

MINUTES

WATER BOARD PUBLIC HEARING
ON
THE PROPOSED WATER RATE SCHEDULES
FOR THE DEPARTMENT OF WATER SUPPLY OF THE COUNTY OF HAWAI'I

AUPUNI CENTER CONFERENCE ROOM, HILO

May 4, 2010

MEMBERS PRESENT: Mr. Bob Meierdiercks, Vice-Chairperson
Mr. Art Taniguchi
Mr. Milton Pavao, Manager (ex-officio member)

OTHERS PRESENT: Ms. Michelle Galimba, Kuihiwi Ranch
Mr. Keoki Wood, Parker Ranch
Mr. Chris English, Hawai'i Cattlemen's Association
Mr. David DeLuz, Jr.
Mr. Tommy Goya
Ms. Kathy Garson, Assistant Corporation Counsel
Ms. Ann Hajnosz, R.W. Beck, Inc.

Department of Water Supply Staff

Mr. Rick Sumada, Waterworks Controller
Ms. Candace Pua, Assistant Waterworks Controller
Ms. Kanani Aton, Public Information and Education Specialist

CALL TO ORDER: 6:00 p.m.

VICE-CHAIRPERSON: Good evening. Would the Public Hearing on the proposed water rate schedules for the Department of Water Supply please come to order. I am Bob Meierdiercks, Vice-Chairperson of the Water Board, and the member of the Water Board who is here is Art Taniguchi.

Kathy Garson from Corporation Counsel would like to make a few announcements.

MS. GARSON: Good evening, everyone. Dwayne Mukai and Bryan Lindsey, two Water Board members, wanted to attend the Public Hearing this evening, but because of the Sunshine Law, they could not be present. The Water Board apologizes that you will not be testifying before the full Board this evening, but the full Board will be informed of the nature of your testimony at the meeting of the full Board on May 25. Public testimony on the proposed rate increase will also be accepted at the May 25 Water Board meeting in Kona. You may also submit your testimony prior to that May 25 meeting in writing for the Board's consideration. Thank you.

VICE-CHAIRPERSON: Thank you, Kathy. We are here to accept testimony on the proposed water rate schedules. The Department of Water Supply is supervised by the 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. R. W. Beck, Inc., 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 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 testimony 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 any 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 five minutes because of the time element.

We have Ann Hajnosz of R.W. Beck, Incorporated, 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?

Okay, we will now hear from **Ann Hajnosz** of R. W. Beck Incorporated. Then we will accept public testimony. At this time, Ms. Hajnosz, would you please give your presentation.

MS. HAJNOSZ: Good evening and Aloha, everyone. Thank you for coming to learn about your water utility and water rates. I think it’s very important that everybody understands what it really means, what it really costs to run a water utility. So thanks for taking the time to do that. I’m just going to give a brief background of the effort that was involved – the project that started in fall of last year, and then talk about some of the key assumptions and some of the key results that ended up with the rate proposal. First, this is the rate study methodology that the American Water Works Association provides as guidance. It’s a methodology that’s pretty much used across the country by many municipal water utilities. It basically begins with collecting data from the water utility to understand their operating and financial experience from an historical perspective, and then looking at the future, trying to project what revenues, operating expenses and capital expenses are. Now as you can imagine, the last couple of years have been pretty tough from an economic standpoint, so it’s been really difficult, one of the more challenging time periods to project a year, never mind five years. So we try to balance this, and we were basically doing a lot of this in the fall of 2009. Steps 4 and 5

basically are determining how much expenses the Department is going to incur in the future, and comparing that with how much revenues we expect the Department to incur. The difference between revenue and expenses is basically how much additional money needs to get raised in terms of raising rates. Let me be clear that the Department has looked at their budgets, especially their operating and capital budgets, and looked at reducing overtime, freeing positions, hiring, reducing their capital improvements and that sort of thing so they've already done quite a bit. In Step 5, once we understand how much money needs to be raised, we then allocate those costs to the different customer classes. So there's a general use class which is predominantly most of the customers, about 40,000. Then about 900 agricultural customers is the other class. We basically tried to figure out what are the costs that are accrued to those customer classes that are commensurate with the benefit that those customers receive. Generally speaking for this utility, there's not a whole lot of difference in the level of service. In the rate design step, that's really where we start talking about policy decisions. Once we understand what cost of service is, then we turn it over to the utility to say, okay, this is the cost of service; now what are your priorities relative to rate design? Do you want to bring everybody up to cost of service? Do you want to maintain some subsidies for classes? Do you want to have a conservation-oriented rate? All these kinds of things play into the rate design. And finally, we come up with our recommendations, which we will be talking about tonight. Here are the key assumptions that we used in the revenue requirements and revenue projections. And I'm not going to go through all of them, but you can see that we have sales growth, customer growth, operating expenses, capital expenses – things like that. These are all the key assumptions that we used in the rate analysis. As I mentioned before, a lot of this reflects very bare-bones spending by the Department. When we first did this rate analysis, some of the preliminary results were showing double-digit rate increases for the coming year. As a result of that, we went back, sharpened our pencil, worked with the Board and the staff to figure out how we could lower those rate increases. As a result, this is the five-year projection of rate increases: 5.8 percent starting July 1 this year, and then recommended (increases) for the other four years. And you can see that they're pretty modest increases, especially when you look at the rate history here. Rates haven't been increased since July of 2003. Next, I'm going to show you a slide that shows comparisons of the other Neighbor Island utilities. These rate increases are based on assumptions we made today. Five years is a long time, but we urged the Board and the Department to look at these rate increases on an annual basis to decide whether changes might be needed. I've kind of gone through this before, but we recognize these are really difficult economic times. It's unprecedented since the Great Depression, so we worked really hard at trying to keep the rate increases as low as possible. But there's a flipside to this. Your water utility needs revenue to provide safe, reliable drinking water for current customers, as well as to plan for future customers. And they need that revenue stability; they need that revenue coming in. So under the current rate proposal, we have not assumed any new staff for the water utility over five years. We have slashed capital funding to half of what they think they need to do, and we really pared down financial assurance. When I say 'financial assurance,' I mean debt service coverage, paying your debt service and keeping a certain level of reserves. We have pared that down to the bare minimum. That's why I can say we really need to look at rates every year, just because these assumptions are so bare bones. This graph basically shows you where – this gives you the visual of the **gap**. The dark line is the revenue requirement which is basically operating expenses and capital expenses. And you can see that, historically, that little blip in 2008, was really kind of an anomaly, due to timing of a debt service payment, but it's seen at about \$40 million, going up to about \$42 million. We have it kind of flat. Then, out in the future, going up a little bit higher. Revenues look like they're going the other way, and this downturn in FY2009 and 2010 is a significant, significant downturn. We saw this not only here on the Big Island; we saw it across the state. All of our utilities across the state saw it. Many water utilities across the country saw it as well, because

people finally started looking at their water bills and saying hey, if I conserved just a little, I could save \$10 a month or something, and that all added up. So that really was a good thing, at least from my standpoint...people actually paying attention to their water bills. But it was a bad, bad thing for a lot of water utilities. I mentioned financial assurance earlier. This is sort of an example of what I mean. This is a snapshot of the Department's reserves over time. The big jump in 2006 was a result of a \$30 bond sale. So they sold bonds; they're using that for capital improvements. They used that money over 2006, got a little more in 2007, and have been using that money for capital improvements through 2009. And then you can see what happened in 2009 and 2010. Because they weren't getting enough revenue, they were having to dip into those savings to fund current operations. So where you have cash reserves, the majority of which are for C.I.P. or capital, when you start dipping into your savings... I mean, the analogy, you're dipping into your saving account. That's when it gets pretty critical. So what level do we want to see? Typically, we see 45 days of operating and maintenance (O&M) expenditures to 90 days of O&M. For this utility, that's just the \$5 million level. That's in operating reserves only. That doesn't include capital. So you can see as of November 2009, we're just above that level, and I think it has probably dipped below, at this point. So it's a pretty critical thing that this utility needs to be sustained, just from a financial assurance standpoint. This gives you a glimpse of the projected debt service. Historically, it has been, actually that 2007-2008 number, was sort of a timing of the payment, so it's really, if you split that '07 (number) in half and '08, and you take an average, that's really where it should be. But going forward from '08,'09, and '10, you can see it being at the \$4-5 million level, but by 2015 it's going up to \$6 million. And again, this is for replenishing capital; replacing aging infrastructure, building more pipe, those kinds of things. So it's really critical; they can't really stop their capital expenditures. So this slide gives you a picture of what has been going on around the state. We've done the rates for all of the utilities at one point or the other, so I think we have a pretty good idea of what their challenges have been. You can see on the Big Island, the last rate increase was in 2003, and there has been nothing for the next six years. And that was a recommendation that R.W. Beck made because all the time (there was a) robust economy, and the high level of reserves the Department had. That changed in 2008, as you all know. So now we find ourselves in a pretty difficult economy. Honolulu Board of Water Supply was playing tremendous catch-up. Prior to '07, they had not had a rate increase in about 10 years, so they were (in) a major catch-up strategy. Kauai Department of Water had implemented one 32 percent rate increase in FY2001 or 2002, somewhere before 2004; a big jump in their rates. And then they got a more leveled pattern, which is really something I advocate for, so you don't have rate shock. So Kauai has been having 8.5 percent. Maui has also been playing catch-up the last several years. You can see they've got double-digit rate increases pretty much for the mid-2000s, and are now back on to an 8.7 percent rate increase. Finally, I just want to leave you with...because I know this is a big issue. What we're debating tonight is really what do the ag rates look like relative to the other islands. The Big Island has a uniform usage charge. You can see the \$2.66, \$2.59 right there in the middle. Maui's got a declining block, which basically means the first block, second block are the same as their general use customers. And the third block is essentially just their power cost, \$1.00 per 1,000 gallons. Kauai is also on a uniform rate, \$2.11. And Honolulu is also on a declining block like Maui. The big difference here, you can see, are Power Costs, right here...significant differences between the different water utilities. That's really just a reflection of the decision to serve customers at varying levels, varying elevations. So that accounts for a big difference in the ag rates. And with that, it concludes my remarks. I guess I'll open it up for testimony.

VICE-CHAIRPERSON: Thank you, Ms. Hajnosz. The hearing is now open for public testimony. Will you please wait until you are recognized by the Chairperson; and for the record, please step

forward, state your name and the organization you represent, if any. I will give you a warning at the 4-minute mark that you have one minute left to summarize.

For the record, we have received written testimony. We have a number of written testimonies that we have already received.

And at this time, I would like to enter into public record, Testimony for Water Rate Hearings, May 4 & 5, 2010:

1. James S. Greenwell, Palani Ranch Co., received 3/22/10
2. William Maris, Parker Ranch, received 3/22/10
3. Chris English, Hawai'i Cattlemen's Association, received 3/22/10
4. Alan Gottlieb, Hawai'i Cattlemen's Council, received 3/22/10
5. Frederick & Maureen Langberg, received 3/23/10
6. Jamie Runnells, Plant It Hawai'i, received 3/23/10
7. Lisa Taniguchi, Brandon Kimura, Rabbit Run Farm LLC, received 3/23/10
8. Stephen Mann, received 3/23/10
9. Diane Shriner, Lions' Gate Farms, received 3/23/10
10. Bev & Chris White, received 3/23/10
11. Marla Hunter, Eke Nui Nursery, received 3/23/10
12. Keoki Wood, Parker Ranch Livestock, received 3/22/10
13. Terry Patrick, Patrick Farm, received 3/23/10
14. Herbert "Tim" Richards, Kahua Ranch, received 3/24/10
15. Chris English, Hawai'i Cattlemen's Association, received 4/5/10
16. Tommy Goya, received 4/27/10

Okay, I have a list of people who have signed in. Number 1 is Michelle Galimba. Thank you.

MS. GALIMBA: Hello, I'm Michelle Galimba. I'm a rancher in Ka'u. I have a small family ranch; it's called Kuihiwi Ranch. I fully realize the difficulties, probably I don't fully realize, but I realize you really do have a difficult job, to provide water for everyone, and fuel prices are rising. And that's more and more difficult. Same thing for us ranchers, really. Our costs are rising, and a lot of us are really on the edge of staying in business. So any kind of cost is really difficult for us. I think in some ways, you're a water utility, and in some ways, we're a food utility. We're out there creating food, and in a lot of ways, it's at-cost. We don't make a lot of money from it, so I just wanted to ask you to try and keep our costs down, because it really does impact what we do. And it affects the public, because if we go out of business, it's not only going to affect now, but in the future, because I think we're going to need local agriculture more and more, as things go along here. It's harder to bring something back that gets lost. I think that's all I really have to say. Oh, and I know you folks would like to have the public come and testify for agriculture, but being out in Ka'u, it's really hard for me to get my customers because I sell my beef at the Farmer's Market, and they probably would come, but it's a little hard to ask them to come into Hilo to testify. So, thanks very much.

VICE-CHAIRPERSON: Thank you for coming and presenting testimony. Next, Number 2 on the sign-in form, we have Keoki Wood.

MR. WOOD: Good evening and thank you for the opportunity to testify. My written testimony is submitted and I'd just like to address the question of why agriculture should be subsidized, why their

rates should be subsidized. I think in most agricultural states, assistance was developed through government programs, irrigation projects and whatnot, with the idea that agriculture then produces revenue – the trickle-down, and all that theory. But I think it’s also important to realize that ag producers are basically price-takers. They can’t pass those price increases or those costs of doing business to the producer. They just basically have to take whatever price the commodity is worth. So there’s no ability to pass on the cost, the increase of the cost of doing business, for agricultural producers. So I just wanted to address that. I guess my second comment is basically a question regarding Option B. If there is no increase, how does that look, then, on the gap between the revenue, how does it affect, you know? Where do we have to come up, and how big a gap, and what do we do to come up with the difference?

VICE-CHAIRPERSON: Could you just finish your testimony and (Ms. Hajnosz) can comment on that?

MR. WOOD: Sure.

VICE-CHAIRPERSON: Thank you, Keoki.

MS. HAJNOSZ: Great question. In our rate design, we really tried to keep the gap, in the first year, not to be that significant. There are two parts of the charges. You’ve got your standby charges, and those, we pretty much brought those up to cost of service, because that’s basically been the philosophy and policy of the Board for all these years. So people will see an increase just by that alone. It’s the consumption charges for Option B that we’re not going to increase. That difference that recovers is not very significant in the first year – less than \$100,000.00 that would have to be recovered through the general use rates. That difference is going to grow over the five years to several hundred-thousand dollars, under the current projections. So currently, not so big, but it has the potential to be bigger in the future.

VICE-CHAIRPERSON: Thank you. The next person we have signed up to speak is Chris English.

MR. ENGLISH: Aloha, I thank you guys for the opportunity to testify. I’m currently the President of the Hawai‘i Cattlemen’s Association. You have my written testimony as well. I won’t go through the entire thing, since you have it in writing, but I’d like to paraphrase it. Hawai‘i Cattlemen’s Association, we represent the 60-odd family ranch operations which covers about 50,000 head of breeding cattle on this island. We contribute approximately \$20 million of saleable product to the local economy. In addition, the future viability of our grazing industry bolsters our community’s long-term capacity to be somewhat self-sufficient in food production. Lastly, and perhaps most importantly, is the ecosystem services that ranchers and farmers provide to the greater community. These services include responsibly-managed pastures and fields which not only enhance our vast landscape but also are critically vital to the components of our ecosystem in terms of watershed, habitat for wildlife, carbon sequestration, recreation and cultural purposes. Many of these ranches have been providing these services for over a century. I’d also like to note that many of these ranches are currently involved in watershed partnerships, particularly in mauka lands. These partnerships are vital, as many well know, to the supply of municipal water to the County. Historically, ranches have developed their own water systems, where feasible, using surface water diversion, storage and catchment. But this feasibility pertains a lot to location, weather, and of course, economics, tenure of leased land. And despite such private water systems, the variability of weather, which is pretty obvious, particularly on

the Kona side right now. Many of these ranches depend on County water for livestock. The industry right now at present is facing, as are all entities, serious economic challenges. For us, it's transportation, cost and capacity, drought impact, marketing challenges, infrastructure shortcomings, and the cost of doing business. One of the biggest costs there, especially in these drought conditions, is the cost of providing water for livestock. We just ask that you guys consider that, as this moves forward. I don't want to be presumptuous, but we did, in our written testimony, submit a proposed block system as well. I don't want to muddy the waters here, no pun intended, but we thought we had a fair proposal where it went into a tiered system, somewhat like Maui and Oahu, to try to spread those costs. We absolutely recognize the increase in operating costs and you need to cover those. We're happy to...H.C.A. is more than willing to take part in further discussions regarding this. We plan on attending the Board meeting on the 25th. Thank you again for this opportunity.

VICE-CHAIRPERSON: Thank you, Chris. The next testifier we have is Dave De Luz, Jr.

MR. DE LUZ: Thank you. I appreciate the opportunity. We have a ranch, but it's on a private water system. We actually have County water that is a backup. But unfortunately, because of the use of it, we don't qualify for the ag rates because it serves our village. But that being said, we're in the process, as Chris indicated, of creating more self-sustainability on our island for our needs, especially in ag. This becomes, I think, a very philosophical issue in our community, like the rates we do enjoy for property taxes because of the necessary capacity that we have. If we didn't have those rates, we couldn't afford to hold onto those lands and put them into grazing and what have you. So I think the difficulty is, as Chris said, is looking at the proposal H.C.A. has done, or at least perhaps, to have a sit-down. Because we know costs are rising, and that there needs to be an adjustment. Perhaps there needs to be a bit more dialogue to see how it can be worked out where the parties have ability. And I know, speaking, we also have a plant processing facility and working with H.C.A., and we're so close to being able to create more foodstuff for the islands. And definitely, a lot of it, Chris did mention, are small ranchers which don't belong to H.C.A. who primarily rely on County water for their water. And so their costs will be impacted as well. And although the significance of the increases may not seem much, it's as Chris mentioned, when we do have a drought, the consumption increases tremendously, even to the point where most of us who do have access to County water still necessitate hauling it to get it to where it needs to go. So it's not only that cost of the consumption of what we take, but also of getting it where it needs to be. Again, it is a difficult scenario you're in. There's no doubt about it, but perhaps as Chris mentioned, additional opportunities with H.C.A. and the affected parties may come up. So perhaps if the model that was given is not consistent with what was presented with regards to rate model, maybe an opportunity would be either looking at a deferral if the Board accepted, with more communication with the affected parties so that you could expedite your business, but based on the re-evaluation of what came out, and with the input of your consultant, that could have capacity. But I do realize that you do have to make a decision, and maybe there's some latitude in reflecting back again and doing that. Thank you.

VICE-CHAIRPERSON: Thank you, Dave. The next person we have signed up is Tommy Goya. No? We have your written testimony.

MR. GOYA: Thank you.

VICE-CHAIRPERSON: Is there anybody else here to testify? Okay, for the record, there's no further person to testify. So at this time, this Public Hearing is closed. Thank you for coming tonight,

everybody. We appreciate your testimonies.

(Public Hearing closed at 6:30 p.m.)

Senior Clerk-Stenographer

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 Doreen Shirota, Secretary, at 961-8050 as soon as possible, but no later than five days before the scheduled meeting.

The Department of Water Supply is an Equal Opportunity provider and employer.

Notice to Lobbyists: If you are a lobbyist, you must register with the Hawai'i County Clerk within five days of becoming a lobbyist. {Article 15, Section 2-91.3(b), Hawai'i County Code} A lobbyist means "any individual engaged for pay or other consideration who spends more than five hours in any month or \$275 in any six-month period for the purpose of attempting to influence legislative or administrative action by communicating or urging others to communicate with public officials." {Article 15, Section 2-91.3(a)(6), Hawai'i County Code} Registration forms and expenditure report documents are available at the Office of the County Clerk-Council, Hilo, Hawai'i.

MINUTES

WATER BOARD PUBLIC HEARING ON THE PROPOSED WATER RATE SCHEDULES FOR THE DEPARTMENT OF WATER SUPPLY OF THE COUNTY OF HAWAI'I

KING KAMEHAMEHA'S KONA BEACH HOTEL

May 5, 2010

MEMBERS PRESENT: Mr. Dwayne Mukai, Chairperson
Mr. Joe Reynolds
Mr. Milton Pavao, Manager (ex-officio member)

OTHERS PRESENT: Mr. Jim Greenwell, Palani Ranch
Mr. David Rotstein, Lone Palm Sprout Farm
Ms. Ruth Rotstein, Lone Palm Sprout Farm
Mr. Albert M. Ikeda
Ms. Donna Woolley
Ms. Carolyn Lucas, West Hawai'i Today
Mr. Roger Hirako, Lālāmilo Farm Lots Association
Mr. Howard Hall, Hall Family Farms, Hall Family Enterprises
Mr. Robby Hind, Delaico Ranch
Mr. David Greenwell
Mr. Keith Unger, McCandless Ranch
Ms. Sara Moore, Keālia Ranch
Mr. Jonathan Sechrist
Mr. Mike Hansen
Mr. Fred Housel, Keālia Coffee Company
Mr. Kelly Greenwell, Council Member, District 8

Ms. Laurie Farrell, Big Island Farm Bureau
Ms. Kathy Garson, Assistant Corporation Counsel
Ms. Ann Hajnosz, R.W. Beck, Inc.
Eight attendees did not sign in

Department of Water Supply Staff

Mr. Quirino Antonio, Jr., Deputy Manager
Mr. Rick Sumada, Waterworks Controller
Ms. Kanani Aton, Public Information and Education Specialist

CALL TO ORDER: 6:02 p.m.

CHAIRPERSON: Good evening. Would the Public Hearing on the proposed water rate schedules for the Department of Water Supply please come to order. I am Dwayne Mukai, Chairperson of the Water Board, and the member of the Water Board who is here is Mr. Joe Reynolds.

At this time I'd like to call upon Kathy Garson, Assistant Corporation Counsel, to come forward to make an announcement.

MS. GARSON: Art Taniguchi and Bryan Lindsey, two other Water Board members, wanted to attend the Public Hearing this evening, but because of the Sunshine Law, they could not be present. The Water Board apologizes that you will not be testifying before the full Board this evening, but the full Board will be informed of the nature of your testimony at the meeting of the full Board on May 25. Public testimony on the proposed rate increase will also be accepted at the May 25 Water Board meeting here in Kona. You may also submit your testimony in writing prior to the May 25 meeting for the Board's consideration. Thank you. The May 25 meeting will be at the Royal Kona Resort, just down the road.

CHAIRPERSON: We are here to accept testimony on the proposed water rate schedules. The Department of Water Supply is supervised 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. R. W. Beck, Inc., of Seattle, Washington, was contracted for this purpose.

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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 testimony 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 any 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 five minutes because of the time element.

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If not, we will now hear from **Ann Hajnosz** of R. W. Beck Incorporated. Then we will accept public testimony. At this time, Ms. Hajnosz, would you please give your presentation.

MS. HAJNOSZ: Thank you, Chairman Mukai, and good evening and Aloha, everyone. Thank you for coming and for taking the time to learn about your water utility. I’ve got a short presentation that basically gives background of the process that we used to set the rates, that talks about key assumptions and some of the key recommendations. So the rate study effort basically started in the fall of last year. We basically used the methodology that was used by the American Water Works Association. It’s a pretty standard methodology that utilities across the country use. It basically starts with the consultant trying to find out all about the water utility, looking at its historical financial and operating performance, and trying to understand the patterns of usage, the patterns of expenses and that sort of thing. We then go and project revenues; we project operating and capital expenses, and then, when there’s a gap between the revenues and what we actually needed to run the water utility, that’s how we come up with the amount of the rate increase. That’s pretty much Steps 1, 2, 3, and 4. Steps 5 and 6 are basically to determine how that rate increase is going to be paid for, and for this water utility, you’ve got two customer classes. You’ve got a general use customer class, which is basically most people on the island, and you’ve got the agricultural customer class, about little less than 1,000 customers. What we’re trying to do in that step is figure out what are the accrued benefits to the ag customers and the general use customers, and what are the commensurate costs associated with providing service to those customer classes. And so we’ll do that in Step 5, and then in Step 6, we come up with a rate design that basically says how are we going to recover those costs from those customer classes. And this is where a lot of policy decisions come into play. There are lots of things that we take into consideration for rate design: things like simplicity of rates, the ease of administration, equitable, are they based on cost-of-service principles? Are they fair? Is it fair to charge one customer for full cost or others less than cost? Do we want a strong conservation signal in our rates? So there are lots of policy decisions that come into play, and it’s a matter of balancing all those different policy decisions, to come up with your final rate recommendation. And that’s in Step 8. So that’s pretty much what we’re here to discuss. These are the key assumptions that were used, and I’m not going to go through all of them, but you can see that in order for us to project what’s going to happen in the years to come – and this was a five-year projection period – we need to find a projection for new customers, water usage, operating expenses, capital expenditures, and what I’m calling ‘financial assurance,’ because your water utility provides a very basic and important service. But that also costs money. And we have to make sure that it’s a viable, sustainable water utility from a

financial standpoint. So we have to make sure that they're able to pay their debt service, and they've got reserves in case of emergencies and things like that. Based on our analysis, this is what the five-year projection of rate increases looks like. All single-digit rate increases, not that high, relatively speaking. And there has not been a rate increase for this water utility since July of 2003. So it's been about seven years. The considerations that we made when we did our analysis were that we recognized that these were pretty unprecedented, difficult times. Not since the Great Depression have we had such hard, difficult economic times. And so in our first cut of the analysis, when we put all our assumptions in, we came up with a pretty significant rate increase; it was a double-digit, close to 20 percent rate increase, and from that, we worked back, and basically with the help of the Department and guidance from the Board, we came up with budget cuts in terms of freezing hiring, reducing overtime, reducing capital, reducing travel costs, all those kinds of things to come down to a really bare-bones budget. So again, it's sort of a balancing act; we don't want to increase rates unnecessarily, but at the same time, there are increasing costs that come with running a water utility. And so as a result, we've got a bare-bones budget in this rate proposal. We've got to look at the rates really on an annual basis. So even though this is the five-year rate projection, because of the economic times that we're in, it is so hard to project one year, never mind two, three, or five years out. So I'm urging the Water Department to look at their rates very closely, on an annual basis. The next few slides are just some graphics to show kind of where things are. The dark blue line is our revenue requirement, which is basically what are the operating expenses, the capital expenses, your debt service, those kinds of things. That's the money that needs to be paid for. The light blue is where your revenues are. And you can see, based on the last year and a half of a really difficult economy, water sales just went down. And that also brought revenues down. And so we're starting from a low revenue base as it is, and slowly that's going to go up. But we've been very conservative; we don't know how fast revenues are going to come back up, because it went down pretty significantly in FY2009, continued that trend pretty much through half of FY2010, which is what we're in right now. And we're only now seeing a slight uptick, but it hasn't really gotten back to prior to FY2009 levels. So that was the need for the rate increase. This is another important slide; it's part of our financial assurance component that we look at. A viable and sustainable water utility needs cash reserves, and this slide is made up of bond funds. You know, when they sell bonds, they get bond proceeds. They have a capital reserve fund, facility charge reserves, and basically cash on hand. They had a big bond sale in 2006 – a big infusion of cash there – but that was used toward capital improvements. And you can see that slowly being spent, and we're down to... This number was, as of the end of the year 2009, that number is even lower. What we recommend is that utilities have on hand about between 45 to 90 days of operating expenses, a sort of cash reserve, working capital. That amounts to about the 45-day mark, it's about \$4-5 million for a utility of this size. So we are right about that level. We really don't want to, ideally, would not like to go much lower than that. This is another slide that basically shows what their debt service projections are looking like. The first two years were kind of an anomaly, based on the timing of the debt service payment. So if you look at, starting at 2009, debt is going up between \$4, 5 and 6 million by the end of 2015. And again, debt service is used to replace aging infrastructure for the most part, to make sure that your system is sustainable, viable, and in good working order. This slide gives the history of what's been going on on the other islands. The Big Island is at the top. You can see that at 15 percent in July 2003, for FY2004. Nothing for the last seven years. The other utilities have had some moderate level of rate increases in the last seven years. For the Big Island, you can see right in the middle: 'all usage.' That's a uniform rate, so all ag customers pay the same rate for all their usage, and we've got Option A and Option B listed over there. That number, as you know, includes a power charge, the \$1.74 right below it. The Big Island's rates and Kauai are the same type of rate structure. So on Kauai, they pay a uniform rate for all the ag use as well. It's \$2.11, but you can see their power

costs are much less, only 51 cents. On Maui and Honolulu, they've got what's called a declining block rate, so the first two blocks, they pay the same rate as general use, and then anything over a certain amount, they pay a much lower rate. On Maui, for example, they're paying \$1.00, which is equivalent to their power charge. So on Maui, it's a policy decision that basically says, we're going to charge our ag customers just for the power cost. And that's going up just to \$1.05 starting in July. In Honolulu, their power costs are virtually...they're really small. They don't have that much pumping. And then the last column, that's kind of for comparison. There is some State of Hawai'i systems there that is a totally different rate structure: 45 cents per 1,000 (gallons), plus they have a monthly charge per acre. So that's pretty much it, and I guess at this time, we'll take testimony from everyone.

CHAIRPERSON: Thank you, Ann. The hearing is now open for public testimony. Will you please wait until you are recognized by myself, the Chairperson, and for the record, please state your name and the organization you represent, if any. Joe will actually give you a warning at the four-minute mark, and you have one minute to summarize. Joe has a lot of experience in this. I'm going to go here, based on how you signed up. First to testify, Jim Greenwell.

MR. GREENWELL: Chairman Mukai, Commissioner Reynolds, Milton, staff, my name's Jim Greenwell. I'm here both as President of Palani Ranch Company and as chair of the Hawai'i Cattlemen's Association's Land Issues Committee. First of all, thank you for bringing some Hilo rain to Kona. We're getting that now, and we appreciate it. We understand very much the need for you to balance the budget. Ranchers understand a cash flow problem, ranchers and farmers. So we're not trying to fight the problem you face, and we also understand some of the tough policy issues that this has raised. From Palani Ranch's standpoint, I did submit written testimony on March 22, favoring continuation on the differential rate. I won't repeat my arguments behind it, but again on March 31, Hawai'i Cattlemen's Association submitted testimony, a draft resolution that goes into quite a bit of detail, we felt, justification also supporting the differential rate. We will act on that resolution at the membership meeting this Saturday. I think it will be adopted before your May 25 decision meeting. We also submitted a proposed rate structure, which was also something like Maui, where the first two blocks would remain similar to all users, but the differential rate for ag would kick in for everything over 15,000 gallons. We're disappointed that it isn't on the table at least as one of the two alternatives being considered. We wish there were time. Perhaps there still is; I don't know. But we thought it was a fair accommodation that kind of met halfway, and acknowledged the need for some sort of increases and adjustments. I believe ranchers are kind of unique in one standpoint, that we are net contributors to the overall domestic water cycle. We put far more water into the system than we take out. I'm not sure what other customers can say that. Just for example, a cow, average carrying capacity may be one cow per seven acres. Average what a cow will drink in a day, maybe seven gallons, maybe higher, lower, in that range. And ranchers cannot afford to buy water to irrigate. We're just trying to buy water to keep cows alive. And one gallon per acre per day, is a fairly modest usage, we feel. I don't know how much water we collect and send back into recharge, into the aquifer, with a little bit of rain. But I'm sure if you ran the numbers, my point about being net contributors would be easily justified. My point is, we feel, that as ranchers, we're manager and stewards of substantial land areas; and if they're in ranching, they're also in watershed. Our situation merits a somewhat different approach, as occurs in some of the other counties, and we appreciate the fact that there is one of those options still on the table. The idea of urban areas financially assisting rural land users and watershed managers is also happening elsewhere, outside the state. In New York, there are nine million water customers in New York City, a portion of whose fee actually goes north into Upstate New York, and helps pay for management of watershed areas in Upstate. In San Francisco,

some of the customers' fees, some of the fees that are paid by customers there, actually goes back to the Yosemite Watershed area, which is a significant portion of the contributors to the system that they enjoy. And even outside the United States, particularly in Central (and South) America, in Costa Rica, Ecuador and Colombia, are all models for water funds actually generated by urban customers that go to rural farmers and ranchers, recognizing this balance and this ecosystem service value, somehow trying to find an equitable way to recognize everyone's participation. And even in the Kona Community Development Plan, which we have here, which was adopted as a sub-regional master plan, by ordinance, under the Environmental Policy section, they talk about the unique ecosystem service value of Kona Mauka. It calls for a Kona Mauka Watershed Management Program, and the establishment of an ecosystem services incentive program. I think it's something we should be looking at, and we should be considering. And I hope, between now and five years from now, you look at these rates again, that that discussion is underway. In summary, I'd just like to urge you to reconsider, if you can, H.C.A.'s proposed rate structure. I hope there's still time. I urge you to maintain differential ag rates. I believe they're justified, and I also support the formation of an ag water ad hoc committee that could explore, over this five year (period), between this rate review and the one which I understand would be scheduled five years from now, to try to come up with appropriate, balanced and equitable policy position that you're comfortable supporting, and that the public understands better than this is just a subsidy for ag. I think there's a lot more to it than that, and I don't think it's that unusual for us to continue that sort of policy here in the County. Thank you very much.

CHAIRPERSON: Thank you, Mr. Greenwell. Okay, next we have Ruth and David Rotstein.

MR. ROTSTEIN: Good evening. Thank you for having us here in Kona. My wife and I are residents of Hāwī, and we feel that the water usage at (the) residential level are the rates that you ought to raise because once water is used in the residence, it's gone. But speaking as a farmer, our water provides not only employment, it provides insurance, health insurance, workmen's comp, GDI, unemployment, it provides freight. It provides a lot more than just putting it into the water, into the ground, which we also do. We have established our property as an artificial wetlands, and all of the water we utilize goes into the water table, clean. I'm not used to public speaking. I just want to say that the water that we use, as farmers, is not just the water that goes through the toilet. It provides more than just flushing the toilet. Like I said, it provides jobs, it provides industry, it provides people with taxes.

MS. ROTSTEIN: I would like to say we're a small business owner. We're Lone Palm Sprout Farm, and we've been in business for 30 years. The cost of business is getting so cumbersome that any additional rates, including water rates, is going to put us in jeopardy. We're not going to stay in business. It's just astronomical, the cost of doing business today for a small business. The thing that gets me more than anything else is the Power Charge that's attached to the water bill. You guys are great big users; can't you get a better electric rate, a better power rate than you're getting now? For a \$1,400 or \$1,500 water bill that we get, over \$900 of it is just power. It isn't even water. So it seems to me that you could be looking elsewhere than raising our water rates. It's just no good for business.

MR. ROTSTEIN: We would like you to look into the residential. I mean, as a residential customer, go ahead and raise the rates. You provide clean, good water on demand; it's wonderful. Charge the people at residential level. In business, in these trying times, it's a little bit difficult to take a raise, even looking down the years. You're talking about looking five years down the road, and you have a lot of latitude in changing the rates. I mean, you're going up a penny or two now. We can foresee that

this is not what's happening. And I don't know why you can't negotiate with HELCO.

MS. ROTSTEIN: Anyway, that's what we have to say.

MR. ROTSTEIN: Thank you very much.

CHAIRPERSON: Thank you. Next, we have Mr. Albert Ikeda.

MR. IKEDA: Chairman Mukai, Joe Reynolds, my name is Albert Ikeda. I'm a retired person. I've lived here for 71 of my 77 total years. I'm really glad to see an organization such as yours, because it brings back memories of my youth up in Hōlualoa, up on the hill here, in the 1930s, 1940s and 1950s, when we did not have a water system. We did not have what we call city water. I remember we had the catchment system where the roof iron water, whenever it rained, by the way, only when it rained, we got some water, that flowed down into the gutter into our redwood tanks. Can you imagine that now? If all the kids had to drink that water, ingest that water with all the chemicals, you know, the lead in the paint, arsenic, whatever that's in the roof iron, the tank. And we had to ingest that for 20, 30 years. So I'm very happy to see we do have a city water system. People down in Kailua here, and this is irrelevant to what the people are talking about, but I just thought of bringing this up. The people down here were drinking mai tais and Primo beer. Up mauka, we had a free drink. It was called 'Mynah Bird cocktail.' You see, the flock of mynah birds would meet on our rooftops and they'd have their meetings there and chatter and all that, and they'd leave their droppings. You know? And then they'd fly away. But the droppings remained on the rooftops, so whenever it rained, all that residue flowed down into the gutter into our water tanks. And we had the most delicious drink you ever did drink. The Mynah Bird cocktail. To filter out some of that debris that came with that dropping, we used this, and I remember the old folks here, using the (Bull) Durham bag, small little bags with tobacco inside with some paper. They'd put the tobacco in the paper and smoke it. And we used that bag as our filter, you know, put it on the bottom of the faucet, and that filtered out some of that Mynah Bird cocktail ingredient, and it tasted very good. But you see, we had to endure quite a few hardships because we did not have water. Whenever we flushed the toilets, we had to use the urinal four or five times before we flushed the toilet because we saved the water. Whenever we looked into the tank, we saw all the leaves and sometimes, you won't believe this, but sometimes, you see some animals floating up on the top of the water. And whenever the water went down to a certain level, you could see the bottom. You could see the silt, you know, two inches, and the leaves and all that. So this is why I'm very happy to see Joe on the Board there, and you guys are doing a good job furnishing us with very clean water. I talked about the Durham bag filtering the residue; now I have two cylinders in the sink that filters out the water that was treated by you guys. So it's very safe nowadays. I'm going back to Proposition A and B. I'm just a lay person, not a farmer. But I'm in favor of Option B, retaining the status quo for the moment, because this is for four years, I see. The farmers go through rough times here in Hawai'i, you know. We have drought times two, three times a year, and this acid rain from the vog, you know, that ruins their crops also. So they need a lot of water to survive. If we do raise rates for these farmers and cattle people, the price for their product will have to go up, because it's just like if the price of a barrel of oil goes up, our gasoline prices go up and we suffer. If Matson raises their rates, we pay more for the products. If the jet fuel goes up, we have to pay more to travel. So thank you, Joe. I didn't realize I would go this long, but that's why I'm in favor that we kind of give the farmers a break. And they deserve it because they work hard for their living, and they have to have some kind of result that's positive for them. That's what I have to say. Thank you.

CHAIRPERSON: Thank you, Mr. Ikeda. Although I can't comment, I had some flashbacks just now, with the Bull Durham bag. Okay, next we have Ms. Donna Woolley, please?

MS. WOOLLEY: I'm going to submit mine in writing, please.

CHAIRPERSON: Next, Mr. Roger Hirako.

MR. HIRAKO: Good evening, Chair Dwayne Mukai and Water Board member Joe Reynolds. My name is Roger Hirako. I represent the Lālāmilo Farm Lots Association in Waimea. We have a written testimony, but they asked me to read this. We don't know if we submitted it in time or not, so we wrote:

“Chairperson Dwayne Mukai and Water Board Members:

We, the members of the Lālāmilo Farm Lots Association, unanimously and respectfully request the Board to make no increase in the Agricultural water use rate. We are in favor and support your Option B that ‘makes no change to the current Agricultural use rate.’ In doing this, we join with numerous agriculture operations throughout the Big Island including ranchers, nurserymen, coffee, vegetable and fruit farmers whose very existence is dependent upon affordable water. Agriculture producers know that this type of increase in water rates means risking the closure of countless Ag operations that depend on domestic water.

Without access to water, food production is impossible. Without affordable water, food production is impractical. It is not secret that the vast majority of the food consumed on our island is currently imported. Before that can change, we all must commit to doing everything possible to facilitate and support businesses that dare to face the ever-changing difficulties and obstacles inherent in agriculture. An increase in cost of production, such as water, will result in increased food costs necessarily passed on to consumers. Increased costs for locally produced food will mean that many consumers may no longer be able to afford to buy local. Creating a situation like this will further distance our island population from the Hawai‘i State goal of food independence and sustainable local food production.

This is an important opportunity for us all to recognize and embrace the need to make every effort to support local food production, including keeping water use for agriculture affordable. Additionally, of the total water revenue received by DWS, the portion that comes from agriculture is but a fraction, therefore the potential fractional increase in revenue is really not worth the risk to our communities of losing even one producer in the agriculture industry.

Thank you for this opportunity to submit testimony on this vital issue. Retaining current Ag water use rates will be a significant statement of your willingness to move beyond sustainability rhetoric to a tangible commitment to realistic local food production.”

Respectfully submitted.

CHAIRPERSON: Thank you. I need to apologize. Next up is Carolyn Lucas, but my bifocals are not used to it, so I'm sorry.

MS. LUCAS: No, I don't want to speak. That's all right.

CHAIRPERSON: Next, Howard Hall.

MR. HALL: My name is Howard Hall. I'm a member of the Lālāmilo Farm Lots Association. I also am representing the Hall Family Enterprises LLC and the Halls' Farm, which is located in the Lālāmilo Farm Lots area. I'm here to speak in favor of your Option B, which is to make no change to the current agricultural use rate. I'd like to add my personal comments over what Roger just said here, in that the statistics are very clear that the majority of the population of the United States is living in cities. And I personally feel that hardly any of them have the slightest clue where their food comes from. They have no knowledge whatsoever of the work that it takes on behalf of the farmers, ranchers and anybody who produces food – the amount of work it takes. It's a passion. The people that do farming are passionate about it. It's like a teacher; you do it because you're passionate about it and you're not there to make money. You basically are there because you love working the land. You like dirt under your fingernails. At any rate, the issue that I feel, I don't mean to be alarmist here, it isn't going to take much to disrupt the food shipments, be it by air or by boat, to Hawai'i, in the event of any kind of disaster. Tidal waves can wipe out harbors; earthquakes wiped out Kawaihae Harbor. It wouldn't take much. And we, more than any other state in the Union, we are dependent on food coming into this state. And if you think about the hordes of people who live on Oahu, in a real emergency, this Big Island would be the food basket. And I don't think you would ever be able to add more ag land than we have right now. What we have is what we have. And if you jeopardize that thin margin of profit that every farmer operates under, if you jeopardize that by tweaking the most important element in their operations, which is water, you end up potentially driving people out of business. If you drive them out of business, that land will end up being paved with houses, which would just compound our precious situation of balance. We need sustainability, of our ability to produce food. We need to have a firm support, that our ag people are really and truly supported in what they do. Voting for Option B would send a very strong message that the rhetoric we hear from our state leaders who say, hey, we want food sustainability, is meaningful, that there's people who will actually stand up and say, okay, the farmers and the ranchers are important. If we lose them, we'd never get it back. You're not going to get that land back. So, thank you very much for having us here.

CHAIRPERSON: Next, we have Robby Hind.

MR. HIND: Hi, my name's Robby Hind. I'm representing Delaico Ranch down in Ka'u and I'm a member of the Hawai'i Cattlemen's Association also. My mom and dad started Delaico Ranch 60 years ago, and today, myself and my siblings run the ranch. We leased 6,000 acres from Bishop Estate, which makes up the majority of the ranch. I employ four full-time employees, three part-time employees, and I'm hoping my kids can carry on that tradition for the next 60 years. We've been a contributor to our little community down there in Nā'ālehu for the past 60 years. And we've given community support to that area, especially after the sugar went out. We're proud we're good stewards of our land. We've won Cooperative of the Year many times from the Natural Resource Conservation Service, and we're proud to say we maintain the open spaces and we maintain our watershed that we ranch on down there, which, of course, increases the water cycle and everything in that area, as Jimmy Greenwell spoke of earlier. In agriculture, we have many challenges over the years, from weather, exotic pest disease regulation, in our case, animal rights and theft, with markets and transportation. Recently, with the drought and the economy, fuel costs. People have said, it's been a tough road. Last year, we lost money. This year, if everything stays the same, we're projecting a loss again. And you know, water is the life's blood of any cattle ranch, as Jimmy said. We don't irrigate. We're not

fortunate enough to have our own wells or catchment systems that would support it. In the old days, like Mr. Ikeda said, we didn't have this system, and I'm glad we have your system today because it enables ranchers and farmers to keep Hawai'i like the old saying, "Cows not condos." So we are a benefit to our lifestyle and community. I'm for Option B or for what the cattlemen have suggested...If we go with Option A, it's going to....it'll add \$2,000 a year to my costs, the next year, \$4,000, the next year, \$6,000, the next year, \$9,000. And the fifth year, it'll add between \$15-20,000 a year to my costs. And that will really add another nail to my coffin. I'm for the differential rates, and I would like to see either the cattlemen's suggestion or Option B. Thank you very much.

CHAIRPERSON: Next, we have Mr. David Greenwell, please?

MR. DAVID GREENWELL: Thank you, Mr. Chairman. I have no statement to make at this time.

CHAIRPERSON: Keith Unger?

MR. UNGER: My name is Keith Unger. I manage McCandless Ranch in south Kona, and I also represent the Hawai'i Cattlemen's Council, a statewide cattlemen's association. McCandless Ranch is a 15,000-acre timber and cattle ranch that has been in the agriculture business in Hawai'i for the past 100 years. It's a difficult business with many challenges, but McCandless is determined to continue in agriculture, to preserve the lifestyle that is quickly disappearing, to preserve open space that is quickly disappearing, to preserve the local beef industry, which is also quickly disappearing. We are the recipients of a discounted ag water rate, and we appreciate it. Looking at the big picture, 75 percent of the mauka watershed area on the leeward side of the Big Island is private property. Approximately 10,000 acres of McCandless Ranch on the upper reaches of Mauna Loa are in native Hawaiian rainforest. McCandless Ranch, as well as other ranches in Kona and Waimea, spend thousands of dollars annually on conservation work in these watershed areas: fencing, out-planting, ungulent removal and fighting invasive weeds. We do this work because we're good stewards of the land. The fact is ranchers and the Water Department are partners. Every conservation dollar ranchers spend in West Hawai'i watershed areas has a direct impact on the quality and quantity of water available to the public, and it doesn't cost the County anything. While you package and distribute the water, we are the source of the water. The Water Department should recognize this relationship and be helpful by supporting ag water rates, and not punitive by raising them. Living in an island community, the public can choose either to subsidize our ag industry, or continue to pay higher shipping and fuel charges to import our food. There is a huge push to buy local. Bumper stickers read: "Buy Local," and "Keep Kona Country." By subsidizing agricultural water rates, this is the public's opportunity to do their part to support local agriculture. Several years ago, the State Legislature passed the Important Ag(ricultural) Lands designation, where important ag lands were identified, then down-zoned to force the farmer or the rancher to stay in agriculture. Down-zoning the farmers' property will not help save agriculture; discounting a farmer's water rate will. If the public wants to keep Kona country, they should be willing to support ag water rates. McCandless Ranch supports Option B of the proposed ag water rates. Thank you.

CHAIRPERSON: Thank you. Next, Sara Moore?

MS. MOORE: Good evening. My name is Sara Moore, and I'm employed by Keālia Ranch in South Kona. We are a 12,000-acre working cattle ranch and cocoa and coffee farm. We're also a member of the Hawai'i County Farm Bureau, and a member of the Hawai'i Cattlemen's Association, Hawai'i

Cattle Producers Cooperative. We are a Department of Water Supply customer, and grateful recipient of ag rates, which we are required to apply for on an annual basis and to qualify as an ag producer. I'm in opposition to any increase in the current ag rate. I am in support of Option B, or an option that the Hawai'i Cattlemen's Association is proposing. Ag use cannot use less water than we currently do. When you do increase rates, a lot of people...say, your gas price goes up, you tend to use your car less. We cannot tell our animals to drink less water. We cannot tell our crops that we cannot water them. If we did that, we'd have smaller calves. We'd have smaller crops, and we'd also have death happen. So we cannot lower our costs. If you are to increase our ag water rates, there's no way for us to become more conservative to our animals. We have to use...have our water use consistent. We are grateful at this time, especially during the 5-6 month drought, that we've had...that we have had a consistent supply of County water. We also have some watershed on the ranch, and we have the ability to catch the stream when it is running. But it hasn't run for eight months. And so we've been able to use County water, and it has kept our animals alive. And for that, I am very grateful. Because of our use of water and how we use it in the animals, we are one of the more conservative users. When an animal drinks water, it only drinks enough until it is satiated, versus somebody in a residential use who leaves the tap running or takes a longer shower. So it's not the ag user that are the abusers of the water. And so, because of that reason, being one of the reasons that I support...I know that the Department of Water Supply needs to be fiscally responsible, and they have a mandate to meet their costs. And so, if the costs need to be met, push it to the residential use, where conservation can become more important. The ag users...we can only use as much as we need, versus residential, who can come up with different ways to become more conservative. On top of being naturally conservative, we're actually giving back to the water table by the open space and the forest recharge that we have. And we also give back to the community by feeding our community. I'm very thankful to be here tonight to hear the other testimonies that have been presented, and I support everything that has been said previously. I would say "ditto" to everything that has been said. I agree that DWS needs to do something, but I do not think that raising the ag rates is where it needs to be done. It is not the time or the place to do this. Thank you very much.

CHAIRPERSON: Thank you. Next, Jonathan Sechrist?

MR. SECHRIST: Sorry, I thought I was just signing in.

CHAIRPERSON: Okay. Mike Hansen?

MR. HANSEN: Good evening. My name is Mike Hansen. I'm a third-generation farmer. Fool. To make a living at farming is to be an optimist, and probably foolish nowadays. There is a long history of ag water being subsidized for farmers, not just here on the Big Island, but in the United States. It's a necessary thing because of the tremendous amount of water that ag uses. Without the price that we pay right now staying where it is, I imagine quite a lot of people are going to quit growing what they're growing. The little bit of sustainable agriculture that has been developing in the last few years on this island, probably will see its death knell when the water rate goes up. It's such a big bill. If you leave your hose on at ag rate overnight, forget one of your workers. I've had it happen to me. A worker was watering something with a simple garden hose at full blast. He put it down and walks away, and I see a \$500 charge the next month for a 24-hour hose running. That's how expensive our water already is here. I grew up in an area where water was very cheap for the farmers, and the farmer was able to make the desert bloom. We have a desert here now. This island is turning into a desert; we've logged off the trees up mauka over the last 200 years till...the rain stays away from the island now. We need

to make the island more green. I water about a dozen cows for my neighbor. He's supposed to give me a little hamburger for it now and then. If the rates go up, I'm probably going to have to tell him he needs to give me a sirloin steak. He'll probably get rid of the cows. It's a very important thing that we have food. Everybody likes to eat it; everybody needs it. We fly most of it in. I saw an article in the paper the other day: 85 percent of the food in this state is brought in now. Petro-dollars. They benefit from us. The Arabs, whoever is selling us oil is laughing every time we haul food all the way to the Big Island. It was 40 years ago, the State of Hawai'i was a net exporter of food. Now, if we're obviously a net importer, we need subsidized water. If you take the number of users...I saw the number for ag here of 1,000 users. I haven't seen the number or read, or I'd probably remember it, there must be 10,000 or 20,000 or what's the number of residential users, other users than farm on the whole Big Island? 30,000? It's a big number so if you spread that rate increase that you want to impose on the farmer across all those other users, it's a very small increase in their bill. It might be the cost of a 12-pack of beer for them a month, or something. But I don't think it's going to affect him. But if you...the gentleman who was testifying how his bill will go up 6,000, 9,000, 15,000...farming can't support that. My farm this year, it was one of those great years, I had \$160 profit, the first time IRS said, by golly, kid, you're finally, you know, turning it around. Well, that's how farming is. If you show any profit, you actually did make some money because there's subsidies in our tax code for farming. There should be subsidies for ag water use. You guys went a long ways, I gotta give you some credit, a few years back, when you made everybody start registering every year, showing their Schedule Fs, showing that they're really farmers using ag. I had lots of neighbors that I know aren't raising anything. They don't even raise a coffee bean, and they were getting ag rates. Some of them even lived on the Mainland, big fancy places. When I saw you guys change that policy to make people accountable, I went, 'Good.' We shouldn't be subsidizing people that aren't really raising food with our ag rates. But we should be subsidizing farmers. Farmers really need the help. It's tough, and I've got a couple part-time employees. I'm the full-time employee; my wife works to help subsidize what we're trying to do. That's American farming. Starting up farming on the Big Island is no different than anywhere else. You work hard; you need some water. If the price goes up, you turn it off. You'll find something else to do, maybe sell the property to somebody that's going to just put a house on it. And then, when the boat was running, everybody standing there looking at each other going, what do we eat? Our joke used to be, when we sold produce to Cal-Kona Produce, we grew 16 different things on the farm that if the boat quite running, we could eat, and that wasn't counting the dogs and the cats. So thank your for your time.

CHAIRPERSON: Thank you. Fred Housel?

MR. HOUSEL: Good evening. My name is Fred Housel. My wife and I own Keālia Coffee Company. We're a small coffee farm here. That's how we derive our living. I'd like to share my perspective why keeping the current rates for agriculture usage makes good sense and is consistent with the long-term goals for Hawai'i County. Both the Hawai'i General Plan and the Kona Community Development Plan define sustainable agriculture as one of the vital goals for future economic growth of Hawai'i County. As mentioned before, over 80 percent of Hawai'i County's food supply is imported. In these difficult economic times, the County needs more agriculture to become self-sufficient and lessen its dependence on imported food. The cost of imported foods also includes the high costs of fossil fuel-based shipping. All of these factors are a huge financial drain on Hawai'i's economy. Farming in Hawai'i is a high-risk, low profit margin business. For example, our farm, in normal years, does not use County water for the coffee orchard. We've got about 2,200 trees and normally, we can depend on the rainfall to water those trees. Rainfall is much better for coffee trees

than drip system irrigation. County water for irrigation is very expensive, also. Coffee cherry prices vary tremendously from year to year. In the last two years, coffee cherry prices have been very low, allowing very little profit margin. This year, we have had a major drought. We have had to irrigate our coffee trees just to keep the trees alive. Because of the drought, this year's coffee yield will be very low. As a result of the high production costs and low yield, we do not expect to make a profit this year. Financial incentives to support sustainable agriculture are critical for Hawai'i County's future. High emphasis should be placed on water conservation in agricultural use, but it makes no economic sense to increase ag rates. That would be penny-wise and pound-foolish. There is another closely-related issue I would like to bring to the Water Board's attention. Last month, the Water Board approved the Department of Water Supply operating and capital budgets for 2010 to 2011. The capital improvement budget for next year does not appear, and correct me if I'm wrong, to include any energy conservation or regeneration projects. As you know, the Department of Water Supply is the largest single user of electricity on this island. The expected DWS budget of \$16 million for purchased power is down from over \$18 million in previous years. However, fossil oil prices are rising again, up 40 percent from last year. Over 70 percent of the cost of purchased power on the Big Island is produced from fossil fuel. As we learned two years ago, the high cost of oil has a huge adverse effect on the cost of electricity on this island. Currently, DWS has three hydroelectric generating facilities which generate equivalent to approximately three percent of the total DWS annual budget for electricity. Three percent. Leak detection and resolution certainly help reduce power usage, but there are so many opportunities for electrical generation on existing and new water systems. Pumping water from a well or uphill to create a gravity flow pressure system adds a significant amount of kinetic energy to that water. This energy can be readily recovered and still provide adequate water pressure. Obviously, high purchased power costs have a huge impact on the cost of County water. That is the reason for this public hearing tonight – to talk about an increase. When I wrote to Manager Pavao recently, inquiring about the DWS plans to increase its capacity for renewable energy sources, the response I received was funding limitations prevented increased renewable capacity at present. This answer does not seem plausible. For example, the Palani Waterline Project was originally projected to cost approximately \$16 million. Capital bonds for \$15.7 million were approved by the County Council. The actual bid for the Palani contract is \$12.3 million. Where did the other \$3.4 million go? Why wasn't that used to install hydroelectric generation on the largest waterline on the island, a 24-inch waterline? The charter of the Department of Water Supply is "to deliver high quality water to the residents of Hawai'i County." A key component in that charter needs to be "to deliver high quality water at affordable rates to the residents of Hawai'i County." I urge the Water Board to take serious action to incorporate more available renewable energy sources in the County water system. If the Water Board seizes this incredible opportunity, then possibly you may never have to consider raising water rates again. Thank you very much.

CHAIRPERSON: Thank you. Okay, next, Kelly Greenwell?

MR. KELLY GREENWELL: Good evening. I'm representing myself as a farmer, and County Council District 8. I want to talk about something a little different this evening from what's been discussed so far. And this is: consequences and opportunities. We at the County are trying, at the state level as well, to do whatever we can to try and encourage people to get into farming for many of the reasons that were stated, that you've heard prior to me getting up here to the table. It's not easy to encourage people to come in here and get into agriculture at a large scale, the kind of scale that we're going to need if we're going to preserve our agriculture. It's interesting to me to go to these Council meetings and hear all of the testimony about how we should be providing more of our own food, how

we should have that food going to our own schools, etc. etc., having to do with sustainability. The consequences of raising water rates now at the agricultural level are such that, any growth in agriculture is going to be discouraged. To the people moving in here, it's not an issue of how nice it would be to have our own farms again. It's an issue of whether they can make the financial investment, and whether it will pay off. Now, opportunity. Because we are in the situation we're in, the economics we're in, is, there is one helluva lot of Federal money out there to help out. And what's happening, and has been very difficult, I must say for myself, is finally beginning to recognize, people are beginning to recognize, in government in this state, if you go to Washington, you can get the money. The problem is for us, we have not been able to tie a need and describe that need so that when we go to the Department of Agriculture, or Interior, or the American Recovery and Reinvestment Act people, you have to have some kind of project that really excites them and gets them to want to invest in it. Because otherwise, it's deemed as pork barrel money or earmark money, and they won't let it out. So the job for us, not as citizens of this place but as government, is to encourage projects that are going to cost money. And the bigger the project, and this is hard for people to understand, the bigger the project, the more money involved, the easier it is to get funding. They're not interested in \$1 million or \$10 million. They're looking at \$100 million or \$500 million, yes, \$1 billion. That's the kind of projects that Washington is looking to fund in the various states. And we sit here in the middle of the Pacific, with the opportunity to put those kinds of projects into place and we're going to need the Board of Water Supply with both feet jumping into this issue. We're going to have to look for all the great opportunities and all the methodology there is to get into the Recovery Act money, the so-called stimulus fund money. There are literally billions of dollars, as everybody in the room knows, is going to be made available. Perhaps as much as \$1 trillion in the next two years. We need to get our share, and because we have the need, the need that's been described here tonight, that is the first step in getting an audience with the people who are going to make the distribution. Now, I will say, the other thing, for myself. I'm probably one of the largest users, agricultural users, of water, in my own business. And I can't continue to be in the nursery business in Keāhole, having to supply every bit of water that all of my plants are going to require. I'm using somewhere in the neighborhood of 100,000 gallons of water every day, and I can't cut back and stay in business. And that's a helluva lot of water, so I don't want to see the higher rates that...I guess it's the A and B are the two processes. But as we get higher, you can't make the rate higher. It just doesn't work for the people who want to get into the large growing programs. So thank you.

CHAIRPERSON: Thank you very much. Next, Laurie Farrell?

MS. FARRELL: Aloha, Chair. My name is Laurie Farrell. I'm the Executive Director of the Big Island Farm Bureau. We represent 650 agricultural producers on the Island of Hawai'i. We're not in favor of raising agricultural water rates in any form. We do, however, support the Hawai'i Cattlemen's Association's proposal, and we are willing to work proactively with the Department in conservation areas and possibly establishing a working group. In today's economic times, also, the times of drought our producers are facing, it's not the time to raise water rates. It's just not economically feasible. We hear the County, and we hear the State, continually preaching sustainability to our producers. The problem is if a farmer does not make money, he will not stay in business. Therefore, it is not sustainable. We need to take a look at that, and I think the Department of Water Supply, by not raising ag water rates, can make a statement that sustainability is something we can attempt to achieve, and be part of that success. Thank you.

CHAIRPERSON: Thank you. Is there anyone else who wishes to testify?

MR. REYNOLDS: Mr. Chairman.

CHAIRPERSON: Yes, sir.

MR. REYNOLDS: I have one quick question.

CHAIRPERSON: Sure.

MR. REYNOLDS: Is there anybody out there that is in favor of Option A? (Silence) I thought so. That's it. Thank you.

CHAIRPERSON: Thank you, Joe. For the record, we have received written testimony, and I'll read who submitted testimony:

17. James S. Greenwell, Palani Ranch Co., received 3/22/10
18. William Maris, Parker Ranch, received 3/22/10
19. Chris English, Hawai'i Cattlemen's Association, received 3/22/10
20. Alan Gottlieb, Hawai'i Cattlemen's Council, received 3/22/10
21. Frederick & Maureen Langberg, received 3/23/10
22. Jamie Runnells, Plant It Hawai'i, received 3/23/10
23. Lisa Taniguchi, Brandon Kimura, Rabbit Run Farm LLC, received 3/23/10
24. Stephen Mann, received 3/23/10
25. Diane Shriner, Lions' Gate Farms, received 3/23/10
26. Bev & Chris White, received 3/23/10
27. Marla Hunter, Eke Nui Nursery, received 3/23/10
28. Keoki Wood, Parker Ranch Livestock, received 3/22/10
29. Terry Patrick, Patrick Farm, received 3/23/10
30. Herbert "Tim" Richards, Kahua Ranch, received 3/24/10
31. Chris English, Hawai'i Cattlemen's Association, received 4/5/10
32. Tommy Goya, received 4/27/10

And we also received written testimony from Roger Hirako and Earl Yamamoto of the Lālāmilo Farm Lots Association.

MR. ROTSTEIN: Can we submit written testimony later?

CHAIRPERSON: Sure.

MR. ROTSTEIN: Did any of those people vote for (Option) B, I mean (Option) A?

CHAIRPERSON: You know, I can't summarize that.

MR. REYNOLDS: No, I don't think so. I think I've read all these letters; these are the same ones we got. Nobody is in favor of (Option) A.

CHAIRPERSON: And we also had a Public Meeting last night in Hilo, and we had testifying there: Michelle Galimba, Keoki Wood, Chris English, Dave De Luz, Jr. and Tommy Goya. So for the

record, we have received all testimony. Okay?

MR. ROTSTEIN: Mr. Chairman? Has there been any recommendation of taking this whole thing off the table, by putting it back onto the residential meters, rather than the farmers?

MS. GARSON: Actually, the Water Board is going to be discussing this at the full Board meeting on May 25, which is the meeting when the full Board will meet. So they're only receiving the public testimony now, and more discussion and decision-making process will happen on May 25.

MR. ROTSTEIN: Well, I would bet you can get the consensus of this room that would like to...

MS. GARSON: And you're invited to come to that meeting.

CHAIRPERSON: Unfortunately, we have so many OIP regulations that it's really difficult.

MS. GARSON: Yeah, this is a public hearing to receive testimony and no decision-making is taking place now.

CHAIRPERSON: That's one reason why there are only two of us here, because we didn't have quorum, so the other members who wish to be here were not allowed to be here. Because you cannot have more than two Board members present unless we have quorum.

MR. REYNOLDS: But the Legislature doesn't have the Sunshine Law.

CHAIRPERSON: Very difficult. Okay, is there any more testimony? Okay, hearing none, I thank you for your testimony. It's very informative and I thank you for coming and presenting testimony. I do hereby declare this Hearing closed.

(Public Hearing closed at 7:10 p.m.)

Senior Clerk-Stenographer

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 Doreen Shiota, Secretary, at 961-8050 as soon as possible, but no later than five days before the scheduled meeting.

The Department of Water Supply is an Equal Opportunity provider and employer.

Notice to Lobbyists: If you are a lobbyist, you must register with the Hawai'i County Clerk within five days of becoming a lobbyist. {Article 15, Section 2-91.3(b), Hawai'i County Code} A lobbyist means "any individual engaged for pay or other consideration who spends more than five hours in any month or \$275 in any six-month period for the purpose of attempting to influence legislative or administrative action by communicating or urging others to communicate with public officials." {Article 15, Section 2-91.3(a)(6), Hawai'i County Code} Registration forms and expenditure report documents are available at the Office of the County Clerk-Council, Hilo, Hawai'i.