State of Hawaii

Department of Hawaiian Home Lands

April 16 - 17, 2018

To: Chair and Members, Hawaiian Homes Commission

Through: M. Kaleo Manuel, Acting Planning Program Manager

From: Gigi O. Cairel, Grants Specialist
E. Halealoha Ayau, Water Resources Specialist

Subject: Approval of Water Rate Increase for DHHL Ho'olehua Water System.

RECOMMENDED MOTION/ACTION

That the Hawaiian Homes Commission (HHC) approve the water rate increase for the Department of Hawaiian Home Lands (DHHL) Ho'olehua water system. Rates shall take effect July 1, 2018.

BACKGROUND AND PURPOSE

The Department of Hawaiian Home Lands (DHHL) owns and operates the Ho'olehua drinking water system (PWS 230[1]) on the island of Moloka'i. Of the four water systems that DHHL owns statewide, the Ho'olehua system is the largest in size and service area and the oldest (over 85 years). It is also the only DHHL water system that serves both beneficiaries and non-beneficiaries. The system serves an average of 600 connections and over 2,400 people. Homestead areas served are Ho'olehua, Kalama'ula, Nā'iwa and Pālā'au. Additionally, there are 38 community facilities and businesses that are connected to the system, such as the Ho'olehua Airport, US Post Office, schools and churches. The DHHL Ho'olehua water system also supplies water to Maui County PWS 235 Kalae and Molokai Ranch PWS 245 Kipu. Lastly, the DHHL system has an emergency inter-tie with the County of Maui water system. All other homestead areas on Moloka'i receive drinking water service from the County of Maui.

As the owner of water systems, HHC and DHHL are responsible for providing safe, clean water and protecting community health and safety, while maintaining compliance with federal and state

[1] PWS is the Public Water System number assigned by the State Department of Health for every regulated drinking water system in the State of Hawaii.

laws. Drinking water for the DHHL Hoolehua system comes from two DHHL-owned groundwater wells and treatment consists of sodium hypochlorite. The source water is excellent and water quality testing meets all water quality standards. The Ho'olehua system is operated by DHHL personnel, who are beneficiaries and have achieved Grade 1 and Grade 2 operator certifications. Department of Health requires the DHHL Ho'olehua system to have a certified Grade 2 water operator.

To improve the operational efficiency of the Hoolehua water system, DHHL sought federal funds to make major capital improvements. The US Department of Agriculture (USDA) Rural Development obligated $10 million for the improvements to the DHHL Ho'olehua system. DHHL is contributing over $12 million, making the total project cost $22 million. Typically, capital reserves are budgeted from the revenue generated by the water rates. DHHL is very fortunate to receive this federal grant assistance, thus making it possible to not pass on these capital improvement costs to the rate payers. The improvements, which includes installing a photovoltaic system (to reduce energy costs) and re-alignment of road access to the system, are scheduled to be completed by 2021. It is anticipated the system will achieve significant operational efficiency and cost reductions.

As with any government-owned water system, a major challenge is balancing water service adequacy and dependability with costs and customer rate affordability. DHHL's aging systems need continued investment to keep them operational. Many parts of the systems are near the end of their life cycle, such as storage tanks, booster pumps, and distribution lines. DHHL is not alone. Water utilities across the country are facing the same challenge. Over the past year, DHHL studied our systems needs and worked to understand the costs of providing water service. Every component critical to delivering water, protecting our ground water source wells, storage, distribution, and treatment, was closely analyzed and planned to ensure sustainability and viability for future generations. The results tell us that we must raise rates to continue providing clean, safe and dependable water supply to beneficiaries and customers served by the DHHL systems. To keep rates affordable to beneficiaries, we must seek other funds, including Trust funds. At the same time, the costs of providing water service have grown steeply - labor, materials, fuel, electric power to run our well pumps and other components. For example, for Ho'olehua, since 2003, costs increased by 90%, yet our last rate increase of 10% was in 2004.

Interim Cost of [Water Delivery] Service Analysis

The HHC approved Water Policy Plan, Policy #3, goal #17 states,

> "Secure revenue and reduce operation costs so DHHL water systems break even financially over time."

As a first step in fulfilling this goal and to mitigate unsustainable financial losses from delivering drinking water to beneficiaries, DHHL sought technical assistance from the Rural Community Assistance Corporation (RCAC), a federal 501(c)(3) nonprofit with over 40 years experience with small, rural community water/wastewater utilities in the western region of the U.S. RCAC conducted an interim Cost of [Water Delivery] Service (COS) analysis on all four DHHL-owned water systems. The COS was completed in June 2017 for DHHL Fiscal Years 2015 and 2016. The COS analysis was based on after-the-fact reviews of DHHL expenses, all of which was not coded within the DHHL accounting system to the Hoolehua water system enterprise. The COS was presented at an informational workshop held at the June 2017 HHC regularly scheduled meeting. Also, information from the COS relative to the Hoolehua water system was shared at an informational meeting with Molokai beneficiaries in November 2017. The COS was intended to serve as the base to evaluate the current DHHL water rate schedules and make recommendations for provisional rates.

Since completion of the COS analysis, DHHL lessons learned include:

- Gathering water system expense data was extremely challenging, given DHHL's current budgeting and accounting systems. Thus, the COS may not have captured all of the "true costs" of each system.
- Address non-payment of water bills.
- Increase dedicated staff to manage and operate the DHHL water systems.
- Increase staff training and management oversight on accurate coding of water system expenses and revenue.
- Centralize internal management and oversight of the Hoolehua system with DHHL's other three water systems to achieve management and operational efficiencies and consistency.

The COS gave us a good start in understanding the financial needs of the Ho'olehua system. With the COS completed, the next step was to conduct an interim water rate study to help DHHL move toward sustainably managing its water systems.

Typically, water rate studies identify the total revenue required by a utility to conduct its normal day-to-day

operations, while anticipating future operating and capital needs, such as an emergency replacement of a pump. After determining revenue needs, a rate schedule is developed to divide the costs of delivering clean, safe water among users. There are numerous ways that rates can be structured. DHHL uses 3 types as follows.

- Increasing block rates - a schedule of rates where each succeeding block (e.g., 1 - 10,000 gallons; 10,001 - 25,000; over 25,000 gallons) is charged at a higher rate than the previous blocks. This is the rate structure used by the DHHL Ho'olehua, Anahola (Kauai), and Kawaihae (Hawaii) water systems.
- Decreasing block rates - a schedule of rates where each succeeding block (e.g., 1 - 10,000 gallons; 10,001 - 30,000, over 30,000 gallons) is charged at a lesser rate than the previous blocks. Typically, this rate structure is used to encourage local economic development. DHHL uses this structure for DHHL agriculture beneficiaries to encourage farming on Molokai and in Anahola (Kauai).
- Uniform rates - all users pay the same amount regardless of the quantity of water used. This is the rate structure used for the DHHL Pu'ukapu non-potable water system on Hawaii island.

Water systems typically adopt policies or criteria to guide structuring rates such as encouraging water conservation, ensuring affordability for residents, encouraging economic development, etc.

DISCUSSION

For most small water systems, the main source of revenue, and often times the only source, is derived from Water Rate schedules. Generally, water rates fund daily operations, routine maintenance, repairs, electricity, and four types of reserves - operating, emergency, capital and debt service. On this latter, DHHL is fortunate to not have any debt service on any of DHHL's water systems. The current DHHL water rate schedule for the Ho'olehua water system expires on June 30, 2018. The last time rates were raised was in 2004. The increase (10%) was done incrementally over a 10-year period to achieve parity with County water rates. While the County's rates have increased over time, DHHL has not.

In November 2017, DHHL staff conducted a series of well-received community education meetings statewide to increase awareness of the department's costs to deliver clean, safe water to beneficiaries. And, on March 12, 2018, the DHHL Beneficiary Consultation was held on the proposed rate increase to the Ho'olehua water system.

From Table 1 below, the Ho'olehua system operated at a loss of close to $530,000 in Fiscal Year 2016. Taking into account Reserves, the shortfall increases to $1,241,000 (Table 2). Non-payment of water bills amounted to $121,360 (or 23% of the $530,000 shortfall). The magnitude of these losses is indicative of a deficiency in the current water rates and, to some extent, indicative of system managerial and operational inefficiencies. The losses of the Hoolehua water system are paid out of Trust funds. This revenue shortfall continues to increase as operational costs increase, aging infrastructure needs to be repaired or replaced, and non-payment of water bills increases. DHHL must look for ways to reduce subsidization and operate the water system in a financially sufficient manner.

Table 1
DHHL Ho'olehua Water System
FY 2016 - Revenue and Expenses
without Reserves

	BILLED Amount	**COLLECTED** Amount	Difference
Total Revenue	$395,997	$274,637	$121,360
Total Expenses to operate the system	$803,433	$803,433	-0-
Shortfall	<$407,436>	<$528,796>	$121,360

Table 2
DHHL Ho'olehua Water System
FY 2016 - Revenue and Expenses
with Reserves

	BILLED Amount	**COLLECTED** Amount	Difference
Total Revenue	$395,997	$274,637	$121,360
Total Expenses to operate the system	$803,433	$803,433	-0-
Reserve funds	$711,984	$711,984	-0-
TOTAL	$1,515,417	$1,515,417	-0-
Shortfall	<$1,119,420>	<$1,240,780>	$121,360

As stated earlier, the Ho'olehua water system serves an average of 600 connections - over 80% are beneficiaries. By industry standards, this system is considered very small, so DHHL is not able to achieve economies of scale such as the County water departments. Additionally, our current rate schedule is very low and has not kept up with rising costs, so revenue generated from the rate schedule does not produce enough to recover costs.

To financially break even, DHHL must look at decreasing expenses and finding new ways to increase revenue. Here are current approaches.

Table 3
Current Approaches to Balance Water Budget

Decrease expenses	Increase revenues
• Seek cost efficiencies in the water system budget • Continue leak detection • Investigate un-accounted for water • Increase routine maintenance • Implement alternative energy/Photo Voltaic to reduce electricity costs	• Address non-payment of water bills • Increase water rates • Obtained $16 million in CIP funds from US Department of Agriculture Rural Development • Explore other sources for CIP funding

For DHHL, the following five criteria were used for the interim Rate Study.

1. Aligned with the mandates of the Hawaiian Homes Commission Act of 1920 (HHCA) and the HHC Water Policy Plan.
2. DHHL is first and foremost a Public Trust for HHCA beneficiaries. For the Ho'olehua system rate schedule, customer classes identify HHCA beneficiaries from non-beneficiaries (called "commercial accounts"), so support from Trust resources can be made available only to beneficiaries.
3. Beneficiary affordability - Industry standard is that rates are considered affordable at 1.5% and not more than 3% of the US Census median household income.
4. Equitability - rates are considered fair and equitable when each customer class pays its proportional share of the cost to provide for the delivery of clean, safe water.
5. Financial sustainability or "break even", per Water Policy Plan Goal #17.

Interim Water Rate Study - Findings and Recommendations

Major findings:

- Though DHHL's rate schedules are complex, they are highly equitable.
- Each DHHL water system serves diverse and unique communities with varying operating costs and numbers of connections. Thus, rate options were calculated separately and are unique to a particular system. Because of the uniqueness of each system, comparing rates among DHHL's four systems is generally not useful. Nor is it useful to compare DHHL's rate schedules to the County water departments or any other

water utility. The Counties are able to achieve economies of scale, due to their large population base and wide range of customer classes (residential (single- & multi-family), agriculture, community facilities, commercial/industrial).

- All DHHL water systems are operating at a deficit totaling $900,000 annually.
- The current DHHL accounting system is not structured in a manner that allows capturing of costs by each individual water system. Thus, the amount each water system is supported by other funds is unclear.
- Management and operations of the DHHL water systems is highly de-centralized and severely under-staffed. Addressing staffing levels is an important step as this can increase costs further or reduce them; build internal capacity and expertise; and increase operational efficiencies.

Overall Recommendations from the interim Rate Study are as follows. DHHL is agreeable to these recommendations.

- Add 3% annual increase for inflation, regardless of which rate option DHHL implements.
- Implement rates in the range of 1.5% to 3.0% of US Census median household income. DHHL to consider conducting its own income surveys, if US Census data is not accurate in homestead areas.
- Change from bi-monthly billing to monthly to achieve fiscal sustainability and customer affordability objectives.
- When more reliable financial statements (based on Enterprise Accounting) are consistently generated, it is recommended that DHHL compare the projected costs used in the Rate Study to calculate rates to actual costs tracked.
- Develop long-term plan and have written policies to fund reserve accounts.
- Conduct annual reviews of accounts receivable's aging reports to verify the amounts that are deemed un-collectible. This should be done every year as part of the budgeting process.
- Educate water customers regarding the costs of service and the need for rate increases. Often, when customers understand this, resistance to rate increases lessens.
- Develop and enforce stringent collections and water service shut-off policies to keep delinquent accounts at a minimum.

There are two areas where DHHL differs from the recommendations in the Study. These are discussed below.

1. <u>The preferred rate option in the Study</u>
   The preferred rate option in the Study is to recover full operational costs and budget for reserves - operating,

capital, emergency. This option projects no shortfall. To achieve this, the rate increase in Year 1 is a 475% increase to the meter fee and 300% increase to the water usage fee. Then, add 3% for inflation every year thereafter. Per the Study, this rate increase is still considered affordable, except for high-volume water users. These increases would apply equally to all users - beneficiaries and non-beneficiaries.

Though an admirable goal of any water system rate schedule is to recover all costs and set-aside funds for reserves, DHHL staff does not agree with the Study's preferred option. Two reasons: (1) this rate increase does not differentiate between beneficiaries and non-beneficiaries; and, (2) users will be impacted with high rate shock in Year 1. Minimizing rate shock and demonstrating priority for beneficiaries are important criteria.

The Ho'olehua water system is the only DHHL system that serves both beneficiaries and non-beneficiaries. Currently, system water rates are different for each customer class - residential beneficiary, agriculture beneficiary, and non-beneficiary (commercial).

The DHHL recommendation is a modified version of the Study's fourth option. DHHL believes this rate option best meets the five criteria, particularly rate affordability, Trust obligation to beneficiaries, and no Trust resources supporting non-beneficiaries.

For beneficiaries, the recommended rate increase is 79% to the meter fee and 50% to the water use fee. For non-beneficiaries, the rate increase is 315% to the meter fee and 200% to the water use fee.

Note: the DHHL recommended figures differ from the Study because the final version of the Study changed from the time DHHL obtained HHC approval to conduct beneficiary consultation in February 2018.

2. <u>Phased approach to implementing rate increase</u>
The Study cautions against using a phased approach because a phased approach may ultimately result in higher rates at the end of the period in which the incremental increase is implemented.

The DHHL recommendation is to use a phased approach to minimize the rate shock to beneficiaries and to help beneficiaries financially prepare. In the last rate increase in 2004, DHHL used a phased approach. Specifically, the recommendation is to incrementally

increase the rates over a 10-year period. For beneficiaries this would be 7.9% (meter) and 5.0% (use) each year. For non-beneficiaries, 31.5% and 20% each year, respectively.

Lastly, DHHL recommends eliminating the "decreasing block rate" schedule for Non-beneficiary/Commercial Agriculture. The recommendation is to move those users to the Commercial/Non-agriculture rate. The primary reasons are to demonstrate priority to Trust beneficiaries and eliminating any Trust resources to Commercial users of the Ho'olehua water system. DHHL is aware of the impact of this rate change on commercial users, such as businesses could not or would not be willing to pay. This could put the community at risk for possibly losing some of its businesses.

See Exhibit A for existing and proposed water rate schedules

The table below is a comparison of current rates and new rates at Years 1, 5 and 10 for the major users on the Ho'olehua water system.

Table 4
Monthly Water Bill Projections
By Major User Type

User type	Meter size	Average gallons per month per user	Current Rates	Year 1	Year 5	Year 10
Residential Beneficiary	5/8"	13,000	$12.76	$13.84	$18.38	$24.35
Agriculture Beneficiary	5/8"	50,000	$33.72	$36.45	$47.90	$62.98
Non-Beneficiary/ Commercial	5/8"	11,600	$26.68	$34.52	$71.31	$106.47
Non-Beneficiary/ Commercial Agriculture	1"	170,000	$158.00	$525.62	$935.75	$1,457.88

IMPLEMENTATION

To support this action to increase water rates, a comprehensive approach is required. Staff recommends the following five implementing actions - Central Water Division, Enterprise Accounting, Customer Education, water bill delinquencies, and enforcement.

1. *Establish Central Water Utility Division*
   It is recommended to organize a Central Water Utility work group with dedicated staff that possess technical, managerial,

and financial expertise. This was discussed at the Water System 101 Training at the HHC June 2017 meeting and was the top recommendation in the Effective Utility Management paper, October 2017.

As an interim step, DHHL may consider a cross-divisional team that regularly meets to oversee the technical, managerial and financial aspects of all four DHHL water systems.

2. *Implement Enterprise Accounting*
Financial reports are needed for internal use as well as for federal USDA grant compliance. USDA has invested $10 million in the Ho'olehua water system and DHHL has been struggling with producing the required financial reports.

It is critical that DHHL implement the Enterprise Accounting policy adopted by the HHC in 2012.
   a. First step is to establish water system budgets at the start of each fiscal year.
   b. Quarterly, track budget-to-actual. Adjust budget as needed.
   c. Invest in technology - billing software, water usage data collection.
   d. Per Rules, regularly conduct COS and Rate Studies and adjust rates accordingly.
   e. Investigate integrity of data - both internal and from contracted water system operators (ie, water usage data) accordingly.

3. *Continue Water customer outreach and education*
Best management practice in the drinking water industry is to educate customers regarding the costs to provide safe, clean water and the need for rate increases. Many people believe water should be free and do not understand the cost of making water safe and dependably delivered to their homes. Often, when customers understand this, resistance to a rate increase lessens. Customer education is a proactive effort to minimize "rate shock".

4. *Address beneficiary non-payment of water bills*
DHHL to conduct annual reviews of accounts receivables aging reports to verify the amounts that are deemed uncollectible. This should be done every year as part of the DHHL budgeting process. The older the account is, the less likely it will be collected. DHHL to consider including the annual water budget a cost for uncollectible accounts.

At the same time, DHHL to continue assisting lessees with payment workout plans. When the Water Administrative Rules are approved (estimated by January 2019), DHHL will have the legal authority to better manage delinquencies including accepting

non-cash payment, imposing late payment penalties and shutting off water service as a last resort.

5. *Enforcement*
DHHL to implement stringent collections and water shut-off procedures to keep delinquent accounts at a minimum. No rate schedule adopted will succeed if customers do not pay their bills and enforcement provisions in the (pending) Water Administrative Rules are not followed.

AUTHORITY

- HHCA of 1920, as amended, Section 221f. "Water systems under the exclusive control of the department shall remain under its exclusive control."

- DHHL Hawaii Administrative Rules, Section 10-3-76(i). "Water from department systems shall be sold at rates established by the commission. The department shall establish the frequency of billing and may determine a minimum monthly charge."

- Public Utilities, Hawaii Revised Statutes Chapter 269, Section 31(a), regarding setting water rates. "This chapter shall not apply to . . . public utilities owned and operated by the State, or any county, or other political subdivision."

- Water Policy Plan, HHC approved July 2014 (Exhibit B)
    - o Mission: Understand our trust water assets and manage water systems.
    - o Priority Policies: Develop, manage and steward water in a manner that balances cost, efficiency measures, and Public Trust uses; and educate beneficiaries, DHHL, HHC and other stakeholders continually on our water kuleana.
    - o Goals: Secure revenue and reduce operation costs to break even; and increase security and reliability for DHHL beneficiaries and water system users.

- Water System Enterprise Accounting Policy, HHC adopted 2012 (Exhibit C). DHHL will budget for the Water System utilizing an enterprise account accounting structure.

RECOMMENDATION

Staff respectfully requests approval of the recommended motion as stated above.

Ho'olehua Water System
Residential Beneficiaries

Existing meter service (base) fees

Meter size (inches) Bi-Monthly	Existing Base fee ($) Bi-Monthly
5/8"	$5.60
3/4"	$7.00
1"	$11.50
1 1/2"	$22.00
2"	$30.00
3"	$60.00
4"	$110.00
6"	$195.00
8"	$300.00

Proposed meter service (base) fees

Meter size (inches) Bi-Monthly	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
5/8"	$6.21	$6.82	$7.43	$8.04	$8.65	$9.26	$9.87	$10.48	$11.09	$11.70
3/4"	$7.76	$8.53	$9.29	$10.05	$10.82	$11.58	$12.34	$13.10	$13.87	$14.63
1"	$12.75	$14.01	$15.26	$16.51	$17.77	$19.02	$20.27	$21.53	$22.78	$24.04
1 1/2"	$24.40	$26.80	$29.19	$31.59	$33.99	$36.39	$38.79	$41.18	$43.58	$45.98
2"	$33.27	$36.54	$39.81	$43.08	$46.35	$49.62	$52.89	$56.16	$59.43	$62.70
3"	$66.54	$73.08	$79.62	$86.16	$92.70	$99.24	$105.78	$112.32	$118.86	$125.40
4"	$121.99	$133.98	$145.97	$157.96	$169.95	$181.94	$193.93	$205.92	$217.91	$229.90
6"	$216.26	$237.51	$258.77	$280.02	$301.28	$322.53	$343.79	$365.04	$386.30	$407.55
8"	$332.70	$365.40	$398.10	$430.80	$463.50	$496.20	$528.90	$561.60	$594.30	$627.00

The rates and fees are based on a 7.9% increase to the meter service (base) fee per year (or 79% increase for base spread over 10 years), plus 3% inflation per year, or a total of 10.9% increase to base fee per year.

Ho'olehua Water System
Residential Beneficiaries

Residential

Existing water service delivery (usage) fees

	Gallons Bi-Monthly	Usage Fee per 1,000 gallons
Tier 1	0 - 10,000	$1.42
Tier 2	10,001 - 25,000	$1.91
Tier 3	Over 25,000	$2.25

Proposed water service delivery (usage) fees

Per 1,000 gallons	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
Tier 1	$1.53	$1.65	$1.76	$1.87	$1.99	$2.10	$2.22	$2.33	$2.44	$2.56
Tier 2	$2.06	$2.22	$2.37	$2.52	$2.67	$2.83	$2.98	$3.13	$3.29	$3.44
Tier 3	$2.43	$2.61	$2.79	$2.97	$3.15	$3.33	$3.51	$3.69	$3.87	$4.05

The rates and fees are based on a 5% increase to the usage fee per year (or 50% increase for usage spread over 10 years), plus 3% inflation per year, or a total of 8% increase to base fee per year.

Ho'olehua Water System
Agriculture Beneficiaries

Existing meter service (base) fees

Meter size (inches) Bi-Monthly	Existing Base fee ($) Bi-Monthly
5/8"	$5.60
3/4"	$7.00
1"	$11.50
1 1/2"	$22.00
2"	$30.00
3"	$60.00
4"	$110.00
6"	$195.00
8"	$300.00

Proposed meter service (base) fees

Meter size (inches) Bi-Monthly	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
5/8"	$6.21	$6.82	$7.43	$8.04	$8.65	$9.26	$9.87	$10.48	$11.09	$11.70
3/4"	$7.76	$8.53	$9.29	$10.05	$10.82	$11.58	$12.34	$13.10	$13.87	$14.63
1"	$12.75	$14.01	$15.26	$16.51	$17.77	$19.02	$20.27	$21.53	$22.78	$24.04
1 1/2"	$24.40	$26.80	$29.19	$31.59	$33.99	$36.39	$38.79	$41.18	$43.58	$45.98
2"	$33.27	$36.54	$39.81	$43.08	$46.35	$49.62	$52.89	$56.16	$59.43	$62.70
3"	$66.54	$73.08	$79.62	$86.16	$92.70	$99.24	$105.78	$112.32	$118.86	$125.40
4"	$121.99	$133.98	$145.97	$157.96	$169.95	$181.94	$193.93	$205.92	$217.91	$229.90
6"	$216.26	$237.51	$258.77	$280.02	$301.28	$322.53	$343.79	$365.04	$386.30	$407.55
8"	$332.70	$365.40	$398.10	$430.80	$463.50	$496.20	$528.90	$561.60	$594.30	$627.00

The rates and fees are based on a 7.9% increase to the meter service (base) fee per year (or 79% increase for base spread over 10 years), plus 3% inflation per year, or a total of 10.9% increase to base fee per year.

Agriculture

Existing water service delivery (usage) fees

	Gallons Bi-Monthly	Usage Fee per 1,000 gallons
Tier 1	0 - 10,000	$1.42
Tier 2	10,001 - 25,000	$1.91
Tier 3	Over 25,000	$0.76

Proposed water service delivery (usage) fees

Per 1,000 gallons	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
Tier 1	$1.53	$1.65	$1.76	$1.87	$1.99	$2.10	$2.22	$2.33	$2.44	$2.56
Tier 2	$2.06	$2.22	$2.37	$2.52	$2.67	$2.83	$2.98	$3.13	$3.29	$3.44
Tier 3	$0.82	$0.88	$0.94	$1.00	$1.06	$1.12	$1.19	$1.25	$1.31	$1.37

The rates and fees are based on a 5% increase to the usage fee per year (or 50% increase for usage spread over 10 years), plus 3% inflation per year, or a total of 8% increase to base fee per year.

Ho'olehua Water System
Non-Beneficiaries
Commercial / Non-Agriculture

Existing meter service (base) fees

Meter size (inches) Bi-Monthly	Existing Base fee ($) Bi-Monthly
5/8"	$30.00
3/4"	$44.00
1"	$70.00
1 1/2"	$136.00
2"	$210.00
3"	$390.00
4"	$640.00
6"	$1,270.00
8"	$2,000.00

Proposed meter service (base) fees

Meter size (inches) Bi-Monthly	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
5/8"	$40.35	$50.70	$61.05	$71.40	$81.75	$92.10	$102.45	$112.80	$123.15	$133.50
3/4"	$59.18	$74.36	$89.54	$104.72	$119.90	$135.08	$150.26	$165.44	$180.62	$195.80
1"	$94.15	$118.30	$142.45	$166.60	$190.75	$214.90	$239.05	$263.20	$287.35	$311.50
1 1/2"	$182.92	$229.84	$276.76	$323.68	$370.60	$417.52	$464.44	$511.36	$558.28	$605.20
2"	$282.45	$354.90	$427.35	$499.80	$572.25	$644.70	$717.15	$789.60	$862.05	$934.50
3"	$524.55	$659.10	$793.65	$928.20	$1,062.75	$1,197.30	$1,331.85	$1,466.40	$1,600.95	$1,735.50
4"	$860.80	$1,081.60	$1,302.40	$1,523.20	$1,744.00	$1,964.80	$2,185.60	$2,406.40	$2,627.20	$2,848.00
6"	$1,708.15	$2,146.30	$2,584.45	$3,022.60	$3,460.75	$3,898.90	$4,337.05	$4,775.20	$5,213.35	$5,651.50
8"	$2,690.00	$3,380.00	$4,070.00	$4,760.00	$5,450.00	$6,140.00	$6,830.00	$7,520.00	$8,210.00	$8,900.00

The rates and fees are based on a 31.5% increase to the meter service (base) fee per year (or 315% increase for base spread over 10 years), plus 3% inflation per year, or a total of 34.5% increase to base fee per year.

Ho'olehua Water System
Non-Beneficiaries
Commercial / Non-Agriculture

Existing water service delivery (usage) fees

	Gallons Bi-Monthly	**Usage Fee per 1,000 gallons**
Tier 1	0 - 10,000	$1.80
Tier 2	10,001 - 30,000	$3.35
Tier 3	Over 30,000	$4.95

Proposed water service delivery (usage) fees

Per 1,000 gallons	**FY 19**	**FY 20**	**FY 21**	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**	**FY 28**
Tier 1	$2.21	$2.63	$3.04	$3.46	$3.87	$4.28	$4.70	$5.11	$5.53	$5.94
Tier 2	$4.12	$4.89	$5.66	$6.43	$7.20	$7.97	$8.74	$9.51	$10.28	$11.06
Tier 3	$6.09	$7.23	$8.37	$9.50	$10.64	$11.78	$12.92	$14.06	$15.20	$16.34

The rates and fees are based on a 20.0% increase to the usage fee per year (or 200% increase for usage spread over 10 years), plus 3% inflation per year, or a total of 23% increase to usage fee per year.

Ho'olehua Water System
Non-Beneficiaries
Commercial / Agriculture

Existing meter service (base) fees

Meter size (inches) Bi-Monthly	Existing Base fee ($) Bi-Monthly
5/8"	$30.00
3/4"	$44.00
1"	$70.00
1 1/2"	$136.00
2"	$210.00
3"	$390.00
4"	$640.00
6"	$1,270.00
8"	$2,000.00

Proposed meter service (base) fees

Meter size (inches) Bi-Monthly	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
5/8"	$40.35	$50.70	$61.05	$71.40	$81.75	$92.10	$102.45	$112.80	$123.15	$133.50
3/4"	$59.18	$74.36	$89.54	$104.72	$119.90	$135.08	$150.26	$165.44	$180.62	$195.80
1"	$94.15	$118.30	$142.45	$166.60	$190.75	$214.90	$239.05	$263.20	$287.35	$311.50
1 1/2"	$182.92	$229.84	$276.76	$323.68	$370.60	$417.52	$464.44	$511.36	$558.28	$605.20
2"	$282.45	$354.90	$427.35	$499.80	$572.25	$644.70	$717.15	$789.60	$862.05	$934.50
3"	$524.55	$659.10	$793.65	$928.20	$1,062.75	$1,197.30	$1,331.85	$1,466.40	$1,600.95	$1,735.50
4"	$860.80	$1,081.60	$1,302.40	$1,523.20	$1,744.00	$1,964.80	$2,185.60	$2,406.40	$2,627.20	$2,848.00
6"	$1,708.15	$2,146.30	$2,584.45	$3,022.60	$3,460.75	$3,898.90	$4,337.05	$4,775.20	$5,213.35	$5,651.50
8"	$2,690.00	$3,380.00	$4,070.00	$4,760.00	$5,450.00	$6,140.00	$6,830.00	$7,520.00	$8,210.00	$8,900.00

The rates and fees are based on a 31.5% increase to the meter service (base) fee per year (or 315% increase for base spread over 10 years), plus 3% inflation per year, or a total of 34.5% increase to base fee per year.

Ho'olehua Water System
Non-Beneficiaries
Commercial / Agriculture

Existing water service delivery (usage) fees

	Gallons Bi-Monthly	**Usage Fee per 1,000 gallons**
Tier 1	1 - 10,000	$1.80
Tier 2	10,001 - 30,000	$3.35
Tier 3	Over 30,000	$1.15

Proposal is to eliminate the "decreasing block rate" structure (table above) and, instead, utilize the same rate schedule being proposed for the Commercial/Non-Agriculture as shown below.

Proposed water service delivery (usage) fees

Per 1,000 gallons	**FY 19**	**FY 20**	**FY 21**	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**	**FY 28**
Tier 1	$2.21	$2.63	$3.04	$3.46	$3.87	$4.28	$4.70	$5.11	$5.53	$5.94
Tier 2	$4.12	$4.89	$5.66	$6.43	$7.20	$7.97	$8.74	$9.51	$10.28	$11.06
Tier 3	$6.09	$7.23	$8.37	$9.50	$10.64	$11.78	$12.92	$14.06	$15.20	$16.34

The rates and fees are based on a 20.0% increase to the usage fee per year (or 200% increase for usage spread over 10 years), plus 3% inflation per year, or a total of 23% increase to usage fee per year.

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

August 20, 2012

To: Chairman and Members, Hawaiian Homes Commission

From: Dreana Kalili, Policy and Program Analyst
Ray Enos, Land Issues Officer

Subject: Management and Accounting Guidelines for the Water Systems Owned and Operated by the Department of Hawaiian Home Lands to Submit with USDA-RUS Applications

RECOMMENDED MOTION/ACTION

That the Hawaiian Homes Commission adopt these management and accounting guidelines for water systems owned and operated by the department.

DISCUSSION

Within Hawaii, water is free, however, there is a cost to pump, store, treat, and transport the water to homes, businesses, and public facilities like schools. On Hawaiian Home Lands, water systems have been and continue to be constructed by the department, and then are either leased to the applicable County water department, or are operated and maintained by the department. Water users of the system pay a fraction of the cost to operate the system and the operating costs of the water systems owned and operated by the department are heavily supplemented by trust funds.

Since 2008, the department has partnered with Na Kupaa O Kuhio to apply for and receive grant and low-interest loan assistance from the U.S. Department of Agriculture Rural Utilities Service (USDA RUS) to develop water systems for homesteaders. The department is eligible to directly apply for USDA-RUS assistance. However, under the department's current accounting structure, the water system expenses and receipts are imbedded in the overall department budget process and as such, the department is not able to demonstrate financial sustainability throughout the life of the improvements and meet the USDA-RUS grant determination criteria.

Section 213(e) of the Hawaiian Homes Commission Act, as amended,

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authorizes the Operating portion of the Hawaiian Home Operating Fund to be used for the construction, operation and maintenance of revenue-producing activities that are intended to serve principally occupants on Hawaiian home lands (such as the Molokai Water System, and the Anahola Farm Lots Water System, on the island of Kauai, and the Kawaihae Water System on the island of Hawaii).

The department is able to create separate enterprise accounts for all water system revenue producing activities in the Operating portion of the Hawaiian Home Operating Fund. The separate ledger accounts will be referred to collectively as the Hawaiian Home Lands (HHL) enterprise account.

In basic terms, this method of accounting will effectively isolate the water system budget from the department's larger budget. An enterprise account establishes a separate accounting and financial reporting mechanism for services for which a fee is charged in exchange for goods or services. The Administrative Services Office has indicated that the enterprise account, as an alternative method of accounting, can be prepared using existing accounting records.

The specific management and accounting guidelines for the water systems owned and operated by the DHHL are found attached in Exhibit A.

USDA RUS Grant Criteria

The purpose of USDA-RUS Water and Environment Program is to provide loan and grant funds for water and waste projects serving the most financially needy communities. Financial assistance from the program should result in reasonable user costs for rural residents, rural businesses, and other rural users. The excerpts of the grant criteria are found in Exhibit B and are designed to ensure this program purpose is met.

As a grant and loan applicant, DHHL must meet these criteria and demonstrate the following:

1) That grants it receives will not result in an Equivalent Dwelling Unit (EDU) costs below similar system user cost. The EDU means the level of service provided to a typical rural residential dwelling;

2) That the debt service portion of the average annual EDU cost, for users in the applicant's service area, exceeds the following percentages of median household income by 0.5% when the median household income of the service area is equal to or below 80% of the statewide nonmetropolitan median income (in other words, if the median income for

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the service area is $48,000, a water system is eligible for a grant if the debt service portion to individual system users is more than $240 over one year);

3) That its annual cost for delivery of service is subsidized; and

4) That water system user charges are reasonable, or the planned revenue should be sufficient to provide for all debt service, debt reserve, operation and maintenance, and, if appropriate, additional revenue for facility replacement of short-lived assets without building a substantial surplus.

The staff recommendation is to adopt the "Management and Accounting Guidelines for the Water Systems Owned and Operated by the Department of Hawaiian Home Lands" to align DHHL's operating and accounting processes related to these water systems with the USDA-RUS program criteria and goals.

It is critical that DHHL demonstrate these criteria are met so it can qualify for the maximum grant award allowed per project. These grant funds are needed to increase the operating efficiency of its water systems to decrease trust subsidies, and maximum grant awards means less funds expended from the trust.

MANAGEMENT AND ACCOUNTING GUIDELINES FOR THE WATER SYSTEMS OWNED AND OPERATED BY THE DEPARTMENT OF HAWAIIAN HOME LANDS

August 2012

1) The Water System will carry out the Department's goals, objectives and policies through a service delivery system financed through the utility's operating and capital budgets. The relationship between the operating and capital budgets will be explicitly recognized and incorporated into the budget process in a manner consistent with sound accounting and management practices. Funding for these budgets shall be adequate to provide operating services and maintenance or enhancement of fixed assets needed to support the demand for the water utility. The Commission will establish all user charges fees at a level related to the full costs (operating, direct, indirect and capital) of providing the service. Supplemental funding for the Water System enterprise account may be made by the Commission in order to avoid rate shock to the users. The Commission will review fees/charges at least every four years. As the need arises the Commission may adjust the rates by resolution. The Department will maintain records to document compliance with the user charge requirements, including records of the review, and such records will be available to the users.

2) The Water System user charge shall consist of a base rate and a consumption charge which combined shall be considered the water utility user charge. The Department Budget Officer shall establish a account or account within the Department's budget for the Water System utility charges. Moneys received as a result of the Water System utility user charge shall be allocated to the Water System Enterprise Account in the amounts established in the water utility charge resolution of the Commission. Except as otherwise provided or allowed by state law, the utility account or accounts shall be used solely for the purposes of the utility.

3) It is recognized that in order for the Water System to be a sustainable, self-supporting enterprise, there would need to be a substantial rate increase to users which would result in rate shock and have undesirable consequences. It is recognized that the utility rate for the Water System will need to be reviewed and re-authorized by the Commission. The Water System

enterprise account may continue to be subsidized by the Department as to avoid rate shock and the Commission may consider financial self-sufficiency and sustainability along with its other goals and objectives when establishing the Water System rates in the future.

4) DHHL will budget for the Water System utilizing an enterprise account accounting structure that is subsidized by the Department's other funds. However, the Commission may authorize the Department's budget officer to transfer moneys from other funds into the Water System Enterprise account to address emergency conditions or public health and safety considerations.

U.S. DEPARTM. .T OF AGRICULTURE RURAL U. .ITIES SERVICE
WATER AND WASTE LOANS AND GRANT CRITERIA
(Excerpts from the Code of Federal Regulations, Title 7, Part 1780)

§ 1780.1 General. (Excerpts)

(c) RUS debt instruments will require an agreement that if at any time it shall appear to the Government that the borrower is able to refinance the amount of the indebtedness to the Government then outstanding, in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time, the borrower will, upon request of the Government, apply for and accept such loan in sufficient amount to repay the Government and will take all such actions as may be required in connection with such loan.

(j) Water and waste applicants must demonstrate that they possess the financial, technical, and managerial capability necessary to consistently comply with pertinent Federal and State laws and requirements. In developing water and waste systems, applicants must consider alternatives of ownership, system design, and the sharing of services.

§ 1780.3 Definitions and grammatical rules of construction. (Excerpts)

Equivalent Dwelling Unit (EDU) means the level of service provided to a typical rural residential dwelling.

Rural and rural areas means any area not in a city or town with a population in excess of 10,000 inhabitants, according to the latest decennial census of the United States.

Rural Development means the mission area of the Under Secretary for Rural Development. Rural Development State and local offices will administer this water and waste program on behalf of the Rural Utilities Service.

RUS means the Rural Utilities Service, an agency of the United States Department of Agriculture established pursuant to section 232 of the Department of Agriculture Reorganization Act of 1994 (Pub. L. 103–354, 108 Stat. 3178), successor to the Farmer's Home Administration and the Rural Development Administration with respect to certain water and waste disposal loan and grant programs.

Service area means the area reasonably expected to be served by the project.

Similar system cost means the average annual EDU user cost of a system within a community having similar economic conditions and being served by the same type of established system. Similar system cost shall include all charges, taxes, and assessments attributable to the system including debt service, reserves and operation and maintenance costs.

§ 1780.7 Eligibility.

Facilities financed by water and waste disposal loans or grants must serve rural areas.

(a) Eligible applicant. An applicant must be:

(1) A public body, such as a municipality, county, district, authority, or other political subdivision of a state, territory or commonwealth;

(2) An organization operated on a not-for-profit basis, such as an association, cooperative, or private corporation. The organization must be an association controlled by a local public body or bodies, or have a broadly based ownership by or membership of people of the local community; or

(3) Indian tribes on Federal and State reservations and other Federally recognized Indian tribes.

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Item No. C-1

EXHIBIT B

(b) Eligible facilities. Facilities fi. .ced by RUS may be located in non-ru. ıreas. However, loan and grant funds may be used to finance only that portion of the facility serving rural areas, regardless of facility location.

(c) Eligible projects. (1) Projects must serve a rural area which, if such project is completed, is not likely to decline in population below that for which the project was designed.

(2) Projects must be designed and constructed so that adequate capacity will or can be made available to serve the present population of the area to the extent feasible and to serve the reasonably foreseeable growth needs of the area to the extent practicable.

(3) Projects must be necessary for orderly community development and consistent with a current comprehensive community water, waste disposal, or other current development plan for the rural area.

(d) Credit elsewhere. Applicants must certify in writing and the Agency shall determine and document that the applicant is unable to finance the proposed project from their own resources or through commercial credit at reasonable rates and terms.

(e) Legal authority and responsibility. Each applicant must have or will obtain the legal authority necessary for owning, constructing, operating, and maintaining the proposed facility or service and for obtaining, giving security for, and repaying the proposed loan. The applicant shall be responsible for operating, maintaining, and managing the facility, and providing for its continued availability and use at reasonable user rates and charges. This responsibility shall be exercised by the applicant even though the facility may be operated, maintained, or managed by a third party under contract or management agreement. Guidance for preparing a management agreement is available from the Agency. Such contracts, management agreements, or leases must not contain options or other provisions for transfer of ownership.

(f) Economic feasibility. All projects financed under the provisions of this section must be based on taxes, assessments, income, fees, or other satisfactory sources of revenues in an amount sufficient to provide for facility operation and maintenance, reasonable reserves, and debt payment. If the primary use of the facility is by business and the success or failure of the facility is dependent on the business, then the economic viability of that business must be assessed.

(g) Federal Debt Collection Act of 1990 (28 U.S.C. 3001 et seq.). An outstanding judgment obtained by the United States in a Federal Court (other than in the United States Tax Court), which has been recorded, shall cause the applicant to be ineligible to receive a loan or grant until the judgment is paid in full or otherwise satisfied.

[62 FR 33478, June 19, 1997, as amended at 64 FR 29946, June 4, 1999]

§ 1780.9 Eligible loan and grant purposes.

Loan and grant funds may be used only for the following purposes:

(a) To construct, enlarge, extend, or otherwise improve rural water, sanitary sewage, solid waste disposal, and storm wastewater disposal facilities.

(b) To construct or relocate public buildings, roads, bridges, fences, or utilities, and to make other public improvements necessary for the successful operation or protection of facilities authorized in paragraph (a) of this section.

(c) To relocate private buildings, roads, bridges, fences, or utilities, and other private improvements necessary for the successful operation or protection of facilities authorized in paragraph (a) of this section.

(d) For payment of other utility connection charges as provided in service contracts between utility systems.

(e) When a necessary part of the project relates to those facilities authorized in paragraphs (a), (b), (c) or (d) of this section the following may be considered:

(1) Loan or grant funds may be used for:

(i) Reasonable fees and costs such as: legal, engineering, administrative services, fiscal advisory, recording, environmental analyses and surveys, possible salvage or other mitigation measures, planning, establishing or acquiring rights;

(ii) Costs of acquiring interest in land; rights, such as water rights, leases, permits, rights-of-way; and other evidence of land or water control or protection necessary for development of the facility;

(iii) Purchasing or renting equipment necessary to install, operate, maintain, extend, or protect facilities;

(iv) Cost of additional applicant labor and other expenses necessary to install and extend service; and

(v) In unusual cases, the cost for connecting the user to the main service line.

(2) Only loan funds may be used for:

(i) Interest incurred during construction in conjunction with multiple advances or interest on interim financing;

(ii) Initial operating expenses, including interest, for a period ordinarily not exceeding one year when the applicant is unable to pay such expenses;

(iii) The purchase of existing facilities when it is necessary either to improve service or prevent the loss of service;

(iv) Refinancing debts incurred by, or on behalf of, an applicant when all of the following conditions exist:

(A) The debts being refinanced are a secondary part of the total loan;

(B) The debts were incurred for the facility or service being financed or any part thereof; and

(C) Arrangements cannot be made with the creditors to extend or modify the terms of the debts so that a sound basis will exist for making a loan; and

(v) Prepayment of costs for which RUS grant funds were obligated.

(3) Grant funds may be used to restore loan funds used to prepay grant obligated costs.

(f) Construction incurred before loan or grant approval.

(1) Funds may be used to pay obligations for eligible project costs incurred before loan or grant approval if such requests are made in writing by the applicant and the Agency determines that:

(i) Compelling reasons exist for incurring obligations before loan or grant approval;

(ii) The obligations will be incurred for authorized loan or grant purposes; and

(iii) The Agency's authorization to pay such obligations is on the condition that it is not committed to make the loan or grant; it assumes no responsibility for any obligations incurred by the applicant; and the applicant must subsequently meet all loan or grant approval requirements, including environmental and contracting requirements.

(2) If construction is started without Agency approval, post-approval in accordance with this section may be considered, provided the construction meets applicable requirements including those regarding approval and environmental matters.

(g) Water or sewer service may be provided through individual installations or small clusters of users within an applicant's service area. The approval official should consider items such as: quantity and quality of the individual installations that may be developed; cost effectiveness of the individual facility compared with the initial and long term user cost on a central system; health and pollution problems attributable to individual facilities; operational or management problems peculiar to individual installations; and permit and regulatory agency requirements.

(1) Applicants providing service through individual facilities must meet the eligibility requirements in §1780.7.

(2) The Agency must approve the form of agreement between the applicant and individual users for the installation, operation, maintenance and payment for individual facilities.

(3) If taxes or assessments are not pledged as security, applicants providing service through individual facilities must obtain security necessary to assure collection of any sum the individual user is obligated to pay the applicant.

(4) Notes representing indebtedness owed the applicant by a user for an individual facility will be scheduled for payment over a period not to exceed the useful life of the individual facility or the RUS loan, whichever is shorter. The interest rate will not exceed the interest rate charged the applicant on the RUS indebtedness.

(5) Applicants providing service through individual or cluster facilities must obtain:

(i) Easements for the installation and ingress to and egress from the facility if determined necessary by RUS; and

(ii) An adequate method for denying service in the event of nonpayment of user fees.

§ 1780.10 Limitations.

(a) Loan and grant funds may not be used to finance:

(1) Facilities which are not modest in size, design, and cost;

(2) Loan or grant finder's fees;

(3) The construction of any new combined storm and sanitary sewer facilities;

(4) Any portion of the cost of a facility which does not serve a rural area;

(5) That portion of project costs normally provided by a business or industrial user, such as wastewater pretreatment, etc.;

(6) Rental for the use of equipment or machinery owned by the applicant;

(7) For other purposes not directly related to operating and maintenance of the facility being installed or improved; and

(8) A judgment which would disqualify an applicant for a loan or grant as provided for in §1780.7(g).

(b) Grant funds may not be used to:

(1) Reduce EDU costs to a level less than similar system cost;

(2) Pay any costs of a project where the median household income of the service area is more than 100 percent of the nonmetropolitan median household income of the State;

(3) Pay project costs when other loan funding for the project is not at reasonable rates and terms; and

(4) Pay project costs when other funding is a guaranteed loan obtained in accordance with 7 CFR part 1779 of this title.

(c) Grants may not be made in excess of the following percentages of the RUS eligible project development costs. Facilities previously installed will not be considered in determining the development costs.

(1) 75 percent when the median household income of the service area is below the higher of the poverty line or 80% of the state nonmetropolitan median income and the project is necessary to alleviate a health or sanitary problem.

(2) 45 percent when the median household income of the service area exceeds the 80 percent requirements described in paragraph (c)(1) of this section but is not more than 100 percent of the statewide nonmetropolitan median household income.

(3) Applicants are advised that the percentages contained in paragraphs (c)(1) and (c)(2) of this section are maximum amounts and may be further limited due to availability of funds or the grant determination procedures contained in §1780.35 (b).

[62 FR 33478, June 19, 1997, as amended at 64 FR 29946, June 4, 1999; 66 FR 23151, May 8, 2001]

HAWAIIAN HOMES COMMISSION WATER POLICY PLAN

July 22, 2014

Vision

Our vision is that there will be adequate amounts of water and supporting infrastructure so that homestead lands will always be usable and accessible, to enable us to return to our lands to fully support our self-sufficiency and self-determination in the administration of the Hawaiian Homes Commission Act (HHCA), and the preservation of our values, traditions, and culture.

Mission

In a manner consistent with our values, the Hawaiian Homes Commission (HHC) and Department of Hawaiian Home Lands (DHHL) shall strive to ensure the availability of adequate, quality water by working cooperatively to:

- Understand our trust water assets;
- Plan for our water needs;
- Aggressively understand, exercise and assert our kuleana as stewards of water;
- Develop and protect water sources; and
- Manage water systems.

Values

1. **Waiwai**: Mōhala i ka wai ka maka o ka pua. *Unfolded by the water are the faces of the flowers.* The availability of water to our lands and people is integral to the trust and our mission.
2. **Waihona:** Ua lehulehu a manomano ka `ikena a ka Hawai`i. *Great and numerous is the knowledge of the Hawaiians.* Honoring and documenting our knowledge about water is essential to managing it.
3. **Mālama:** He ali`i ka `āina; he kauwā ke kanaka. *The land is a chief; man is its servant.* We consider water to be part of our genealogy and so we manage it in a manner that cares for its long-term sustainability for all things, as we also use it productively for our mission.
4. **Laulima:** E lauhoe mai nā wa'a; i ke kā, i ka hoe; i ka hoe, i ke kā; pae aku i ka 'āina. *Everybody paddle the canoes together; bail and paddle, paddle and bail, and the shore is reached.* We are one people who now share Hawai`i with others. DHHL is only one of many Hawaiian serving institutions. We will assert our rights while considering our larger lāhui `ōiwi and the larger world in which we live.

EXHIBIT C

Policies

The HHC and the DHHL are seeking to be proactive in our management of water. Our Priority Policies are to:

1. Expressly determine and plan for future water needs and actively participate in broader water management, use and protection efforts in Hawai`i in order to secure water.
2. Aggressively exercise, reclaim, and protect Hawaiian home land water kuleana.
3. Develop, manage, and steward water in a manner that balances cost, efficiency measures, and Public Trust uses in the short and long term.
4. Affirmatively communicate our decisions, our reasoning, and our performance in managing, stewarding, and using water before and after making major water decisions.

Additionally, the HHC and the DHHL should consider in their work the following statements:

5. Educate beneficiaries, the DHHL, HHC, and other stakeholders continually on our water kuleana.
6. Foster self-sufficiency of beneficiaries by promoting the adequate supply of water for homesteading when developing or managing water.
7. Foster the self-determination of beneficiaries by seeking ways for beneficiaries to participate in the management of water by delegating authority related to water subject to the discretion of the HHC as described in the HHCA.
8. Make water decisions that incorporate traditional and place-based knowledge of our people and are clear and methodical in their reasoning.
9. Make efforts to understand, maintain, and improve the quality of water as it moves into and through our lands and is used by beneficiaries.
10. Affirmatively consider the development and use of alternative sources of water and efficiency measures in water decision-making.
11. Ensure that water decisions are consistent with other Departmental policies, programs, and plans including but not limited to the Energy Policy and Agricultural Program.
12. Explicitly consider water availability and the costs to provide adequate water when developing new homestead areas, designating land uses, issuing land dispositions, or exchanging properties.

EXHIBIT C

Goals

To make progress on achieving our Mission and complying with our Policies, the Priority Goals of the HHC and the DHHL are to:

1. Affirmatively communicate with beneficiaries regarding water decisions, performance, and water rights on a regional and annual basis.
2. Aggressively, proactively, consistently and comprehensively advocate for the kuleana of the beneficiaries, the DHHL, and the HHC to water before all relevant agencies and entities.
3. Develop and manage a Water Assets Inventory (WAI).
4. Support watershed protection and restoration on DHHL lands and source areas for DHHL water.

Additional goals that DHHL and the HHC shall seek to achieve, based on the availability of resources, organized by Mission activities, are:

Part I. Understand our trust water assets

1. Revise the DHHL submittal template to the HHC for water related decisions.
2. Revise budgets to show the total costs of a) water system management b) all spending on water issues.
3. Staff and organize the DHHL consistent with importance of water to the trust.

Part II. Plan for our water needs

4. Determine current and foreseeable future needs based upon periodic reviews of water availability projections that incorporate climate change, projected beneficiary demand, alternative sources and efficiency measures.
5. Design homesteads and manage lands to create and enhance water availability, optimizing costs, use of alternative sources and efficiency measures.

Part III. Aggressively understand, exercise and assert our water rights

6. Secure adequate and enforceable reservations of water for current and foreseeable future needs for all of its lands across the islands.
7. Partner with trust beneficiaries in water advocacy efforts.
8. Engage in updates to all Hawai`i Water Plan elements to ensure DHHL water needs and rights are addressed.
9. Advocate that all Water Use Permit Applications properly address the water rights of DHHL and other Hawaiian water rights.
10. Advocate that County Boards of Water Supply and other County agencies that affect water have the spirit of the HHCA faithfully carried out to protect DHHL

EXHIBIT C

water uses as a Public Trust use of water and manage rates so they are affordable by beneficiaries.

11. Ensure that all legal provisions for the licensing of state water are followed.

Part IV. Develop and protect water sources

12. Carefully weigh alternatives regarding the dedication or DHHL management of new water systems.
13. Methodically and consistently manage and allocate water credits.
14. Support the drilling of wells by beneficiaries for their own use on lots where appropriate.
15. Partner with Department of Health and others on water quality education and outreach.
16. Continue to pursue development of agricultural water systems.

Part V. Manage water systems

17. Secure revenue and reduce operation costs so DHHL water systems break even financially over the long term.
18. Increase security and reliability for DHHL water users.
19. Pursue resolution by the Department of Agriculture of prior audit findings in the management of the Moloka`i Irrigation System and full repair of the System

EXHIBIT C

Delegation of Authorities, Reporting, and Consultation

1. Delegation
    a. The HHC delegates authority to the Chairperson to prepare an Implementation Program for this Water Policy Plan, which shall be subject to the approval by HHC. The Program shall identify tasks to implement each goal, and shall specify tasks that apply statewide as well as tasks that apply to different islands or regions under each goal.
2. Reporting
    a. The Chairperson shall submit the proposed Implementation Program to the HHC annually in conjunction with the Department's budget request.
    b. The Chairperson shall annually report on progress on execution of the approved Implementation Program and overall progress towards achieving the goals of and maintaining compliance with the Water Policy Plan.
3. Consultation
    a. The Chairperson shall consult with the HHC on any major water issues not contained in the Implementation Program.

Legal Authorities

1. Hawai`i State Constitution
2. Hawaiian Homes Commission Act of 1921, as amended
3. Hawai`i State Water Code, HRS 174C
4. In the Matter of Water Use Permit Applications (Waiāhole I case)
5. Wai`ola o Moloka`i
6. Kauai Springs, Inc. v. Planning Commission of the County of Kauai

Related Plans and Policies

1. DHHL General Plan
2. DHHL Energy Policy
3. Hawaiian Homes Commission Beneficiary Consultation Policy

References

1. 1983. Pūku`i, Mary Kawena. 'Ōlelo No'eau: Hawaiian Proverbs & Poetical Sayings. Honolulu: Bernice Pauahi Bishop Museum.
2. Aia i hea ka wai a Kāne? (Traditional chant, "Where is the water of Kāne?")

EXHIBIT C

Definitions

Alternative sources: Alternative sources include but are not limited to the water developed through reuse and recycling technologies and best practices, capture of flood waters, desalinated waters, and other sources as may be appropriate for proposed uses.

**Hawai`i Water Plan:** The Hawai`i Water Plan and its parts, as detailed in Part III of the Hawai`i State Water Code (HRS 174C), is the state's "program of comprehensive water resources planning to address the problems of supply and conservation of water" (HRS 174C-2(b)).

Efficiency Measures: Efficiency measures include optimal design and development, alternative energy utilization, changing in behavioral practices and technologies that support onsite distributed wastewater systems.

Kuleana: Kuleana encompasses both rights and responsibilities. DHHL's water kuleana includes its responsibilities under its mission and the legal rights to water enshrined in the HHCA and state Constitutional and statutory provisions. Kuleana exists within the genealogical and spiritual relationship between water and the lāhui `ōiwi.

Public Trust: As delineated in the Hawai`i Supreme Court Waiāhole I and Wai`ola O Moloka`i cases, public trust uses of water include domestic uses, traditional and customary Hawaiian rights, the protection and procreation of fish and wildlife, the maintenance of proper ecological balance and scenic beauty, and reservations of water for the DHHL.

Water: In this policy, water includes mists, fog, rain, and other precipitation; water as it flows above or below ground, and into the ocean; water used for homesteading; alternative sources including waste, brackish, and salt water; water used in the exercise of traditional and customary practices; infrastructure used to produce, store and transmit water; and water we use as well as water to which we have rights.

Water Assets Inventory (WAI): A comprehensive geographically referenced database of the water assets of the DHHL, including traditional knowledge related to water, DHHL owned water infrastructure, current and future water demand, water agreements, water credits, and potential water sources.

Approval Date

Policy approved by the Hawaiian Homes Commission on July 22, 2014.

EXHIBIT C