

REGULAR MEETING MINUTES
BOARD OF WATER SUPPLY
Thursday, July 16, 2009

The Board of Water Supply, County of Kaua'i, met in regular meeting at its office in Lihu'e on Thursday, July 16, 2009. Chairperson Leland Kahawai called the meeting to order at 10:05 a.m. On roll call, the following answered present:

BOARD: Mr. Leland Kahawai, Chairperson
Mr. Dee Crowell
Mr. Donald Fujimoto
Mr. Ian Costa
Mr. Raymond McCormick
Mr. Roy Oyama (present at 10:08 a.m.)

Absent & Excused: Mr. Randall Nishimura

STAFF: Mr. David Craddick
Mr. Paul Ganaden
Mr. Gregg Fujikawa
Mr. William Eddy
Mr. Keith Fujimoto
Mr. Bruce Inouye
Deputy County Attorney Amy Esaki

Absent & Excused: Ms. Faith Shiramizu

GUESTS: Mr. Jerry Kaluna (from about 10:45 a.m. to 11:15 a.m.)

AGENDA

Chair Kahawai pointed out that there is a correction to be made to New Business Agenda Item No. G3, Grant of Easement from [June N.] Kyle Nakagawa for the James K. Nakagawa Trust and June N. Nakagawa for the June Nakagawa Trust as an inadvertent error was made that showed June's name twice. It was so noted.

Mr. Costa moved to accept the Agenda, as amended, seconded by Mr. McCormick; by a unanimous vote, motion was carried.

MINUTES:

Special Meeting: April 2, 2009:

Mr. Costa moved to approve the Special Meeting Minutes of April 2, 2009, seconded by Mr. McCormick; by a unanimous vote, motion was carried.

Regular Meeting: April 16, 2009:

Mr. Costa moved to approve the Regular Meeting Minutes of April 16, 2009, seconded by Mr. McCormick; by a unanimous vote, motion was carried.

Regular Meeting: June 25, 2009:

Mr. Costa moved to approve the Regular Meeting Minutes of June 25, 2009, seconded by Mr. McCormick; by a unanimous vote, motion was carried.

CORRESPONDENCE:

Re: 2009 Annual Report from the East and West Kaua'i Soil & Water Conservation Districts

Mr. Costa moved to receive this Correspondence, seconded by Mr. Crowell; by a unanimous vote, motion was carried.

Mr. Oyama was present at the meeting at about 10:08 a.m.

Re: Memo from Virginia Kapali, Chair of the County Salary Commission to Request for an Opinion Regarding the Mayor's Request to Defer Administrative Salary Increase

Mr. Costa moved to receive the report and place on file, seconded by Mr. Oyama; by a unanimous vote, motion was carried.

Re: Letter from Mayor Bernard P. Carvalho, Jr. to Virginia Kapali of the Salary Commission on the Deferral of Administrative Salary Increase

Mr. Costa moved to receive the above 2 correspondences and placed on file, and in light of the current economy concurred with the deferred salary increases for department heads, seconded by Mr. Oyama.

Mr. D. Fujimoto explained that he appreciated the message that is being sent and acknowledged that everyone should do their part; however, even during this downturn in the economy, we still need to do what we need to do as water is a basic issue that needs the Board's support. He felt that the Board needed to keep in mind that they recently had a very hard time to fill our water manager's position; therefore, the Board needs to ensure that we are able to keep our manager. Mr. D. Fujimoto added that our current manager had to also forfeit his retirement benefits to work here.

Mr. Crowell stated that he supported the Administration's efforts although he was concerned about the 2-year deferral. He thought that it should be a 1-year deferral at which time there would be a reassessment of the necessity to defer the salary increase for another year. Mr. Crowell discussed that the County department heads salary was to be tied into the highest paid County civil servant; however, due to the downturn in the economy, that concept was dropped. At that time, there were about a dozen civil servants that made more than the Mayor, which he did not want to happen again.

Mr. Costa clarified that his motion was based on the current economy.

Mr. D. Fujimoto added that the Water Board is an independent utility and needed to be able to manage this department. He felt that if it means that they needed to keep the option of being able to compensate their manager, that statement should be said, especially now.

Chair Kahawai added that their letter should state the Board's concurrence; however, it should include that the Manager's position was very difficult to fill.

Mr. Crowell moved to amend the motion that the Board concurred with the Mayor's directive; however, requests a 1-year timeline instead, at which time the economy situation could be reassessed to verify whether a second deferment was necessary, and to note that this decision was based on the Board's difficulty in filling the Water Manager's position and wanting to keep our present Manager, seconded by Mr. D. Fujimoto.

Mr. D. Fujimoto also added that only the Kaua'i water manager's salary is not decided by the Water Board.

By a unanimous vote, the amended and original motions were both carried.

It was noted that the secretary would followup with a draft response letter to the Salary Commission from the Water Board.

Re: Letter from the Water Board to the Kaua'i Department of Personnel Services on the Delegation of Authority from the Water Board to the DOW's Manager

Mr. Costa moved to receive this Correspondence, seconded by Mr. D. Fujimoto; by a unanimous, motion was carried.

Re: Letter from Robert Goldberg, of Hale and Goldberg Law Firm, Regarding Nalu Investment LLC aka The West Inn, Six-Unit Hotel Project, Z-IV-2005-20, TMK: 1-6-08:010, Lot M-1, Waimea, Kauai

Chair Kahawai requested that this matter be received for the record and referred the letter to staff for review and to report back to the Board.

Mr. D. Fujimoto also requested for legal review and a recommendation from the County Attorney's Office.

Mr. Crowell moved to receive this Correspondence and to refer it to staff for review and report back to the Board, seconded by Mr. Oyama; by a unanimous vote, motion was carried.

OLD BUSINESS:

Re: Manager's Top 4 Goals for the Kaua'i Department of Water for 2009

Recommendation: Not Applicable

Project Funding: Not Applicable

Background:

Previous Manager's Top 4 Goals for the Year 2009:

1. Complete customer service survey

2. Include in monthly report steps and progress of improvements (planning and organizing criteria)
3. Separate operational budget into an accrual based accounting format
4. Improve internal controls, resolve problems, and follow up with enforcement.

Manager Craddick gave an update of the existing 4 goals:

Customer Service Survey

Our summer intern, with our Public Relations Specialist, has done a Customer Service Survey and we are currently soliciting bids to collect data and have it evaluated. We expect to have a report by the end of August.

Monthly Progress Report

We hope to issue bonds to speed up the implementation of projects to implement the 2020 Plan.

The status of the ongoing projects will continue to be updated on the quarterly reports entitled, Briefing on Departmental Projects.

Accrual Based Accounting Format

Manager Craddick was not sure the reason for this item as the Department already does all of its accounting on an accrual basis.

Improve Internal Controls, Resolve Problems and Follow-up with Enforcement

The Department will work to implement the Auditors findings regarding implementation of an automated work order system.

Mr. Costa moved to receive the Manager's Top 4 Goals Report for the record and place on file and thanked Manager Craddick for transitioning the goals, seconded by Mr. Oyama.

The Board agreed that the Manager should always have 4 goals annually.

Mr. Costa moved to receive the Manager's Report, seconded by Mr. Oyama; by a unanimous vote, motion was carried.

NEW BUSINESS

Re: Request Board Approval of Bond Issue with the County

RECOMMENDATION:

Manager Craddick requested the Board's approval to work with the County to issue bonds for Water Plan 2020 and other projects. Exact Bond principle amount and interest will be available at a later date.

FUNDING: Funding not to exceed \$5 million for about \$60 million in debt.

BACKGROUND:

In 2009 Water Research Foundation and EPA completed a jointly funded project looking at Capital Efficiency in the water and wastewater industry. It noted the following trends.

- Capital cost at utilities are exceeding annual operation and maintenance costs
- Capital costs are expected to increase with introduction of new regulations and the need to replace infrastructure
- Water utility capital efficiency could be significantly improved through understanding of capital project and program management and usage of innovative project implementation methods.

Reinforcing this recognition is the realization that utility costs are outpacing engineer's estimates due to:

- Rising material costs
- Increasing project interdependencies
- Supply-demand imbalance issues
- Succession issues at utilities and contractors
- Risk-aversion actions taken by sureties and other participants in the capital process.

With these issues in mind, EPA notes that the long-term forecast for capital, with efficiency improvements, the growth in capital needs will result in annual rate increases 3% above inflation and continuation of present trends will most likely result, in the immediate to long term, in annual increases higher than the forecast.

With this in mind, an 18% increase plus inflation above the planned increase for next year over the next three years is a hard pill to swallow in the current economic time. Looking also at the current economic condition, projects are bidding below estimates for the first time since the mid 1990's where projects were bidding 15 to 20% below engineer's estimates.

It is this condition that can be taken advantage of while increasing capital efficiency by increasing the speed of project implementation. KBWS currently pays \$2.24 million in annual debt service for \$25.56 in debt with a debt to asset ratio of 20%. Once the projects are done, the debt to asset ratio would be about 35%. Utility industry average debt to asset ratio is about 28%. KBWS debt projection is based on \$5 million in debt to add \$60 million in assets. These are rough numbers and depending on interest rates and the final project list and how the financing is structured would change. The biggest affects, besides how much debt is issued, on financing cost under our control is the term of the debt and when principle payment starts.

The term used to give the debt service estimate above is 25 years. This could go higher or lower and is usually based on the life of the projects being built. The life of projects proposed is in the 75 to 100 year range. A 30-year term would result in

lower debt service payments with lower principle repayment per year. When principle payments start, it is another matter under our control.

The matter of financing interest payments is usually done because profit making utilities are not allowed to include projects “not in service” to be included in what is called the “rate base” used to calculate the allowed return on investment typically by a PUC. KBWS is a non-profit organization. Including construction interest in the bond issue has the effect on the ratepayers of increasing the debt service payments as more money is borrowed than needed to pay interest during the years the projects are being constructed. Interest payments other than the construction financing costs cannot be capitalized and added to asset value. There are two other ways to look at interest payments during construction.

One is the affect inflation has. Inflation assumes people’s income rises with the inflation. Future rate payments are then theoretically a smaller part of the family income so the affect on the rate payer is reduced. A second affect of paying interest out of Bond proceeds while adding to debt payment cost, usually in the 7 – 10% range, allows delaying rate increases. Debt payments are lower allowing for a longer period of time before rates need to be increased to provide adequate debt coverage. Debt coverage is in the 1.1 to 1.2 range according to initial discussions with the County Finance Director. Debt coverage is the amount of available cash over and above debt service payments that could be used to pay debt service. When interest payments are paid from revenues should be decided earlier rather than later but can wait to see what interest rates will be before deciding.

We expect interest rates in the 5.25 to 5.5% as an average range for AAA bonds. Typically, the interest starts low and increases based on the term of the Bond. The County is AA rated and will likely insure to get to top rating. The last item to discuss is the affect on rate payers.

Raising \$5 million in additional funds raise will require rate increases of about 25% as our current revenue is about \$20 million. January 2010 is the last of currently approved rate increases that were to finance 2020 phase one projects. Due to fuel price increases and other cost increases inflation has eaten about two thirds of the rates since 2001. We have had rate increases since 2001 including next year of 30 percent. We will need about 17% more over the next year if debt payments are not delayed. If they are delayed we could have a maximum of three and a half years before the full amount is needed for debt service coverage, or about eight percent per year for the three years.

Thank you for your attention to this matter and we recommend going forward with the Bonds in the amount suggested. We can further debate the projects at a later time. In early discussions with Council members they want to see some projects that will help alleviate the meter issuance limitations. My response was we will be working on the FRC in the coming months that could allow some debt to be issued for expansion type projects. Council will be hiring Bond Counsel who would then prepare a Bond Resolution for the Board to approve, so your approval now is an “in concept” approval with few specific except as your want to add to the approval.

Guest Mr. Jerry Kaluna was present at the meeting at about 10:45 a.m.

Discussion:

On query by Mr. D. Fujimoto, Manager Craddick stated that the County is already AA rated and to piggyback with the County for bond issues can save the Department on issuance costs as well as get lower interest rates. Manager Craddick added that the Council and Finance Director supported our efforts.

Mr. Costa moved to have the Department to work with the County to issue bonds for Water Plan 2020 and other projects and requested County consultation prior to any press release, seconded by Mr. D. Oyama.

On query by Mr. Crowell, Manager Craddick stated that there is no real timeline to spending the bond monies; however, if we start earning more interest than paying out in interest then we would have to give then interest back to the government. Manager Craddick stated that the designated water projects have been designed and the staff felt that once we have ample staff, these projects could go out in a fairly timely manner of about 3-4 years. He added that all the award of contracts could possibly be done in 1-1/2 years.

On query by Mr. Crowell and Chair Kahawai, Mr. Fujikawa stated that there were originally about 250 Water Plan 2020 projects on the books and about 200 projects remaining not completed or may have been deleted. Manager Craddick added that the wells and tanks projects equals to about \$62 million, which is about ½ of the projects.

Mr. D. Fujimoto discussed that he remembered the original Water Plan 2020 project listing had about \$350 million worth of projects and it was identified that about \$100 million worth of projects were the most critical. Therefore, he assumed that the current project listing is 60% of the entire listing, which he wanted verified by the staff. Mr. D. Fujimoto also requested to have a simple list of advantages of doing this bond issue now and exactly what the \$60 million will be used for, as it would not be enough to cover the short list of Water Plan 2020 projects and the plan for public education. This matter will be discussed at a later time, at possibly a Board workshop, along with the public relations aspect of this undertaking.

Manager Craddick discussed that depending on the bond issuance, if it is interest only payments for the first 2 years, then you would borrow money for the interest for the first 2 years then the next rate increase could be delayed for 2-3 years. During this 2-3 years time, we would need to see what can be extracted from our own budget. He would need to check with the Finance Director whether he would want to see the rate increase in place first or not before he would give us the bond monies. Manager Craddick explained that it actually would not be a problem as the Water Board would make the final decision on rate increases after a public hearing.

Manager Craddick also discussed that another option for funding of projects is via the State Revolving Fund (SRF) Program; however, this avenue can take inordinate amount of staff time to execute and finalize loans. Also, there is about a 1% savings between SRF loans and a bond issue. He added that if our bids continue to be about 15-20% below estimate, it would be a savings to our rate payers.

Manager Craddick added that he is bringing this issue to the Board now as the County is planning on doing a bond issue in September, 2009.

He added that the main issue today is whether the Board wanted to borrow interest monies for the first 2 years, which would allow the ability to stretch out the interest rate. He also added that every year that the interest is borrowed, would affect the increase on the total cost of the bond by 5% yearly.

Mr. K. Fujimoto discussed that the reason why the Department is pursuing only about ½ of the proposed projects is because some of the well and tank projects have like land acquisition and permit approval issues that could not be done within the 2-year period that Manager Craddick is targeting.

On query by Chair Kahawai, Manager Craddick stated that the projects in the bond issue would be grouped types of projects and not project specific to make it more flexible in case of changes.

Mr. Crowell discussed that his concern was that after a cursory review of the initial Water Plan 2020 projects and the short list, it seemed that the estimated construction costs in the short list were double/triple/quadruple more than Water Plan 2020; therefore, he wondered how many more \$60 million bond floats and rate increases would we need to accomplish Water Plan 2020.

Mr. D. Fujimoto moved to amend the motion to have the Department clarify on the long-term, what percentage this funding is taken care of for Water Plan 2020, to also reflect the projected revenue increase based on this new bond, how it affects the past projections and how it is going to affect the future projections of this rates, and to have a rate study done. There was no second. Motion died.

Upon a parliamentary procedure clarification request by Mr. Oyama, Mr. Costa moved to withdraw his original motion and Mr. Oyama withdrew his second.

Mr. D. Fujimoto moved to approve to proceed to go along with the County for a bond issue, subject to the clarification of the justification of where we are at with Water Plan 2020 and also updating the rate study, seconded by Mr. McCormick.

Chair Kahawai suspended the rules to allow Guest Jerry Kaluna to speak at about 11:07 a.m.

Mr. Kaluna wanted to bring across several points on what was just discussed by the Board, as follows:

- the DOW and its budget is separate from the County and also that the Board has final say on anything and that he felt the public would be easy to work with when they know that the Department is trying to save money.
- it has always been a problem in the past when he was Deputy Manager for the DOW on when is the right time to issue a bond and he concurred that Manager Craddick's bond plan is a good one as it would save the DOW money.
- the people will remember WP 2020 projects that was scheduled for their area and would be upset if that project was cancelled.

- a possible alternative is to look for water in Mt. Waialeale.

Mr. Crowell moved to amend the motion to also include that the Department consult with the Administration to see what type of projects that should be included in our project package to support his affordable housing efforts, seconded by Mr. Oyama.

By unanimous votes, motions were carried for the original motion and the amended motion.

Mr. Kaluna left at about 11:15 a.m. or so.

Re: Request Board Approval of Board Policy No. 23, DELEGATING ROUTINE PERSONNEL ACTIONS

RECOMMENDATION: It was recommended that the Board approve Board Policy No. 23, which documents the Board's action of June 25, 2009; whereby, the Board approved the delegation of routine personnel matters already approved in the Annual Budget, from the Board Chair to the Manager and Chief Engineer.

FUNDING: n/a

BACKGROUND: At the June KBWS meeting the Manager asked for and was delegated the authority to approve and sign routine personnel actions being sent to the County Personnel Director. While approving the request, the Board asked for a Board Policy to be proposed to officially memorialize the action. Attached is the Proposed Board Policy No. 23.

Mr. Costa moved to approve Board Policy No. 23, seconded by Mr. Crowell; by a unanimous vote, motion was carried.

Re: Grant of Easement from Kyle Nakagawa, Trustee of the James K. Nakagawa Trust and June N. Nakagawa, Trustee of the June N. Nakagawa Trust, for on-site water facilities for the construction plans for Job No. 05-01, Water Plan 2020 Project No. KW-16, Waimea Main Replacement, TMK: (4) 1-6-005:014, Waimea, Kauai, Hawaii

It was recommended that the Board approve the grant of easement; whereby, Kyle Nakagawa, Trustee of the James K. Nakagawa Trust and June N. Nakagawa, Trustee of the June N. Nakagawa Trust, grant to the Board of Water Supply, County of Kauai, a perpetual easement on, over and under that certain parcel of land located in TMK: (4) 1-6-005:014, Waimea District, Kauai, Hawaii, for the construction, installation, reinstallation, maintenance, repair and removal of potable water pipelines, related meters, valves, and other associated waterworks facility improvements and appurtenances, together with the right of ingress and egress at any time to, from, and through the easement area, with or without vehicles or equipment, as the Department of Water shall deem necessary for the proper operation of its water system for Job No. 05-01, Water Plan 2020 Project No. KW-16, Waimea Main Replacement, TMK: (4) 1-6-005:014, Waimea, Kauai, Hawaii.

Further, Board approval is specifically requested of the indemnification provision in this agreement, wherein the Board agrees to indemnify and hold harmless the Grantee from property damage and injuries to person (including death), when such damages and injuries are caused by the Department's negligence while using the area.

Mr. Costa moved to approve the Grant of Easement, along with its indemnification provision, seconded by Mr. D. Fujimoto; by a unanimous vote, motion was carried.

Re: Right of Entry Agreement for the 12-Inch Waterline along Kaumuali'i Highway and Waimea Canyon Drive, Job No. 02-03, Water Plan 2020 Project No. KW-14, Affecting the Following Landowners in Waimea, Kauai, Hawaii

1. Mark D. Nellis, affecting Portion of TMK: (4) 1-6-08:002, Waimea, Kauai, Hawaii
2. Lena Tanaka, Trustee of the KLM Revocable Living Trust, affecting Portion of TMK: (4) 1-6-09:003, Waimea, Kauai, Hawaii
3. Gilbert S. Masaki, affecting Portion of TMK: (4) 1-6-09:005, Waimea, Kauai, Hawaii
4. David M. Ayabe, Trustee of the David M. & Beryl Y. Ayabe Trust, and Beryl Y. Ayabe, Trustee of the David M. & Beryl Y. Ayabe Trust, affecting Portion of TMK: (4) 1-6-09:006, Waimea, Kauai, Hawaii

RECOMMENDATION:

It was recommended that the Board approve the Right of Entry documents; whereby, the above landowners, grant to the Board of Water Supply, County of Kauai, a right of entry, on, over and under that certain parcel of land located as specified above in Waimea, Kauai, Hawaii, for the following work:

1. Relocation of existing water meters from private property to County of Kauai right of way, together with the right of ingress and egress at any time to and from the said lot with or without vehicles or other equipment as the Department of Water shall deem necessary to complete the work.

Further, Board approval is specifically requested of the indemnification provision in this agreement; wherein, the Board agrees to indemnify and hold harmless the Grantor from property damage and injuries to person (including death), when such damages and injuries are caused by the Department's negligence while using the area.

FUNDING: Not applicable.

BACKGROUND:

Portions of the existing waterlines along Kaumuali'i Highway and Waimea Canyon Drive will be replaced in 2009-2010. During the waterline design phase, it was observed that existing water meters are currently installed outside of the State of

Hawaii Right of Way. The right of entry will allow the future contractor to relocate all affected meters to within the State Right of Way.

Mr. Oyama moved to approve the Right-of-Entry Agreement, along with its indemnification provision, seconded by Mr. Costa; by a unanimous vote, motion was carried.

REPORTS

Re: Statement of Kaua'i County Water Department's Revenues and Expenditures

Mr. Costa moved to receive the Statement of Kaua'i County Water Department's Revenues and Expenditures report and placed it on file, seconded by Mr. Oyama; by a unanimous vote, motion was carried.

Re: Public Relations Specialist's Monthly Update Regarding DOW Public Relation Activities

Public Relations Specialist Faith Shiramizu gave the following report:

Re: Public Relations Update

Kaua'i Planning & Action Alliance: Diane Zachary met with David, Gregg and I regarding the Draft 2008 Community Indicators Report. She left with a better understanding of maximum daily capacity and daily consumption and we are working on refining the wording that will be used in their report.

SRF/ARRA: The first of our two ARRA projects, (04-04, PLH-09, Pipeline Replacement for Lihue Town) bid opens will take place at 2 pm on July 9, 2009, Notice to Proceed (NTP) to be issued by August 31, 2009. The Invitation for Bid on the second of two ARRA projects (05-01, KW-16, Waimea Main Replacement) along with SRF project (Waimea Canyon Drive), will be advertised on July 16, 2009, with bids scheduled to be opened on August 6, 2009 and NTP issued no later than September 30, 2009.

Dustin efficiently worked with Deputy County Attorney Amy Esaki and Emi Tanihiro, prepping the contracts in conjunction with the bid specs so the contracts will be ready to be processed for signatures soon after the bid openings. I am also working with Amy Esaki on finalizing Site Certifications and Resolutions required for the ARRA/SRF projects.

Summer Intern: Heather has been diligently working on several projects. She has compiled questions for our upcoming Customer Survey, drafted the Quotation Request form to solicit quotes for conducting the survey, Make a Splash invitations have been sent out, arrangements for tents, tables and benches, port a potties and logo item orders are in place. As you can see, Heather has also completed the May and June Newsletters and she is also coordinating the DOW 3rd Quarter Hike to Waipoo Falls in Kokee. Thanks Heather!

Make a Splash: As noted above, everything is in motion in preparation for our 2009 Make a Splash Water Festival. There may be a few obstacles with man power, depending on State furloughs and the status of employment of our various volunteers. We have also been presented with an offer of support from the American Resort Development Association (ARDA) for our MAS Festival and will report at next Board's Meeting on the details to formally receive their offer.

Mr. Oyama moved to receive the Public Relations Update and placed it on file, seconded by Mr. Costa; by a unanimous vote, motion was carried.

Re: DOW Quarterly Projects Briefing

Manager Craddick submitted a written quarterly report of the status of the DOW's projects, along with an Executive Summary, for the Board's information.

Mr. Oyama moved to receive the Projects Briefing Report and placed it on file, seconded by Mr. Costa; by a unanimous vote, motion was carried.

Re: Manager's Update for June, 2009 to July, 2009

Contracts Awarded by the Manager:

1. Job 04-04, Water Plan 2020 Project PLH-09, Pipeline Replacement for Lihu'e Town

Low bidder was Cushnie Construction Company

FUNDING:

101b. CRP, Pipeline Replacement for Lihu'e Town\$3,200,000.00

Proposal by Cushnie Construction Co.....\$ 1,949,612.00

Contingency (approx. 5%)\$ 100,388.00

Total funds required:<\$2,050,000.00>

Balance Remaining:..... \$1,150,000.00

2. Job No. 04-06, KW-05, Kekaha (Waipao) Well 'B' Renovations, Kekaha

Low Bidder was Goodfellow Bros., Inc.

FUNDING:

101b. CRP, Waimea Well "A" Renovation and
Kekaha (Waipao) Well 'B' Renovations,
Waimea and Kekaha\$700,000.00

Proposal by GOODFELLOW BROS., INC.....\$444,000.00

Contingency (approx. 5%)\$ 22,200.00

Total funds required:\$466,200.00

Balance Remaining:.....\$233,800.00

Pump Installation Permits Signed by Manager: None.

Waiver, Release and Indemnity Agreements Signed by the Manager:

Kukuiula Development Co. (HI) LLC, TMK: 2-6-16:015 for Cottage Lot 15 in Y Subdivision

Personnel Matters Update: None.

Affordable Housing Update:

The last Affordable Housing Task Force (AHTF) meeting was held on Monday, April 13, 2009 at Pi'ikoi Conference Room A, with the status of projects below. There was no meetings thereafter for May and June, 2009. The next meeting is scheduled for Monday, July 13, 2009.

Updates on AHTF Projects:

1. DHHL – Anahola Residence Lots Unit 6, “Pi’ilani O Kekai, The DOW issued the “Certification of Completion” notice on June 8, 2009 for Phase 1 of the subdivision.
2. Habitat - Eleele I Luna Subdivision Phase 2: Habitat is processing the CDBG funding requirements with the Housing Agency for sewer line improvements.
3. Kauai Lagoons – Courtyard at Waipouli: The DOW issued the “Certification of Completion” notice on May 26, 2009 for the project. The developer applied for and the DOW did install the water meters and fire detector check meter in early June, 2009. The housing agreement with the County state that the deadline to complete and occupy the project is June 18, 2009.
4. Kauai Lagoons – Kapule Project: The B.P. application was issued by the Building Division. Site grading is complete. Fire Hydrant construction is underway. Building construction is underway.
5. Kukui’ula Employee Housing- “Gap” Housing subdivision and zoning permit: Amended water master plan was returned to the developer for revisions on January 28, 2008. The developer has resubmitted the revised WMP to DOW in February.
6. Kohea Loa (Hanamaulu Triangle): DOW completed its review of the revised May 15, 2009 draft version of the Grove Farm Amfac/JMB Lihue Hanamaulu Potable Water Master Plan and submitted comments to the consultant, Kodani and Association. A meeting with the Developer was conducted on June 3, 2009 to resolve the DOW comments and recommendations. The developer will complete the revisions based on the result of the meeting with DOW and resubmit a revised draft.
7. Paanau Village, Phase 2: The Housing Agency will depend on the engineering design to determine the access to the project site.

DOW Auction:

The staff is gathering a list of equipment, vehicles, etc. that need to be auctioned off. The auction is tentatively scheduled for sometime in September, 2009

‘Anini Water System:

Due to rainwater, the surrounding grounds of our ‘Anini waterline has eroded and exposed our waterline. To eliminate further erosion, our Operations crew has been working hard on diverting the water away from our waterlines. They are also working on covering and protecting our waterline.

Department of Health Violation Status:

On June 5, 2009, DOW received a Recission of Notice of Violation, Surface Water Treatment Rule (SWTR) Treatment Technique, January, 2009. The original violation

notice informed the DOW that violation was based on Aqua Engineers reporting that it did not provide adequate disinfection and/or contact time at the Grove Farm Water Treatment Facility during January 12 and 13, 2009. In response to the violation, Aqua Engineers provided data and supporting information which allowed the Department of Health (DOH) to calculate that the CT was achieved on those two days. The DOH is satisfied with the information and data and discussions with Aqua Engineers, SWTP Operator, and agrees that the apparent violation did not in fact occur, but was caused in part by a reporting error. However, the DOH expects that Aqua Engineers, Grove Farm and the DOW will be committed to immediately correcting the way data is inputted, CTs are calculated, and reports are generated to avoid the reporting errors that led to the violation. DOH is requiring that a follow up report that describes the corrective measures be submitted to DOH by July 5, 2009. The DOW is working with Aqua Engineers and Grove Farm to submit the final report to DOH.

Department of Water's Deputy Manager-Engineer:

The recruitment of the Deputy Manager-Engineer has started with the distribution of flyers at the AWWA San Diego Conference. The Deputy Ad will also be posted on the websites of the DOW, AWWA-HI Section, AWWA National, UH Alumni, Brown & Caldwell Jobs.com, and The Garden Island Newspaper (Sunday, July 19, 2009). A copy of the revised Deputy job announcement was given for the Board's information.

Mr. Oyama moved to receive the Manager's Update and place it on file, seconded by Mr. Costa.

Manager Craddick also reported that prior to his starting at the DOW, there was special legislation that passed to approve the American Recovery and Reinvestment Act (ARRA), which are Federal stimulus funds for qualified projects that had to have a notice to proceed date of June 17, 2009. Our Lihue Town waterline replacement project was geared to have ARRA funds.

Subsequent to that, there was a letter received from the State Department of Health who manages the ARRA projects dated March 30, 2009 that stated that the notice to proceed date was extended to December, 2009 to issue Notice to Proceed. He noted that the Lihue Town project was ready to meet the June 17th deadline; however, the project was stalled when the DOT requested a realignment of one of the waterlines.

Manager Craddick added that the DOW participated in a conference call with the State DOH and the other water utilities last Friday, July 10, 2009, which we surprisingly found out that the true deadline was still June 17, 2009 and that the Kauai DOW was the only ones that did not meet and did not know about the steadfast June 17, 2009 deadline. It seemed at first that our ARRA funding was in jeopardy; however, subsequently, it now may still be negotiable on the Federal side.

He added that the Honolulu Board of Water Supply (HBWS) and Maui Department of Water Supply (MDWS) both issued notice to proceeds for their ARRA projects without any funding. Hawaii Department of Water Supply (HDWS) did not issue notice to proceed as they do not have monies to encumber for their ARRA projects.

Manager Craddick stated that the award of the ARRA projects may be done on the basis that the DOW would possibly have to fund our own ARRA project. As a backup, the State would do a State Revolving Fund (SRF) loan for the projects that do not get ARRA funding. ARRA funded projects would result in forgiveness of interest and principal but would still have to pay a State management cost of 3-1/2 percent.

Manager Craddick added that it would be resolved next week on how much ARRA funding we will actually receive.

On query by Chair Kahawai, Manager Craddick stated that he felt it was not the fault of staff as the State DOH decided to stick to the June 17, 2009 deadline when they wrote a letter to the DOW stating that we had until August 31, 2009 to actually bid the job and until December, 2009 for NTP. There are 2 projects that are geared for ARRA funding, the first project already had a bid opening and the second project will bid on August 6, 2009. Therefore, Manager Craddick stated that it was hoped that we could still get some ARRA funds.

On query by Mr. D. Fujimoto, Manager Craddick stated that nationwide there was this deadline of June 17, 2009 to have all these 'shovel-ready' projects to have Notice to Proceeds; however, nationwide most are not ready.

Manager Craddick summarized that he will be following up with the State DOH on what happened with the coordination of these ARRA projects and its deadlines.

By a unanimous vote, motion was carried.

Re: Report of the Finance Committee of the Kaua'i County Board of Water Supply

Pro-Tem Finance Chair McCormick reported that the Finance Committee at its meeting approved payments of \$1,587,041.16. Mr. Costa moved to receive the Finance Committee Report, seconded by Mr. D. Fujimoto; by a unanimous vote, motion was carried.

Re: Report of the Rules Committee of the Kaua'i County Board of Water Supply

Nothing to report.

STRATEGIC AND BUSINESS PLAN AND NEEDS ASSESSMENT:

Re: Report from Issue Champions

Ms. Shiramizu reported on the following:

Issue No. 1, Morale:

1) Fun Committee Events:

- a) The DOW Family Fun Day at Anini Beach Park on Saturday, June 20, 2009, was fun for those that attended. Mahalo to Keith Aoki who organized most of the details and

was the responsible employee that showed up on time to be sure we didn't lose the pavilion. He showed up at 8 am and waited until nearly 10 am before anyone else showed up. They were late due to the traffic issues caused by the accident, which is why some of the employees were not able to make it.

- b) Hiking adventure scheduled for July 18th; the Kokee Hike will be to Waipo' o Falls. The group will meet at 7:30 am in front of the Pavilion at the Kokee State Park. Everyone is responsible for their own lunch, drinks and snacks.
- c) Golf Tournament is set for August 15th, at Pua Kea Golf Course. Deadline to sign up is July 31, 2009. Mahalo to Tommy Tokuda for organizing this event!

2) Rewards Committee:

- a) Second Quarter WATER Bucks were awarded to Craig Shirai, Peter Sapinoso, Anthony "Koni" Silva, and Darwin "Zoom" Bukoski. Peter Sapinoso was selected as the Employee of the Quarter for always being willing and happy to help other divisions with tasks outside of his job description.

Issue No. 2, Strong and Qualified Workforce:

Updated July 9, 2009

Recruitment

- 1) Civil Engineer III (WRP Division) – Selectee expected to start work before August 2009.
- 2) Engineering Drafting Technician – Selectee has accepted position. Proceeding with pre-employment physical exam requirements.
- 3) Accountant I – Person has been selected. Reference checks are being conducted.
- 4) Waterworks Inspector I – Interviews to be scheduled in early August 2009.
- 5) Pipefitter Helper – Received list of eligibles. Interviews to be scheduled soon.
- 6) Water Service Supervisor III – Position Description Minimum Qualifications to be updated and submitted to DPS for approval.
- 7) Operations Re-Organization – Pending.

Manager Craddick added that one of our Civil Engineer I positions just submitted his resignation as of July 24, 2009.

Training

- 1. National Rural Water Association continues to provide free monthly training until September 2009.
- 2. Plans being made to have Ray Ohta provide training for the Front Office personnel.

Issue No. 3, Water Quality:

- 1. Sample site work order for Kuamoo Rd. submitted in September, but no work yet. Operations requested a different site be selected.
- 2. New sites chosen for routine sampling to replace sites that were hard to access or have been removed
- 3. Main break monitoring on hold, pending finalizing procedures and follow up between both the Lab and Operations. In the meantime, Peggy is informally checking on mainline breaks.
- 4. New Issue #3 champion or co-champion should be from Operations.
- 5. Decided to go with Triggered Monitoring Plan for the new GWR.
- 6. Sampling sources to see if any will present problems with fecal indicators if triggered monitoring is required. So far only Garlinghouse Tunnel seems to be problematic.

PROJECTS UNDER DESIGN:

- 1) Job 02-03, KW-14, KW-15, 12" Waterline along Kaunualii Highway and Waimea Canyon Drive (Consultant: Park Engineering)
 - a. The tracings have been approved by all agencies.
 - b. Preparing to advertise for bids.
- 2) Job 04-06, KW-05, KW-20, Waimea Well A and Kekaha Well B Renovations (Consultant: Engineering Solutions) – Completed the final plans and specifications.
- 3) Job 04-04, PLH-09, Pipeline Replacement for Lihue Town (Consultant: Akinaka & Associates)
 - a. Plans are fully approved.
 - b. Finalizing the specifications.
 - c. Pre-bid conference held on June 26, 2009.
 - d. Bid opening scheduled for July 9, 2009.
- 4) Job 03-02, HW-03, (Phase II), Wainiha Booster and Haena Tank Renovations (Consultant: Brown & Caldwell) – Consultant preparing the revised plans and specifications to address the DOW's review comments.
- 5) Job 05-01, KW-16, KW-23, Waimea Town Waterline (Consultant: Hawaii Pacific Engineers)
 - a. The tracings have been approved by all agencies.
 - b. Preparing to advertise for bids.
- 6) Job 02-18 WK-32 Phase II, Kaehulua Road Waterline (Consultant: Fukunaga & Associates) – Received Board approval and additional funding to proceed with the Phase II design.
- 7) Job 04-02, WK-14 Phase II, Apopo Road Waterline (Consultant: Fukunaga & Associates) – Received Board approval and additional funding to proceed with the Phase II design.
- 8) Job No. KW-28 Amfac Shaft (Consultant: Brown & Caldwell)
 - a. Refer to the Board Report for Affordable Housing Projects – Summary Status for June 2009.
- 9) Job 02-06, WKK-15 Kilauea Tank #2 (Consultant: Kodani & Associates) – Negotiating with landowners of the proposed tank site.
- 10) Job 05-02, H-8 Drill and Test Hanalei Well #2 (Consultant: Kodani & Associates) – Negotiating with landowners of the proposed well site.
- 11) Job 05-02, HW-12 Drill and Test Wainiha Well #4 (Consultant: Kodani & Associates) – Consultant preparing the Environmental Assessment.
- 12) Job 02-14, WK-08, Kapahi (Ornellas) Tank (Consultant: Belt Collins)
 - a. Refer to the Board Report for Affordable Housing Projects – Summary Status for June 2009.
- 13) Job WK-39 Kapaa Homesteads Well #4 (Consultant: Hawaii Pacific Engineers)
 - a. Refer to the Board Report for Affordable Housing Projects – Summary Status for June 2009.

- 14) Job No. 02-24, WK-02 Renovate Akulikuli Tunnel, Phase 2 (Consultant: SSFM International)
 - a. Refer to the Board Report for Affordable Housing Projects – Summary Status for June 2009.

PROJECTS UNDER CONSTRUCTION:

- 1) Job 94-3, K-10, Kalaheo 0.5MG Reservoir, Booster Pumps and Connecting Pipelines (Consultant: Paren, Inc.) (Contractor: Kauai Builders) – Final payment released. Project is completed.
- 2) Job A-11, Anahola Well 3 (Consultant: Akinaka and Associates) (Contractor: TOMCO) – Project 89% complete.
- 3) Job 05-03, KW-25, 03-03, KW-24, Kapilimao 0.5MG Tank and 03-03 Generator Shelter (Consultants: Brown and Caldwell, Kodani & Associates)(Contractor: Kauai Builders)
 - a. Refer to the Board Report for Affordable Housing Projects – Summary Status for June 2009.
- 4) Job 02-14, WK-09, 03-03, WK-15, Kapaa Homesteads 0.5 MG Tank and Makaleha Generator Shelter (Consultants: Belt Collins, Kodani & Associates, Contractor: Kauai Builders)
 - a. Refer to the Board Report for Affordable Housing Projects – Summary Status for June 2009.
- 5) Job WK-42 Phase I, 1 MG Stable Tank and Control Valves (Consultant: Tom Nance Water Resource Engineering, Contractor: Kauai Builders) – Project is 36% complete.
- 6) Job WK-42 Phase II, Kaapuni Road Waterline for Stable Tank (Consultant: Hawaii Pacific Engineers, Contractor: Earthworks Pacific, Inc.) – Project is 58% complete.
- 7) Job 02-18, WK-32, 04-02, WK-14, Phase I, Kaehulua & Apopo Roads Waterlines (Consultant: Fukunaga & Associates, Contractor: Earthworks Pacific, Inc.) – Project is 75% complete.
- 8) Job 97-10, WKK-14 Kilauea Booster Pump Station (Consultant: Austin Tsutsumi, Contractor: Oceanic Companies) – Project is 96% complete.
- 9) Job No. 05-04, KW-27, 12-Inch Waterline along Kaunualii Highway, Elepaio Road to Huakai Road, Kekaha (Consultant: Fukunaga & Associates, Contractor: Earthworks Pacific) – Project is 34% complete.
- 10) Job No. 05-07, K-07, Waha, Wawae, and Niho Road Main Replacement, Kalaheo (Consultant: Akinaka & Associates, Contractor: Koga Engineering & Construction, Inc.) – Project is 5% complete.
- 11) Job No. 02-05, HE-10A & PLH-41 12-Inch Waterline along Ulaula & Uliuli Roads, Eleele and 8-Inch Pressure Reducing Valve, 400 GPM Booster Pump & 6” Connecting Main, Nawiliwili (Consultant: Kodani & Associates, Contractor: Earthworks Pacific) – Project is 98% complete.

Issue No. 4, Workplace Efficiencies:

Ongoing:

- a) For the AMR Program, installation of all meters is completed; however, the consultant (PMI) still needs to repair broken installations, which are under warranty. They are awaiting meter parts from Badger before making repairs.
- b) Jeff Mendez continues to work to broaden our information base for our Geographic Information System.

Upcoming:

- a) The Issue Champions Committee requested to work on the implementation of the DOW Contract Management System to monitor progress of the DOW's contracts.
 - 1) Project engineers still need to update the status of their projects
 - 2) Clerical training will to also assist with updating the projects on the program will be done soon.
 - 2) Trial period to implement DOW Contract Management System will be July 1, 2009 to December 31, 2009.
 - 3) Once system works, documentation of the process would be included in the DOW's work process manual.
- b) Envision a department-wide work process manual to be compiled with documentation of any type of divisional work processes to assist with succession planning and internal and external customer service
 - 1) Processes need to be reviewed and updated.
 - 2) Will be documented using Microsoft Visio software.
 - 3) Will setup internal meetings.
- c) The Issue Champions Committee requested the DOW employee's vacation/sick leave status into a computerized monthly statement, which will eventually be issued as part of the computerized payroll module.

Issue No. 5, Accountability:

- a) While cell phone policy was re-routed to issue champions for finalization, more concerns arose and need to be worked out.
- b) Manager Craddick has volunteered to be a co-champion for Issue No. 5

At a previous Issue Champions meeting, it was suggested that the opportunity to participate as an Issue Champion should be shared with other employees for renewed energy. It was also suggested to have each division head look for volunteers from their division and if none, they should designate a minimum of one person to serve as an issue champion. Each division needs to be represented.

Mr. Costa moved to accept the Issue Champions Report and placed it on file, seconded by Mr. McCormick; by a unanimous vote, motion was carried.

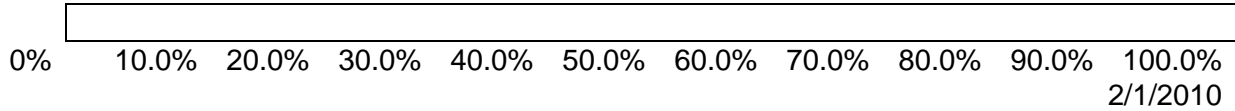
Re: Affordable Housing Projects – Summary Status April 2009

This report is a summary of progress on the Affordable Housing Projects.

Job No. 05-03, KW-25, Kapilimao 0.5 million gallon tank:

- A. Awaiting NPDES review from the Department of Health before issuing notice to proceed.

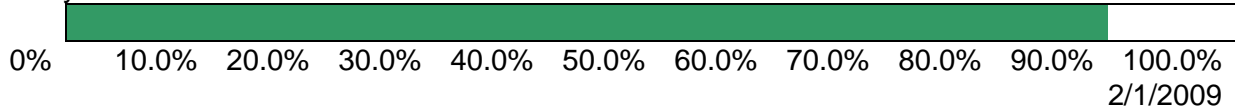
Construction



Job No. KW-28, Amfac Shaft:

- A. The work to clean and seal the shaft from any external influences has been scheduled to begin June 15.

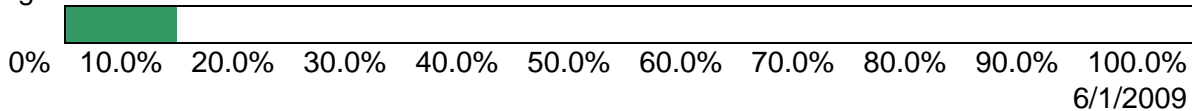
Feasibility Study



Job No. 02-14, WK-08, Kapahi 1.0 million gallon tank:

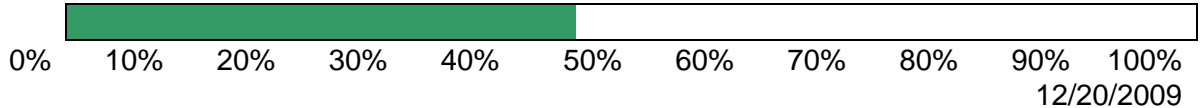
- A. Negotiating with landowner (Al Alamodin) for alternate site.
- B. Proceeding with the surveying for the alternate tank site.

Design



Job No. 02-14, WK-09, Kapaa Homesteads 0.5 million gallon tank:

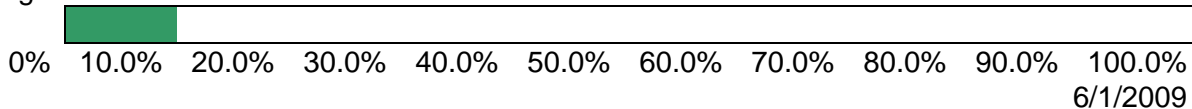
- A. Under construction.



Job No. WK-39, Kapaa Homestead Well #4:

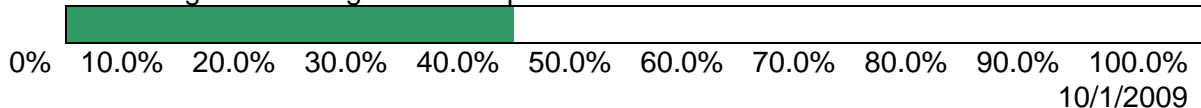
- A. Negotiating with landowner (Al Alamodin) for alternate site.
- B. Proceeding with the surveying for the alternate tank site.

Design



Job No. 02-24, WK-02, Akulikuli Tunnel:

- A. Negotiating additional work with SSFM, project consultants.
- B. Received Army Corps' determination of the wetlands delineation.
- C. Proceeding with sealing the tunnel portals.



Mr. Costa moved to accept the Affordable Housing report and placed it on file, seconded by Mr. Oyama; by a unanimous vote, motion was carried.

EXECUTIVE SESSION:

Pursuant to H.R.S. §92-7(a), the Commission may, when deemed necessary, hold an executive session on any agenda item without written public notice if the executive session was not anticipated in advance. Any such executive session shall be held pursuant to H.R.S. §92-4 and shall be limited to those items described in H.R.S. §92-5(a).

REVIEW OF EXECUTIVE SESSION MINUTES: Regular Meeting: June 25, 2009

1. ES-2007 (12-13-07 & 2-14-08) - Pursuant to Haw. Rev. Stat. Sections 92-4 and 92-5(a)(4), the purpose of this executive session is to consult with Legal Counsel regarding questions and issues pertaining to the Board's and Department of Water's liabilities, powers and duties regarding personnel, labor and employment issues. This consultation involves consideration of the powers, duties, privileges, immunities and/or liabilities of the Board and the County as they relate to this agenda item and/or liabilities, claims and/or potential claims, as they relate to the foregoing and to take such action as the Board deems appropriate.
2. ES-2009-8 (7-16-09) - Pursuant to Haw. Rev. Stat. Sections 92-4 and 92-5(a)(4), the purpose of this executive session is to consult with legal counsel regarding the correspondence received by Nalu Investment LLC aka The West Inn, Six-Unit Hotel Project, Z-IV-2005-20, TMK: 1-6-08:010, Lot M-1, Waimea, Kaua'i. This consultation involves consideration of the powers, duties, privileges, immunities and/or liabilities of the Board and the County as they relate to this agenda item.

Mr. Oyama moved to go into Executive Session at about 11:30 a.m. to only approve the Executive Session Minutes, seconded by Mr. Costa.

There was no Board discussion and no public testimony. By unanimous vote, motion was carried. *Staff was excused from the meeting.*

The Regular Meeting reconvened at 11:34 a.m.

Mr. Costa moved to defer action on both Executive Session Agenda items above, ES-2007 and ES-2009-8, seconded by Mr. D. Fujimoto; by a unanimous vote, motion was carried.

ADJOURNMENT:

There being no further business, Mr. Costa moved to adjourn the meeting at about 11:35 a.m., seconded by Mr. Oyama; by unanimous vote, motion was carried.

Respectfully submitted,

Rona Miura, Secretary

APPROVED:

David R. Craddick, P.E.
Manager and Chief Engineer

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