MINUTES
BOARD OF WATER SUPPLY
**Thursday, November 20, 2025**

The Board of Water Supply, County of Kauaʻi, met in a regular meeting in Līhu'e on Thursday, November 20, 2025. Chair Julie Simonton called the meeting to order at 9:32 a.m. The following Board members were present:

**BOARD:**
Ms. Julie Simonton, *Chair*
Ms. Micah Finnila
Mr. Clyde Kodani
Mr. Eric Fujikawa

**EXCUSED:**
Mr. Tom Shigemoto, *Vice-Chair*
Mr. Kaʻaina Hull
Mr. Troy Tanigawa

Quorum was achieved with **4** members present at Roll Call

**ANNOUNCEMENTS**
1. Next Scheduled Board Meeting: Thursday, December 18, 2025

**APPROVAL OF AGENDA**
**The agenda was approved with no objections**

**MEETING MINUTES**
1. Regular Board Meeting – October 23, 2025
2. Executive Session – October 23, 2025

**The minutes of the October 23, 2025 Regular Board meeting and the October 23, 2025 Executive Session were received for the record.**

**PUBLIC TESTIMONY**
The Board received public testimony from Felicia Cowden for Informational Briefing Item 1 Water Systems Investment Plan (WSIP) Water Rate Study Revenue Requirements Preliminary Results. Ms. Cowden suggested that the Department go on Hoʻike to communicate with the public. Ms. Cowden expressed her frustration with government silos and lack of communication between agencies providing some examples of concerns she has with the decommissioning of a reservoir in her area, water for agriculture use, and greater partnership between surface water and potable water. She continued testimony related to the decommissioning of reservoirs, the deaths of residents due to dam failures, and fire protection. She added that the Department needs to communicate with the State and Public Works on how fire flow protection is handled.
**Staff instructed Ms. Cowden to keep the testimony related to the WSIP Water Rate Study Revenue Requirements.**

**NEW BUSINESS**
1. *Manager's Report No. 26-15* Discussion and Possible Action for Adoption of Budget Resolution 26-01 for the acceptance and expenditure of grant monies from the Legislature of the State of Hawaiʻi under Act 250 for the Kūhiō Highway (Hardy-Oxford) 18" Main Replacement Project

Acting Engineering Division Head Jason Kagimoto provided a brief summary of the Manager's Report submitted.
**Board member Kodani moved to approve Manager's Report No. 26-15, seconded by Ms. Finnila; with no objections, motion carried with 4 Ayes.**

2. Discussion and possible action on the salary increase for the Department of Water's Manager & Chief Engineer pursuant to Salary Resolution No. 2025-1, A Resolution Relating to the Salaries of Certain Officers and Employees of the County of Kaua'i

Boards and Commissions Administrator Ellen Ching provided a summary of Salary Resolution No. 2025-1, and an explanation of the Salary table included. She mentioned that in the past, the Board voted to approve the Manager's salary increases for all 3 of the salary increase periods. However, County Human Resources expressed a concern that this may not be the best action because Board members may change over that time period, and the manager's evaluation each year may result in the Board's desire to change the decision on the salary for that respective period. Chair Simonton stated for the record that the Manager's most recent evaluation reflected that the Manager exceeded the Board's expectations.
**Board member Finnila moved to approve a salary increase of $164,208.00 for the period of July 1, 2025 to June 30, 2026 to be retroactively paid effective July 1, 2025, seconded by Mr. Fujikawa; with no objections, motion carried with 4 Ayes.**

3. Election of Board Chair, Vice-Chair and Secretary for 2026

Chair Simonton noted that 3 Board members were absent, and her preference would be that Vice-Chair Shigemoto at least be present for the election of officers.
**Board member Kodani moved to defer the Election of Board Chair, Vice Chair and Secretary for 2026 to the December 18, 2025 meeting, seconded by Ms. Finnila; with no objections, motion carried with 4 Ayes.**

4. Proposed Board meeting calendar for 2026

**Board member Fujikawa moved to accept the Board meeting calendar for 2026, seconded by Mr. Kodani; with no objections, motion carried with 4 Ayes.**

**<u>INFORMATIONAL BRIEFING</u>** ***(non-action item)***

1. Water Systems Investment Plan (WSIP) Water Rate Study Revenue Requirements Preliminary Results

Acting Engineering Division Head Jason Kagimoto introduced consultants Ann Hajnosz of Harris & Associates and Michelle Sorensen of Brown and Caldwell. He noted that this project has been a years-long heavy lift as part of the long-range plan which included revamping their GIS (Geographic Information System) hydraulic model, identifying CIP projects, and holding public meetings to provide information on those projects. The goal of the Department is to get to a better financial place to meet different goals and requirements which could involve evaluating our rates and updating impact fees and Facility Reserve Charges.

**<u>Agenda, Next Steps, and Updated Schedule (Slide 2 through 4)</u>**
Ms. Hajnosz provided an overview of the agenda for the presentation beginning with a recap from the August 2025 Board Workshop on rate-making policies and financial assurances, followed by the Manager's perspective, and obtaining Board feedback and recommendations. After this presentation, they would like to bring the proposed rate recommendation package to

the Board at a subsequent meeting in December or January, followed by public outreach meetings in early 2026 that will continue through Quarter 2. The ideal goal would be to implement rate increases at the start of FY26-27, at the same time starting the second and third parts of the rate study, which is the cost of service and rate design, through Quarter 3 of 2026.

When they get to the point of looking at the cost of service and rate design, they will take a deeper dive into how the actual customer costs align with the cost recovery from those customer classes. Currently the Department has 2 customer classes, General and Agricultural, which they will look further into and possibly adding in a Single-Family Residential class. After that, the focus moves to rate design to discuss recovering costs from your fixed component which is your monthly service charge, or your consumption charge which is your variable charge. They will also be looking at the power cost adjustment option currently in place and see how that may be implemented. These topics related to cost of service and rate design will be addressed later in the year.

**August Board Meeting Recap (Slides 5 through 6)**

Ms. Hajnosz stated that the August workshop provided an overview of the rate-making process; today will be focused on the revenue requirements and the level of adjustment needed for revenues and the impact on our water bills.

The Financial Assurance Elements help to answer those questions always asked when discussing rate increases like What is the driver? What level of increase is enough or too much? Where is the sweet spot? As shown on Slide 6, Ms. Hajnosz provided a summary of each of the Financial Assurance Elements:

Operating Reserve:
The operating reserve is primarily concerned with maintaining a sustainable level of resources to effectively manage operations, particularly in responding to variances in revenues and expenses. It addresses the unpredictability of operating costs and unforeseen emergency expenditures. There is already an established guidance for the operating reserve based on revenues. However, this proposal shifts focus towards costs, specifically targeting operating and maintenance expenses along with servicing costs, which is a driver for the rate increases.

Rate-Funded Capital Contribution
Rate-funded capital contribution refers to the capital paid through rates or revenues, also known as cash-funded capital. Depreciation may be used as a method to determine cash-funded capital, which is essential for maintaining sustainable utility infrastructure, similar to maintaining a house.

Capital Reserve
Capital reserve refers to funds set aside for unexpected capital expenses, similar to an operating reserve. It is typically aligned with an organization's annual capital expenditures or depreciation, with the average annual capital expenditures used as a target for this reserve.

Debt Service Coverage
Debt service coverage refers to the assurance that there are sufficient funds to cover the current year's annual debt service and provide assurance to bondholders. Debt as a percentage of net plant assets is a useful financial metric, allowing the cost of long-lived assets to be

distributed across generations. However, it is important to manage debt levels, ideally keeping them below 35%, with a maximum threshold of 50%. Currently, the debt level is well below 35%, but monitoring future debt sales is crucial to manage costs effectively.

**Follow up from September CIP Public Meetings (Slides 7 through 15)**

Ms. Hajnosz stated that the Department conducted Capital Improvement Project (CIP) meetings all across the island to inform the public about upcoming, planned CIP projects and actual infrastructure that needs to be taken care of. From those public meetings, questions and answers regarding rates were extracted and are being provided to the Board:

1. **Where does KDOW get funding from?** Mainly from water sales with varying usage rates, Facility Reserve Charge (FRC), Interest Income, Grants, State Appropriations, Bonds, State Revolving Fund (SRF) Loans.

2. **Why hasn't KDOW raised rates in so long?** Various reasons but mostly due to changes in leadership (Manager level) and not having an update to Water Plan 2020.
   Ms. Hajnosz added that now that the Water Systems Investment Plan is largely completed, it is aligned with how the Department will be moving forward and how it will be funded.

3. **What does KDOW have in reserves?** As the beginning of FY 2026 (July 1, 2025) there was about $31.7 million in unencumbered operating and capital reserves.
   Ms. Hajnosz reminded the Board that there was a plan to spend the additional reserves of approximately $13 million between operating and capital, so it was known that there was about a $13 million deficit in the current budget. Slide 10 shows a Review of the Reserves Drawdown, which was shared with the Board during a previous Board meeting/workshop. Ms. Hajnosz noted that over the last 10 years or so, the revenues and expenses have not been aligned. Though there was some coverage of Operating and Maintenance and debt service after the last rate increase in 2015, expenses were exceeding revenues in the last 6 years or so. By the end of 2024 the delta was close to $46 million, which was all funded by the drawdown cash reserves. Ms. Hajnosz added that if the Department had increased rates each year for all these 10 years, we would not be in the financial position we are currently in where we are deficit funding our operations and capital. Cumulatively, this averages out to about a 55% rate increase over that 10 year span.

4. **What financing options are being considered?** Rates, Facility Reserve Charges (FRC), Grants (State and Federal), State Appropriations, State Revolving Fund (SRF) Loans.

5. **How feasible are grants and bonds?** Grants are difficult to secure due to the relatively limited pool of funds. Bonds are an option although State Revolving Fund (SRF) Loans are a cheaper, more flexible alternative.

6. **Is there a funding solution that doesn't rely on State/County/Federal support?**
   - Water sales with varying usage rates from customers are the primary funding source.
   - Developers and new customers pay FRCs.
   - Public/private partnerships (P3) could be used to provide funding to water systems.
   - Private water companies could acquire County assets and operate them (not currently considering that option)

7. **What are the different categories of rates? Can we structure rates to be less of a burden on our Kupuna? What do people have to do to get Ag rates?**
   - Rate Categories: General Use Customer Class, Agriculture Customer Class
   - Rate Structure: KDOW should consider customer assistance alternatives including low income rates when evaluating Cost-of-Service in FY 2027
   - KDOW rule for Ag rates must be followed

   Ms. Hajnosz stated this will be discussed during the rate design phase, but customer assistance alternatives and low-income rates will be considered if needed. She added that the current rate structure recognizes low use, but it is still a burden if a customer uses a little more than that; with rate increases, that could be in the double digits. All of this will be looked at in the next phase.
   Board member Fujikawa asked if the categories that are planned to be discussed in the next phase are too problematic to be included in the current discussion. Ms. Hajnosz explained that a cost of service study cannot be done in time to get the proposed rate increases implemented by July 1, 2026, or even close to that. There is a lot of customer billing data that needs to be researched, and there have been a lot of billing data challenges because of the meter issues. The goal is to have one year of complete meter data before getting into the cost of service analysis.

8. **How do KDOW water rates compare to the other islands?** This analysis will be provided later in today's presentation.
   Board member Micah Finnila asked about how many residents attended the public outreach meetings, and what was the temperature of the public in hearing the responses from the Department and consultants. Manager Joe Tait stated he attended many of the public meetings and was pleasantly surprised with how supportive the residents were both during the presentation as well as during outside conversations taking place around the room. Acting Engineering Division Head Jason Kagimoto stated that the meeting they held so far were attended by 20 to 30 people. The Department's takeaway was that the public seemed very supportive of the work put in and the path forward and understanding of how the Department is going to accomplish those goals. He noted that there was not a formal point of discussion regarding rates, but it generally came up at each meeting in which instance the Department would identify the length of time since the last rate increase and that a rate study analysis is in progress. There seemed to be much community support with people being aware that they may live in water restricted areas where there is concern about fire flow and such. Mr. Kagimoto noted that at the Lihue meeting, they received feedback from a member of the public to please begin the rate analysis so the Department can begin to do all the work that needs to be done. He feels there will be much more attendance when the subject of the meetings focus on rates, but based on the feedback they received during this CIP outreach, he is hopeful that people will have the same sentiment. He wants to ensure that the Department emphasizes that there is a reason for increasing the rates.

   Board member Eric Fujikawa asked whether any considered percentages for rate increases shared with the public or is that something that will be reserved for the next phase of outreach? Mr. Kagimoto stated that while there was general discussion about the amount needed to move forward with these projects and bigger picture numbers, they did not share any potential percentage increases and the discussion were mainly focused on the scope of work for the projects. Manager Tait shared that he did get a few questions from the public, informally as he was circulating around the room, stating how low their water bill was in comparison to their other bills such as power, cable, etc. He noted that if your cable goes out, you are still flushing your toilet and washing your clothes and feels the perspective of the value of water versus the value of other things needs to be expressed.

In response to Ms. Finnila on the tone of the meeting, Ms. Michelle Sorensen stated that when funding-related questions came up, there was a lot of very practical, information-based discussion around what the needs are. In response to Mr. Fujikawa, Ms. Sorensen stated that the expectation was that the Department would be out discussing with the public as the projects progressed, and the commitment to building on that outreach to include discussion on rates in 2026. Ms. Finnila asked if it were possible to include this information on the website to provide information and maintain communication should anyone have questions. Ms. Sorensen stated the intent is to post all the FAQ's on the website along with other related information, which is something that Ani Turner and Malia Reis (PR/PIO) started to build through the outreach process, and the intent is to expand on that as we get more information.

**Review: Current Financial Overview Revenues and Expenses (Slide 16)**
Ms. Hajnosz pointed out the delta between revenues and expenses starting about 2018. This can be used as a baseline to see what revenues are doing relative to the O & M itself plus the debt service plus any contributions that we add to capital and to the reserves. She noted that depreciation is not included on this slide as it is a non-cash item.

**Scenarios Driven by Capital Assumption (Slide 17)**
Ms. Hajnosz explained this slide focuses on two different capital scenarios – the 20-year prioritized CIP of $34 million of capital a year, and the prioritized achievable CIP of $16.5 million per year.

**Strategy for Sufficient Cost Recovery (Slide 18)**
Ms. Hajnosz stated that before they can discuss capital scenarios, they have to look at baseline operations, which are currently not being covered sufficiently by revenues right now. Baseline Operations is the minimum rate increase that is necessary to cover these three items:

1. Projected Operating and Maintenance expenses, which are salaries, power costs, administrative costs, and other operating expenses.
2. Existing Annual Debt Service, which is not being covered right now
3. Contributions to our Operating Reserve

This will serve as the starting point for adding on additional capital expenditures for Fiscal Year 2026; the capital funding scenarios are going to move on from FY27 through the next 10 years.

Capital Funding Scenarios

- Scenario 1 – Build capital reserve to $16.5 million by year 5 and maintain through year 10; achieve average spend of $16.5 million by year 10.

Ms. Hajnosz explained that though the focus is on the first 5 years, for Board decision-making it may be an even smaller time period because budgets are adopted on an annual basis. For the analysis to really make sense for everything the Department wants to achieve in terms of building up capital spend, they need to look at a 10-year time period.

- Scenario 2 – Build capital reserve to $16.5 million by year 5 and increase to $34 million by year 10; move closer to $16.5 average spend by year 5 and closer toward $34 million average spend by year 10.

- Scenario 3 – Build capital reserves to $34 million by year 5; achieve average spend of $34 million over 10 years; CIP staff augmentation of $2 million/year beginning FY 2027.

Ms. Hajnosz stated Scenario 3 looks at the same kind of scenario as Scenario 1, but at a higher level of $34 million.  This scenario includes a CIP staff augmentation of $2 million a year, beginning in FY27.  Current staff capacity for doing this higher level of capital expenditures is not achievable without program management assistance.  The analysis always talks about building up to these numbers because we will not get there right away; this is why they have to look at a 10-year time period.

Board member Fujikawa noted that Scenario 2 seems like something the staff is capable of achieving now and asked if Scenario 2 would need staff augmentation to accomplish.  Ms. Hajnosz stated that there have been discussions about adding additional CIP augmentation in all Scenarios; .5 million in Scenario 1, 1 million in Scenario 2, 2 million in Scenario 3.  Chair Simonton asked if these scenarios can be tied to how quickly we can lift restrictions in the water restricted areas, for example, if Scenario 2 doesn't get us much farther than Scenario 1 in terms of lifting water restrictions in Kilauea.  She thinks that information would be helpful to the Board's decision-making as well as provide a better understanding to the public of how the different scenarios may affect that.  Mr. Fujikawa added that if we are going to start attaching rate increases to the results, he would be interested to see what the more immediate impacts, such as up to 5 years, could result from the different scenarios; this would help his understanding of what the Board and the Department are trying to accomplish.  Ms. Hajnosz stated they will work on that.

**<u>Financial Policy Recommendations (Slide 19)</u>**

Ms. Hajnosz stated that these recommendations are based on the specific conditions here at DOW.

<u>Operating-Related Financial Policies</u>

- Operating revenue pays for all O&M and debt service
- Build up WUF operating reserve from current policy of 30% of prior year operating revenues (~$8.7M) to 160 days of annual O&M + debt service over 3 years (~$19M by FY 2029)
  Ms. Hajnosz stated that she thinks the industry has moved away from this policy and is looking to base their operating reserves on costs.  DOW is looking to change that to base the operating reserve on 160 days of annual O&M plus the annual debt service payment, which equates to about $19 million a year with the intent to build up to that number and keep that number.  Another reason they don't want to base the operating reserve on revenues is because the revenue number covers both operations and capital, and they want the operating reserve to reflect operating costs, not capital.  She added the importance of keeping operating costs and income to cover that to be separate from capital costs, revenues and other funds coming in to pay for capital.
- Maintain positive annual operating cash flow (minimum 1.0 debt service coverage)
- Target of 1.50 debt service coverage; to be achieved in concert with capital scenarios
- Ms. Hajnosz stated once debt service is covered, they are targeting 1.50 debt service coverage, which provides high assurance from a financial sustainability and resilience standpoint and will provide extra cash to finance all your capital.

<u>Capital-Related Financial Policies</u>

- Establish WUF capital reserve targeted to equal average annual capital program; will vary by capital scenario (e.g. $16.5 M or $34 M): achieve by year 5 (FY 2031)

- Maintain debt-to-fixed asset ratio at <=35%; currently at 21% and projected to decrease over time as existing debt obligations are paid off

Ms. Hajnosz stated that these are the financial guidelines they are applying in addition to the capital spending scenarios to figure out what the ratings are.

**Baseline Operations Analysis FY 2027-FY 2031 (Slide 20)**
Ms. Hajnosz explained that the bars represent the O&M and existing debt service, and the bottom line (dotted) represents the revenue under the current rates, which we are not making debt service payments with, and the top (solid) line represents revenues under proposed rate adjustments. The results are that a 23.5% rate adjustment is needed in fiscal year 2027.

Key Assumption
- Incorporates recommended operating policy targets
- FY 2026 operating budget serves as basis for revenue and expense projections
- Operating Revenues
  - Annual customer growth: 0.80% per historical review
  - ~83% progress on improved meter reads; complete by FYE 2028
  - Interest earnings on cash balances: 3.0%
- Operating Expense
  - Budgeted vacant positions (~20%) assumed to be filled
  - Annual cost escalation: 3.5%
- Debt service per existing Bonds and SRF loans

Ms. Hajnosz stated they do not want to over over-project revenues or under-project expenses, so they give a little bit more in expenses. The delta is 23.5% rate adjustment needed to close the gap.

**Strategy for Managing Debt Service (Slide 21)**
Ms. Hajnosz explained that the goal is to keep debt levels relatively even to avoid big rate spikes to cover more debt. Looking at the existing debt profile which shows a drop in debt as historical SRF loans and outstanding bonds get paid off. Projecting new debt to replace existing debt really helps give flexibility in making future debt decision. With the level of rate increases being discussed, there will be high levels of cash, so there won't be a need for a lot of debt, but it will provide some really good debt ratios to give you that capacity. This is what they are seeing in other utilities where doing this 10-year debt projections offer some flexibility if there is a big emergency.

**Rate Scenario Results FY 2027-FY 2036 (Slide 22)**
The rate adjustments for all 3 scenarios span a 10-year time period to allow the annual capital expenditure levels to build up to the levels needed as reflected in the Water Systems Investment Plan (WSIP).
Scenario 1 for a $16.5 million spend per year shows a 25% rate increase for 2027, another 25% rate increase for 2028, 6% from 2029 through 2031, and then 0% for the remaining 5 years. The cumulative rate impact for the 10-year scenario is 86%. The historical lookback shows that if rate increases had been applied back in 2015, the cumulative rate impact today would have been 55%.

Scenario 3 for a high $34 million per year CIP shows a 30% increase for 2027 and 2028, a 15% increase from 2029 through 2031, and a 3.5% increase for the remaining 5 years. That 3.5% is encouraging having rate increases every year at a minimum of 2% or 3%. That could be done through a rule change so that even if you don't have those numbers, the Department could say that rates could go up or be adjusted for CPI (Consumer Price Index)

**<u>Rate Scenario Results FY 2027 – FY 2036 (Slide 23)</u>**
In the interest of time, Ms. Hajnosz focused on Scenarios 1 and 3, but would take questions on any of the scenarios listed.
<u>Scenario 1</u>
For $16.5 million capital spend per year, they are coming up with a total of first 5-year spend of $81.3 million; a total time period of 10 years is $181.5 million. The average annual capital spend for the first 5 years, which includes the budget, is about $13.6 million per year; $16.5 million for the total 10 year time period.
<u>Scenario 3</u>
Over the first 5 years we will spend about $104 million; $373 million over the total 10 year time period. The annual average spend over the first 5 years is $174 million, which includes the budget year; average annual capital spend over the 10-year period is $34 million.
Staff augmentation is only included for scenario 3, but to address Board member Fujikawa's question, Ms. Hajnosz stated they will be including about $0.5 million for Scenario 1, and $1 million for Scenario 2.

Chair Simonton asked if Scenario 3 is achievable in any form in terms of engineers to design the plans, staff to execute them, contractors to do the work, materials supply on-island, etc.? Mr. Kagimoto stated he thinks that would be pushing the limits in terms of both in-house capabilities and the availability of contractors. The purpose of this scenario from an Engineering analysis standpoint is to consider the infrastructure upgrades that are needed, but it would be a very big lift to accomplish. Ms. Simonton stated from a practical perspective, to look at what the Department is currently doing and expect to be able to get there in a year or two is not realistic, though it is a great piece of information to have. In looking at this information, is there any value in potentially creating a Scenario 1.5 depending on what that does for our restriction areas, and whether it is worth taking additional time and energy from the consultants. Mr. Kagimoto stated that looking at the $16 million on an annual basis sounds like a decent amount, but when the project spans over 20 years, it doesn't really move the needle. Meanwhile, infrastructure that didn't get touched is 20 years older at that point. The Department is definitely motivated to do as much as it can, but there is also a practical aspect that needs to be considered. Ms. Simonton stated she wouldn't support starting at Scenario 3 because that would be a set up for failure, but maybe they could start with a Scenario 1.5 knowing you want to get to Scenario 3. She also made a plea to future board members to have the grit to keep with it and not back down because they don't want to be the ones raising rates. Ms. Hajnosz clarified that even at $16.5 million, the Department will not get there right away, which is why they did it over the 10-year time period, knowing that in the first 5 years, you're not going to get close to $34 million. However, in the last 5 years, they are over that doing $40 or $50 million a year, so it averages out. They have to be compelling and persuasive in how they get to these levels of capital execution.

Ms. Simonton asked how much of Water Plan 2020 has been completed to which the response was 40% of projects. Mr. Kagimoto stated that the goal is to be able to have a framework in place for the Board to assess, so if the Department is over-promising and not achieving, some of the future projects can be adjusted. The intent is not to just put in for the 10 years and hope all of these things will happen, the Department needs to be accountable for what they deliver. Ms. Simonton agreed that you want to be able to achieve those goals because missing them gives the Board the opportunity to pull it back because they are not being completed. Ms. Sorensen highlighted that the costs include today's construction numbers so if you have $16.5 million over the next 10 years, how far will that get you over time.

Ms. Hajnosz discussed Capital Financial Policy Targets explaining how capital will be funded, which is more than 90% cash-funded for all scenarios because a rate increase will generate a lot of cash, so there won't be as much of a need for debt. There are State appropriations at about 1% or 2%, and projected SRF Loans set at $13 million, and annual debt service is ranging between $1.2 and $1.6 million in all scenarios. The debt service coverage goal is 1.5, but it will be well exceeded because the rate increases will generate a lot of cash revenue, operating expenses will not be going up, and there won't be a lot of debt, resulting in pretty good debt ratios. Debt ratios are predicted to be less than 35%, likely peaking out at 21% in the first or second year, and operating cash reserves targets are anticipated to be reached within the 5-year time period.

**10-Year Capital Scenario 1: $16.5M/YR (Slide 24)**
Ms. Hajnosz explained the top left graph is the CIP spend with the bars representing annual capital expenditures over the 10-year time period – Gray bars are the new capital expenditures, the gold bars are encumbered capital at about $72 million in current contracts. They have to figure out what they are going to do with that as they are fully funded, but they wanted to include it to show that in addition to the Average Annual CIP there are these contracts for current projects that are in progress. That adds to the capital picture, especially in the first 6 years. Focusing just through 2031, the average capital is just under $14 million per year for new capital; if they add encumbered capital, it goes up to $26 million. For the next 5 years, about $20 million a year in capital will be added to get to the $16.5 million average capital spend. Looking at the big picture of encumbered projects, it was spread over 6 years, but some of these projects have been in progress for over 10 years.

The graph on the bottom left puts everything together in terms of revenue requirement – Gray bars are the O&M, Green bars are existing debt service, Yellow bars are contributions to the reserve. With new debt service coming up, it tops out going from $40 million all the way to $64 million. The dotted line shows revenue under the current rates, and the solid line shows revenues under the projected rates.

The graph on the bottom right reflects the balances of the minimum reserves for operating capital, with the operating reserve target represented by the dotted line. The top line, the capital reserve target, shows that you will hit your operating reserve target in about 2027, and 2031 is when you will hit the capital reserve target. There is a little dip around 2034 when debt service goes down.

Ms. Hajnosz acknowledged that there is a lot of information, but it is because they are trying to accomplish a lot of things in this analysis which is why they extended it over 10 years.

**10-Year Capital Scenario 3: $34M/YR (Slide 26)**
Ms. Hajnosz explained that capital expenditures are still going to be about $20 million, and will ramp up to about $30 to $40 million within the 5-year time period; the $34 million will be exceeded in the last 5-year time period. The chart on the bottom left shows how the fees will be

building up to those reserves, building up to the capital spend, which gives the profile for the rate adjustments shown on Slide 22.

Ms. Hajnosz stated the intent of today's presentation is to provide all of the information to the Board to consider before they return to the Board in December with any adjustments to the proposal based on today's feedback and discussion. She encouraged the Board to reach out with any additional feedback prior to the December meeting.

**Comparison with Other Counties (Slide 27)**

- Focus is on FY 2027 (July 1, 2026)
- Typical monthly bill assumes 12,000 gallons per month
- 5/8" meter
- Honolulu BWS and Hawaii DWS have adopted multi-year rate schedules – using FY 2027 and FY 2028 rates
- Maui DWS adopts rates annually – using FY 2026 rates
- Average bill is the average of Kauai DOW Scenario 1. Honolulu BWS, Hawaii DWS and Maui DWS for FY 2027

**Monthly Bill Comparison (Slides 28 and 29)**

The green bars represent Kauai DOW and show the potential rate increases for FY 2027 for each scenario as compared to the other islands for single-family 5/8" meter at 12,000 gals/month. Ms. Simonton asked if the 12,000 gals/month is based on a family of 4 at 100 gallons per day per person, is that a real average for a single family? Waterworks Controller Renee Yadao stated that for presentation purposes this is a very good example of where we stand. The slide on the next page shows the monthly bill comparisons for FY 2028

**Typical Bill Changes – FY 2026 – FY 2031 (5YRs)**

This slide shows the actual dollar amounts for the existing rates, and for Scenarios 1 through 3 for Fiscal Year 27 based on 12,000 gallons/month with a 5/8" meter. Ms. Simonton asked if these rates are implemented and it results in a 10% or 15% reduction in water use, could that affect some of our CIP? Ms. Hajnosz stated it could certainly affect our revenues, noting that water is so inelastic in terms of price increases and price use that there is some erosion of consumption and subsequently revenues, but it usually only happens at the very highest levels with those who have a lot of discretionary use. For a utility that has not raised its rates in over 10 years, it will be incumbent upon the Department to do a good job with public outreach and making them aware of the value of water.

**Scenario 1 Monthly Service Charge Across-the-Board (ATB) FY 2027 thru FY 2036 (Slide 31)**

This slide shows the usage charges for General Use and Agricultural use. Ms. Hajnosz stated the 10-year time period is shown to parry it up with the rest of the analysis even though the Board is not going to adopt a 10-year rate recommendation.

**Scenario 3 Usage Charge – General Use and Agricultural Customers (Slide 31)**

Scenario 3 is the high end of what was shown in Scenario 1.

**The Manager's Perspective**

Manager Joe Tait stated that as he has observed engineers, and there are a lot of smart ones in this room, those smart people depend on 2 things – a sustainable, provable process, and who the people are entrusted to. He expressed his trust in the engineers in the room as well as those DOW has contracted with, adding that along with the smart engineers and smart business people on the Board, there is no excuse for failure. He shared that he learned to do early on in coming to DOW – 1. Base our decisions on reality. 2. Eliminate excuses. He thinks that has happened so far during this process. Water utilities are marathoners, not sprinters, and we are looking at a marathon process, whether 5 or 10 years. He touched on a couple of things mentioned by Ms. Simonton and Mr. Fujikawa, which is that nowhere in any of this have we accounted for a major event, or for emergency response. There are no considerations for a Hurricane Iniki, or California wildfires. Another thing missing is how the public may not even think about the Water Department because 99% of it is buried, and not sticking above-ground. He recognized Water Service Supervisor II Chris Nakamura, who was present, sharing that he has put 10 repair clamps on a section of pipe that the public doesn't see. The Department knows it, we know it's going to fail again and again, but the public doesn't know it. We need to explain to the public in very simple terms that this is what we inherited, it's not something that happened yesterday. With regard to staff augmentation, Mr. Tait stated that our finance systems need to be updated, and with the supportive, talented staff leading the Fiscal group, the excuses are gone. It's now to the point where we don't say no, we say how much? Mr. Tait added that he is a big believer in things within our capacity, yes, we want to stretch goals, but the proof is in the 38% of projects that were completed in Water Plan 2020. That fact will result in DOW losing all confidence from our customers, and we will not get support for the rates. There has to be a process with the Board that not only support, but also keeps an eye on the staff. Mr. Tait shared some of his observations:

- Status quo is not going to happen, if it does, turn the lights off today
- Our water system is in emergency status today, the crew over in Operations are basically a fire department – something breaks, they run to fix it.
- We do not have critical fire protection.
- We do not have adequate system storage, transmission or distribution.
- We do not have adequate pressure in all of our systems – this would be a luxury the Department has not seen in decades
- The IT team – all two of them – are in a daily "cross-your-fingers" mode

So, these rates are not just going to be for capital projects in the field, they're going to be for capital projects in the building, systems that need replacement all while they are running to answer help calls.

Mr. Tait shared his advice on what their partnership with the Board would look like:

1. Approve a couple of years of plan at a healthy, significant increase that gets us through this initial hump of fiscal being unsure of where we get the money to maintain the Department's impending needs.
2. As we near the second year, partner with the Fiscal team to determine where we are at after 2 years of rates, and where do we stand fiscally so the Board can make a decision based on reality rather than estimating, as we are doing now.
3. Have a 5-year progressive rate structure.
4. Have the team that's in this room, specifically the outside experts, verify how the Department is doing shortly before the end of the 5-year process that we've agreed to
5. Ensure that this Board and management team in place at that time don't have to repeat this unknown process with the customer.

6. Make sure future managers report on a quarterly basis what is about to be approved or adjusted, check with fiscal on how they are doing with the plan; don't wait a year, that's too long.

Ms. Hajnosz encouraged any other important feedback, maybe specifics on which scenario the Board is leaning towards, other considerations they should be incorporating, and any other information the Board may need to make a decision. Whatever feedback is received will be incorporated as best as possible and will be reported back to the Board at the December meeting as to what those adjustments may look like. They will also include the FRC recommendation that was made back in April in that whole package. In January, they are hoping to come back to the Board and get some action and approval on a rate package, including the FRC, to go out to the public towards the end of the Quarter in March or April.

Board member Fujikawa asked to confirm his understanding that what the Board is now considering is the percentage increase we want to move forward with, and that the potential breakdown of categories will be held off until after this action. Ms. Hajnosz confirmed that the Board would be looking at approving a percentage adjustment for next July, ideally with a 2-year recommendation. Those adjustments would be applied across the board to all rates.

Ms. Hajnosz provided a background on cost-of-service and rate design, noting that these adjustments proposed are significant. To do a cost-of-service and rate design analysis, which comes up with results that change the different allocations between classes, and then add a new customer class would be at an exponential level of complexity. Collectively, they felt that it was a priority to obtain some financial stability first, and then look at customer allocations. DOW currently has a fairly aggressive rate structure in terms of conservation so they considered the benefit of doing those complex analyses right now on top of the pressing financial stability issues.

Mr. Fujikawa stated for clarification that those adjustments can be made at a later date when there will be a new round of rates to introduce. He asked if 2 years is needed to perform the analysis, or could it be done in 1 year? Ms. Hajnosz stated that they would do it based on 1 year and then move forward with adjustments made if you add or change customer classes. Mr. Kagimoto added that their current evaluation was two-fold to address both the significant rate increase and to add the customer classes, which would have been a lot to undertake in one fell swoop. The other consideration was the amount of time it would take to do that, so it was decided to get the Department more financially stable sooner knowing there are improvements and adjustments that can still be made. He noted that one of the things mentioned earlier in the presentation identified our reserves at $31 million, of which $13 million was already going to be used; the longer we push out the implementation of a rate increase will prolong the amount of time we are dipping into our reserves. Once the Department is a the point of being more financially stable, they can then figure out how to possibly introduce additional customer classes, etc.

Mr. Fujikawa stated that his reason for asking for clarification is that the recommendation was to approve for 2 years, so he is wondering if the assessment can be done in 1 year, and then introduce the new classes for the second year; is that realistic or do the complexities span into additional years which would warrant the 2 year approval. He stated that he understands the first year and the need to try and get this approved by July, but he is contemplating more of the following year. Ms. Hajnosz stated if they are able to do it in time to get it to the second year, there would need to be more public outreach, and a rule change process. Maui did it, but it took longer than a year to get the Board comfortable with all of it. In response to Mr. Fujikawa, Board member Kodani stated that timing-wise, even if we start next year, it's going to likely take a year for the consultants to do their study. Maybe if the Board is leaning toward changing or adding categories, it would be something to advise the public that may be coming up and keep them informed of what is being considered.

Mr. Kagimoto stated one of the bigger concerns that have come up in public meetings was for people of fixed incomes, specifically our kupuna. The across-the-board rate doesn't provide any difference for that, which was a motivator to get to a point to see that they don't make things unaffordable for those on a fixed income.

**STAFF REPORTS**

1. **Fiscal**
   a. Monthly dashboard – Number of Service Calls, Number of Walk-in Customers, Number of Customer Emails and Correspondence, Number of Customer Rebills, Accounting Highlights, Transponder Replacement highlights and progress, Staff Overtime hours
   b. Budget Report for October 2025

2. **Operations**
   a. Monthly dashboard – Annual Financial Impact Overview, Staff Overtime Hours, Budgeted and Vacant Positions, Services Received/Completed, Highlights: New Hires and Recruitment, DSO/WTPO Exams conducted

3. **Engineering**
   a. Monthly dashboard – Budgeted and Vacant Positions, Staff Overtime Hours, Projects In Design, In Construction, Completed; Water Resources and Planning Statistics – Customer Requests, Applications and Permits, Service and Records Requests, Number of Backflow Devices tested
      i. Capital Improvement Plan (CIP) Project Highlights/Status Updates:
         - Kapa'a Homesteads 325' Tanks
         - Pu'u Pane 1.0 Million Gallon Tank
         - Kalāheo Water System Improvements
         - University of Hawai'i Experimental Station 605' Tank
         - Hā'ena 0.2 MG Tank
         - Kīlauea Wells 1 & 2 MCC, Chlorination Facilities
         - Kūhiō Hwy (Hardy-Oxford) 18" Main Replacement
      ii. DOW Project Highlights/Status Updates:
         - Water Systems Investment Plan (WSIP)
         - Kaua'i Water Use and Development Plan (KWUDP)
         - As-Needed Grant Writing and Preparation Services: WaterSMART Grant for Advanced Metering Infrastructure (AMI) Meters

4. **Administration**
   a. Human Resources – updates on Personnel Vacancies

5. **Manager and Chief Engineer**
   a. Reports to Manager:

1. Fourth Amendment to Contract No. 721 with Brown and Caldwell, Job No. 21-01, Water Systems Investment Plan
2. Sixteenth Amendment to Contract No. 535 with Fukunaga & Associates, Inc., Job No. WRP 01 FY05-06, Kaua‘i Water Use and Development Plan (WUDP) Update

**TOPICS FOR NEXT BOARD OF WATER SUPPLY MEETING: *(December)***

1. Discussion and Possible Action on the Water Minimization Plan and Water Service Agreement for Namahana Education Foundation
2. Discussion and Possible Action to Request Board Approval of the Indemnification Provision in the Construction Right-of-Entry Agreement between the Board of Water Supply, County of Kaua'i and The Harry and Jeanette Weinberg Foundation Incorporated
3. Confirmation of Board Committee Appointments for 2026

**TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING:**

**EXECUTIVE SESSION**:
Pursuant to Hawai'i Revised Statues (HRS) §92-7(a), the Board may, when deemed necessary, hold an executive session on any agenda item without written public notice if the Executive Session was not anticipated in advance. Any such executive session shall be held pursuant to HRS §92-4 and shall be limited to those items described in HRS §92-5(a).

**ADJOURNMENT**
The meeting was adjourned at 11:20 a.m.

Respectfully submitted,

Cherisse Zaima

Cherisse Zaima
Commission Support Clerk