

MINUTES

WATER BOARD PUBLIC HEARING
ON
PROPOSED WATER RATES
FOR THE DEPARTMENT OF WATER SUPPLY OF THE COUNTY OF HAWAI‘I

West Hawai‘i Civic Center, Community Center, Bldg. G, 74-5044 Ane Keohokalole Hwy, Kailua-Kona
May 26, 2015

MEMBERS PRESENT: Mr. Rick Robinson, Chairperson
Mr. Craig Takamine, Vice-Chairperson
Mr. Russell Arikawa
Mr. Leningrad Elarionoff
Mr. Jay Uyeda
Ms. Kanoë Wilson
Mr. Quirino Antonio, Manager-Chief Engineer (ex-officio member)

MEMBERS ABSENT: Mr. Bryant Balog
Ms. Brenda Iokepa-Moses
Ms. Susan Lee Loy
Mr. Duane Kanuha, Planning Director (ex-officio member)
Mr. Warren Lee, Director, Department of Public Works (ex-officio member)

DEPARTMENT OF WATER SUPPLY STAFF

Mr. Keith Okamoto, Deputy
Mr. Rick Sumada, Waterworks Controller
Mr. Kurt Inaba, Engineering Division Head
Mr. Daryl Ikeda, Chief of Operations

OTHERS PRESENT: Ms. Kathy Garson, Deputy Corporation Counsel
Ms. Ann Hajnosz, Brown & Caldwell
Ms. Mary Fujio, Legal Technician I, Corporation Counsel
Mr. Mike Flaherty

CALL TO ORDER: 5:00 p.m.

CHAIRPERSON ROBINSON: Good evening. Would the Public Hearing on proposed water rates for the Department of Water Supply please come to order. I am Rick Robinson, Chairperson of the Water Board, and the members of the Water Board who are here are: Jay Uyeda, Kanoë Wilson, Craig Takamine, myself, Rick Robinson, Leningrad Elarionoff and Russell Arikawa.

We are here to accept testimony on the proposed water rate schedules. The Department of Water Supply is operated and controlled by this Water Board as provided for in the Hawai‘i County Charter. Upon recommendation by the Department, the Water Board authorized the Manager to hire a water rate consultant to review the adequacy of the existing rates. Brown & Caldwell, of Seattle, Washington, was contracted for this purpose.

Section 63 of Part III, Chapter 54, Hawai‘i Revised Statutes, reads as follows:

“The board of water supply may fix and adjust rates and charges for the furnishing of water and

for water services such that the revenues derived therefrom shall be sufficient to make the waterworks and water systems self-supporting and to meet all expenditures authorized by this part; the water board may establish variable rates among the several districts of the county, or among the areas served by the individual water systems within the county, for the purpose of establishing charges as closely as possible to the necessary amount required for the maintenance and operation of the particular individual water systems; provided no rates and charges shall be fixed or adjusted prior to the holding by the board of a public hearing, public notice of which shall have been given not less than twenty days before the date set for the hearing. The notice shall state the time and place for the hearing and the proposed rates and charges to be considered thereat. The time within which the notice shall be given shall be computed by including the first day (the day of the notice) and excluding the last day.”

We are here to receive comments or testimony on the proposed rates. As stated in the hearing notice, all comments or testimonies were to be filed in writing before the time of the hearing or are to be presented in person at the time of the hearing. We would like to follow this format as closely as possible. However, because there may be some of you who do not have written statements but would like to testify or comment, we would like to accord you this opportunity to do so, but would like to limit such presentations to three minutes because of the time element.

We have Ann Hajnosz of Brown & Caldwell here to give an explanation of the rate schedules. Public testifiers may choose to either testify before or after Ms. Hajnosz’s explanation. Is there anyone who would like to testify *before* Ms. Hajnosz’s explanation? If so, please come forward, wait to be recognized by the Chairperson, and for the record state your name and organization you represent, if any.

Is there anyone here who would like to testify before the presentation?

Okay. If not, we will now hear from **Ann Hajnosz** of Brown & Caldwell. Then we will accept public testimony. At this time, Ms. Hajnosz, would you please give us your presentation. The floor is all yours.

MS. HAJNOSZ: Thanks, Rick, and good evening, everyone. Aloha. It’s great to be back here again. I know some of you...

SECRETARY: Oh, sorry, on mike, please, if you can.

CHAIRPERSON ROBINSON: Yeah, you gotta be mic’ed up.

SECRETARY: Thank you; sorry about that. Thanks.

MS. HAJNOSZ: No problem.

CHAIRPERSON ROBINSON: It doesn’t amplify.

MS. HAJNOSZ: So again, it’s nice to see all of you, and I know a lot of you have contributed to this effort. We started this back in the fall. And there was a lot of collaboration between the Finance folks, Operations, Engineering...that basically set a lot of the key drivers for this rate study, so thanks again. Um, I wanted to start off by basically giving you a history of the water rate increases for the Department of Water Supply, as compared to the other counties in the State. Um, you can see for the Department of Water Supply, we’ve kind of had some moderate

increases for the last five years. You know, 5.8 percent, down to 2.2 percent. Um, the other counties have had some pretty significant rate increases, especially Honolulu Board of Water Supply and Kaua'i. Maui has been, you know, closer, you know, to the single-digit, you, moderate increases. For Fiscal Year 2016, which starts July 1 of this year, uh, we are proposing a three percent increase for the Department of Water Supply. Honolulu Board of Water Supply will implement their last, 9.65 percent rate increase; they have a five-year plan, and that's the last one. Both Kaua'i and Maui are not planning on increasing their rates this year, um, but I haven't...I wasn't able to get any indication from any of the counties on what their rate increases were gonna be after 2016, so this is kind of where...this is sort of...to just give you some perspective of where we're starting from.

And so to give you our idea of how rates are set, this is sort of the, um, the standard process used by the American Water Works Association (AWWA). Most of the utilities in the country use this process. Uh, Steps 1 through 4 are...we basically call it the Revenue Requirements process, or analysis. It's very similar to doing a financial plan for your businesses, even your households, where you project revenues and expenses, and then you come up with a gap of, you know...can't really afford, you know, this vacation this year... I can't afford whatever, this roof replacement... How are we either gonna increase our revenues, or decrease expenses? So that's what we do in the Revenue Requirements Analysis. It's really the heart of the rate study. It's where we spend the most time and effort, and that's where you all have been, you know, really important, giving us key assumptions, helping do some iterations of what we really can afford. Um, then in Steps 5 and 6, the Cost of Service and Rate Design, because one of the key assumptions for us in this rate study was we weren't gonna change the **rate structure**. Uh, we went through the analyses, just to check sort of where we are with regards to Cost of Service, fixed and variable costs recovery... Um, you know, how we compare from a bill impact statement. But ultimately, we kept the rate structure the same, so there were no changes to the rate structure itself.

So the next few slides, I'm gonna talk about the heart of this study, which is the Revenue Requirements study, um, and it will give you an idea of the key assumptions that led to the rate increase proposal. Okay...um, first of all, with regard to the goals for the rate study...um, these are the four goals and considerations. **Revenue Stability** was a key goal. Most of you know that water sales have been declining the last few years, ever since, really, you know, we went into recession in 2008, 9, 10... And this is not unique to the Big Island; all the other counties have experienced it. On the Mainland, we've experienced it. Water sales have decreased. We wanted to reflect **Cost of Service, fair and equitable rates**, and that's where we are really paying attention to what the rate increases mean for lower-income folks, low water users, and also trying to balance... You know, we don't want to, you know, give all the increase to the high users; there's always the sort of balancing act that we're looking at. We want to meet specific DWS policy objectives – things like controlling the level of debt... You know, debt is good. Too much debt is not good; too little debt is not good, either. I mean, so I try to find a balance of how much debt we wanna project. Um, we wanted to, again, keep the same rate structure; we wanted to maintain the ag subsidy. So those are some of the specific policy objectives. And then, the last one is a relatively new one that we're focusing on this year...trying to really focus on **Renewals and Replacements**. We've been hearing a lot about that from, you know, all of the utilities across the country, so, um... So this rate proposal reflects the levels of Renewals and Replacements that we thought were adequate, and what we could afford. So, um, like I said,

we're gonna talk about the Revenue Requirements analysis, and the way we do this is, we look at the last three years of your performance, and then we talk to the staff, and say what is, what do you think the next five years or three, two, years are gonna be? What are the key changes that you anticipate, and then we base our projections on that. So the first key component is **customer growth**. And the number of customers in the last three years has been going at an average, like, rate of less than one percent per year, okay? So not a robust growth level, but that's understandable, coming out of recession. But, um, from...we looked at some economic data...we looked at DBEDT, and First National Bank has an economic forecast. You know, they have said that the Big Island is gonna have continued good growth, but even in the long term in the future, they're not sure how good that growth is gonna be. We've talked it over with the staff, and we are still gonna...we're gonna, um, maintain that lower, less than one percent per year annual growth for the future. Um, to let you know, these projections are...we're trying to be very conservative...'cos we don't want to over-estimate revenues, right, especially in light of the last few years... Water sales have been going down, which means revenues have been going down...which is shown on the next graph. Water sales growth has decreased, as I mentioned, and I know we've been looking at this for a while... We kept saying, when is it gonna start coming up? Rick was just saying that it's still going down, or it's still kind of on this downward trend, which is a little troubling, but we are saying...we are projecting that it's gonna be flat.. Um, oops, sorry. We are projecting that growth is gonna be flat for the next five years. You know, instead of thinking that it's gonna continue to go down...we're gonna have to monitor. This is a, you know, I feel comfortable with this projection, but I think we're gonna have to really monitor, to make sure that sales don't continue that downward trend. So Historical and Projected Revenues, again, they have been really flat, 'cos even though you've had rate increases...you've had moderate-to-low rate increases, you've had that, you know, less than one percent customer growth... Water use is still down, so as a result, revenues are really flat, okay? So that dotted line shows sort of where we think rates are gonna be, or *revenues* are gonna be, at existing rates. And then, the bars that show above it, at the top here, are what you're gonna totally get, um, after the rate increases are implemented. So not a whole lot of difference...

O&M Expenditures...we're gonna go to the other side of the ledger...the accounting ledger...now that you know what your revenues are gonna look like... We need to look at O&M (Operations and Maintenance). And um, AAG...is Average Annual Growth, so over the last three years, the Department has, um, spent at the annual average rate of about 1.4 percent increase per year, which is really good. I mean, it's a good way to show that you're controlling operating expenses; inflation hasn't been too high... There has been inflation, but not too high... So I think, staying in that 1.4, 2 percent, is really not bad at all. For the projection period, we are thinking that inflation is gonna come back to some degree. Even though power costs are low right now, anything can set off those oil prices. And so there is just some fluctuations in the future...that we're gonna see some increases in oil prices, and as a result, power costs. So we've got average annual growth now at one percent higher: 2.4 percent per year. The next big category of expenses is capital expenditures. And this is really one of the main drivers of the rate study, okay? On a historical basis, 2011 to 2014, the Department has done a good job of executing the projects that they projected. So they projected \$47.8 million of projects to accomplish during the four-year time period, and they actually accomplished 41.2 (million), which is about a mid-80, 85 or 86 percent completion rate, which is pretty good. These capital projects are becoming difficult to execute, because of the long permitting process...land acquisition process, um... We're seeing this, really, all over the country, and so this is a pretty

good rate of accomplishment. For the future, um, we're showing that it's gonna be more like \$86 million over the five-year period, uh, and just for comparison...historically, they've been doing about \$11 million a year; now we're gonna see it bump up a little more, to about \$14 million per year, and this is all inflation-adjusted numbers. So a slightly higher rate of capital execution, but there is a need. And the next slides will show that. So the Capital Improvement Projects you can see in this chart mainly consist of Source of Supply and Transmission & Distribution. Those make up about 60 percent of the projects. Here on the Kona side, we've got some...a couple wells and transmission line projects...some other projects that are gonna take place. Waimea Treatment Plan's gonna have a big upgrade, um, in this projection. This is sort of the breakdown. How are we gonna pay for it? There are five different sources. The biggest one is bond proceeds... Those are general obligation bonds that the County sells, and then, the Department of Water Supply take a portion of that, for their projects. Drinking Water State Revolving Fund...are also loans from the State's Revolving Fund program. Those are pretty good interest rates. There's a Facilities Charge Fund, where new connections pay into this Fund, and all the growth-related projects are funded from the Facilities Charge Fund. And then, finally, the CIP Reserve Fund is the cash-funded capital... It's what we get, it's what we pay for from rates. So that's sort of the picture of Capital Improvement Projects, and how they're incorporated into the rate increase. So when you take the Revenue Requirements Analysis, um, the O&M, capital expenditures, and you compare that to the revenues that we're expecting to get... This is the projected annual revenue increases, or rate increases, over the next five years: 3 percent starting July 1; and then following in Fiscal Year 2017, 4 percent; then 5, 5, 5.

So what does this look for sort of a typical bi-monthly bill? And this is about 9,500 gallons, uh, thousand gallons a month... Um, right now, you're at about \$102.00 for a bi-monthly bill; it'll go up to about \$105.00, for someone using 9,500 gallons. Uh, compared to other counties...Honolulu Board of Water Supply is generally on the lower side. They had a lower stand-by charge. You guys are at about 16.00, \$17.00 per 5/8-inch meter... Honolulu Board of Water Supply is \$8.00, for *all* meter sizes. Um, Kaua'i is on the high side; they definitely have higher rates. They have a much steeper rate structure... And Maui has lower rates. They have a much lower 1st Block...that first 5,000 gallons...much lower... So you guys are still in the average, about a little over \$100.00, okay? So that's pretty much, um, how the rates were determined.

The next steps for the process is, really, for the Board to take public comment tonight, and then tomorrow night in Hilo... Um, and then they will decide at their next Board meeting what to do. For our scope of work, for Brown & Caldwell, we basically...there'll be a report that's produced, once everything is finalized, and that will be available from the Department of Water Supply, so at this time, I'm open to questions.

CHAIRPERSON ROBINSON: I have one... Would the lower rates in Maui and Oahu be due primarily to, there are much more condominiums there, which are lower users of water anyway?

MS. HAJNOSZ: I think in... certainly in Honolulu...you know, you've got almost a million people on Oahu. Maui, not so much. I think that's really a policy decision, for them to set their 1st Block so low.

CHAIRPERSON ROBINSON: Okay.

MS. HAJNOSZ: It's a pretty low rate.

CHAIRPERSON ROBINSON: Thank you.

MS. HAJNOSZ: Anybody else?

CHAIRPERSON ROBINSON: I have my script... Okay, thank you, Ms. Hajnosz. The Hearing is now open for public testimony. Will you please wait till you're recognized by the Chairperson, and for the record, please step forward, state your name and the organization you represent, if any. And I will give you a 2-minute mark...warning that you have 1 minute to summarize... In other words, the public testimony is limited to 3 minutes. Is there any public testimony at this time? Please...

MR. MIKE FLAHERTY: Good evening. My name is Mike Flaherty. I'm a homeowner in Kailua-Kona. And I really came here to just listen and find out why you've acquired (sic) a 24 percent increase in five years, compounded... and I hadn't heard that... So based on that, I don't think I could support anything like that. I think it's kind of a...it's acting as a penalty for most users. And Uh, I just would hope that maybe you reconsider and take a look at, and see how much money your replacement funds are...or requirement for your replaceable expenses are every year... And do it on a yearly basis, or every two years...rather than a five-year plan...tweak 4 percent... Just seems like, I'd like to get that type interest! Uh, that's really all I have to say... I don't really...you know, it's not like I'm against... I mean, it costs money to do things, but I just...that seems to be excessive. Thank you.

CHAIRPERSON ROBINSON: Okay, thank you, Mr. Flaherty. Any other public testimony? Is there any written testimony that was submitted?

SECRETARY: No, sir.

CHAIRPERSON ROBINSON: Okay. Um...then I just...Mr. Flaherty, you're the only one, and I'd like to thank you for coming and presenting testimony on the proposed water rate increases that we're proposing. And we heard you loud and clear. Um, if the Water Board members have any follow-up questions for Ms. Hajnosz, they can ask those questions here. But um, I would ask that those questions be limited to what actually came out in public testimony that we received from Mr. Flaherty...as mainly, the Water Board's commitment here is to listen. And we'll have the opportunity to fully discuss the matter among themselves at the next Water Board meeting, when we take action on this. However, Ms. Hajnosz will not be at the Water Board meeting, so there may be Water Board members who only ask the questions of her individually, if they would like to. So, that at this time, I would like to entertain a Motion that the Public Hearing be closed.

MR. ELARIONOFF: Wait...did (*inaudible*)...?

CHAIRPERSON ROBINSON: If you have questions of Ms. Hajnosz that came out of Mr. Flaherty's testimony...

MR. ELARIONOFF: Can we ask 'em now?

CHAIRPERSON ROBINSON: You can ask those now.

MR. ELARIONOFF: Can I, please?

CHAIRPERSON ROBINSON: Please, go ahead.

MR. ELARIONOFF: (*Addressing Ms. Hajnosz*) Well, what do you think of what he says?

MS. HAJNOSZ: Oh, well, I mean, I totally appreciate that sentiment. I think a lot of folks, um, you know...

SECRETARY: On mike, please.

MS. HAJNOSZ: Oh, I'm sorry. Yes, nobody likes to see rate increases, it's sort of a fact of life...that as costs increase, and especially as revenues decrease, due to reduced water sales...the Department of Water Supply has an obligation to be financially self-sufficient, to plan for not only current operations, but future operations. So, I mean, I like to give the example of a homeowner... The water utility business is very capital-intensive, as you can imagine...lots of pipe in the ground...storage facilities...water treatment plants...wells... and they have to make sure that they have enough money, not only to spend for, you know, today and tomorrow and next year... But are they making sure that they're paying attention to, like, the future capital improvements, and what they may have to replace in the future, right? And so for example, when they issue bonds, those costs are spread out over a longer time period, so that current rate payers and future rate payers are gonna pay for it... So we're trying to keep the cost as low as possible, you know, to meet those current-day obligations. But there's a lot of renewal and replacement that has to happen right now. Um...and I would say that the capital piece is definitely a big driver. We looked at capital programs that were higher than what we end up proposing. You know, based on discussions with the Engineering folks, and saying what do we need to do, let's look at that list... Let's analyze what the rate impacts were... They were at least twice those levels...and we basically said No, we can't go that high. So we have to balance what the system needs, in terms of asset maintenance...in terms of revenues declining because of decreasing water sales... Um, and affordability. And this is the proposal that we came up with. Okay?

MR. ELARIONOFF: May I address the gentleman, and ask him if that appeases his concern?

CHAIRPERSON ROBINSON: You can do whatever you want...

MR. ELARIONOFF: Sir, does that appease your concern, or are you still not satisfied?

MR. FLAHERTY: Yes...it's like...I don't know enough about this process here.

MR. ELARIONOFF: Me, too!

MR. FLAHERTY: I worked...you know...I was a microbiologist on the Mainland. I worked with water...

SECRETARY: Sir, sorry. I need you on the mike, please.

MR. FLAHERTY: Okay.

SECRETARY: Sorry, I beg your pardon... There you go.

MR. FLAHERTY: There we go. It's... My only concern is, is I thought...well, I just did the numbers, compounded, it's 24 percent. I wish I could find an investment that I could make 24 percent. I know stuff costs money. Uh, I think, you know, you guys have challenges with the State trying to readjust the water districts and things like that, or whatever they're gonna do. I haven't quite figured that one out, but...I would just...I would hope that... I know that renewal and replacement is very important, but maybe every couple of years...you re-evaluate it. It just seems like...I would like to see the cost reduced a little bit, if it's possible. If it's not...it's, you know, that's the expense. That's...

MR. ELARIONOFF: So her explanation was not sufficient for you, or...?

MR. FLAHERTY: It was sufficient, but I didn't...I wasn't completely buying it on a five-year plan.

MS. HAJNOSZ: Can I just...I'll add something. As I mentioned, the capital program is a big driver. And I know we're doing some work in Honolulu...for example, on some big capital projects. And the cost of construction here, as you can imagine...it's a very hot construction market. These capital costs are going up 30, 40, 50...50 percent or more, okay? And we know that's not gonna last forever. We don't know if it's gonna last for one year or two years or three years. So what we've done in this rate study is try to say, okay, maybe in the near-term, we've got some pretty steep capital cost increases, but in the later term...we don't expect it to be... You know, we're trying to balance it, okay? Um, and so that's what we're trying to do, 'cos we understand that cost can't keep going and going and going...and expect everyone to pay... But at the same time, you know, when water sales are decreasing, and we still have to replace the system...you know, what are we gonna do, right?

MR. FLAHERTY: I perfectly understand. I think the only thing I was asking the Board to do is maybe look into putting in something where you have an opportunity to re-evaluate the increases after two or three years. That's my testimony.

MR. ELARIONOFF: Thank you, sir. Thank you for your politeness, too. Very good of you. Thank you, ma'am. Thank you, Mr. Chair.

MANAGER-CHIEF ENGINEER: Just a comment, Mr. Chair, Water Board members. Um, Mr. Flaherty, I'm not sure whether or not this Board has the ability to uh, um, um...do another rate...a different rate...in the process of going through these rates that Ann had explained. Ann had mentioned that there's some things that we need to monitor... Yeah, we need to monitor our growth...to see whether or not the rates that Ann, or Brown & Caldwell, had proposed...is working... To me, if it's not working, I think this Board has the ability to adjust the rates, if need be. And I think, um, we can do that.

CHAIRPERSON ROBINSON: Okay. Anything else?

MR. ELARIONOFF: That's it.

CHAIRPERSON ROBINSON: Okay. As I said, at this time the Board would entertain a Motion to close the Public Hearing.

MR. ELARIONOFF: So moved.

CHAIRPERSON ROBINSON: Moved by Mr. Elarionoff.

MS. WILSON: Second.

CHAIRPERSON ROBINSON: Second by Ms. Wilson. Any further discussion? If not, all those in favor, say Aye. (*All six Board members present say Aye.*) Contrary-minded? Okay, the Public Hearing is closed.

(Public Hearing closed at 5:28 p.m.)

Secretary

Anyone who requires an auxiliary aid or service for effective communication or a modification of policies or procedures to participate in this Water Board Meeting should contact Janet Snyder, Secretary, at 961-8050 as soon as possible, but no later than five days before the scheduled meeting.

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