

MEETING MINUTES  
BOARD OF WATER SUPPLY  
May 24, 2019

The Board of Water Supply, County of Kaua'i, met in regular meeting at the Board Conference Room in Lihu'e on Friday, May 24, 2019. Chair Thomas Canute called the meeting to order at 10:07 a.m. The following Board members were present:

BOARD: Mr. Thomas Canute, *Chair*  
Mr. Ka'aina Hull  
Mr. Elesther Calipjo  
Mr. Kurt Akamine

EXCUSED: Ms. Laurie Ho  
Mr. Lawrence Dill

Quorum was achieved with 4 members present at Roll Call.

<u>STAFF:</u>	Mr. Bryan Wienand	Mrs. Sandi Nadatani-Mendez
	Mr. Valentino Reyna	Mr. Eric Fujikawa
	Mr. Edward Doi	Mrs. Marites Yano
	Mr. Keith Aoki	Mr. Michael Hinazumi
	Mr. Carl Arume	Mrs. Jonell Kaoheaulii
	DCA Mahealani Krafft	Ms. Christine Erorita

GUESTS: Ms. Nancy Lerner, Brio Consulting  
Mr. Mark Wehmeyer, Brio Consulting  
Ms. Hannah Phan, Raftelis Financial Consultants, Inc.

**C. ACCEPTANCE OF AGENDA**

Mr. Akamine moved to reorder the Agenda to Move H. No.1 New Business Manager's Report No. 19-57 first under G. Old Business and New Business H. No. 2 Manager's Report No. 19-58 & No. 3 Manager's Evaluation after Staff Reports, seconded by Mr. Calipjo; with no objections, motion carried with 4 ayes.

**D. MEETING MINUTES**

**Review and approval of:**

Regular Board Meeting – April 26, 2019

Mr. Hull moved to approve the Regular Board Meeting minutes of April 26, 2019; seconded by Mr. Akamine; with no objections, motion carried with 4 ayes.

Finance Committee Meeting – April 1, 2019

Mr. Hull moved to approve the Finance Committee Meeting minutes of April 1, 2019; seconded by Mr. Akamine; with no objections, motion carried with 4 ayes.

Finance Committee Meeting – April 5, 2019

Mr. Hull moved to approve the Finance Committee Meeting minutes of April 5, 2019; seconded by Mr. Akamine; with no objections, motion carried with 4 ayes.

Finance Committee Meeting – April 10, 2019

Mr. Hull moved to approve the Finance Committee Meeting minutes of April 10, 2019; seconded by Mr. Akamine; with no objections, motion carried with 4 ayes.

Finance Committee Meeting – April 15, 2019

Mr. Hull moved to approve the Finance Committee Meeting minutes of April 15, 2019; seconded by Mr. Akamine; with no objections, motion carried with 4 ayes.

## **E. CORRESPONDENCE/ANNOUNCEMENTS**

Chair Canute mentioned that a contract for Mr. Godwin Esaki is underway with the Department.

Chair Canute deferred Mr. Esaki's correspondence and referred it to the Manager for further discussion with Mr. Esaki to be taken up at the June Board meeting; with no objections.

## **F. BOARD COMMITTEE & PERMITTED INTERACTION GROUP REPORTS**

None.

## **H. NEW BUSINESS**

1. *Manager's Report No. 19-57* – Discussion and Possible Action to Approve the 5-Year Information Technology Strategic Plan for the Department of Water

### **BACKGROUND:**

Manager Wienand introduced Ms. Nancy Lerner and Mr. Mark Wehmeyer from Brio Consulting who provided an overview summary on the highlights of the 5-Year Information Technology (IT) Strategic Plan for the Department of Water (DOW). Funding is not being requested in the Manager's Report. Board approval of the IT Strategic Plan is recommended that would allow the Department to move forward with each of the items listed in the Manager's Report. During the four April meetings, the Finance Committee discussed and approved certain items for FY 2020 in the 5-Year IT plan shown in the budget at this meeting. After the Brio's overview of the IT plan, further discussion will be done on the major issues in the IT plan for this fiscal year.

*Ms. Nancy Lerner and Mr. Mark Wehmeyer provided a PowerPoint slide presentation on the 5-Year Information Technology Strategic Plan.*

Ms. Lerner provided the IT Strategic Plan background completed in 2013, the progress, vision, summary and recommendation of related costs. Since 2013, the Board adopted 10 high level strategies and visions with tremendous progress. The first recommendation was to redevelop the Chart of Accounts and implementing the financial information system was completed. Modifications were made to the internet process to improve productivity. Progress was done on the implementation of SharePoint (document management) which is on-going with more work to be done and it was moved off of a discontinued product. Geographical Information System (GIS) development has progressed but more work needs to be done for easy accessibility for non-technical users. With the completion of the GIS, was the implementation of the GIS based asset work management system, and automation standard operating procedures for the team to begin. The aided mapping and drawing tools part of GIS. Supervisory Control and Data Acquisition (SCADA) was completed and upgraded. A project to complete Key Performance Index (KPI) reports that was less important and not completed. Upgrades to the IT infrastructure are on-going. Mr. Wehmeyer and Ms. Lerner commended staff for their hard work on the improvements.

On-going 2019 recommended improvements:

- SCADA Upgrade Wonderware HMI and possibly servers (not full upgrade)
- Upgrade IT Infrastructure & Expand IT Support
- SharePoint management plan
- Develop web-based GIS viewer and map layers
- Automate SOP's for routine work

Priority initiatives were added based on the 2013 vision in using IT in an organization:

- Managing work, assets, projects and materials professional and collaboratively
- Provide excellent customer service, billing records are accurate and complete
- Using technology for effective and efficient operations for evidence-based decisions (capital investments and income strategies)

- Understand and follow business processes
- Technology to support processes
- Build working partnerships between IT staff and business staff (teamwork)
- Develop IT organization with the resources to provide the business with valued advice and support

Mr. Wehmeyer commented that these issues were from staff discussions. The discussions were said in a problem statement (i.e., such and such was not working) which were switched into a positive vision for the future. Projects were attempted to solve the problem during the discussions.

12 recommendations were presented that covered priorities and vision:

1. Replace M-PET with GIS-based Work Management System

Mr. Wehmeyer explained the charts after each of the 12 recommended priorities: 1) Program Management and Implementation Services, 2) Hardware, Software and Hosting Services & 3) Costs Previously Budgeted and the Recommended Additional Budget is the net effect on the budget at \$387,000 (all numbers are over a 6-year period). Ms. Lerner did not draw a distinction between capital investment and operating, which depends on the Department. This could vary depending on the operating model where funds are pulled.

2. Review and Align Billing System Configuration

Ms. Lerner suggested the Department check on a lower cost alternative later for financial benefit to change the model. She did not recommend a new software product, consider the cost; a high risk move to change the billing system. Costs on the chart are included on the contract. Additional cost are for the license & host fees is \$280,000/year, upfront review and refinement for configuration issues, recommending on-going budget in addition to is being paid for to the vendor on processes.

3. Upgrade SCADA and Replace Servers

Mr. Wehmeyer said SCADA is the most critical technology that needs to run smoothly all the time. Costs are high but that upgrades will improve Wonderware software configuration, use of the system and water audit reporting, and extracting data. IT would need a new Wonderware software licenses early on the project, hardware upgrades, new server upgrades - \$50,000 in FY 2021 and an analysis and potential upgrade of the Telemetry subsystem (or a large replacement) - \$400,000 in FY 2024 & FY 2025.

Discussion:

Chair Canute mentioned this would be a worst case scenario on the \$400,000 in FY 2024 & FY 2025 but eventually would have to replace the Telemetry in five years. Manager Wienand mentioned the \$268,000 is in FY 2021 but was moved up to FY 2020 which would be for an evaluation on the SCADA and for replacement now.

4. Upgrade Financial Information System and Correct Issues

Ms. Lerner mentioned updating the financial system is critical and to move into the software that is used and supported from vendors. The projects would improve efficiencies but there are technical, process and training issues. This will improve financial decision making in the quality of data and software process. To move to electronic authorization of purchase orders (PO) or electronic signature an industry standard. The upfront investment upgrade is \$150,000 and on-going services is recommended to maintain alignment with processes, and support to internal staff. This would be contracted on time and material basis. If there is an emergency, help may be needed to bring the system back up.

5. Develop GIS Technologies and Processes

IT made great progress on data collection. Data should be easy to use on the web and to bring data to be used, everyone can participate in map changes, supporting GIS CMMS project, and hydraulic modeling program and taking the GIS project into a network model. The geometry of the water system is built into the GIS. There are upfront costs and additional

licenses. The Department has been working well with the County and now the project will include a contribution to help the County on licensing.

6. Maintain and Support Hydraulic Model Software

The model shows impacts of proposed developments and capital infrastructure improvements and in the budget with no impact on Water Plan 2020.

7. Core IT Infrastructure Upgrades

IT servers are aging and going out of warranty and are likely will fail. The operating system may have to be upgraded to prevent cyber security, problems with software compatibility and upgrade the web site. There will be upfront investments with recommendations to purchase mobile devices for staff with wireless plan for the GIS to be available on the web and asset management system.

8. Procure Emergency Communication Equipment – Completed.

Business Process Improvements

9. SOPs and Proficiency Testing Program

Decisions were made on process documentation in 2013 to prepare staff to do their jobs effectively. The program defines expectations on role basis for each job positions and what is required, what is expected of the employee, training and testing. Recommendation is to start with Billing and Accounting functions and software upgrades. There are higher upfront costs and on-going cost for the roll out of the program.

10. Improve Use of SharePoint

The staff are self-taught with SharePoint with additional opportunities to get out of the product. Staff has had problems searching in SharePoint. A professional SharePoint architect could be brought in to train the technical and business staff to optimize the search engine builds its smarts. All business documents are archived in an environment that is backed up with document and personal record security. These may still be on staff's hard drives or server with the risk of data lost and efficiency. The search capabilities and technical items would be improved. There needs to be document collaboration in a shared space. There is a modest cost for a SharePoint technician funded over the years as needed. Plug in's may be purchased to use to modernize the website.

Organization

11. Expand the Information Technology Section into a Division Positioned to Support DOW's Growing Needs

Mr. Wehmeyer mentioned creating an IT Division instead of an Information Technology Officer/Division Head. Formalizing responsibility through GIS by structuring the roles and responsibilities of the staff. The addition of three new staff will bring the IT staff to industry standards to six staff total which depends on their IT experience. The new positions will provide back up to each other. Costs include \$160,000 per person, per year. Mr. Wehmeyer suggested to hire two new positions early as possible (Position C & D for SharePoint, website, Internet and GIS CMMS).

12. Develop User Groups (not a cash investment)

Improves communication with on-going dialog on what is going in the organization to make sure software is aligned with the industry standard with computer applications. The head of IT would be part of a User Group to facilitate discussions with a rotating chair. The User Group meets routinely to discuss what business uses are new for alignment. Recommendation is to get this started until positions are added to IT.

\$1M a year are additional funds necessary with the exception of FY 2023, that would fluctuate year-to-year; \$300,000 will be operating costs and monies would be moved around as needed.

2019 Plan Supports Vision for Effective Use of IT (refer to side 33 in Board packet).

## **DISCUSSION:**

Manager Wienand referred to the bulleted items on Page 329 in the Board packet with recommendations. Some of the costs were pulled from the 2020 budget. The SCADA upgrades (\$270,000) were moved to this fiscal year. The summary costs in the budget was \$1.3M that gives the Department a five year window being used simultaneously in the five-year rate study. He said if Board approval is done today based on the recommendations, those costs could be incorporated into the rate study and aligned on the same timeframe. The memo attachments to the Manager's Report were sent to the Finance Committee that provided detail in recommending the new IT positions. In FY 2020, one new IT position was added from the five year IT plan. The next four years would be to hire two more IT positions, and to come back to the Board for approval of those positions by referencing the IT plan as approved in the budget.

Manager Wienand added a recommendation to approve of the IT plan today is to be its own Division. The IT position description for the IT Officer is ready to be submitted to Department of Human Services (DHS) for recruitment based on the Board's approval today. If approved, the IT Officer recruitment can begin to be head of a Division (not a section) and posted as an Excluded Managerial (EM) position which makes the position more attractive and creates a better potential to hire more qualified candidates.

Mr. Hull asked what extent was this plan updated in consultation with the County's plan to go after the Limited Information Management System (LIMS). Last month there were several million dollars for IT's strategies, goals and priorities. The system is being revamped and is out for procurement. He wanted to know what was being funded through the County's IT to have overlap with no duplication. Ms. Lerner said GIS was the only coordination. The DOW is a user with the County's AS400 financial system and what the County procures with no duplication; GIS is shared. Ms. Lerner is aware when the County is going with the GIS technology. The AS400 is now called the Simple Square Financial System which includes land management.

Mr. Hull understood that the County's GIS is being paved together on how each department uses the software and how LIMS will radicalize the system; how was that incorporated? Ms. Lerner did not include plans for the LIMS. The DOW is farther along with the GIS data gathering than the County. The software investment and the architecture platform was incorporated into the plan with no duplication investment. There is support for the non-technical users and engineers may need special software that needs to be added in consultation with the County's GIS. There are no projects with this plan that duplicate the LIMS function. Ms. Lerner added from the 2013 plan, there were discussions with the County related to the old HTE Technologies, now Simple Square System on how it was used and for improvement for the department but did not make the discussions this time.

Mr. Hull did not fully understand everything that was being discussed on the budget for the over \$1.5M being asked for the IT function. He is hesitant taking action today based on this robust proposal asking for over \$5M in the future to drive the rate study if approved. He agrees that IT systems needs to be upgraded and efficient. Mr. Hull would like to meet with the Manager to get up to speed on why funds are needed for specific IT functions. Manager Wienand explained that the budget is a tool to move forward with the IT strategies. Beyond the FY 2020 budget, it determines the Department's direction and to come back to the Board for future items. The bulleted items could be removed from the FY 2020 budget, then be brought back one at a time with more detail to the Board. Mr. Hull had no problem moving those items forward with discussions today but was not sure it would drive for rate increases.

Chair Canute commented that during the Finance Committee meetings, the \$1.35M was discussed and asked if approving that amount today would commit to the \$5.6M plan over the six years? By going through the first year investment, he asked if it will be effective if the Department doesn't follow the whole plan in six years. Based on the \$1.35M commitment, he asked is the Department committed to

the rest of the \$4.3M that would be paid the next five years to finish the whole plan? Are we locked in if approved or can it be adjusted along the way? Ms. Lerner said adjustments could be made along the way. If there are replacements to the software or server are independent and priority investments would not be lost. A long-term commitment would be hiring a new IT staff person. In 2013 the Board adopted a plan and made progress but did not implement every piece of the plan and did not spend all of the money. In approving the plan, the funds are not being appropriated but there is a road map of what is intended to do. By fiscal year basis, funds would be appropriated to projects. Chair Canute wanted to make sure the Department would not be jeopardized if not all the projects are done which Ms. Lerner said the Department would not be jeopardized. Mr. Wehmeyer mentioned there is an interdependency between the money to upgrade the finance accounting and billing system and training the staff that included issues on how it is used. Chair Canute mentioned this is what is needed to do, but looking at it in total, the numbers are frightening as a lay person with no knowledge in the IT area.

Manager Wienand said the rate study is being brought up because the Department has been working with the financial consultant on the five year plan that will be presented to the Board. The five year rate study is the Department's best guess of what projects are anticipated, staffing and operational costs. The five year IT plan timing aligns well with the rate study. The five year IT plan will be implemented on July 1, 2019; the five year rate study is right behind this date. Historically the Department has budgeted high but is working on reigning back the budget. The IT costs are actual spending costs over the five years. If the IT plan is not acted on now, it adds uncertainty to the rate study. The Department would have to try to incorporate IT costs without an approved plan. Manager Wienand said the Board can focus on the Fiscal 2020 budget for now and if there were specifics about other items, he would push the next one to three months to present those items to the Board so the rate study will capture those items if funding should be committed. For perspective, the rate study is in the context of a \$22M operating budget, \$8M to \$10M Capital Improvement Projects (CIP) budget and the IT proposal of adding \$1M to the operating budget. The IT plan findings will not make or break the rate study, but it adds accuracy to the study and would not put the IT plan to the side. The annual amounts in the rate study total are approximately \$30M as compared to the additional \$1M being recommended by the IT Strategic Plan.

Mr. Hull commented that there are no issues on fire but could be on fire in the Department. He gave the example of the housing crisis on Kaua'i and the State. County Council is putting the housing crisis as a priority with many proposals being thrown out. Cost of infrastructure and maintenance of infrastructure is driving the development of Kaua'i with the high end homes. Local families can no longer benefit from homes based on the infrastructure, labor and land. He would not say no to increases, but the fiduciary responsibility of the Board member would be hard to say yes let's make a move on this right now but he could take this proposal as a whole eventually. His comfort level is not there yet to accept the \$5.6M plan next month to incorporate it into the rate study. Manager Wienand asked if Mr. Hull was comfortable to approve the budget as presented today? Mr. Hull was comfortable moving forward with the FY2020 line items. In the previous discussion with the Finance Committee, there was not a full commitment on the new IT staff position and needed to have a full discussion with the full Board. Mr. Akamine asked Chair Canute before the budget could be approved, does the IT Strategic Plan need to be approved? Chair Canute said the items in the budget need to be approved. The bulleted items in the Manager's Report are part of the budget that need approval before the budget is approved. Mr. Hull said there are two Options 1) Approve the IT Strategic Plan as presented or 2) Do not approve the IT Strategic Plan as presented which he would like to defer the particular IT Strategic Plan as a whole. Mr. Hull was ready to discuss the line items that amount to the \$1.3M. Manager Wienand said during the budget presentation that is next, the specific items are included in the budget now. If the Board agrees with the specific items, the budget could be passed today without being altered. Option 3 could be to defer the acceptance of the entire IT Strategic Plan but approve the budget as presented which includes the items (Page 349). Mr. Hull would like to meet with the Manager to go over the specific details of the line items in the IT Strategic Plan outside a Board meeting. DCA Krafft said 1) the Options in the Manager's

Report are Options but you could make a 3<sup>rd</sup> Option to vote on the actions that are included in the budget but to defer the remaining portions of the plan especially if the intent is to approve the budget, 2) DCA Krafft asked if Mr. Hull was asking for a meeting to discuss the items in the budget or the remaining portion of the items? Mr. Hull said they are the remaining portions in the IT Strategic Plan. DCA Krafft said this would be considered Board business requiring a Noticed meeting. Mr. Hull would need a more specific presentation from the Water Department on specific line items to go over Options. He also mentioned that the County Council dropped overall money for the LIMS and wanted both the County's IT and Finance Officer to present the potential ability to share systems and to use services that are already being procured. Mr. Hull would like to include in discussions with Dale Sherman and possibly Reiko Matsuyama on the strategies they are employing that would reduce costs for the DOW. DCA Krafft said that could be arranged. Manager Wienand suggested a hybrid option for the Board and the Department today that the elements identified for FY2020 budget in the plan be approved today. He added any items and initiatives beyond in FY2020 be deferred for future discussion and adoption by the Board. The funding commitment is through the budget for FY2020 which is needed today. Mr. Hull agreed with this suggestion and the FY2020 line item budget. He said the Finance Committee was not saying that they were not in favor with the new IT staff position but it was probably necessary. The Finance Committee wanted the new IT staff person presentation and discussion with the full Board. Mr. Akamine mentioned the IT staff position was part of the plan, but asked if it was separate from the budget? Chair Canute said if the Board approves the budget, isn't the IT staff position approved anyway? Mr. Hull still requested a presentation first before approval of the budget but the Finance Chair Mr. Lawrence Dill was not at this meeting. Manager Wienand said the consultant is present at this meeting and the Department could pull up the memo recommending the new IT staff position now. The Department is prepared to present it to the full Board now. There is a critical need of increasing the staff; currently there are two IT staff and the plan is recommended four to six staff. The position description would need to get updated for the IT Officer who recently resigned. Mr. Akamine asked if the Board approves the budget and to have an amendment or condition that no funds will be released until the items are agreed by the full Board. He wanted to know if the Board can move the budget forward but not spend it. Manager Wienand did not know if that could be an option; the budget needs to be approved or not approved. There is an option but not recommended that any additional approval of the budget be at the June Board meeting. There is a risk if there is no quorum in June, then the budget would not be approved for the fiscal year starting July 1, 2019. Mr. Hull and Mr. Calipjo agreed at the Finance Meeting to have the full Board see the budget especially with Finance Chair Dill. Chair Canute said the numbers can't be picked apart on what to approve. Manager Wienand clarified that certain items can be pulled to be approved or not approved.

Chair Canute approved parts of *Manager's Report No. 19-57* to include bulleted items in the FY2020 Budget:

- \$230,000 for the Purchase of a Replacement Asset Management System
- \$270,000 to Upgrade SCADA and Replacement of Servers
- \$295,000 for SharePoint Upgrades
- \$315,000 to Develop GIS Technologies, Processes, Web-based GIS viewer and Mapping Layers
- \$150,000 for Financial System Upgrades (upgrade Great Plains 2013 to Great Plains 2018 and upgrade of Paramount WorkPlace with As-Needed Technical Services) and not to include the additional IT staff member for future discussion; other parts of this motion for Fiscal Years 2021-2024 would be deferred for discussion with the full Board; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

Manager Wienand requested clarification on the discussion of the additional IT staff member to happen at a later Board meeting or to have that discussion now. He didn't know if the Board wanted Board members

Dill or Ho present during the discussion. Chair Canute said the full Board need to be available regarding the additional IT staff member.

**G. OLD BUSINESS**

1. Manager's Report No. 19-55 (Update) – Discussion and Possible Action to Amend Board Policy No. 26 for the Emergency Reserve Fund

**BACKGROUND:**

Manager Wienand commented that the main purpose of the Emergency Reserve Fund (ERF) is setting aside funds for severe crisis and disasters. This fund was established to provide separate emergency funds for anything beyond normal and ordinary business. It is calculated as twenty-five percent of the total operating expenses but excludes interest, depreciation, and non-cash expenditures.

Proposed updates to the ERF for the Board to amend Board Policy No. 26:

1. The Department would be able to utilize funds without additional Board approval for necessary operating expenses or emergency capital expenditures as authorized by the Manager and Chief Engineer. During the Finance Committee meetings in April, Finance Chair Dill said the Board may not be able to meet in an emergency situation and having an additional Board approval via a Special Board meeting is not practical nor consistent with the intent of this Policy. By updating the policy now to allow the Manager and Chief Engineer to make that determination would be in the best interest of the Department.
2. The second main update was from discussions on the budget practices with the insurance deductible (\$1M). The current practice includes the deductible on the insurance policy as a line item in the budget every year. This proposal would move the \$1M into the ERF to eliminate budgeting this amount every year because it is unlikely to be spent on any given year, and even less likely to be incurred during an emergency. This currently creates an “artificially high” budget by approximately \$1M, so addressing it via these changes would improve the accuracy of the budget.
3. The Fiscal staff recommended the 25% of the operating expenses that was previously based from the upcoming proposed budget and historical performance suggest that those numbers were traditionally high. The proposal is to use the prior year’s audited financial statements to determine the 25% of the actual operating expenses. This is believed to be a more accurate representation of what 25% of the operating expenses should be. This is intended to go with the financial policy study that will be done later this year to look at the DOW’s budgeting practices and to make updates to make sure that the budget would get closer between the actual and the proposed budget. If the policy is updated, the budget practices should also be updated which Manager Wienand agrees to do. This recommendation is aligned with the other suggestions to get the budgeting practices accurate.
4. The County of Kaua’i’s contra-claim is explicitly referenced and the Department has a \$2.1M - \$2.3M contra-claim in the budget each year that represents the non-cash expense. The Department does not charge the County for hydrants in the County right of way. Since there is a contra-claim, the Department wants to make sure the ERF is not missed. Manager Wienand added if a current staff retires or someone new comes in, this applies to the policy. This item is to be subtracted as a non-cash operating expense.

Manager Wienand recommends Option 1 for the Board to amend the existing Board Policy 26 and the four main proposed updates to the ERF. He said if Option 1 is approved today, the Department is prepared with an updated summary of the budget that includes the updated figures that were discussed.

Option 1: Amend existing Board Policy No. 26 as shown on Attachment 2 (see packet).  
Board Policy No. 26 will be updated that:



- The Department will be able to utilize emergency funds during an emergency without additional Board approval as authority to utilize emergency funds will be delegated to the Manager and Chief Engineer.
- The ERF funding requirement shall now include the maximum deductible amount in the County of Kauai's insurance policy instead of being included in the DOW's budget each year, which has led to an "artificially high" budget.
- The ERF funding requirement will be more accurate because it will be based on the prior year's audited financial statements instead of the upcoming fiscal year's operating budget.
- The ERF funding requirement will be more accurate because it will explicitly identify the County of Kauai's contra-claim as a non-cash revenue, which will be subtracted from the ERF funding requirement.

Mr. Akamine moved to approve Option #1 in *Manager's Report No. 19-55 (Update)* – Discussion and Possible Action to Amend Board Policy No. 26 for the Emergency Reserve Fund; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

Chair Canute recessed the Regular Board meeting for five minutes at 11:48 a.m.; with no objections. Chair Canute reconvened the Regular Board meeting at 11:58 p.m.

2. *Manager's Report No. 17-29 (Update)* - Discussion and Possible Action on the Financial Management Planning and Water Rate Analysis for the Department of Water for Fiscal Year 2020 through Fiscal Year 2024 and refer to the Finance Committee for Further Discussion and Analysis

**BACKGROUND:**

Manager Wienand introduced Ms. Hannah Phan with Raftelis who is here to present as a refresher and an overall presentation for the new Board members on how the rate study is being conducted. A new contract was initiated with Raftelis on January 1, 2016 and the last study ended June 2014. The Department has worked with Raftelis on the financial need and a series of objectives will be described in the presentation. In 2017 two separate workshops were provided by Raftelis and staff have continued to work with Raftelis on the Department's Financial Plan and the rate model. In 2017, this matter was referred to the Finance Committee and two Finance Committee meetings were held and discussed the proposed updates on the water rates. This was deferred because of a proposed Facilities Reserve Charge (FRC) rule amendment. At that time the Board deferred the rate study until the rule amendment was effective in September 2017. The Department then updated the CIP list with new projects such as the Paua Valley Tank. The Department is working on updating the financial plan now based on what projects are the highest priority and the DOW's capacity to deliver projects per year. Board approval is being requested to change the five year Water Rate Study from FY 2017-2021 to be effective FY 2020-2024 (July 1, 2019 through June 30, 2024). The Raftelis model is flexible and making this proposed change would not entail changing the scope or fee for the contract. Today's workshop will cover the overview of the objectives, what the rate study entails, but it is recommended that the details of what is being recommended be referred to the Finance Committee for further discussion.

***Ms. Hannah Phan, Raftelis Financial Consultants, Inc. presented the Financial Management Planning and Water Rate Analysis workshop for Fiscal Year 2020.***

Ms. Phan informed the Board that Raftelis is in the process of finalizing the rate study for implementation for FY 2020-2024. She went over the slide presentation referred in the Board packets.

**Outline:**

- Slide 2 – Overview of a Rate Study
- Slide 3 – Objectives of a Rate Study

Slide 4 – Rate Study Approach  
Slide 5 – Financial Goals  
Slide 6 - Financial Challenges of Managing a Water System

Financial Plan Development:

Slide 8 – Why Financial Planning?  
Slide 9 – Financial Health Indicators  
Slide 10 & 11 – Overview of Financial Policies  
Slide 12 – Credit Rating Criteria on Liquidity  
Slide 13 – Debt Coverage Requirements  
Slide 14 – Value of High Credit Rating  
Slide 15 – Market Volatility affects the Premium  
Slide 16 – Current Department Policies  
Slide 17 – Industry Policies  
Slide 18 – Projecting Revenues  
Slide 19 – Water System Cost Structure  
Slide 20 – Water System cost and Revenue Conundrum  
Slide 21 – Options to increase Financial Stability

Discussion:

Mr. Hull requested clarification on the financial stability. Ms. Phan said 80% of the operating expenses are fixed. In 100% financial stability scenario, the service charge covers 80% of the total cost. Any fluctuation in the water use would not affect the fix cost. Customers pay a high fixed charge but not affordable for people on fixed income. Mr. Hull asked what is the difference between a service charge and a rate? Ms. Phan said the customer bill is the main revenue. If there is zero water used, the customer still pays the service charge.

Side 22 – Debt Funded CIP

Project Approach:

Slide 24 – Financial Plan Approach  
Slide 25 – Projecting O&M Expenses  
Slide 26 – Financial Plan Model Overview  
Slide 27 – Financial Planning Dashboard

Cost of Service Allocation:

Slide 29 – What is Cost of Service?  
Slide 30 – Rationale for Cost of Service  
Slide 31 & 32 – Cost of Service Allocation Process AWWA Manual M1 6<sup>th</sup> Edition  
Slide 33 – Base-Extra Capacity Method  
Slide 34 – Step 1: Allocation of Revenue Requirement by Function/Activity  
Slide 35 – Step 2: Allocating Functionalized Costs to Cost Causation Components  
Slide 36 – Peaking Factors  
Slide 37 – Equivalent Meter Ratios  
Slide 38 – Step 3: Develop Units of Service by Customer Class for Each Cost Component  
Slide 39 – Step 4: Develop Units Costs of Service for Each Cost Component  
Slide 40 – Step 5: Distribute Cost Components to Customer Classes

Rate Design:

Slide 42 – Rate Design  
Slide 43 – Common Pricing Objectives  
Slide 44 – Balancing Competing Pricing Objectives  
Slide 45 – Existing Water Rates  
Slide 46 - 49 - FY 2015 Customer Data

Discussion:

Mr. Hull asked if there is an ability to differentiate water rates based on land use (i.e., hotel resort vs. single family)? Is there potential on a transient accommodation that could be given a higher rate legally than a single-family dwelling? Ms. Phan responded yes, because it depends on their water usage. They could have a different and not a high rate depending on customers who use water on a consistent basis legally have a lower rate. They do not peak off the system as much. Customers who use water sporadically will have the highest rate. Construction would have the highest based on the size of the project and in a short time. Mr. Hull asked if the hotels get charged a different rate than residential uses? Manager Wienand said the current rate structure does not distinguish by customer class but only by the size of the meter. Hotels will have larger meters and the Department will likely recommend that the DOW move to an industry standard approach based on customer class (not meter sizes) as the basis for rates. The Department's billing system and existing data does have the capability to identify customer class.

Slide 50 – Alternate Rate Structures

Slide 51 – Other Criteria to Consider

Slide 52 – Revenue Stability Options

Slide 53 – Last Steps of Water Rate Study

Slide 54 – Recap of Key Steps

Ms. Phan will be going over the rate study in a webinar format before coming back to the Board with the actual recommendations at a later date.

Discussion:

Mr. Hull requested clarification on the rates dependent on the meter size but will be going into the classifications of the rate payer. If usage from a resort needs a larger size meter with a higher rate but looking at the land use proposal is a trigger for a potential higher rate. Manager Wienand referred this as residential and non-residential (i.e., hotel, commercial, industrial except agriculture, falls under non-residential). The Department is proposing a uniform rate but if they are paying less or more, this would be a detailed question to see what they are using. There are five tiers currently from all meter sizes which is more complex. Mr. Hull asked if vacation rentals and single-family dwellings are putting an undue burden on water resources and infrastructure? Ms. Phan said the data would have to support his comment but they may. Before getting into the rate discussion, Mr. Hull commented that if a resort system usage requires a larger meter due to the type of use occurring at that site, but in the visitor destination there approximately 4,000 single-family dwellings with a residential meter and resort usage occurs in the 4,000 units, would the vacation rentals put them on an undue burden currently on the water system? Manager Wienand said resort usage is hard to define what the 4,000 units are and was not sure if the vacation rental information is available. The Department has residential classification. If there was a list of accounts, it would be a separate analysis. He said the usage may not be different from a typical residential account because there would be peaks and valleys from consistent usage but the total would be hard to say if it is different. Ms. Phan was confused on resort hotels that are big but a person could be putting up their home as a vacation rental which is still a residential unit. Mr. Hull said some hotels have 20 units with kitchens or they would have a larger meter but the paired down units is functioning the same to what the Transient Vacation Rental (TVR) is functioning vs. large resorts (i.e., Hyatt). Ms. Phan mentioned to not put non-residential in a tier because they have the same function as housing tourist and their usage is drastically different. Currently all 2" meters have the same tier whether there are a large customer or part of a larger meter size. Strip malls have one big meter not individual meters and is it fair to have fixed tiers for different level of usage just because they have the same meter size.

Manager Wienand said before the next Finance Committee meeting to the DOW could try to determine what the properties are with the existing customer information if it could be done, then look at how they could be properly classified as residential vs. non-residential. Mr. Hull mentioned the data in Real Property is not exact but they have a list of the vast majority taxed at the vacation rental rates. Ms. Phan

said the challenge is customer identification and to get a more detailed customer classification and the data is not in one place.

Mr. Akamine moved to approve Option #1 to be referred to the Finance Committee; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

Option 1: Approve the change of the rate study period from FY 2017 – 2021 to FY 2020- 2024 and refer to the Finance Committee for further discussion and analysis.

3. Manager's Report No. 19-59 - Discussion and Possible Action to Approve the Proposed Operating and Capital Budget for Fiscal Year 2020

**BACKGROUND:**

Waterworks Controller Mrs. Yano presented the proposed FY2020 budget and thanked the Finance Committee Chair Dill, Mr. Hull and Mr. Calipjo for meeting with the staff to discuss an accurate budget. The Options would be discussed for Board approval.

Revenues for FY2020 (Page 126) – A comparative history of the water usage from 2014 to 2018 actual usage was estimated 2019 days on the accumulative water usage; this is the result of the 2020 projection annual water usage consumption. For FY2020, the projected revenue \$30,962,769 or 87% is from water sales (rounded off to \$27M). Other sources of revenues: Public Park Protection (\$2.1M), Other Water Revenues (\$250K), Grants/FEMA (\$858,000), BAB Subsidy (\$612K), Investment Income (\$200K) and Miscellaneous Revenue (\$6K). From the projected revenues, reallocation of these revenues moved to the projected operating expenses and some expenditures.

Resources were Projected \$60,427M broken down to \$38M or operating expenses, debt principle payment \$5M or 12%, Miscellaneous \$2.1M with some IT initiatives included in capital purchases, New capital outlay \$1.8M, and Reserve Transfers is \$.7M. After the operating expenses are the new Capital Outlay Projects (Page 132). The capital outlay is funded from three sources Water Utility Fund (WUF) the main source of revenues, Facility Reserve Charge (FRC) and Build America Bond (BAB) which is the unspent balance (\$5M).

**DISCUSSION:**

From last the Finance Committee meeting, there were additional possible changes. Manager Wienand recommended approval for the budget from the Finance Committee's review at the April meetings. Two main items discussed were 1) the ERF approval at this meeting and 2) the 2019 House of Representatives session passed legislation appropriations of \$14M for the Department's top three CIP projects. The recommendation is to shift the proposed funding on those projects, by taking out one project and putting in a project based on what was funded. The Finance Committee had reviewed and tentatively recommended approval that included the Kīlauea Tank. The Manager said the Department's preference would be to add the Kīlauea MCC 1 & 2 Chlorination Project (high priority). The Department was not able to previously include this because the WUF unrestrictive balance was uncomfortably low if the project was funded this year. With the additional funds, the Manager recommended that we substitute the Kīlauea Tank out and put the Kīlauea MCC in. Option 4 was recommended by the Manager. He asked if the Board wanted to update the CIP list in Option 3 to keep the budget as is with the updates to the ERF or Option 4 with updates with the Kīlauea MCC project. The highlights in specific areas of the budget would be updated on that project. The Manager recommended Option 4 for approval.

Manager Wienand clarified that all four Options included the IT staff position and that it be removed from the budget based on the Board's previous direction during the IT Strategic Plan presentation for whichever Option is approved in this report.

Mr. Akamine moved to approve Option #4 of the Budget and to remove the additional IT staff position from the budget for further discussion at the June Board Meeting; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

Option 4: Approve the Proposed Operating and Capital Budget for FY2020 as shown on Attachment 4: with the Proposed changes to the Capital Budget (C.I.P.) and include updates to the Emergency Reserve Fund per Manager's Report No. 19-55. Similar to Option 2, the Department will be able to substitute the Kīlauea Wells No. 1 & 2 MCC, Chlorination Project for the Kīlauea 1.0 MG Tank project because it is a higher priority to construct and sufficient funds are available through the \$2.6 Million Grant recently appropriated by the State. The Department will also remain well positioned to utilize the \$10.2 Million Grant recently appropriated by the State for the Kalāheo Water System Improvements Project by constructing it ahead of the Kīlauea 1.0 MG Tank project. The Kalāheo Water System Improvements Project would utilize all of the remaining \$7.3 Million in Build America Bond funds.

**I. CONSENT CALENDAR**

None.

**J. STAFF REPORTS  
MONTHLY**

1. Discussion and Receipt of the Kaua'i County Water Department's Statement of Revenues and Expenditures
  - a. April Monthly Summary Budget
  - b. Accounts Receivable Aging Summary

Mr. Akamine moved to defer Discussion and Receipt of the Kaua'i County Water Department's Statement of Revenues and Expenditures, a. April Monthly Summary Budget, b. Accounts Receivable Aging Summary to the June Board meeting; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

2. Discussion and Receipt of the Report by the Information & Education Specialist on Public Relations Activities

Mr. Akamine moved to defer Discussion and Receipt of the Report by the Information & Education Specialist on Public Relations Activities to the June Board meeting; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

3. Discussion and Receipt of the Chief of Operation's Summary Report on Operational Activities

Mr. Akamine moved to defer Discussion and Receipt of the Chief of Operation's Summary Report on Operational Activities to the June Board meeting; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

4. Discussion and Receipt of the Manager and Chief Engineer's Monthly Update Regarding Activities of Note of the DOW

Mr. Akamine moved to defer Discussion and Receipt of the Manager and Chief Engineer's Monthly Update Regarding Activities of Note of the DOW; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

Mr. Hull read the following Executive Session language at 1:20 pm:

**K. EXECUTIVE SESSION**

*Pursuant to HRS§92-4 and §92-7 the Board may hold an Executive Session meeting closed to the public upon an affirmative vote, taken at an open meeting, of two-thirds of the members present; provided the affirmative vote constitutes a majority of the members to which the Board is entitled.*

Mr. Hull moved to enter into Executive Session *Pursuant to §92-4 and §92-5(a)(2) for the purpose of evaluating the performance of the Manager and Chief Engineer, as such, consideration of matters affecting privacy are involved*; seconded by Mr. Akamine; with no objections, motion carried with 4 ayes.

Agenda Item H No. 3:

Evaluation of the Department of Water's Manager and Chief Engineer from May 1, 2018 to May 1, 2019

Agenda Item H. 2:

Manager's Report No. 19-58 (Update) - Discussion and Possible Action on the Manager and Chief Engineer's Goals for FY 2018-2019

Mr. Akamine moved to defer Manager's Report No. 19-58 (Update) - Discussion and Possible Action on the Manager and Chief Engineer's Goals for FY 2018-2019 to the June Board Meeting; seconded by Mr. Hull; with no objections, motion carried with 4 ayes.

**L. TOPICS FOR NEXT WATER BOARD MEETING (June 2019)**

1. Correspondence from Mr. Godwin Esaki dated May 7, 2019
2. Manager's Report No. 19-58 (Update) - Discussion and Possible Action on the Manager and Chief Engineer's Goals for FY 2018-2019

**M. TOPICS FOR FUTURE WATER BOARD MEETINGS**

1. Department of Water Performance Audit (*Update*)
2. Discussion and Possible Action to establish Fiscal Policies and Procedures
3. Workshop presentation regarding the Master Plan of the Department of Water's former Administration Building, Baseyard, Micro Lab, Information Technology (*October/November 2019*)
4. Discussion and Receipt of the American Water Works Association, Annual Conference Exposition Report (*June 9-12, 2019*)
  - a. Report from Kaua'i Board of Water Supply Member, Elesther Calipjo (*July*)
5. Budget Rollovers (*August*)
6. Discussion and Possible Action to Amend the Fiscal Division Table of Organization

**N. UPCOMING EVENTS**

1. AWWA ACE 20<sup>th</sup> Conference, Denver, Colorado (*June 9-12, 2019*)
2. HWWA/HRWA Conference, Honolulu, Hawai'i (*TBA*)
3. Make a Splash, Project WET (*September 20, 2019*)
4. DOW's Annual Meeting (*December 13, 2019*)

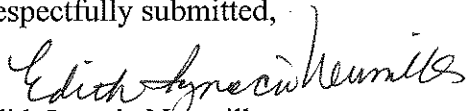
**O. NEXT WATER BOARD MEETING**

1. Friday, June 28, 2019, 10:00 a.m.
2. Friday, July 26, 2019, 10:00 a.m.
3. Friday, August 23, 2019, 10:00 a.m.
4. Friday, September 27, 2019, 10:00 a.m.

**P. ADJOURNMENT**

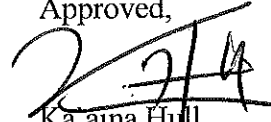
Mr. Hull moved to adjourn the Regular Board Meeting at 1:42 p.m.; seconded by Mr. Akamine; with no objections, motion carried with 4 ayes.

Respectfully submitted,



Edith Ignacio Neumiller  
Commission Support Clerk

Approved,



Ka'aina Hull  
Secretary, Board of Water Supply

