

MINUTES

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

April 24, 2024

West Hawai‘i Civic Center, Building G, 74-5044 Ane Keohokalole, Kailua-Kona, Hawai‘i

PRESENT: Mr. Stephen Kawena Lopez, Chairperson, Dist. 8
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
Mr. Michael Pono Kekela, Vice-Chairperson, Dist. 4
Ms. Kea Keolanui, Water Board Member, Dist. 1
Mr. James Kimo Lee, Water Board Member, Dist. 2,
Ms. Emily Taaroa, Water Board Member, Dist. 5
Mr. Benjamin Ney, Water Board Member, Dist. 9
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. Ann Hajnosz, Harris & Associates

DEPARTMENT OF WATER SUPPLY STAFF:

Mr. Kawika Uyehara, Deputy
Mr. Kurt Inaba, Engineering Division Head
Ms. Candace Gray, Waterworks Controller
Mr. Alvin Inouye, Water Operations Superintendent
Ms. Nora Avenue, Recording Secretary

(Chairperson Stephen Kawena Lopez called the meeting to order at 6:00 p.m.)

CHR. LOPEZ: Good evening. Will the Public Hearing on the proposed water rates schedule for the Department of Water Supply please come to order? I am Stephen Lopez, 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.)

CHR. LOPEZ: All right, thank you all for coming. 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 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?

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

CHR. LOPEZ: 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? There being none, we will now hear from Ann Hajnosz of Harris & Associates, please.

MS. HAJNOSZ: All right, thank you. Hello, everyone. Aloha. For the presentation, the agenda, on the next slide, we’re going to go through a Rate Study Overview and how the rates were developed, and then we’re going to talk about the key drivers for the Rate Study results. We’ll propose the 3-year adopted Rate Schedule, and then we’ll talk about the next steps; and then if there are any questions, I’d be happy to answer those.

So, how are rates developed? In general, we use the American Water Works Association (AWWA M1 Manual, which is called Water Rates Fees and Charges, and that lays out the graphic on the right-hand side of the slide, Steps 1 through 8, how you do a rate study. We’re going to focus pretty much on the determination of the revenue requirements at this point in our Rate Study because that is where we come up with how much of an adjustment the rates really need, and that’s what we’ve determined for Fiscal Years 2025, 2026, and 2027. But the theory, sort of the philosophy for that approach for a Rate Study, is on the left-hand side. We really want to make sure rates are sufficient to pay the operating expenses, capital expenses, and provide assurance for the water utility on a short-term as well as a long-term basis. We want to make sure that your fixed and variable rate components are sufficient to weather the peaks and valleys of water usage, for example, and really again, focus on revenue stability. And finally, we want to make sure that the rates that are adopted are fair and reasonable. They have to be sufficient to provide safe, reliable, and as much as possible affordable water for all of the customers for DWS.

So the key assumptions that drive the rate adjustments, we break that down into the revenues, and we figure out how much revenues are going to be generated based on customer growth, water usage growth,

those things. And then there are the operating costs, right, that we take out of the revenues, and those are driven by Salary Cost, for one that's the highest category, as well as annual escalation.

Capital Cost is also a big driver, and we'll talk a little bit more in detail about that. We'll see the annual expenditures, which also of course have escalation, and then a big part of that is the capital funding and how it gets funded.

The fourth component, the fourth driver of rate adjustments, is the financial policies, and I'll talk about that next in more detail. The financial policy recommendations really are what the department has been focusing on for the last five years in terms of trying to understand how we can get financial stability in the short term as well as in the long term. We've talked to the Board about these six different financial policies. The first two have to do with sufficient cash reserves, right? We want to make sure that they have sufficient operating reserves in case there are emergencies or unexpected expenditures, and DWS has always had this policy of about 60 days of annual O&M expense, and they've always really exceeded that amount, so that's really good.

The Capital Reserve has been a relatively new recommendation that we've been working on for probably the last five years. We want to build that up to be equal to the greater of annual depreciation expense or the average of your annual 5-year capital spend plan.

And then how the capital gets funded is covered in the next four financial recommendations: your minimum annual capital spend; minimum annual rate-funded capital spend; debt service coverage, which is always something the department has had, the 1.25 debt service coverage. And then we look at debt as a function of your plant assets, and we want to make sure that we're not incurring too much debt. So those are the financial policy recommendations that do impact on the level of the rates.

So, getting back to the Revenue Requirement approach that I mentioned. We first look at your revenues, and it's just like any kind of like a family budget; when you look at your budget, you want to see how much your income is going to be. So we looked at your historical revenues, and that has been growing at less than 1%, and we project out, and we basically say, "Okay, that's about how much we're going to expect in customer growth and water usage," and that's what we come up with in terms of a revenue projection. The graph here does include the projected 9.5% rate increases for Fiscal Year 2025, 2026, and 2027.

Then we look at the other side of the category, the expenditure side, and this is the O&M forecast without the power cost. Those O&M costs have gone down a little bit, but we are projecting them to go up to about 3.5% to account for escalation. Again, salaries and benefits account for most of the category, but there are other cost drivers, including service contracts as well as repairs and compliance with federal regulations.

The next big category that I mentioned is Capital Spending. So we took a look at the Historical Capital Spending of the department, and it came out to be \$12 million a year. That's that dark line, horizontal line. That's about the average annual spend. We typically like to compare that to the annual depreciation expense, for water utilities, to basically say that's kind of a surrogate for how much we want water utilities to be spending, because depreciation is a non-cash item, but it does represent the deterioration and loss of service levels for the water utilities, so we want to make sure where we're replacing that every year, right? So that's why depreciation is something that we pay attention to.

The next slide talks about the specific projects in the department's capital program, you can see that list there. For 2024, it's about \$44 million worth of capital projects. For Fiscal Years 2025, 2026, and 2027,

we basically looked at, again, historical, we looked at the budget, and we said we think the department is going to be able to accomplish about \$15 million in Fiscal Year 2025, \$27.5 million in Fiscal Year 2026, and back at \$15 million. In reality, you have to look at capital spending over a multi-year time period, right, because the projects don't always go exactly as planned or as scheduled. But we do anticipate that the funding for these capital projects is going to be a combination of rates, FEMA grants, State appropriations, SRF loans, as well as your facility charge revenues, and so it's a mix of all these different funds that are going to help accomplish these capital projects.

So once we roll in the revenues and we compare them to the operating expenses, the capital expenses, and the financial assurance target, this is how revenue requirement is determined, and in essence, that's how we come up with the 9.5% revenue adjustments for Fiscal Years 2025, 2026, and 2027. The strategy for the 9.5% basically I'm going to just go to the financial policy bullet points because that's the most important, it really enables the department to have their operating reserve targets, at 60 days of O&M for a year. They accomplished their debt service coverage of 1.25 every year. Their debt to fixed asset ratio is 21%, which is lower than the target, by about 30%. And the only one that we're not going to be meeting within this 3-year time period is the capital reserve funding. That's going to be at about 60% of the target, but that's okay because we're going to build up over the next few years. That's just an example of how we're trying to balance the rate adjustments, the revenue adjustments of 9.5%, with the accomplishment of these financial policy objectives.

Okay, let's talk about what the 9.5% rate increase looks like for a typical bi-monthly bill. So this slide basically shows a general service, 5/8-inch meter, using about 12 gallons per month, or 24,000 gallons per bi-monthly billing cycle. Your bill is about \$170, \$169.88 to be exact. It's going to go up \$12.22 to \$182.10 if you're using 24,000 for two months. The overall increase on that bill is less than the 9.5% because the 9.5% only pertains to the standby charges and your water usage charges. The power charge goes up at different levels, so that's pass-through, and the CIP energy charge is not going to be going up, so what this means is the increase for a typical bill is really closer to 7%, and that it equates to about \$6 to \$7 per month over the next three years.

To give another perspective, this is an example bill, and I just want to make sure we point out the components of the bill that are going to see that 9.5% increase and that is in that first box, the Standby charge, the Consumption charge, that is the box that's going to see the 9.5% increase. The other two boxes, the Power Cost charge and the Energy CIP charge—the Energy CIP charge will not go up. The Power Cost charge goes up or down, it adjusts every four months.

A lot of people ask, "How do the Department of Water Supply rates compare to the other counties in the State, and so we put this chart together.?" The first two bars are the Department of Water Supply current and then the proposed rates, so those are the top two blue lines. We compared them to Honolulu. We understand that Honolulu just had a rate increase of about 10%, a 10% rate increase in February 2024. They're going to have another one in July 2024, and then they're going to 9% and then 8.5% in the subsequent year, you know, on the same order as Big Island, right? Kaua'i, as shown in that teal color, their rates are in progress. They're doing a rate study right now, so we don't know what their increase are going to be like. Maui, we learned they're going to be having a 10% rate increase starting July of this year, and then 10% in the subsequent year. I mean, all the County water systems, they're not the same in terms of operations, but they're experiencing similar cost pressures, so it's not a surprise to see them all about the same in terms of rate adjustments.

Okay, so the water rates proposal for the three years, it's published, it's on the website. It's basically a 9.5% annual revenue adjustment in Fiscal Years 2025, 2026, and 2027. You're also looking at rate

structure changes, and that could possibly come in Fiscal Years 2026 and 2027; if the Board decides to go that route, there would be additional public hearings in the Spring of 2025.

And then to give just a little bit more perspective, if you want to see the history of the rate adjustments, from July of 2018 up through the proposed rate recommendations, you can see that right there, the last three years are what we're talking about. If the Board approves these rates at the May meeting, that's what the rates would be.

Finally, next step, as I mentioned, if the Board approves the rates, they go into effect July 1. We are going to be looking at rate structure changes over the next few months, and if the Board decides to go through with that, we would have public hearings in the Spring of 2025, to discuss the rate structure adjustments. The revenue adjustments would not change, it would still be 9.5%, July 1, 2025, and 9.5% for July 1, 2026. If the rate structure is changed, we would want to come back to the public to just let you know how your particular bill might change. And with that, I will take questions.

CHR. LOPEZ: I see there are no questions, thank you, Ann. The hearing is now open for public testimony, is there anybody wishing to testify at this time? Hearing none, this concludes our public hearing for this evening. Thank you. Have a good evening.

(Public Hearing adjourned at 6:18 p.m.)

Recording Secretary

APPROVED BY WATER BOARD
(MAY 28, 2024)