

Honolulu Board of Water Supply Stakeholder Advisory Group

Meeting 17 – Tuesday July 11, 2017 4:00 to 6:30 pm
Neal S. Blaisdell Center, Hawai'i Suites
777 Ward Avenue. Honolulu, HI 96812

Meeting Notes

PURPOSE AND ORGANIZATION OF MEETING NOTES

The purpose of these notes is to provide an overview of the Board of Water Supply (BWS) Stakeholder Advisory Group meeting. They are not intended as a transcript or as minutes. Major points of the presentations are summarized herein, primarily for context. Copies of presentation materials were provided to all participants and are available on the BWS website. Participants made many comments and asked many questions during the meeting. These are paraphrased to be more concise.

ATTENDEES

There were 16 stakeholders present in addition to BWS and CDM Smith staff, as well as BWS board chair Bryan Andaya. The stakeholders represent diverse interests and communities island-wide.

The following Stakeholders Advisory Group members attended:

Tim Brauer	James Campbell Co. LLC
Pono Chong	Chamber of Commerce Hawai'i
Bill Clark	Resident of Council District 6
Mark Fox	The Nature Conservancy of Hawai'i
Neil Hannahs	Commission on Water Resources Management
Shari Ishikawa	Hawaiian Electric Co.
Gladys Marrone	Building Industry Association of Hawai'i
Helen Nakano	Resident of City Council District 5
Robbie Nicholas	Resident of Council District 3
Dean Okimoto	Nalo Farms Inc.
Alison Omura	Coca-Cola Bottling Co.
Elizabeth Reilly	Resident of Council District 4
Jon Reppun	KEY Project
Cynthia Rezentos	Resident of Council District 1
Francois Rogers	Blue Planet Foundation
Cruz Vina Jr.	Resident of Council District 8

MEETING AGENDA

- Welcome
- Public Comment on Agenda Items
- BWS Updates
- Accept Notes from Meeting 16
- Breakout Groups to Discuss and Report Out:
 - Cost of Service
 - Subsidies between customer classes
 - Affordability program ideas and issues
 - What the Water System Facilities Charge should look like
- Summary and Next Steps

WELCOME

Dave Ebersold, meeting facilitator and Vice President of CDM Smith, welcomed the group and outlined the meeting contents. Dave called attention to the layout of the room, arranged with 3 round tables for stakeholder seating rather than the traditional horseshoe pattern of prior meetings. Dave explained that the table arrangement would be used to encourage group discussion of a series of issues, followed by report out to the full audience. Stakeholders received number cards upon sign in, randomly designating their table assignments.

Breakout group topics for discussion were:

1. Cost of Service and subsidies among the classes of customers
2. Ideas and issues regarding affordability programs, and
3. Information and feedback regarding the Water System Facilities Charge.

Dave pointed out the small containers of Silly Putty on each table and explained that one of the themes for the meeting would be a similarity between that Silly Putty and the cost of service. No matter how you stretch it, or shape it, or squeeze it. . .the size remains the same. He reminded the group of the former analogy for cost of service in terms of the overall total costs being equivalent to a pie. No matter how you cut and distribute the slices, the size of the pie remains the same.

PUBLIC COMMENT ON AGENDA ITEMS

None.

ACCEPTANCE OF NOTES FROM MEETING 16

Through consensus the group accepted notes from the prior meeting.

BWS UPDATE

Dave introduced Ellen Kitamura, BWS Deputy Manager and Chief Engineer, for an update on BWS programs and issues. As copies were distributed around the room, Ellen announced that BWS has completed a new five-year organizational strategic plan that is heavily based on the results of the Water Master Plan. The plan is a strategic roadmap, including goals for the coming five years and sustainability goals. A new feature of the strategic plan is the

addition of metrics, enabling the BWS and its stakeholders to track progress towards achieving the strategic goals.

Ellen extended an invitation to the upcoming Hālawā Xeriscape Garden Open House and Unthirsty Plant Sale, to be held Saturday August 5 from 9:00 am to 3:00 pm. Admission is free. Ellen explained that over the years the event has evolved from a plant sale to an education event with workshops emphasizing native Hawaiian plants.

FOLLOWUP TO MEETING 16

Prior to delving into the topics for the meeting, Dave responded to some questions remaining from the discussion of customer classes at the prior stakeholder meeting.

Dave explained that BWS generally refers to single-family customers as those in a single-family residence or duplex. Multi-family customers generally are in triplexes, apartments, town homes, or condominiums. In situations where there's a common meter, for example for a homeowner's association, the customer class for the common meter is based on the type of residence being served by that meter.

- Q.** Are Condominium Property Regimes (CPR) classified as single-family or multi-family residential?
- A.** A CPR is actually a one-lot development that is split up on paper. It could be considered single-family depending on how it is metered. You could have separate town houses with several units behind one master meter. That would be considered multi-family.

Another topic brought up at the June meeting was California's Proposition 218, now a law that, based on court rulings, requires water rates to be based strictly on cost of service. That means there are no subsidies between customer classes. For example, the subsidy for agricultural customers on O'ahu would not be allowed in California.

BWS has an inclined block rate structure for residential customers, so the first tier of water is charged at the least amount. A higher rate is charged for greater amounts of water used in a second tier. This rate structure helps to encourage conservation. In California, it would not be possible to develop a tiered rate structure solely for the purpose of encouraging conservation. It would have to be based in identifiable differences in the cost to provide water to each tier. Similarly, it is not possible to offer lifeline rates or a very low first tier in California unless there's an actual low cost of water for providing the first tier. It's a very rigid structure.

BREAKOUT GROUPS -- CONSIDERING COST-OF-SERVICE BASED RATES FOR BWS

Dave indicated the first topic for discussion by the small groups at each table would be:

1. Would you recommend this type of rate structure for O'ahu, and
2. Why, or why not.

Stakeholder comments during the report out included:

Table #1:

- This approach seems to have no incentive for conservation. There's no means by which to encourage people to adopt better practices in reducing water use.
- It is better to encourage people to conserve by rewarding their behavior, rather than penalizing them for not conserving.
- Tiered rates also can help you identify problems in your home water system. If you're watching the cost of water you use and it jumps higher, you want to look for leaks.

Table #2:

- We're an island population, so there's even more need to encourage conservation.
- In California, between the way water is priced, managed, subsidized and things like that, it's nearly incomprehensible to me how people can farm there. What you're going to see is larger and larger farms, with the small guys going out. It's pretty much what it could be like here, because of all the food safety regulations and water costs.
- One good thing: Aqua Waters is going to use recycled water for ag. If it proves to be good, then agriculture will benefit greatly. There's not enough potable water to keep ag alive on O'ahu, so we have to use recycled water and other forms of conservation. The system in California doesn't encourage these types of developments going forward.

Table #3:

- This group generally agreed that they would not like to have this type of rigid approach on O'ahu. We see that the tiers do drive conservation, which is good. They reported their opinion that sticking to the cost of service is very transparent and, from a business point of view, it would be possible to budget based on cost of service, with no subsidies.
- Sticking to the cost of service also provides less flexibility. Hawaiian Electric sets its rates per the islands. There are no subsidies, although there's been talk about one central rate. The majority of customers are on O'ahu, so we could innovate. But, this could be at the cost of leaving behind Hawaii Electric Light or Maui Electric. That is something that HECO struggles with. We also struggle with the difficulties faced on Molokai, trying to help customers pay their bills with the high unemployment there.

QUESTIONS, ANSWERS AND COMMENTS

Q. Is the definition of cost of service for California the same as we are using for O'ahu?

A. Yes.

Q. We found an article giving advice to water agencies in California on how to implement a tiered rate structure that is compliant with Prop 218. Can you tell us more about that?

A. The agencies that have been successful implementing tiered rate structures that are compliant with Prop 218 generally have a number of different sources, for example ground water, surface water, purchase of imported water. Each of those types of water has a very different cost. So, they might point out that ground water is the least expensive, and that's what we're going to use for water in the first tier. The treated surface water might be the next most costly source, so that would be

assigned to the next tier. Importing water would be the next most expensive, so that would go to the highest tier. This is very different from the water picture in O'ahu, where the entire drinking supply is groundwater.

Q. Can you provide some background on how Prop 218 came about?

A. Proposition 218 wasn't put in place with water in mind. It was put on the ballot by the Howard Jarvis Tax Payers Association to address fees and charges being assessed by local governments. The Jarvis people were pushing to distinguish taxes from property-related fees.

Some time after the proposition had passed, a customer from the Big Horn Water District, a small water utility, proposed that providing water is property related, thus would need to comply with Prop 218. Water agencies fought this, but lost. So now, throughout California, water is dealt with as a property-related fee.

After a time, there was the San Juan Capistrano decision, which led to the prohibition of subsidies among tiers and the need to demonstrate the cost basis for tiers. So, it was really litigation and court decisions that led to water agency requirements to comply with Proposition 218.

Q. Can you clarify the difference between a "fee" and a "tax". It's my understanding that a fee is issued by a government for a service. A tax is generally levied by a government elected agency and can have social or other ramifications, while a fee cannot.

A. A fee is for a service. A tax requires the community to vote to apply the tax. If you can get enough people to vote for it, you can pay for just about anything. It need not be related to property or any service.

Q. How long has this law been implemented?

A. The San Juan Capistrano Decision was about three or four years ago. The Big Horn Decision almost a decade ago.

Q. How has this affected rates?

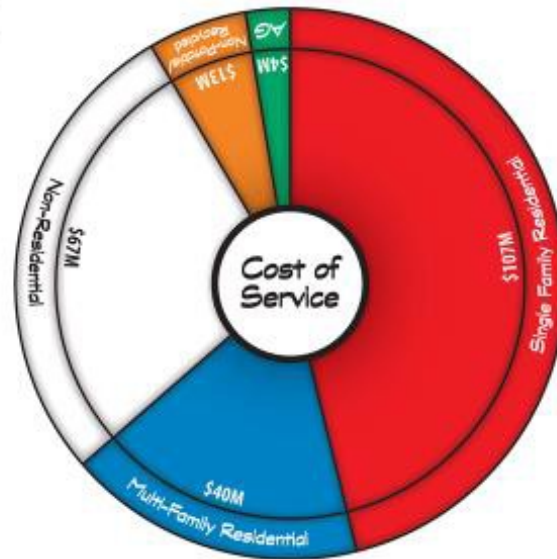
A. It hasn't affected the level of rates. What we've seen is water utilities going back and doing just what we're talking about. You do your cost of service study, look at the result, and see what you'd like to accomplish through tiered rates. We used to show how tiered rates would encourage conservation. Now, in California we need to substantiate the difference between tiers based on cost of service.

BREAKOUT GROUPS – COST OF SERVICE AND SUBSIDIES AMONG THE CLASSES OF CUSTOMERS

Dave next called attention to the game board and poker chips on each of the three tables, recalling that at the end of Meeting 16 in June, results of the BWS cost of service analysis were presented. Those results are represented on the board with "pie slices" and chips, providing a "zero sum" game based on how to deal with cost of service and who pays what among customer classes.

Zero Sum Game

- ◆ Goal: Reach consensus within your group about the distribution of poker chips (revenues) in each “pie slice” representing customer classes.



Dave pointed out that the big red section of pie on the game board represents the cost to serve all of BWS’s single-family residential customers, totaling \$107 million a year. The cost of service for each major customer class is represented by the different colored slices.

- Each chip represents \$1 million in revenue collected through rates and is color-coded to the customer class that contributes it.
- There are multiple colors of chips on the red segment.
- While the annual cost of service for the single-family residential customer class is \$107 million, rates from single-family residential customers generate only \$97 million.
- To cover the gap, subsidies were added, with \$2 million coming from multi-family residential customers’ rate payments (blue chips) and \$8 million from non-residential customers’ rate payments (white chips).

The blue section of pie represents the \$40 million annual cost of service for multi-family residential customers.

- But more than \$40 million is collected from this customer class, so multi-family residential customers are able to cover their own costs, with revenue remaining that subsidizes other customer classes, like agricultural, non-potable and recycled, and single-family residential customers.

The story is similar for non-residential customers (the white section). The cost of service for that customer class is \$67 million, but \$82 million is collected from them every year. Their additional funding from rates is used to subsidize other classes.

This is how BWS’s costs and revenues are currently configured, based on historical numbers. In the zero sum game, the cost of service can’t be changed, but stakeholders can change how it’s covered – who pays for what.

Each table group was asked to discuss and reach consensus about how the cost of service should be covered.

Rules of the Game

- ◆ All CHIPS (revenues) are distributed on the PIE SLICES (customer classes) showing current coverage of the COST OF SERVICE for each class
- ◆ The cost of service cannot be changed
- ◆ The total value of chips on each slice must equal the cost of service for that class
- ◆ Any chip removed from a slice must be substituted by a chip from off the board

No matter what the color, each chip has a value of \$1 million. However, the impact on the rate differs greatly for each customer class, as shown on the chart below.

Customer Class	% rate change per chip, + or -
Single-Family Residential	1.0%
Multi-Family Residential	2.2%
Non-Residential	1.2%
Agriculture	50.0% (Corrected at meeting)
Non-Potable/Recycled	20.0%

For example, the impact on rates for each single-family residential chip (red) is 1.0%.

- If stakeholders add a red chip to the board, they’re increasing single-family residential rates by 1%.
- If they remove a red chip from the board, they reduce rates by 1%.

For multi-family residential, the value of each blue chip is \$1million.

- But, because less money is collected from the multi-family residential customer class, there's a greater impact on customer rates for each blue chip added or removed.
- Each blue chip added or removed changes the rate by 2.2%.

Dave encouraged that as the breakout groups work through this exercise, stakeholders consider the path forward.

1. Would you keep the balance the same?
2. What would you change and why.

Zero-Sum Game results and comments during the report out included:

Table #1:

- Starting with ag, this group thought everybody should support agriculture, so they removed a green chip and replaced it with a red chip, resulting in a 50% rate reduction for agriculture and a 1% increase for single-family residential.

Customer Class	Pie Slice (Cost of Service) \$ Million rounded	Starting Number of Chips on Board (Revenue)	Ending Number of Chips on Board (Revenue)	Change in Number of Chips + or -	% Change Per Chip + or -	Total % Rate Change + or -
Single-Family Residential	107	97	101	+4	1.0%	+4.0%
Multi-Family Residential	40	45	43	-2	2.2%	-4.4%
Non-Residential	67	82	82	0	1.2%	No change
Agricultural	4	2	1	-1	50.0%	-50.0%
Non-Potable/ Recycled	13	5	4	-1	20.0%	-20.0%

- This group was trying to encourage the right grade of water for the right use. The game didn't really allow for that, but they made a gesture to that end by adding a red chip to non-potable, replacing one of the orange ones.
- The group found the non-residential category was overly broad as currently defined. It included a wide mix of uses including non-profit organizations, industrial, commercial, office as well as tourism.
- The big discussion by stakeholders of Table 1 was that the tourism industry has a pervasive use outside of hotel and retail properties. In their minds, that justified some of the white (non-residential) chips being spread across all the other customer classes.
 - For example, the non-residential white chips in the non-potable section go to golf courses, which is largely enjoyed by tourism.
 - Ag open space is enjoyed by the tourism industry and provides quality of life for multi-family and single-family residential.

- The group even discussed splitting the non-residential customer class to create a new category for tourism-related customers.
- They didn't see much nexus in the multi-family subsidy of single-family use, so they took the two blue chips (multi-family) off the red pie slice and replaced them with three red chips.

Table #2:

- This group had the same thinking to spread agricultural costs across all of the customer classes. They substituted a green (agricultural) chip with a red (single family) chip, resulting in a 50% reduction for ag customers and increasing rates for single-family residents by 1%.
- They wanted everyone to pay a fair share. They did not think that non-residential customers should get a rate decrease. They actually increased the non-residential rate by adding a white chip to support the non-potable / recycled customer class, resulting in a 1.2% rate increase for non-residential customers.

Customer Class	Pie Slice (Cost of Service) \$ Million rounded	Starting Number of Chips on Board (Revenue)	Ending Number of Chips on Board (Revenue)	Change in Number of Chips + or -	% Change Per Chip + or -	Total % Rate Change + or -
Single-Family Residential	107	97	99	+2	1.0%	+2.0%
Multi-Family Residential	40	45	43	-2	2.2%	-4.4%
Non-Residential	67	82	83	+1	1.2%	+1.2%
Agricultural	4	2	1	-1	50.0%	-50.0%
Non-Potable/ Recycled	13	5	5	0	20.0%	No change

- They retained the non-residential subsidy for single-family residential, but changed one of the two blue (multi-family) chips for a red one (single-family).
- They wanted to give a break to ag and multi-family residential. They also added a white chip to be supportive of non-potable/ recycled water.

Table #3:

- Table 3 wanted everybody to pay their fair share. To accomplish this, they added 10 red chips to the single-family residential pie slice. They removed the 2 blue chips (multi-family) from that slice, as well as 8 white chips (non-residential) because non-residential already pays more than its fair share.

Customer Class	Pie Slice (Cost of Service) \$ Million rounded	Starting Number of Chips on Board (Revenue)	Ending Number of Chips on Board (Revenue)	Change in Number of Chips + or -	% Change Per Chip + or -	Total % Rate Change + or -
Single-Family Residential	107	97	109	+12	1.0%	+12%
Multi-Family Residential	40	45	42	-3	2.2%	-6.6%
Non-Residential	67	82	74	-8	1.2%	-9.6%
Agricultural	4	2	1	-1	50.0%	-50%
Non-Potable/Recycled	13	5	5	0	20.0%	No change

- The Stakeholder Advisory Group has been talking since the beginning about the importance of ag for sustainability, so everyone was asked to contribute to that customer class. The group removed one of the two ag chips, cutting ag rates by 50%, and substituted it with a red chip from single-family residential. Ag is good for everybody, so non-residential, single-family residential, and multi-family residential would each subsidize with \$1 million.
- For non-potable/recycled, this group kept the subsidy the same, but changed out one of the blue multi-family chips with a red chip from single-family.
- The only section this group didn't change was non-potable/recycled. It serves mostly industrial users. If they've made the investment and use an alternative water source, it benefits all of us.
- This group said it understands these changes to the rate structure would not be easy and would need to be implemented over time.

Dave summarized the results by pointing out several trends among the three groups:

- All of the groups made the same change in the agricultural customer section. That indicates that ag is a benefit to everyone, and all groups increased the agricultural subsidy. It also was consistent that single-family was asked to pay for part of that.
- Another trend expressed in varying degrees was a move away from the multi-family residential subsidy for the single-family residential class. Group recommendations were as little as one chip up to complete elimination of non-red chips from the red (single-family residential) pie slice, but all groups took a step in that direction.
- The non-potable/recycled water subsidy was largely left intact. Groups moved who paid around a bit, but the subsidy remains.

COMMENT: We felt as if we should be incentivizing multi-family residential by removing some blue chips in places, but we noted that would not address a higher rate that might be appropriate for the high-end multi-family developments (e.g. in Kaka'ako). We didn't deal with it, but we noted it.

COMMENT: In legislation, especially for ag, we have considered advocating for laws where income would play a role in rates and charges, where you have a higher rate for people that are paying five million dollars for a condo. We never could get around that issue with the

legislature. It's interesting to consider that some of the people who would benefit from reduced multi-family rates are in the high-end condos, especially when they're not living there half the time.

Dave concluded that hopefully, this was an insightful exercise and starts to show some of the struggles we'll be working through collectively when we start to look at changes in rate structures and then move forward to look at other rate changes, for example increasing the BWS infrastructure investment.

BREAKOUT GROUPS – AFFORDABILITY PROGRAM IDEAS AND ISSUES

Dave reviewed different affordability programs discussed previously at the June 21, 2017 Stakeholder Advisory Group meeting. Programs from around the country included:

- Bill discounts and credits
- Flexible terms for repayment
- Block rate structure and lifeline rates*
- Temporary or crisis assistance*
- Water efficiency and leak repairs
- Community and local government assistance programs
- Income-based discounts

*The BWS has an inclined block rate structure for residential customers, and converted to monthly from bi-monthly billing. On a case-by-case basis, BWS works with customers to develop zero-interest repayment plans for past-due charges.

Dave asked everyone to switch tables according to pre-assigned numbers. After that, the three breakout groups discussed these questions:

1. What types of additional assistance programs for low-income residents, if any, should BWS consider?
2. How should those program(s) be paid for?
3. If you recommend payment assistance/subsidy for low-income residents, what existing programs should be relied upon to determine if a BWS customer qualifies? BWS will not be implementing any internal mechanisms to qualify water users for a special low-income or lifeline rate.

Before diving into the breakout group discussions, the following questions were asked and answered:

- Q.** What is the amount of an average bill?
A. An average single-family residential customer pays about \$50 a month for water.
- Q.** What is BWS's delinquency rate? That would tell us if there's a problem or not.
A. When we were looking at it about three years ago, the delinquency rate was around 2%, and it is somewhat higher now. When we switched over to the new billing system, we were having problems with estimated bills. We turned off the automatic notification for the delinquency. When we turned the automatic notification back on,

we realized that some people that were not paying their bills. We have gotten more aggressive about dealing with delinquent customers.

Q. Why do we think we (BWS) needs something additional (as an assistance program)?

A. Dave encouraged everyone to discuss this in the break outgroups.

Q. How long does it take for the BWS to turn water back on after it's turned off?

A. Normally, water is turned on within 24 hours.

Q. Would a lifeline rate be income-based?

A. Dave said that the BWS currently does not have any lifeline rates. BWS has a block rate structure that could be tweaked so that there's a really low initial block, which in essence, is creating a lifeline rate, and would not be income-based.

The three breakout groups reported the following results of their very lively discussions:

Table #1:

- This group talked about temporary or crisis assistance that would be capped at three months, or the length of the crisis for the rate-payer.
- They also talked about subsidizing lower income rate-payers. To pay for it, everyone would pay into a fund. This would be similar to your electric bills where you pay a dollar per month per rate payer that goes into a rainy day fund. The rainy day fund could be used either to help subsidize those that can't afford to pay and/or to make certain improvements. But the amount of subsidy would be capped.
- Low-income housing only has generally one meter for multi-family residents.
- Dave said that the BWS had a discussion about helping multi-family housing and came to the realization that people who live in multifamily housing don't pay a water bill directly to BWS. That makes it difficult to give them assistance.
- Somebody could talk to groups like the plumbers union about giving back and volunteering some time to go fix flappers and things like that for the people who can't afford it. Plumbers are usually really busy. But everybody is busy, and it would be a good thing to get the whole union involved. They would get some community support in the long run.

Table #2:

- This group had a good discussion about how strong the need is to do something other than what the BWS is doing now relative to the 2% historical delinquency factor and the fact that when folks do get the point of having their water shut off, they quickly pay up and are put back on service.
- The other part of that discussion was, if we were going to expand the subsidy or the assistance piece, the BWS should do it within the two areas of affordability programs that it is currently implementing: (1) flexible terms or (2) the block structure (creating) lifeline rates.

- Another point was brought up regarding those on fixed incomes -- primarily our elderly. The average single-family residential water bill is \$50 a month. An increasing water bill can become a significant expense for those folks (elderly on fixed incomes), particularly as other costs increase over time. It is a concern when you're on a fixed income, possibly receiving social security as your only income.
- The main issue we were trying to decide was the degree of the problem, and does that problem require a more active solution than the BWS already has in place. If so, can it be done within the two structures that they're working within currently?
- About 10 to 20 people per month get their water service turned off; that's out of 166,000 rate-payers. They get their water service turned back on when their bill gets paid.
- There are no fees if you don't pay your water bill, to turn it off or turn it on.

Table #3:

- This group looked at having 2% delinquencies, and after brief discussion, they said they could live with 2%.
- Then the group went on to the topic of the leaks and repairs and immediacy of how things get done. When the BWS goes out and reads the meters, they leave a note on your front door if they see something wrong (like unusually high water use).
- The affordability problem comes after that. The homeowner has to hire someone to find what's wrong and that's where the money comes in. We talked about who comes out and does the work, and how much it costs to fix the problem.
- It costs about \$95 for a plumber to come out, and costs of fixing the problem are additional. A volunteer program like Meals On Wheels could help the elderly or other people who can't really afford the costs of a plumber.
- If possible, the BWS could go out and look at the pipes outside and determine where the leak is. Then the customer can call a plumber and say, "It's here", saving the expense of the plumber locating the leak.
- The other concept discussed was a program with a lot of volunteer plumbers or handymen who are willing to go out to these homes and change flappers to stop leaks. Changing flappers is not a big deal for most people, but for someone who has arthritis or someone who can't move around, having somebody just change a flapper really helps.
- As a public service, a volunteer program would help because most of the elderly and the people with low incomes do not have the money to spend \$200 to have a plumber come over and fix something as easy as a flapper.
- The BWS also has a program where if they discover a leak and your leak gets repaired, adjustments can be made to the bill. The time period to find and fix a leak is usually about a month, and that month's bill can be really high. The BWS is willing to cut your bill in half and give you a credit, which includes a credit on the sewer bill too. The downside of that is if there's another leak within three years of that time period you pay the whole thing.
- Ellen added that the time period has been changed to five years.

BREAKOUT GROUPS – WHAT THE WATER SYSTEM FACILITIES CHARGE SHOULD LOOK LIKE

Dave told stakeholders that the Water System Facilities Charge (WSFC) is a onetime charge that pays for access to the water system. He showed an illustration of the existing water system walked through the process of adding an individual house vs. a whole group of houses. The BWS builds the water system big so when someone builds an individual house, that person pays a onetime WSFC to access that water system. When somebody builds a whole group of houses, if there's existing capacity in the system, then the BWS can serve the new group of houses, and the WSFC gets paid.

If there is not enough existing capacity, then new infrastructure needs to be built. The BWS will decide if the developer is going to be required to build the needed infrastructure and dedicate it to the BWS system. Alternatively, the BWS may decide to build the needed infrastructure itself, and charge the developer a Water System Facilities Charge. This is for new capacity – a onetime “capacity” charge to buy into the system.

Dave said that in the previous meeting he showed some comparisons of the BWS's current WSFC with similar charges in Maui and Kauai counties as well in Las Vegas.

WSFC minimum charge comparisons

	BWS	Maui	Kauai (proposed)	Las Vegas
Residential	\$3,706	\$12,060	\$14,115 (1)	\$6,418
Non-residential	\$12,417	\$12,060	\$14,115	\$6,418
Agricultural	\$4,819	\$12,060	\$14,115	\$6,418
Special			\$4,940 (2)	

Notes:
 (1) Multi-family/hotel rooms \$9,880
 (2) For affordable housing, per dwelling unit

He asked the break out groups to discuss the following questions:

1. Should the developer pay the full cost for water system capacity, i.e. growth pays for growth? Why or why not? If not, who else should pay?
2. To encourage the developer to build “affordable” housing units, should BWS reduce/waive the WSFC? By how much, e.g. 0%, 25%, 50%, 75%, 100%?
3. Who should subsidize that cost:
 - a. Others needing capacity, or
 - b. All rate payers?
4. Should there be water use efficiency requirements attached to the waiver?

Before starting the break out group discussions, the following questions were asked and answered:

- Q.** Where does the water meter expense come into play?
A. It is a separate expense.

- C. Some places have affordable housing mixed in with regular market price housing. I can't see how that would work if it's not a completely affordable housing product.
- Q. What is "water system capacity"?
- A. It is the water sources, reservoirs and pipelines that provide capacity. They have been built big enough to serve a million people. If you're building the house for the "million and one" person, you need part of that capacity. The WSFC is your buy into that system's capacity.
- Q. How was the system built for the first million people?
- A. Barry said that a combination of developers and the water departments built the initial system. Most of that system was built by the BWS and Suburban Water before they merged with the Board. Developers built some of the water infrastructure, along with the roads and homes. Growth paid for growth. The developer passed the expenses through to the cost of the houses that they built. The expansion of that system has been built through our Capital Improvement Program (CIP), which is partially funded by the WSFC. We started the WSFC in the 1970s. It has fed a fund that BWS uses just for capacity expansion.

The breakout groups reported the following results of their discussions:

Table #1:

- While the group didn't reach consensus on the question of "Should the developer pay the full cost for water system capacity", stakeholders had several comments on the topic.
- The Building Industry Association of Hawai'i advocates on keeping the cost of housing as affordable as possible. 30% of the cost of housing is regulation. Every little bit of assistance will help everybody. We're a community.
- If the City determines an area is designated for growth, then the infrastructure for water, part of it should be paid for by the municipality in order to encourage the growth in that area.
- The developer is not the one that is paying for new water system costs at the end. It's the people who are buying the houses that are paying. That makes housing costs go up.
- If an area is deemed by the City for development, then maybe the City should consider spreading out some of the costs. A lot of the things that are put into developments are requirements that the City has placed on them.
- These are things for our children going forward and it's not the same as when we were buying homes.
- Costs are going up and up. If developers don't have help from the government, at some point, we're looking at million dollar homes on average, in probably two more years. The cost of the water system has to be looked at and subsidized a little bit by the City, and also maybe by everybody as rate payers.
- The group didn't discuss subsidies for affordable housing.

Table #2:

- The group had a lot of discussion around: *Does growth pay for growth?* The consensus was that developers should not have to pay for the entire cost of water system capacity. If the government is encouraging developers to build towards the west side, then either government or a third party has to jump in and help out with the cost.
- The group talked about new development creating some opportunities foreconomic growth.
- Population growth is something that the government has to foresee and plan for that future. Look at China. They're thinking 30 years ahead and building power plants, investing now to make sure that the needs of its future population are met.
- Third question was: *Should the BWS reduce or waive the WSFC as an incentive for affordable housing?* To an extent, yes. If developers are not paying for the entire cost of that capacity, then yes, the BWS should reduce but not fully waive the WSFC.
- The percentage of that reduction wasn't discussed, or who is going to subsidize it.
- The group talked about who is going to be living in those new affordable housing units – rate-payers or not? Opinions were split about this at our table. But as a community, as a society, we should look at this as a whole.
- The last question – *Should there be water use efficiency requirements attached to the waiver?* -- is not even a question. Absolutely. Come on, this is 2017. Everything we're building has to be based on efficiency. The entire topic of tonight is conservation; we have to be very mindful about that.

Table #3:

- This group decided that, whether or not a unit is affordable, this issue is in the realm of the City.
- The BWS should not subsidize or do anything regarding the affordability issue. We should just go along as we have before and not add to the complexity of this whole thing.

Dave said everyone tackled some really tough issues. Stakeholders' input is very important. He explained how the input is being used. It gives the BWS a strong starting place for the financial modeling process that is coming up really fast. It also provides valuable insights as the BWS is grappling with issues about waiving or reducing the WSFC to incentivize affordable housing development. That's a current political issue, so the group's input is important to that process.

Dave pointed out that the BWS Board President Bryan Andaya was here earlier tonight. Bryan was listening to everything that stakeholders were saying. He also looks at the meeting notes from all of these meetings. The BWS Board gets monthly updates about

Stakeholder Advisory Group discussions and input. The feedback received at these meetings is all really important.

SUMMARY AND NEXT STEPS

Dave thanked everyone for staying a little bit longer, and that the BWS greatly appreciated their hard work and input. He said that we look forward to the next BWS Stakeholder Advisory Group meeting, August 9, 2017 at the Blaisdell Center, Hawai'i Suites.

He added that, if stakeholders thought tonight's discussions were interesting, everyone will be glad to know that just ahead are really meaty, challenging issues. Come back next month because the numbers are getting very real.