MINUTES

WATER BOARD PUBLIC HEARING ON THE
PROPOSED WATER RATES SCHEDULE
FOR THE DEPARTMENT OF WATER SUPPLY OF THE COUNTY OF HAWAIʻI

April 23, 2024

Liquor Control Conference Room, 101 Aupuni Street, Unit 230, Hilo, Hawaiʻi

PRESENT: Mr. Michael Pono Kekela, Vice-Chairperson, Dist. 4
Mr. Keith K. Okamoto, Manager-Chief Engineer, Department of Water Supply (ex-officio member)

ABSENT: Mr. Michael Bell, Water Board Member, Dist. 7
Mr. Thomas Brown, Water Board Member, Dist. 3
Ms. Kea Keolanui, Water Board Member, Dist. 1
Mr. James Kimo Lee, Water Board Member, Dist. 2,
Mr. Stephen Kawena Lopez, Chairperson, Dist. 8
Mr. Benjamin Ney, Water Board Member, Dist. 9
Ms. Emily Taaroa, Water Board Member, Dist. 5
Mr. Keith Unger, Water Board Member, Dist. 6
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. Kurt Inaba, Engineering Division Head
Ms. Candace Gray, Waterworks Controller
Ms. Nora Avenue, Recording Secretary

(Vice Chairperson Michael Pono Kekela called the meeting to order at 6:00 p.m.)

ACTING CHR.KEKELA: Good evening. Welcome. Would the Public Hearing on the proposed water rates schedule for the Department of Water Supply please come to order? I am Michael Pono Kekela, Vice-Chairperson of the Water Board, and I'll have the members of the Board and staff introduce themselves.

(At this time, the Department of Water Supply Staff and all others present at this evening's meeting introduced themselves.)

ACTING CHR.KEKELA: The Department of Water Supply is operated and controlled by this Water Board as provided for in Article VIII of the Hawaiʻi 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, Hawaiʻi 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 Hawaiʻi Tribune-Herald and in the West Hawaiʻi Today on April 1, 2024. 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. Nora, is there any written testimony?

> (Note: From Kainoa Lyman, dated April 23, 2024, transmitting written testimony, in opposition to the rate hike increase.)

ACTING CHR. KEKELA: With no other written testimony, the hearing is now open for public testimony. Public testifiers may choose either to testify *before* or *after* a presentation by Ann Hajnosz 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?

MS. AVENUE: There are none.

ACTING CHR. KEKELA: There being none, we will now hear from Ann Hajnosz of Harris & Associations.

MS. HAJNOSZ: Thank you, everyone. Aloha, good to see you all again. The agenda for the meeting, for the presentation, is we're going to do an overview of rates, of how the rates are developed, and we'll go through our key assumptions and the methodology, and some of the drivers of the rate study. We'll have the proposed rates, which have already been published for the public to see, then we'll talk about the next steps, and I'll take any questions.

So for the next slide, our Rate Study Overview, this basically lays out the process by which the rates are developed. It's consistent with industry best practices with the American Water Works Association, and we follow the M1 Manual. Just from a philosophical standpoint, it's really important for rates to set the foundation for financial stability for a utility. That's exactly what we're doing today, and then projecting rates for the next three years.

We also want to make sure that there is stability from a revenue standpoint, when you have fluctuations and usage, which is going to happen. It's going to happen even more I think into the future, so we want to make sure that fixed and variable pieces are sufficient.

Then finally, we want to adopt rates that are fair a reasonable, and we take into consideration all those facts in terms of escalation and inflation, and how these rates are really going to impact people's pocketbook, and ultimately we have to come to a decision as to how much we can raise rates to fund the water utility in a reasonable and financially sustainable way.

The key assumptions that drive these rate adjustments, are revenues It's almost like your family budget, right, you would need to know your income. And so, what are the revenues? And those are being driven by customers and water usage growth.

And then you have your Operating Costs, that's what we look at. Of course we look at escalation, and staffing costs are the biggest piece of Operating Costs, as well. Capital Costs really are a big part of the rate increase, a big driver, because we have to fund you know a reasonable level of renewal and replacement and growth for our water system,

And finally, the fourth piece, the Financial Policies, are very, very important, and we've been putting special emphasis on this in the last few years, for the Department of Water Supply, because we're thinking not only short-term but we're thinking long-term, for our kids and our grandkids and their kids. We want to make sure we're financially stable, and you're able to provide safe, reliable water for generations to come.

So in terms of the Financial Policy Recommendations, these are really important. We look at cash reserves. Do we have enough Operating Reserves and Capital Reserves? We talked to the Board about setting benchmarks for that.

We also looked at debt management in terms of your loans, right, how much debt you're going to take out to finance these capital improvements, infrastructure. We know there are SRF loans and state loans with lower interest, so we're seeking those loans. We're seeking State appropriations. They're almost like grants. So we're trying to find the best combination of that funding to keep the rate increase as low as possible.

And then we also want to make sure we're not taking on too much debt because we don't want to be with too much debt and then not have that financial stability. So to make sure we're financially responsible, we don't have more than 35% of debt to assets ratio, and we're well below that. Those financial policies really do drive part of the need for the rate adjustment.

As I said, we start with the revenue forecast, and what we do is we look at three years of history, and we see what the actual revenues were, standby charges and water usage. It was growing, less than one percent, pretty flat. So we're basically projecting about that level for the future, for the next three years, and I would say that we tend to be very conservative on our revenues, meaning we don't want to over project revenues, because again, we want to make sure we've got that financial stability. So we're being relatively conservative on revenues. This chart shows you what the revenue forecast is with the 9.5% rate increases.

Operating Expenses, the next slide. As you can see, Operating Expenses fluctuate a little bit more. We had about a 4% decrease in Operating Expenses, and then we're projecting a little bit higher in Fiscal Year 2024. After talking to staff and just looking at actuals, we're coming out with a relatively, little bit flatter projection for the next three years. It does take into account escalation, the 3.5%, which is right now about where Hawai'i is. I think a year ago everybody, including Hawai'i, was much higher in regard to escalation, but luckily that has come down and hopefully it will come down a little bit more.

The major cost drivers I want to say for O&M because I think it's important for people to understand, you know, salary cost, but also, we've got the repair of equipment and facilities and that sort of thing, it's basically our aging infrastructure, we really have to replace that. Then we've got all these regulatory requirements that are being imposed on all water systems, throughout the whole country really, and these are unfunded mandates I would say, so we have to figure out how we're going to address those.

The next big driver for the revenue requirement, I would say, is looking at how much capital should be spent. So what we did was we took a look at the historical capital spending of the Department of Water Supply, you can see this is from 2019 up to 2023. The straight black line basically is your five-year average, at about $12 million. The red line is annual depreciation expense; this is based on your plant assets. For Fiscal Year 2023, you were about $18 million. So those are two points of reference that we'd like to kind of highlight because we would like to see water utilities, cash financing, an amount equal to your depreciation. Depreciation is not a cash outlay, it is a recognition of the wear and tear of your assets, and we want that amount of assets to be replaced every year, so we have a functioning, reliable, safe drinking water. And so this is in line with our policy recommendations that I referred earlier to and will also keep referring to in the future.

So the Forecasted Capital Spending is really the big thing and probably got there looking at your budget, Fiscal Year 2024, which is about $44 million, down there at the bottom, and then we projected how much that was going to be for the subsequent years. In talking to staff, and looking at the funding, that sort of thing, we adjusted it downward because we knew that it's hard to spend that amount of money. There are reasons why some of the spending gets delayed, relative to permitting gets delayed, construction, equipment takes longer to get, you know, land acquisition, there's all kinds of reason. So we have to try to make a judgment call on how much money the department is going to need in the future for capital spending, and so we came up with these amounts of $15 million for 2025; $27.5 million for 2026; another $15 million for 2027.

We've identified funding sources for all of those, including SRF Loans, some of which could be turned into principal forgiveness, which could keep the rates lower. We've got state appropriations in there, which are essentially grants. We're going to keep looking for other grants, for example FEMA grants.

So when we wrap this all together, we take our revenues and we say, "We have all these requirements against those revenues, Operating Expenses, Capital Expenses, and Financial Assurance Targets, right, to keep our utility financially stable. This is called the Total Revenue Requirement, and this is how we come up to needing the 9.5% revenue adjustment each year for the next few years. And you can see the dotted line is where we project our current rates to be, and then the dark line is where we are seeing the revenues with the 9.5% adjustment. And so by Fiscal Year 2027, we're basically matching revenues to our expenses, for Capital and Operating, and our Financial Assurance Targets.

I will say that we could get a lot closer on the Financial Assurance Targets, but on that last bullet right there, our Capital Reserve Fund, by the end of 2027 we're only going to be at about 60% of our target, and that's okay. If we want it to go faster, we have higher rates, but we don't want to do that. We're trying to stay balanced. So this is an example of how we do take into consideration the level of rates versus our revenue requirements.

So, let's turn to the Bi-Monthly Bill Impact. You can see the calculated sample bi-monthly bill, this is at 12,000 gallons per month for a 5/8-inch meter, general service customer. You can see in the next year 2025, the rate increase really is about 7.2% overall because this bill also includes the power charge portion and the energy portion of the bill, and those aren't going up by 9.5 %. They're going up 3.5% for power, that's a projection. I know it varies every four months and it gets adjusted, and we're not anticipating any increase in the energy charge portion. So when you take all that into consideration, you're really looking at about a 7% rate increase for the next three years, each year. That equates to about a $6-$7 per month increase for a 5/8-inch meter, for a service using 12,000 gallons per month.

The next slide is basically just to get people a little bit familiar with—you guys see this bill every couple of months, we just want to make sure you are aware of which portions of your bill are increasing. The first box highlights the Standby Charge and Consumption Charge, those are the portions of your bill that are going to go up 9.5% on July 1st. The next two pieces, Power Cost Charge and Energy CIP charge will go up less than that; and I know the Power Cost Charge, again, goes up or down every four months.

I know a big question is how do our bills compare to the other water utilities in the State, so the next slide will show that. The top two lines show the Department of Water Supply's current bill, and then the proposed. So $169.88 is the current typical bill at 12,000 gallons per month, 5/8-inch meter. The proposed goes up to $182.10. And then you can see we've got Honolulu's current, and then their proposed just went up in February. Kaua‘i is also a little bit less than DWS. They have not increased their rates for a long, long time, but they are in the process of doing their Rate Study. Maui, you see a little bit less than DWS.

We did reach out to both Honolulu and Maui and asked what their proposed rate increases are. They are all on the order of 10%. Maui is doing 10% a year for the next three years. Honolulu just had a 10% in February, will do another 10% in July of this year, and then they'll do 9% and 8.5%, and 8% the following two years. So everyone in the State, for the County municipal water systems are all pretty much in that same ballpark. Except for Kaua‘i, they're in the process of doing their Rate Study, so don't know what's that going to be. But for the most part, you can see everybody's about the same on average.

The next slide, you've seen this. It was published in the public hearing notices, these are the actual rates. The plan is for us to implement the 9.5% rate increase on July 1. We are going to take some time to look at the rate structure for the Department of Water Supply, and that means we're—right now the rate structure doesn't have customer classes. There's only a general use class and an agricultural use class. The Board has asked us to look at single-family, commercial, maybe some hotel classes, so that is in process; and if the Board decides to do that before the July 1st, 2025 rate implementation, there will be another public hearing to talk about those rates structure changes. The rate adjustment level will not change, but the rate structure could change, and if that's the case, again there will be a Public Hearing in the Spring of 2025.

Next one, DWS Rate Adjustment History. So this slide really is to give folks some context of where we are in terms of rate proposals these next three years. So all the way back in 2018, you can see the rate increases were lower on the level 5%, but then we had to have a big rate increase on January 1, 2021. And then in 2022 was when we did a study, basically said, "This is what we think you'll need over the next five years." We decided to break that into two periods. The first two years were implemented as proposed and then we did a true-up which was an analysis just to make sure we still need those next three years, and so we did that, and this is the culmination of that effort. We are proposing that the department go ahead with the 9.5% per year that the Board approved.

And so for the next steps, if it's approved by the Board, the rate adjustment goes into effect July 1st of this year. It's applied to, again, just the Standby and the Consumption Charges. The rate structure does not change. Over the course of the next few months, really over the next year, we are going to be doing more analysis of those customer classes, and we will be coming to the Board with our results and recommendations; and if the Board decides to change those rate structures, we will have public hearings in the Spring of 2025 prior to the new rate structure going into effect on July 1st, 2025. But again, the rate adjustment level, 9.5% per year, does not change for the next three years. There will be a 9.5% rate increase each year for the next three years if approved by the Board. And with that, I will take any questions.

MS. MELLON-LACEY: I've been following some of the regulations going on around the PFAS, and the fact that—sounds like more monitoring and testing of water is going to be required. Is that factored into your consideration of these rates?

MS. HAJNOSZ: Yes. That just came out, right, over the last couple of months, I think.

MS. MELLON-LACEY: Yes.

MS. HAJNOSZ: I think that is definitely something the department has to figure out what that really means in terms of operating costs and if there's a need for treatment. That's a big question mark. The regulatory pieces of Operating Expenses and Capital Expenses, always could have a bigger amount, we just have to adjust as we go.

MR. OKAMOTO: Yes. Maybe I can add a little bit to that. So we did budget at least for the assessment because you don't know what you need to do as far as the implementation of treatment techniques or treatment solutions until you know what you're dealing with within your own water systems. So, we have budgeted for that phase. Now if results from that phase indicate there are some Capital Improvements that need to be done, then we may need to re-evaluate. But I think in general how this rate structure was established, it's more of a forecasted CIP expenditure on an annual basis. So what we can do is we can adjust, perhaps move some projects around, depending on priorities, as long as we stay within the forecasted amount that is incorporated into this Water Rate Study.

ACTING CHR. KEKELA: Any more questions? All right, I'll end Harris & Associates. The hearing is now open for public testimony. Is there anyone who wishes to testify at this time?

MS. AVENUE: There are none, Mr. Chair.

ACTING CHR. KEKELA: Seeing none, this concludes our public hearing for this evening. Mahalo.

(Public Hearing adjourned at 6:22 p.m.)

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Recording Secretary

APPROVED BY WATER BOARD
(MAY 28, 2024)