

MINUTES

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

October 21, 2020

Via WebEx/Host Location: Department of Water Supply, 345 Kekūanaō‘a Street, Suite 20, Hilo, HI

MEMBERS PRESENT: Mr. William Boswell, Jr., Chairperson
Mr. Eric Scicchitano, Vice-Chairperson
Mr. Nestorio Domingo
Ms. Julie Hugo
Ms. Judy Howard
Mr. Zendo Kern
Mr. Benjamin Ney (6:15 p.m.)
Mr. Keith K. Okamoto, Manager-Chief Engineer, Department of Water
Supply (ex-officio member)

ABSENT: Mr. David De Luz, Jr., Water Board Member
Mr. Kenneth Sugai, Water Board Member
Director, Planning Department (ex-officio member)
Director, Department of Public Works (ex-officio member)

OTHERS PRESENT: Ms. Diana Mellon-Lacey, Deputy Corporation Counsel
Ms. Ann Hajnosz, Harris & Associates

DEPARTMENT OF
WATER SUPPLY STAFF: Mr. Kawika Uyehara, Deputy
Mr. Richard Sumada, Waterworks Controller
Ms. Candace Gray, Assistant Waterworks Controller
Ms. Judith Hayducsko, Chief of Operations
Mr. Kurt Inaba, Engineering Division Head

(Chairperson Boswell called the Public Hearing to order at 6:00 p.m.)

Chairperson Boswell: Good evening. Would the Public Hearing on the proposed water rate schedules for the Department of Water Supply please come to order? I am William Boswell, Jr., Chairperson of the Water Board, and we will do a roll call of the members of the Water Board who are present.

Secretary: (After roll call was taken) Mr. Chair, we have six Board Members in attendance. (Note: Mr. Ney joined the meeting at 6:15 p.m.)

Chairperson Boswell: 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. Harris & Associates 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 anyone wishing to provide oral testimony during the meeting were required to contact the Department to register to take part in this Web Conferencing. Doreen, do we have anyone registered to provide oral testimony?

Secretary: No, Mr. Chair.

Chairperson Boswell: For the record, we received written testimony in late August from two persons who are in opposition of the water rate increase. These were provided to board members with their meeting packets in September. Doreen, were there any other written testimonies received for this public Hearing?

Secretary: No, Mr. Chair.

Chairperson Boswell: Thank you. At this time, I would like to enter written testimonies in as public record. We will now proceed with a presentation by Ms. Ann Hajnosz of Harris & Associates. Ms. Hajnosz, you may proceed with your presentation.

Ms. Hajnosz:

Thank you, Mr. Chair. Aloha, good evening everyone. I'm going to be talking about the water rates proposal and the facilities charge proposal. And just for a little background, I want to let you know that in the past, historically, the Department of Water Supply has evaluated rates every five years and then they set a five-year rate schedule. So the last time that these rates were evaluated were in 2015, with the most recent rate adjustment back in July of 2019. I highlight that because under this rate proposal, we are only proposing a one-year rate adjustment, effective January 1, 2021. I'll get into more of the details as to why we are recommending it in this manner. We're also going to be talking about the facilities charge proposal. Those rates have not been updated since 2003, and so we are recommending an update also effective January 1, 2021. So here is a timeline of the last, really a year, when we first started the rate study back in 2019 in the fall. We worked through those next six to seven months to develop a rate proposal; and at this point, it was a five-year rate proposal, effective July 1, 2020, which is the start of the Department's fiscal year. I think we all remember where we were in April of 2020. We were really still trying to come out of this COVID-19, really just coming right down on us and trying to figure out what the next few months were in store for us. And so at that time, in May, the Board decided to pause and take stock of where we were from an economic situation and then we evaluated some different scenarios. In September, we came to the Board with three different scenarios, and they selected one for us to move forward to this public hearing, which we are doing tonight. After the public hearing, the Board will take action at its next Board Meeting; and if the rates are approved, they would go into effect in January of 2021. I want to spend a little bit of time letting people know what we did in terms of evaluating the sort of economic situation over the summer. We looked at various resources. We looked at DBEDT materials (Department of Business, Economic Development, and Tourism). We looked at UHERO (the University of Hawai'i Economic Research Organization) materials, looked at the Bank of Hawai'i economic surveys. We looked at the Hawai'i Tourism Authority information, as well as Aloha United Way reports, really to get a comprehensive, as much as we could, a comprehensive understanding of the potential economic impacts of COVID and how that would play out on the Island of Hawai'i. And it was all this information that lead the Board to decide, instead of adopting a five-year rate schedule, like you would typically do, where historically you've done in the past, it would adopt a 12-month rate adjustment, effective January 1 and then the Department would evaluate the need for subsequent rate increases or adjustments after that. So I want to take some time to just talk about how rates are set, in general. We use the American Water Works Association, or AWWA, and one manual. The depiction here on the right-hand side is sort of a work process diagram of how we do that according to the AWWA manual. The main things with rate setting are to make sure that rates are sufficient enough to pay for ongoing operations and maintenance expense, as well as to fund needed capital improvements to

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the system. And then what we also do is we evaluate the financial performance of the utility and set up some financial assurance metrics, things like level of operating reserves, what's the level of the debt service coverage, to provide some financial assurance in the case of some unexpected expenses or those kinds of things. The second part that we look at is the rate design, and we want to make sure that the rates are established in a way that reflects the costs incurred. We want to make sure that the fixed component, which is your standby charge, that you incur monthly, and your variable component, which is the consumption piece, all align with cost of service, outcomes, and also align with the Department's messaging or pricing signal around conservation goals. And so now I'm going to talk about the three main assumptions that go into how we set the level of rates. We look at the revenue forecast, or we look at historical revenues, and then we develop our forecast. You can see, not on this, customer growth has been about less than 1% per year; water sales have declined on average about 2%; and revenues have increased on average, about 3% in this chart--this is what really, we're depicting. It's a mixture of the rate increases that had been put into place the last five years, along with the slow customer growth, there's a lower customer growth, and then the decline in water sales. Based on the COVID-19 economic sort of research that we've done and in talking with the Department and the Board, we're projecting continued decline in water sales. And so that's why, again, we're only projecting a one-year rate study, and future years, adjustments will be studied after this. The O&M forecast, Operations and Maintenance forecast, was also looked at from a historical standpoint; and you can see in this graph that we break up the O&M into two major components, the power cost component is the bottom black and white or dark black piece of the charts. That's a significant cost component for the O&M pot, and that is also reflected in your power cost charges. Those are changed every couple of months. This rate increase really speaks to the green portion of the bar chart here. It's your O&M expenses like salaries and benefits, maintenance costs, equipment, material, supplies, those kinds of things. Those have been going up on average about 5% per year; power costs, about 4½% per year. The budget for fiscal year 2021 was set and after we looked at all the COVID impacts, we reduced that about 2%. That's to reflect not all the vacancies are going to be filled in this year, so we have tried to bring operating expenses down. The last major component of the analysis is the capital spending. And this is where we take a look at several numbers to make sure we are on track for our projection. We look at historical capital spending, which has been about \$13 million a year; we look at what the Department has just done in Fiscal Year 2020, which is \$18 million a year; and then we look at another indicator, which is the depreciation expense, the annual depreciation expense for the Department, which is about \$15 million a year. Looking at all those numbers gave us a good feel for what the Department could actually implement, and we came up with a number about \$16.7 million for capital expenditures. When you put all these components together, the revenues, operating expenses, and capital expenses, it's called the revenue requirement and the results of the revenue

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requirement indicate that we need a 13% increase in the water standby charge and the water consumption revenues for the 12 months starting January 1, 2021. Power, revenues, and CIP revenues are based on the current charges; and again, the power revenues would not change unless there is an adjustment in the future. As I mentioned earlier, we also look, not only at revenues efficiency, we look at the financial assurance and financial performance, so operating reserves is a financial assurance metric. We were targeting 60 days initially, 60 days of operating and maintenance expense. We ended up with 47 days of operating expenses reserve, which is still a good target. There are water utilities that will set 45 days as a target, for example. It really just depends on your mix of the other reserves that you hold. Forty-seven days is fine. As I mentioned, we projected capital spending of \$16.6 million. The other financial assurance metric is the debt service coverage metric which resulted in a 1.0 coverage, so we're just going to meet debt service coverage. We'd like it to be a little higher. We usually target a 1.25; but again, under these extreme economic times, we are going to be okay with 1.1. So, after that analysis, what does this increase mean for a typical customer? The typical customer for the Department of Water Supply is a residential, general-use customer, 5/8-inch meter, using about 12,000 gallons per month. We know that you get bills bi-monthly, but if you can just bear with us, this is a 12,000 gallons per month example. The standby and water use charge increases, again, would be 13%. Those pertain to the green sections of this chart here. The power charge, the energy charges, the black and the slim red portions are assumed to be at the current charges. So overall, the overall bill takes into account the green and the black and the red. All of that would increase 8% if you were a 5/8-inch customer, using 12,000 gallons a month. Another way to look at this--this should look familiar for most of you if you get a bill. You can see the blue boxes here that we've highlighted. Out of those four components on your water bill, the first two are the ones that are going to increase at 13% January 1, 2021. That's the standby charge and the consumption charge. The power cost charge, again, I'm assuming that's the same but that also could change over the next couple of months. Energy CIP charge would also remain the same. So how does this bill compare to the other counties? Well, on the top bar, you see the typical bill, 5/8-inch meter, 12,000 gallons per month; this is a bi-monthly bill, and it's showing the bi-monthly bill at \$127.18. Under the new proposed rates, that bill would increase to \$137.29, which would mean an increase of \$10.11 per bill, or a \$5.06 increase per month, which is about an 8% increase, again, on the overall bill. How does this compare to the other counties? If we take the average of all the other counties, calculating their typical bill, 5/8-inch meter, 12,000 gallons a month, you come up with an average of about \$136.56; and the proposed DWS bill would just be right around that. So the next slide shows the actual rates themselves. Standby charge, general use charge, agricultural use--all those would go up by 13%. The other consumption charges down below, again, I'm assuming they're the same, with the power cost charge, which just changed like, August 1, could change over the next couple months

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as well. CIP energy charge would stay the same. Other charges on the Department's rate schedule also were increased, including the standpipe charges, the fire line charges, as well as the service lateral charges. And so that's it for the water rate proposal. I want to talk a little bit about the facilities charge proposal. This is a charge that, again, has not been updated since 2003. It's a charge that developers pay, or anybody that wants to connect to a system, pays to offset the costs of what we call the "backbone" facilities of a water system. And so, this graphic right here, if you identify the white dotted line, everything to the left of that line, including the source of supply, treatment, storage, and transmission facilities, that is what's referred to as the backbone facilities of a water system. These are facilities that need a lot of lead time to plan and design, and develop, in order to have water available for all those future customers. And so the facilities charge is there to pay for these charges or to pay for these facilities as new customers arrive. We want to make sure that growth pays for growth and that existing customers aren't the ones taking all the burden for growth. And so the analysis resulted in these proposed facilities charges, second column from the right are the proposed charges. Third column from the right are the existing Department of Water Supply charges. These charges are based on meter size, and so when we updated these charges, we also updated some of the assumptions of the analysis. We used some updated meter ratios based on AWWA standards, and that caused some anomalies in the higher-use meters; you can see that even though most of these charges are going up by 11%, some of them are going up by less or a lot more. The second thing to point out on this chart is that the Department of Water Supply's facilities charges are less than the other counties. And the reason for that is, again, these facilities charges are reflective of the existing capacity and planned capacity in the system for new development to come, for new growth. And in the existing system, the Department of Water Supply has excess capacity to fulfill the growth that we're planning over the next couple decades. And so their charges are going to be lower than the other counties who have a need to expand their facilities and increase their source of supply--storage, transmission, those kinds of backbone facilities. The Department of Water has sufficient facilities on a system-wide basis to have that growth occur. And so that is why those facility charges are lower than the other counties. And with that, let me just turn to the next steps. We're receiving any kind of public input up to today. The Board will then deliberate in the October/November time period. If the rates are approved, the Department will go ahead and update their billing system and then in January, the new rates would become effective. And with that, I will turn it back over to Mr. Chair.

Chairperson Boswell:

Thank you, Ann. At this time, if the Board has any follow-up questions of Ms. Hajnosz, they can ask questions here. As a reminder, the Board will have an opportunity to fully discuss this matter amongst themselves at the next regular meeting, which is Tuesday, October 27th. Any questions from the Board Members?

Secretary: Mr. Chair, we should note that Mr. Ney joined the meeting. Thank you.

Chairperson Boswell: Thank you. At this time, I would like to entertain a motion that this public hearing be closed.

Mr. Kern: So moved.

Chairperson Boswell: And second?

Mr. Scicchitano: Second.

Chairperson Boswell: Thank you. It has been moved and seconded that the public hearing be closed. Doreen, may we have a roll call?

Secretary: (After roll call was taken) Motion is carried with seven ayes and two absent. Thank you.

Chairperson Boswell: Thank you. The hearing is now closed. Thank you everybody.

(Public Hearing adjourned at 6:24 p.m.)

Recording Secretary