, from the Citizens

Advisory Committee, will be forwarded both to the Mayor and to

the Council, and will be supplemented later by the results of

public information meetings.

CHAIRMAN VICTORINO: Thank you. Point well taken.

Kent.

BOARDMEMBER HIRANAGA: The Stakeholders have an

issue with the word preliminary. Why can't it just be a

report and will also be supplemented with comments, because

are you going to change your report?

MS. HAJNOSZ: We can add it as an attachment.

BOARDMEMBER HIRANAGA: Right, but the report you have here, that's your report.

MS. HAJNOSZ: We are going to add some issues, try to address the growth issues.

BOARDMEMBER HIRANAGA: As an attachment.

MS. HAJNOSZ: No, I think we are going to put it as part of the report, and then we will also have some information from the public information meetings. We can have that as an attachment.

BOARDMEMBER HIRANAGA: I guess I would just call

it the draft report.

CHAIRMAN VICTORINO: Okay. Will you entertain a motion, instead of preliminary, a draft motion. I think we can do that in a friendly motion. So, the word we will change to draft instead of preliminary.

BOARDMEMBER RAISBECK: That's great.

CHAIRMAN VICTORINO: Any other discussions? If not, I will call for the question. Number one, amendment to the main motion. All those in favor of the amendment signify by saying aye.

(Chorus of ayes.)

Opposed.

(Silence.)

Now the main motion as amend. All those in favor

say aye.

(Chorus of ayes.)

Opposed.

(Silence.)

If not, thank you very much. I know Mr. Hiranaga

must leave. I am, at this point, going to call this meeting

adjourned.

CORPORATION COUNSEL KUSHI: Are you going to

recess or adjourn?

CHAIRMAN VICTORINO: I think it's adjourned. We

are not going to conduct the meeting on the 24th. This is the

end. The meeting is adjourned.

BOARDMEMBER RAISBECK: Thank you.

(Adjourned, 11:44 a.m.)

"By Water All Things Find Life"

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