

COMMITTEE ON PUBLIC WORKS & ENERGY

Honorable Barbara Marshall, Chair

Re: Audit of Selected Management Issues at the
Honolulu Board of Water Supply, Report No. 06-07

November 2, 2006
9:00 a.m.

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CITY CLERK
HONOLULU, HAWAII

My name is Milton Imada, former Board of Water Supply employee. I retired in 2001 after 34 years of service.

After its establishment in 1929 and prior to 1998, the Board of Water Supply (BWS) built a reputation of being the best City agency run by civil service middle managers who strictly adhered to a budget analysis process that kept them focused on core services.

All BWS employee positions, salaries and wages were regulated by civil service.

By 1998, BWS was the only department running in the black and had built up a cash balance of about \$90 million for projected water main replacement and repair projects. As I recall, at the time former Mayor Jeremy Harris used up available monies from the City's sewer fund and wanted to dismantle the BWS and transfer its funds to solve some of the City's financial shortfalls.

BWS civil service employees objected and successfully convinced the City Council to block the takeover.

Two vacancies on the BWS Board enabled the former Mayor to appoint two new members and influence the Board's decision to support his new

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management team, which included Clifford Jamile, BWS Manager and Chief Engineer and Donna Kiyosaki, Deputy Manager. This team persuaded BWS employees that the BWS was under threat of privatization and that it was imperative the BWS begin a reengineering program.

The Harris team argued that legislation (later to be known as Act 40, or the Experimental Modernization Project (EMP)) was needed to enable them to provide greater flexibility in the workforce and the option to provide \$25,000 bonuses to encourage long time employees to retire early, reducing the size of the workforce. Fearing privatization, both HGEA and UPW employees agreed to the reengineering.

I believe legislators passed this legislation without reservation trusting the long proven efficient performance and reputation of the BWS.

No one suspected at what lengths Act 40 would be used and misused at the dismay or caring employees with the ratepayers being the biggest losers.

Highly paid contract executives were hired with salaries outside the realm of civil service and given title and power over civil service middle managers who did the work. The civil service managers ran the BWS strongly in the black up to 1998 and never proven incompetent which would justify being stripped of their authority and ability to protect ratepayers' monies and interests.

Not one civil service employee was given a bonus to retire early; however, scores of valuable veteran employees left the department demoralized and disheartened by management's disrespect and lack of honor to keep their word.

We worked so hard and gave our all to keep the BWS in the black and maintain core services for our families and customers. We ask ourselves, how can two people be allowed to drag the BWS into the ground and both receive the biggest bonuses for their efforts.

In spite of how civil service employees are treated, the Manager and Deputy were very generous to the Act 40 hires (new EMP chiefs) by giving them outrageous salaries and bonuses outside the realm of civil service. Let's not forget the perks of having their own assistants and staff.

The reengineering effort started in 1998 with the Quest Program. The reputation, competence and exceptional talents of its facilitator were gaining progress and the support of supervisors and the rank and file.

As a dedicated participant, I saw the reengineering stop because highest management failed to comply with the program training and requirements. I understand other programs suffered the same fate squandering a fortune in customer monies without foreseeable profit returns.

Today the BWS is a non-private businesslike operation. It is top heavy with an additional layer of management EMP chiefs running the BWS in the red.

The new EMP chiefs will never have the respect and loyalty of civil service employees who must receive pay within the realm of civil service without perks and must work hard to earn the right to advance up the chain of command.

I understand the multi-skill program is losing support with the blue collar rank and file walking away with complaints of management not paying for multi-task skills performed by outlying corporation yard workers.

Unfortunately, employees say they are working under fear of retaliation. Recently some were instructed to say nothing or else. Prior to 1998 the BWS had nothing to hide. It is this same fear that prevents their public testimony.

I am disappointed to learn that although most of the controversial EMP chiefs have left, the BWS may have hired 10 to 12 more and offered them retirement benefits.

I believe the BWS audit is truthful and a reflection of the Board's own files. After all why would the BWS keep incorrect files? My concern is that the audit may have missed some areas of employee concerns.

It is obvious the BWS has spent millions of dollars on non-core services and projects without foreseeable profit. Paving lengths of roadways, installing handicap curbs and replacing faucets and flushing devices with automatic ones at City Hall is not the BWS's responsibility.

I was hopeful that the new Manager Clifford Lum was independent and would support the concerns of the rank and file but sadly it is obvious that he is only listening to the EMP chiefs who may be protecting their own interests.

I understand the Manager said he took measures to prevent bonuses. I feel this is too little too late but a good tactic and attempt to satisfy the Council, Legislators and citizens for now but bonuses are only one area of

concern. Besides the Manager's directive is only worth the paper it's written on. Act 40 is law and the BWS has the right to use it in any way at any time.

I believe the water rates wouldn't rise 13% if the 1997 organizational structure with its civil service middle managers weren't tampered with.

Now is the time for the City Council to step forward and do right for the citizens and help the BWS cut its losses by supporting the repeal of Act 40.

The BWS needs to get back to basics and once again placed within the realm of civil service which is the proven way to run the BWS in the best interest of its customers and employees.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Milton M. Imada". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Milton M. Imada



Posted on: Friday, October 27, 2006

Water board faulted for execs' bonuses

By Robbie Dingeman
Advertiser Staff Writer

An audit criticizes the Honolulu Board of Water Supply for awarding lucrative bonuses to two top executives before there was much to show for their work.

The audit also found that the water board spent nearly \$75 million on development projects outside its core mission while postponing pipeline maintenance, and undertook a costly restructuring that has yet to deliver discernible benefits and that has left "continuing instability" in the organization.

Further, city auditor Leslie Tanaka noted, the semi-autonomous city agency has been unable to cover its operating costs and just this month began raising rates to customers, with a 13 percent increase.

Clifford Lum, chief engineer for the board, defended the agency yesterday, saying that the auditor relied on some inaccurate information, that the agency is well run and offers water at one of the nation's best rates. There is some change needed to improve every agency, he said.

He also wrote in a lengthy response that the board has proactively managed its organization.

"We specifically challenge the audit report's primary conclusion — that the BWS drained its resources on re-engineering projects at the expense of pipeline maintenance," he said.

As for the rate increase, it had been 11 years since rates were raised, Lum said.

He said a 30 percent increase in such costs as salaries, fuel and construction materials prompted the need for a rate increase, not a reorganization plan that is still continuing.

INCENTIVES PAID

The Advertiser reported in July that the agency gave bonuses of \$63,000 and \$54,000 to the top two executives in 2004. The bonuses were among \$555,763 in incentives given to 49 employees over three years.

The bonuses went to then chief engineer Clifford Jamile and then deputy manager Donna Kiyosaki.

Tanaka said "the previous board of directors awarded bonuses and salary increases to the previous manager and deputy manager before efficiencies were realized."

Lum said he has not issued any additional bonuses since the first ones were reported.

Tanaka also recommended eliminating any bonuses for the deputy manager. Lum said he has already done that.

The Board of Water supply manages, controls and operates the city's waterworks on O'ahu, providing fresh water to more than 902,000 residents and generating an average revenue of more than \$101 million each year for the past seven years.

AUDIT FINDING VS. BOARD'S RESPONSE

The audit of the Honolulu Board of Water Supply criticized the agency for moving away from its traditional core mission with a series of costly business development projects.

The auditor said the projects offered "questionable benefits to ratepayers."

Here are some of the key critiques along with a response from board manager and chief engineer Cliff Lum:

- **Audit:** \$1.4 million to redesign a 5,355-square-foot office space for the Asia-Pacific Urban Institute in Kapolei Hale in an effort to draw consulting work from the Asia-Pacific region. The project generated only \$6,000 in revenues.

Response: Lum thought it was a good concept but "it didn't quite pan out." The Board of Water Supply is being reimbursed for that

The audit covers the period from 1998 until this year. Lum became manager and chief engineer in January.

Another area cited by the audit is the number of water main breaks in recent years.

But Lum said statistics show a recent decrease in the number of water main breaks. "We average about 400 breaks a year; it used to be average 500," Lum said.

A number of employees have complained that the board tinkered with a well-organized team to bring in new and highly paid consultants without making them accountable.

And the audit found that the reorganization was costly and failed to deliver. The auditor said consultant costs totaled \$10 million over five years and benefits remain uncertain. And the lack of a final organizational chart "shows continuing instability."

The audit also found that the board's limited budget for pipeline maintenance has focused attention only to the pipes in the most critical condition.

DATA DISPUTED

Coupled with a high number of water main breaks, Tanaka raised concerns "that resources for maintenance and repair of existing drinking water infrastructure may have been compromised by these organization changes."

Lum said some of the data in the audit was inaccurate and led the auditor to incorrect conclusions. He said the audit understates the amount budgeted for pipeline projects by more than \$139 million from fiscal year 1999 to 2005.

He said the board also focuses on other fundamental components of the water system and spends money on wells, reservoirs, pumping stations as well as pipelines.

Tanaka recommended that the board establish policies for evaluating the manager and chief engineer and put in place systems to assure accountability.

Tanaka noted in the report that the problems with the agency "shows that change cannot occur solely on the basis of one manager's vision, but particularly for a semi-autonomous municipal entity like the BWS, must be reinforced with accountability through documented systems of evaluation, monitoring and reporting that will institutionalize desired changes, preserve the strengths of the organization and protect ratepayers' interests."

Lum said some of the recommendations already were in place before the agency got the audit.

He also said he thinks the agency was wise to try new policies — from the bonuses to the reorganization and business ventures — to adapt to a changing workplace.

"I don't think it's wasteful," he said.

Reach Robbie Dingeman at rdingeman@honoluluadvertiser.com.

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entire amount now because other city agencies — including the city auditor — are now using that office space.

- **Audit:** \$48 million to purchase the Honouliuli Recycled Water Facility, which turns treated sewage from the city municipal wastewater plant into water used for irrigation and industrial uses.

Response: Lum said that plant now produces an average of 8 million gallons a day of water that is sold for irrigation of golf courses and for industrial uses, water that could otherwise be tapped from Honolulu's dwindling supply of fresh water.

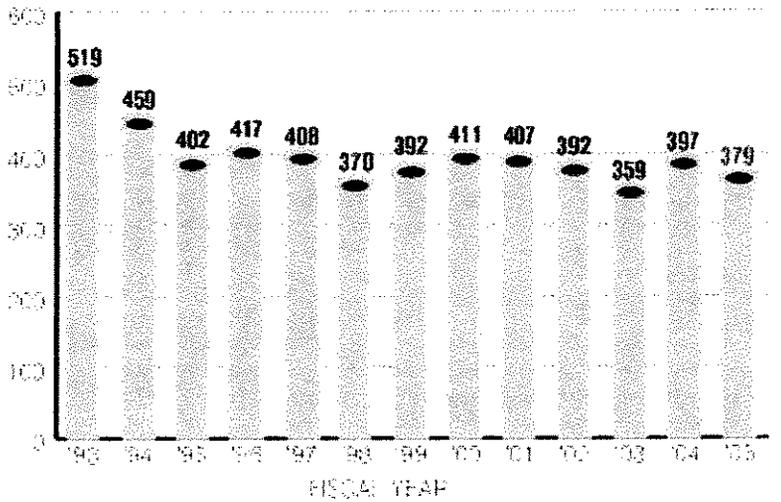
- **Audit:** \$13.5 million to purchase the 'Ewa shaft from Campbell Estate, plus \$4.5 million more to rehabilitate the contaminated shaft. The audit said the board is absorbing future liabilities, and paid \$18 million when it could have condemned the property outright.

Response: Lum said the board was able to develop the 'Ewa shaft as a source of 12 million gallons a day of water for that price. "That was an absolute steal," he said.

- **Audit:** \$11 million to build a district cooling plant to provide air-conditioning at the John A.

WATER MAIN BREAKS PER YEAR ON O'AHU

A report from the city auditor noted an increasing number of water main breaks in recent years and tied them to decreased water pipeline maintenance. But statistics from the Board of Water Supply show a downward trend in water main breaks over the long term.



Source: Honolulu Board of Water Supply

The Honolulu Advertiser

Burns School of Medicine, plus \$2.3 million over the next 20 years to fully own equipment within the plant.

Response: Lum said innovative projects like this continue to reduce the demand for fresh water.

Source: Office of the City Auditor; Honolulu Board of Water Supply

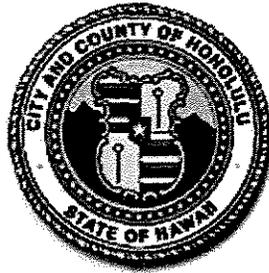
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Star-Bulletin

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Audit criticizes water agency's urban institute

Office renovations cost \$1.1 million but brought little in return

By Crystal Kua
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In December 2000 former Mayor Jeremy Harris wanted to create an urban institute so Asian officials could come to Honolulu for technical expertise on municipal public-works projects.

At about the same time, the Board of Water Supply was considering setting up consulting contracts with countries in the Asia-Pacific region.

By April 2002, just in time for a conference, the two came together to create the Asia-Pacific Urban Institute.

The semiautonomous water agency spent \$1.1 million to renovate an office on the first floor of Kapolei Hale. The expensive renovations included a 60-inch plasma screen TV and "displays relating to the Story of Water," according to a critical audit released yesterday by city Auditor Les Tanaka.



Les Tanaka: *He believes the project did not match the Board of Water Supply's aims*

The \$1.1 million investment, the auditor said, brought only \$6,000 from consulting contracts to the water agency, one of the clearest attempts to enhance revenue at the expense of maintaining its water lines. In all, the audit tracked \$78 million of costly business ventures.

"As we started to look at them, they seem to be kind of nonmoneymaking type of ventures — maybe long term down the road, possibly — but it just didn't seem like a good match for what the Board of Water Supply is basically supposed to be doing," Tanaka said.

Water agency officials have taken exception with the audit, saying some of its information is wrong in several areas.

"We're not defending what the previous administration did or didn't do. What we're doing is looking at the facts of the audit and whether they're accurate and whether their conclusion has merit," water agency spokeswoman Su Shin said. "Do you ding an agency for trying to do new things, for trying innovative things?"

Shin said the agency will be getting reimbursed for the \$1.1 million spent on the urban institute renovation since the Board of Water Supply is not using the space anymore.

The audit covers the 1998-99 fiscal year through the 2004-05 fiscal year, a period when the Board of Water Supply had accumulated a large surplus of cash – with a \$75 million budget carryover – and was looking to reinvent itself to operate more like a private business.

The audit also criticized the \$48 million purchase of the Honouliuli Recycled Water Facility; the \$18 million used to buy and rehabilitate the Ewa Water Shaft; and the \$11 million to fund construction of a water cooling plant for air conditioning at the University of Hawaii medical school.

Tanaka said he could not find any direct corroboration that former Mayor Harris was behind the institute project or any other Board of Water Supply projects.

"But it seemed to be coincidentally close together that we kind of figured that it was probably part of fulfilling the desire of the mayor, too," Tanaka said.

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