

MINUTES

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

May 25, 2022

Aupuni Center Conference Room, 101 Pauahi Street, Hilo, Hawai‘i

MEMBERS PRESENT: Mr. David De Luz, Chairperson
Ms. Julie Hugo, Water Board Member
Mr. Keith K. Okamoto, Manager-Chief Engineer,
Department of Water Supply (ex-officio member)

ABSENT: Mr. Steven Hirakami, Vice-Chairperson
Mr. Michael Bell, Water Board Member
Mr. Pono Kekela, Water Board Member
Ms. Kea Keolanui, Water Board Member
Mr. Stephen Lopez, Water Board Member
Mr. Benjamin Ney, Water Board Member
Mr. Kenneth Sugai, Water Board Member

OTHERS PRESENT: Ms. Diana Mellon-Lacey, Deputy Corporation Counsel
Ms. Ann Hajnosz, Harris & Associates (via Zoom)
Ms. Karyn Johnson, Harris & Associates (via Zoom)

DEPARTMENT OF
WATER SUPPLY STAFF: Mr. Kawika Uyehara, Deputy
Ms. Candace Gray, Waterworks Controller

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

CHAIRPERSON DE LUZ: Good evening. I’m the Chair of the Water Board. My name is David De Luz, Jr. Would the Public Hearing on the proposed water rate schedules for the Department of Water Supply please come to order. Along with myself, we have fellow Board Member, Julie Hugo, to my left; and I’ll have the staff introduce themselves.

MANAGER-CHIEF ENGINEER: Keith Okamoto, Manager-Chief Engineer, Department of Water Supply. With us today, we have Kawika Uyehara, our Deputy; Candace Gray, Waterworks Controller; Doreen Jollimore, Secretary; and we are also assisted by Corporation Counsel, Ms. Diana Mellon-Lacey.

CHAIRPERSON DE LUZ: I’m sorry, Ms. Hugo, if you would like to introduce yourself please.

J. HUGO: Sure. Julie Hugo.

CHAIRPERSON DE LUZ: Thank you. The Department of Water Supply is operated and controlled by this Water Board as provided for in Article VIII of 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.” Notice of this public hearing was published in the Hawai‘i Tribune-Herald and in the West Hawai‘i Today on May 3, 2022. 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 afford you this opportunity to do so. Doreen, is there any written testimony?

SECRETARY: No, Mr. Chair.

CHAIRPERSON DE LUZ: Thank you. The hearing now is open for public testimony. Public testifiers may choose either...oh, I apologize, I do not have to do that. We are now going to be having a presentation by Ann Hajnosz and Karyn Johnson of Harris & Associates. We would like to limit your testimony to three minutes because of the time element. Is there anyone who would like to testify before the presentation?

SECRETARY: No one signed up.

CHAIRPERSON DE LUZ: Thank you. For the record, no one is here to do any presentation, so there being none, we will now hear from Ann Hajnosz and Karyn Johnson of Harris & Associates. Ladies...

A. HAJNOSZ: Alright. Thank you. Aloha, good evening everyone. Good to see you. So we’ve got a short presentation that’s basically going to summarize the results of the water rate study that culminated in the rate proposal for consideration for tonight. Topics for today’s meeting was basically the rate study overview, the results that resulted in the rate proposal, and then the next steps. Basically, the rates are developed according to the American Water Works Association M1 Manual, Principles of Water Rates, Fees, and Charges. They are basically developed to set the rates sufficient so the Department can sufficiently operate their system and provide water reliably and affordably to their customers. We also look at rate structures, establishing fixed and variable portions of the rate components; and ultimately, we want to adopt rates that are fair and reasonable for the customers. Some of the key assumptions that drive the rate adjustments are listed here. Karyn is gonna go into a lot more detail, so I’m not gonna repeat all of them, except for the last one, because the financial policies are what we spent quite a bit of time on for this rate study. Specifically, we talked about two areas of financial policies. The first one was really to give some reserves to the Department of Water Supply, both from the operating reserve level, as well as a capital reserve level, that would just give them some additional assurance in case there are unexpected expenditures. So, from an operating reserve standpoint, we set a target of 60 days of O&M (Operating and Maintenance) expense, and that has been a longstanding target for the Board. This time we also set capital reserve that is going to be equal to, or greater of, annual depreciation expense or some average of historical capital expenditures. So that was something that was new for this study. And then we also looked at fiscal policies around debt management and how capital is funded and the levels of capital financing. We wanted to make sure that there is a minimum annual capital spend on an annual basis, equal to about depreciation expense or, again, the average of multiple years of capital spending. And then we also want to make sure that there was an adequate level of cash-funded capital that was equal to about annual depreciation expense, all to ensure that the Department is maintaining their system as well as it can be, you know, balancing

affordability of rates, and that sort of thing. In terms of debt management, the Department has always had a debt service coverage requirement of 1.25 times annual debt service, so that is maintained. We also took a look at the percent of that, that the Department is acquiring to fund renewal and replacement of their assets; and we wanted to keep that below 35% of their net plant assets. That's a very basic industry standard. So these fiscal policy recommendations are part of the study. I'm gonna turn it over to Karyn, now, and she's gonna talk about some of the other key assumptions that led to the rate proposal.

K. JOHNSON: Thank you. Good evening everyone. So I'm just going to give a brief overview of kind of the main components of how we derive the rates. So we're basically looking at, you know, forecasting our revenues, forecasting our operating and maintenance expenditures, and then determining what type of rate adjustments are necessary in order to meet all the financial obligations of the Department. So the first thing we look at is forecasting the revenue. So for standby charges and consumption charge revenue, we look at a three-year historical average of customer growth, water usage, and the rates in effect. And so if we look at the chart to the right, this kind of shows the growth of historical revenues from Fiscal Year 2019 to 2021, which forms our basis for projecting out for the next three years. So over the historical previous three years, customer growth has averaged just under 1% per year; and so we are assuming we are going to be continuing that growth forecast throughout Fiscal Year 2024. Water usage has declined about an average of 3% per year in the historical three years; and to be conservative, we're assuming about the same level of water usage as Fiscal Year 2021 and it to be continued to be evaluated over time as the economy continues to come back from COVID-19. We'll assess how that pans out, but pretty standard reduction, ranging from 2% to 3% over the past five to ten years, so we feel like this is a pretty conservative estimate. Over this three-year historical period, revenues have increased about 3% per year, and that's due to a combination of your historical rate increases, your customer growth over the time period, and the declining water use. So you'll see for our forecast going forward, Fiscal Year 2022 has a slight bump from 2021; and that's incorporating the second half of that 13% rate increase that became effective January 1st, 2021. And then there would be no additional rate adjustments in Fiscal Year 2022. You're relatively stable and flat over the next three-year forecast through Fiscal Year 2024. So that's our revenue projection, and then the next thing we want to look at is, you know, what are the operating costs that, you know, the revenue needs to pay for. So a similar process, we look at a historical three-year review of your operating and maintenance expenditures that's in these bars to the left here, looking at your historical operating expense over those past three years, it averaged about 2% per year in total; and that's comprised of your power costs which have declined an average about 2½% per year over that time period and all other O&M expenses have increased an average of about 4½% per year. What we looked at are the historical averages, plus looking at the consumer price index indices and came up with a projection of forecasting the future cost at about 3% per year. You know, as we're coming into the current year, we have no recent (indiscernible). Inflation is looking a little bit higher than what we had projected, so that will be continued to be monitored, you know, in future updates, as well as by staff, and monitoring any cutbacks needed in the operating and maintenance expenditures. One other addition that we made from looking at the Fiscal Year 2022 budget is we did drop down the staffing costs to about 95% of where the budget was and that was to reflect some projected staffing vacancies that were projected to continue throughout the study period. So we have a revenue forecast and then this is looking at our operating forecast. And then the next thing we wanna look at is what the capital spending would be. Similar to operating expenditures, we look at historical average. The bar charts over here to the right shows both a three-year and a five-year average under annual capital spending. So you could see the cost may vary year to year. On a three-year, which is this dotted line, to the right of the three years, it costs an average of about \$13 million over the past three years and about \$14 million over the past five years. And as Ann mentioned previously, when discussing the financial policies, we're really looking for it to achieve more that red line where it's more equal to your annual depreciation expense. So we took that information and it helped guide us in formulating what the future capital spending profile would look like. This chart shows some specific projects that have been identified for Fiscal Year 2022 through 2024. These are projects that either will be done in 2022 or expected to continue through 2023, as well as some additional projects in 2024 that would be funded by facility charges, which would not incur a rate impact. And then we look at, you know, of these projects that are identified, so over this time period about \$77 million in capital projects identified. One of the positive things here is, you

know, some of these projects are going to be funded from outside sources. So the Lālāmilo Reservoir, the \$8.7 million has actually been secured in State Appropriation, so that is not an impact on rates. The remainder of that project would be funded with State loans and facilities charges. And then the Waikoloa Reservoir is also projected to be grant funded, so the Department will be pursuing grant funding for that project as well. So you're really looking at what the profile would be for spending, how that would be funded, and then what type of rate adjustments would be needed to secure that. And you'll notice down here, there's also a place holder for additional annual capital spending in 2024. Again, that is to bring the Department's spending equal to about that five-year historical average in capital spending of \$14 million. These projects would be prioritized and identified annually by Department staff to make sure that the system is continued to run reliably. Then we look at your overall, what the picture is, how those projects would all be funded, so over that three-year period, the total spending, represented by this chart on the right, at \$77.5 million, that's an average annual spending of about \$26 million. Out of that spending, grants or other outside appropriations would be funding about \$16 million of that, about \$18.5 million coming from the cash reserves and rates, and then some debt issuance to fund the remainder of about \$43 million. Those are the three main components of determining what the rate adjustment should be--looking at your revenues, your operating expenditures, and your capital expenditures. This chart here summarizes that overall impact, so what the bars over here on the right represent, it's kind of a build-up of those expenditures, the green bar being your operating expenditures, then moving up to your debt service needs, cost of existing debt, and contributions to capital. And then we compare that to where your current revenues are. So the current standby charges and consumption charge revenues are represented by this dotted line. And so as you can see on the chart, without any further rate adjustments, that current revenue profile won't be sufficient to fund all the obligations of the utility over the planning period. So what we've put together is a proposal for a rate adjustment strategy of two years of 9½% increases to the standby charges and consumption charges, with the first increase being implemented July 1st, 2022, and the second adjustment implemented July 1st, 2023. With this type of a rate adjustment strategy, it recovers all the operating and maintenance expenses, the existing debt service obligations, and any fiscal impacts of financing the capital spending plan from 2022 through 2024. As a result of this strategy, the policies that Ann mentioned previously, what this does is it achieves the operating reserve policy target of 60 days of O&M; the debt service coverage continually met at 1.25% of the annual debt service; the debt to fixed asset ratio is at 29%, which is well within the target range that this new policy implemented was to try to target less than 35% debt so this is well within that target; and then the capital reserve achieves about 60% of the target during this time period. Again, this last reserve is one of the things that's been added to this current study, and so we anticipate that it would probably take maybe five or so years to build up to that level of the target, so achievement during this two-year period of about 60% of that target. The next thing we look at is what that means to a sample customer for their bi-monthly bills. Every customer gets billed every two months. The customer bill includes the standby and water usage bill as primarily the charges we're talking about today, and it would increase 9½% over the next two years. So that current bill is \$87.84, you also have the power charge, which is the pass-through charge, that is currently at \$56.16; and then there's also a CIP Energy Charge that is \$1.20, and that is not anticipated to increase during the study period. So overall, if we look at kind of a typical general service customer with a 5/8-inch meter, using about 12,000 gallons per month, or for the two-month bi-monthly billing period, that would be about 24,000 gallons. That bill would be \$145.20. With the proposal of adjusting the standby and water usage charges by 9½%, and then just a projection of what that power charge looks like, the bill would increase to a \$155.22 after the first rate adjustment, and an increase to \$166.10 following that second 9½% increase. So basically, about a \$10.00 per bi-monthly bill impact of about \$5.00 per month for the typical customer, averaging about 7% overall on the customer bill. So again, just to kind of reiterate, the standby and water usage charges would only be increasing to 9½% of the overall bill would be slightly less than that, at about 9%. This next graphic is just additional illustration of a customer's bill and is a statement of where you might find these charges. The bill is comprised of the standpipe and consumption charge here, the charges that we are talking about today that would increase at 9½%, and then we have the power cost charge, which, again, is a pass-through that could change every two months up or down, and then the Energy CIP Charge which is not anticipated to change over the study period. And then it shows the total bill and is just a sample to illustrate where you would find these charges on the customer's bill. And then we also looked at, you know, based on

this rate adjustment strategy, how does that compare to the other utilities or counties. The first chart, the first two lines, the first one is the current bill for the Department of Water Supply of \$145.20; and then the proposal for 2023, moving up to \$155.23. That incorporates that first year 9½% increase; and then up to \$166.10 after the second 9½% increase. And then this is the current bill information that we have from the other jurisdictions on what their bills look like for 2022, and we do have information on the Honolulu Board of Water Supply for 2023 as well. But really to try and show here that with these proposed rate adjustments, it's right in line with what others are charging in the area; and we don't have information on where the rates may go in the future, but they are certainly in line with what we are seeing from the other counties. This is a detail of the actual rate schedule for the standby charges and the consumption charges. This first column is the detail of the standby charges by meter size, currently, and what that would increase to in 2022, and now you have this increase and again in 2023 with the 9½% increase; and then the usage rates would change too, for the general use and the agriculture use and the other charges that would be applicable to this 9½% adjustment over this next two years.

A. HAJNOSH: Great, thanks a lot Karyn. So that basically concludes the results. I did want to just give a little bit of perspective for those folks who may not know the history of rate adjustments. The last major rate adjustment, as Karyn mentioned, was January 1st, 2021. Prior to that, there were two 5% rate increases in 2018 and 2019; and then, of course, in 2020, when COVID-19 began, there was no rate adjustment there. So you can see the proposed rates are for July 1st, 2022, 9½%, and then the following year, July 1st, 2023, another 9½%. And with that, just really quickly, the next steps for the rate effort to develop rates all the way to Fiscal Year 2027, we're gonna be taking a closer look at customer billing data so we can look at possible new rate classes--single-family rate class, commercial rate class. We're gonna be looking at that in the remaining part of 2022 and coming up with some range structure options for the Board to consider next year. In the meantime, if the rate adjustment is approved, the second rate adjustment would go into effect July of 2023. We will come back with a true-up to kind of just review. We're gonna look at consumption to make sure we've got the right assumptions given, the recent historicals [sic], and then our plan is to come back in 2024 with an updated rate proposal to include consideration of the rate structures. That will take us through the rate proposal all the way to Fiscal Year 2027. And with that, we will entertain any questions.

CHAIRPERSON DE LUZ: Thank you. The hearing is now open for public testimony. Is there anyone who wishes to testify at this time? Seeing none, we will proceed. And again, thank you for our presenters. We do appreciate Ann and Karyn. Thank you very much.

MANAGER-CHIEF ENGINEER: Yeah, thanks Ann. Thanks Karyn.

A. HAJNOSH: Thanks guys.

CHAIRPERSON DE LUZ: Thank you for presenting testimony in the proposed rate schedules. This concludes our public hearing this evening. Thank you.

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

Recording Secretary

APPROVED BY WATER BOARD
JUNE 28, 2022