

STATE OF HAWAI'I
DEPARTMENT OF HAWAIIAN HOME LANDS

March 17-18, 2025

To: Chairman and Members, Hawaiian Homes Commission
Thru: Andrew Choy, Planning Program Manager *AC*
From: Lillie Makaila, Planner *lljm*
Subject: Approval of a Temporary Water Bill Subsidy for
Kailapa Homestead Lessees on the DHHL Kawaihae
Water System

Recommended Action

That the Hawaiian Homes Commission (HHC) approve the
Temporary Water Bill Subsidy for Kailapa Homestead
Lessees on the DHHL Kawaihae Water System.

Discussion

The Kawaihae Regional Plan Update was adopted by this Commission at its July 2024 regular meeting. This Regional Plan Update included five priority projects, the top priority project is the Water - Wai Ola Project which aims to address critical water challenges facing our Kawaihae beneficiaries. In adopting this Regional Plan, the HHC accepted the implementation action steps which articulated how to address each issue the priority project aims to solve. The Water - Wai Ola Project includes implementation action steps that create short-term, mid-term and long-term actions for the Department to take to fully implement each measure. This item aims to address the short-term actions required to target water affordability and address the water rate disparity that is impacting our beneficiaries in Kailapa homestead. **An excerpt of the Kawaihae Regional Plan Update, Water - Wai Ola Priority Project is included as Exhibit A.*

WATER - WAI OLA PRIORITY PROJECT & WATER RATES

It is important to understand the water rate schedule in order to fully grasp the current impact of the water rates on homesteaders in Kailapa. The Hawaiian Homes Commission approved new service rates in 2018, increasing water service fees for residential lessees each year on July 1st for a period of 10-years, from 2019 to 2029. These water rates were set in an effort for the Department to "break even", as for years the Department had been spending approximately \$1M per year of Trust funds to provide subsidies to water users on all three of its water systems, including the Kawaihae Unit #1 water system. This "break-even" includes the accumulation of "reserve funds" from billings to users to total \$400,000 over the course of the 10-year water rates schedule period.

Water users in Kailapa are billed as follows:

1. A residential lessee meter service (base) fee, a flat rate billed bimonthly (for a 60-day period), and
2. A residential lessee service delivery (usage) fee, a fee calculated based on total gallons used per month, charged per 1,000 gallons, and calculated using the residential lessee service delivery (usage) tiers below. Currently, water users on DHHL's Kawaihae water system are being charged based on the FY25 rates in the tables below, with that amount set to increase again on July 1, 2025.

At the time that this water rate schedule was adopted, the position of DHHL was that the end goal for the water rates was to "break even", where the billing collections for water users should equal the expenses for operation and maintenance of the system. Though Kawaihae water rates are the highest of the three water rate schedules by far, the water policy in general was meant to address all three of the water systems owned by DHHL and any amendments to the water rate schedule should consider all of the other systems, its water users, and the potential expense to the Hawaiian Home Lands Trust. A water rate schedule should be equitably applied to all three water systems and their users, to the extent possible. And adverse impacts should be addressed quickly to avoid undue hardship on homesteaders and the Trust.

Unlike other water purveyors, DHHL does have other funding sources besides bill collection, like commercial and industrial lease rents, the HHL Trust, and the annual operating budget, and options to receive legislative funds or grant funding that could be utilized to offset the cost of

the water system and its operation, repair and maintenance. The concept of a "reserve" is understandable, however the idea that 164 users of the DHHL water system are responsible to be the source of fundraising \$400,000 over the course of 10 years to cover future costs of repair and maintenance has had huge adverse impacts on the well-being of our homesteaders that have been carrying this burden.

In Hawai'i Administrative Rules Chapter 10-4.1-31(a) regarding Water Service Rates, the rules state that "The department shall conduct a cost of service study annually, based upon enterprise accounting, and a water service rates analysis at least every three years." To date, no cost of service studies or water service rates analysis have been conducted for the Kawaihae water system since the water service rates were approved in 2018. This is an oversight that should be corrected. Budget was included for the Planning Office to complete these studies.

The Implementation Action Steps included in the Kawaihae Regional Plan Update (2024) include implementation action steps such as "Re-assess the DHHL water rate schedule to provide more affordable potable water to Kailapa homesteads on the DHHL Kawaihae water system." Amendments to Administrative Rules have an average timeframe of approximately two (2) years. When this timeframe and process was shared with participants at BC#3, beneficiaries clearly communicated that this solution should not be considered a short-term solution, but a long-term solution. And, beneficiaries stated that more immediate relief is needed for Kailapa homesteaders while the reassessment and amendment to the water rate schedule takes place. This Commission approved the concept of a temporary subsidy in its July 2024 meeting. This item is meant to implement this approval.

The following table shows the current water rate schedule:

KAWAIIHAE WATER SYSTEM SERVICE RATES
APPROVED ON MAY 15, 2018

Residential Lessee Service Rates:

Residential lessee 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"	\$49.07	\$63.37	\$77.70	\$92.06	\$106.46	\$120.90	\$135.37	\$149.88	\$164.42	\$179.01

Residential lessee service delivery (usage) tiers:

	Gallons Bi-Monthly
Tier 1	0 - 10,000
Tier 2	10,001 - 30,000
Tier 3	30,001 - 80,000
Tier 4	Over 80,000

Residential lessee 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	\$3.67	\$4.73	\$5.81	\$6.88	\$7.95	\$9.03	\$10.11	\$11.20	\$12.28	\$13.37
Tier 2	\$4.92	\$6.35	\$7.79	\$9.23	\$10.68	\$12.12	\$13.58	\$15.03	\$16.49	\$17.95
Tier 3	\$6.89	\$8.90	\$10.92	\$12.94	\$14.96	\$16.99	\$19.02	\$21.06	\$23.10	\$25.15
Tier 4	\$8.30	\$10.73	\$13.15	\$15.58	\$18.02	\$20.46	\$22.91	\$25.37	\$27.83	\$30.30

*yellow is the current water rate; red shows the water rate that will be eff. July 2025.

In order to make this water rate schedule more tangible, it is important to understand what other water users in the same region, and other beneficiaries are paying for potable water. Included below are excerpts from the County of Hawai'i Department of Water Supply Water Rates Brochure.

By comparison, the County rates are approximately **\$29.97 for a monthly meter fee**, whereas the DHHL Kailapa rate is **\$135.37 bimonthly or \$68.69 per month**. And, the County rates are approximately **\$3.74** per 1,000 gallons of use (k-gal) for the first block or 5,000 gallons used per month and **\$5.35** per k-gal for the next block of 10,000 gallons used in one month. The DHHL Kailapa rate is **\$10.11** per k-gal for the first tier or 10,000 gallons used bimonthly and **\$13.58** per k-gal for the second tier or the next 20,000 gallons used bimonthly. **A difference of approximately 4.5X the monthly meter fee, 2.7X the water rate for the first tier, and 2.5X the water for the second tier.**

A. MONTHLY STANDBY CHARGES*

All meter connections shall be subject to a monthly standby charge as follows:

Meter Size (inches)	Effective July 1, 2023	Effective July 1, 2024
5/8"	\$ 27.37	\$ 29.97
1"	58.26	63.79
1-1/2"	108.39	118.69
2"	169.36	185.45
3"	310.27	339.75
4"	510.80	559.33
6"	1,012.11	1,108.26
8"	1,615.04	1,768.47
10"	2,330.42	2,551.81
12"	4,064.69	4,450.84

*Standby charge is a minimum monthly charge.

B. GENERAL USE RATES (per 1,000 gallons)

In addition to standby, power cost, and energy CIP charges, a consumption charge will be applied to all general use customers as follows:

	Effective July 1, 2023	Effective July 1, 2024
1 st Block	\$ 1.25	\$ 1.37
2 nd Block	2.72	2.98
3 rd Block	4.78	5.23
4 th Block	6.35	6.95

BLOCK THRESHOLDS (gallons per month)

The threshold for the rate blocks vary with the size of the water meter as follows:

Meter Size (inches)	1st Block	2nd Block	3rd Block	4th Block
5/8"	5,000	5,001 - 15,000	15,001 - 40,000	> 40,000

It is also important to note that the Kawaihae Unit #1 water rate schedule, effective for the Kailapa homestead is not the only potable water rate schedule established for homesteaders and a comparison to other DHHL potable water systems is critical to understand the disparity, and to best grasp the urgent need for a temporary subsidy to provide relief until the overall issues of the water rates schedule can be resolved with an update to the administrative rules.

J. POWER COST CHARGES (per 1,000 gallons)

All water use shall be subject to the imposition of a Power Cost Charge in addition to consumption, standby, and energy CIP charges. The Department shall calculate the rate based on actual power costs and consumption every two months or for the period since the last revision to the power cost charge. Current and historic power cost charges are as follows:

Effective Date	Power Cost Charges
February 1, 2025	\$2.32
September 1, 2024	\$3.04
May 1, 2024	\$2.77
February 1, 2024	\$2.37
September 1, 2023	\$2.64

K. ENERGY CIP CHARGES (per 1,000 gallons)

All water use shall be subject to the imposition of an Energy CIP Charge in addition to consumption, standby, and power cost charges. The rate shall be adjusted annually in order to fund projects designed to improve the Department's energy efficiency. The current energy CIP charge is as follows:

Effective Date	Energy CIP Charge
July 1, 2016	\$0.05

Below is the Ho'olehua, Moloka'i water rates schedule for residential water users:

HOOLEHUA WATER SYSTEM SERVICE RATES
APPROVED ON APRIL 17, 2018

Lessee Service Rates:

Lessee water service delivery (usage) tiers:

	Gallons Bi-Monthly
Tier 1	0 - 10,000
Tier 2	10,001 - 25,000
Tier 3	Over 25,000

Residential lessee 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

Residential lessee 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

By comparison, Ho'olehua residential users pay **\$9.87 for a bimonthly meter fee**, compared to Kailapa's rate of **\$135.37**. Ho'olehua residential users pay **\$2.22** per k-gal for the first 10,000 gallons used bimonthly compared to Kailapa's rate of **\$10.11** per k-gal for the same amount. And, Ho'olehua residents pay **\$2.98** per k-gal for the next 15,000 gallons used, whereas Kailapa's rate is **\$13.58** per k-gal for the next 20,000 gallons used bimonthly. **A difference of 13.7X the monthly meter fee, 4X the water rate for the first tier, and 4.5X the water rate for the second tier.**

The DHHL Anahola water rate schedule services residential water users in Anahola, Kaua'i. Below is the water rate schedule also approved in 2018.

ANAHOLA WATER SYSTEM SERVICE RATES
APPROVED ON AUGUST 21, 2018

Residential Lessee Service Rates:

Residential lessee meter service (base) fees:

Meter size (inches)	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29
5/8"	\$28.08	\$32.16	\$36.24	\$40.32	\$44.40	\$48.48	\$52.56	\$56.64	\$60.72	\$64.80
3/4"	\$37.44	\$42.88	\$48.32	\$53.76	\$59.20	\$64.64	\$70.08	\$75.52	\$80.96	\$86.40
1"	\$58.50	\$67.00	\$75.50	\$84.00	\$92.50	\$101.00	\$109.50	\$118.00	\$126.50	\$135.00
1 1/2"	\$105.30	\$120.60	\$135.90	\$151.20	\$166.50	\$181.80	\$197.10	\$212.40	\$227.70	\$243.00
2"	\$175.50	\$201.00	\$226.50	\$252.00	\$277.50	\$303.00	\$328.50	\$354.00	\$379.50	\$405.00
4"	\$514.80	\$589.60	\$664.40	\$739.20	\$814.00	\$888.80	\$963.60	\$1,038.40	\$1,113.20	\$1,188.00

Residential lessee water service delivery (usage) tiers:

METER SIZE	TIER 1	TIER 2	TIER 3
	Gallons Bi-monthly	Gallons Bi-monthly	Gallons Bi-monthly
5/8"	0 – 20,000	20,001 – 40,000	> 40,000
3/4"	0 – 70,000	70,001 – 140,000	> 140,000
1"	0 – 200,000	200,001 – 400,000	> 400,000
1 1/2"	0 – 600,000	600,001 – 1,200,000	> 1,200,000
2"	0 – 1,200,000	1,200,001 – 2,400,000	> 2,400,000
4"	0 – 6,000,000	6,000,001 – 12,000,000	> 12,000,000

Residential lessee water service delivery (usage) fees:

Per 1,000 gallons	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29
Tier 1	\$3.23	\$3.70	\$4.17	\$4.64	\$5.11	\$5.58	\$6.04	\$6.51	\$6.98	\$7.45
Tier 2	\$3.74	\$4.29	\$4.83	\$5.38	\$5.92	\$6.46	\$7.01	\$7.55	\$8.10	\$8.64
Tier 3	\$5.27	\$6.03	\$6.80	\$7.56	\$8.33	\$9.09	\$9.86	\$10.62	\$11.39	\$12.15

By comparison, Anahola residential users pay **\$48.48 for a bimonthly meter fee**, compared to Kailapa's rate of **\$135.37**. Anahola residential users pay **\$5.58** per k-gal for the first 20,000 gallons used bimonthly compared to Kailapa's rate of **\$10.11** per k-gal for the same amount. And, Anahola residents pay **\$6.46** per k-gal for the next 20,000 gallons used, whereas Kailapa's rate is **\$13.58** per k-gal for the next 20,000 gallons used bimonthly. **A difference of 2.8X the monthly meter fee, 1.8X the water rate for the first tier, and 2.1X the water rate for the second tier.**

Also of interest, is the matter of the Kailapa Community Association pavilion. This site is used for community meetings and events, including DHHL community meetings at no cost to the Department. Kailapa Community Association (KCA) is a beneficiary-led, non-profit entity and is responsible for covering the costs of the of the operation and maintenance of the pavilion. Like the homesteaders, the KCA Pavilion is subject to very high water rates, these high water rates limit KCA's ability to serve its homesteaders. The water rates schedule for KCA is included below.

Kailapa Community Association Service Rates:

Kailapa Community Association 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"	\$49.07	\$63.37	\$77.70	\$92.06	\$106.46	\$120.90	\$135.37	\$149.88	\$164.42	\$179.01

Kailapa Community Association water service delivery (usage) tier:

	Gallons Bi-Monthly
Tier 1	9,999,999

Kailapa Community Association 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	\$11.41	\$14.73	\$18.06	\$21.40	\$24.75	\$28.11	\$31.47	\$34.84	\$38.22	\$41.61

By comparison, KCA pays **\$135.37 for a bimonthly meter fee**, the same as the Kailapa rate for homesteaders. KCA pays **\$31.47** per k-gal as a flat rate for all water usage compared to Kailapa's rate of **\$22.91** per k-gal for the highest tier.

The below table expresses the expenses to the Department for the on-going operation, maintenance and repair as well as the cost of water purchased from Kohala Ranch Water System. According to this table, **the expense to the Department to operate the Kawaihae Unit #1 water system was \$244,544.38**. For that same fiscal year, the DHHL Fiscal Office recorded **billings to users totaling \$286,589.13, a difference of \$42,044.74**. A note that the goal of the water rate schedule as adopted in 2017 by the Commission was to "break-even". Based on the figures above, the water rates schedule has achieved break-even for the system, and is currently billing in excess of the operating expenses. It is for this reason,

that the temporary subsidy is necessary and should be implemented ahead of the scheduled rate increases in July of this year.

Expenses Table (in USD):

MONTH For FY23	KOHALA RANCH WATER SYSTEM	PURAL Distribution Operations	PURAL Replacement Items (meters, valves, etc)	HAWAIIAN ELECTRIC (Radio transmitter and lights)	HAWAIIAN ELECTRIC (3 pumps and lights)
July	15637.14	4190.00	0.00	51.35	1483.70
August	17746.15	4190.00	0.00	51.28	1384.46
September	16298.46	4190.00	193.43	51.28	1412.52
October	15822.38	4190.00	0.00	51.28	1414.28
November	15887.71	4190.00	0.00	51.28	1271.99
December	15385.49	4190.00	0.00	51.28	1325.24
January	12623.34	4190.00	0.00	51.28	1246.27
February	14155.96	4190.00	0.00	51.33	1130.20
March	13455.38	4190.00	0.00	51.33	1345.79
April	12107.40	4190.00	0.00	51.33	1198.89
May	13348.99	4190.00	1800.36	51.94	1170.61
June	13515.95	4190.00	0.00	55.23	1282.10
TOTAL	175984.35	50280.00	1993.79	620.19	15666.05
FY23 TOTAL	\$244,544.38				

PROPOSED TEMPORARY SUBSIDY

The Regional Plan Update included detailed implementation action steps with language that effectuated the short-term, mid-term and long-term solutions to the water-related issues identified in the priority project. This item is before the HHC today to fulfill step 1 of the short-term action steps. The proposed subsidy is as follows:

- Temporary subsidy to cover in full the bimonthly base rate for meter service for all residential users and the Kailapa Community Association pavilion until the water rates schedule can be amended.
- The source of this subsidy proposes the use of DHHL Trust funds from revenue generated from land dispositions in the Kawaihae Region. According to the 2023 DHHL Annual Report this revenue totaled \$642,032 for the DHHL Trust.

Below is an excerpt of the short-term action steps to be implemented:

SHORT-TERM: Provide a temporary subsidy for Kailapa homesteaders until the water rate schedule can be updated.

As the timeframe for updates to the water rate schedule will likely take approximately two (2) years to complete, a temporary subsidy should be implemented for Kailapa homesteaders to provide immediate relief for the high water rates they are facing and make water more in the interim.

1. Go to HHC for approval of a subsidy for users of the Kawaihae Water System in Kailapa.
 - The subsidy for users should cover the base rate for meter service, currently at \$120.90 and scheduled to increase to \$139.37 as of July 1, 2024. This amount is approximately \$138,000 for 164 users for FY24 and \$148,000 for 164 users for FY25.
 - The source of the subsidy could come from a variety of sources including:
 - A portion of the revenue generated from commercial/industrial and pastoral land dispositions in the Kawaihae Region.
 - DHHL land dispositions in Kawaihae generated \$604,521.64 in revenue in 2022.
 - Less than 25% of the annual revenue generated in Kawaihae could subsidize the basic meter fee for Kailapa homesteaders.
 - Currently, DHHL homesteads in Kawaihae have no community benefit agreements and receive 0% of revenue generated from land dispositions in the region.
 - HHL Trust Funds.
 - Other.
2. Continue working on long-term solutions to ensure the subsidy is only necessary as a short-term solution.
3. Upon revision of the water rate schedule, terminate the temporary subsidy and effectuate the water rate schedule as revised.

In light of the data which shows that current billing rates exceed the expenses incurred for the system, in addition to the above, we also propose **stabilization of the existing water usage rates for tier 1 and tier 2 water usage for residential users**. This would provide stabilization of the water rates for residential users, excluding the KCA Pavilion, who use less than 30,000 bimonthly, or 15,000 per month. Those users whose usage is in excess of these amounts would be required to follow the water rates schedules as adopted. By subsidizing the first two tiers, and not subsidizing the remaining two tiers, that ensures that conservation of water is encouraged and excessive use is discouraged and will help to ensure we do not see excessive overuse following the implementation of this temporary subsidy.

PROPOSED WATER RATE STABILIZATION FOR TIERS 1 & 2:

**only for residential users*

Residential lessee 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	\$3.67	\$4.73	\$5.81	\$6.88	\$7.95	\$9.03	\$10.11	\$10.11	\$10.11	\$10.11
Tier 2	\$4.92	\$6.35	\$7.79	\$9.23	\$10.68	\$12.12	\$13.58	\$13.58	\$13.58	\$13.58
Tier 3	\$6.89	\$8.90	\$10.92	\$12.94	\$14.96	\$16.99	\$19.02	\$21.06	\$23.10	\$25.15
Tier 4	\$8.30	\$10.73	\$13.15	\$15.58	\$18.02	\$20.46	\$22.91	\$25.37	\$27.83	\$30.30

Water usage for all users in Kailapa on the Kawaihae Unit #1 water system totaled approximately 18MG for fiscal year 2023. Water credits for County of Hawai'i estimate 400 gallons per day for domestic users, with one water credit per unit. At this rate, 400 gallons per day multiplied by 164 metered connections totals 65,600 gallons per day or 23,944,000 gallons per year, a difference of nearly 6M gallons. This reflects Kailapa users proclivity for water conservation, with each user using an average of around 18 k-gal per user bimonthly. Total water usage following the implementation of this proposed temporary subsidy will be monitored closely for adverse effects.

IMPACTS:

The proposed subsidy is recommended to take effect on July 1, 2025. This will allow the Department staff an appropriate amount of time to implement new procedures for billings to account for this subsidy.

YEAR	TIER 1 USAGE FEE PER USER BIMONTHLY	TIER 1 USAGE FEE TOTAL BIMONTHLY <small>est. 10 k-gal per user</small>	TIER 2 USAGE FEE PER USER BIMONTHLY	TIER 2 USAGE FEE TOTAL BIMONTHLY <small>est. 8 k-gal per user</small>	ANTICIPATED TOTAL BILLINGS BIMONTHLY	ANTICIPATED TOTAL BILLINGS ANNUALLY
FY26	10.11	16,580.40	13.58	17,816.96	34,397.36	206,384.16
FY27	10.11	16,580.40	13.58	17,816.96	34,397.36	206,384.16

YEAR	KCA PAVILION USAGE FEE BIMONTHLY	KCA PAVILION USAGE FEE TOTAL BILLINGS <small>Est. 30 k-gal usage bimonthly</small>	KCA PAVILION USAGE FEE TOTAL BILLINGS ANNUALLY
FY26	34.84	1,045.20	6,271.30
FY27	38.22	1,146.60	6,879.60

Based on the estimated average of 18 k-gal usage per user bimonthly, totaling 18MG per year as recorded by the DHHL Fiscal Office, we estimate that billings for water use in FY26 will total approximately \$212,655.46 and FY27 will total

approximately \$213,263.76, taking into account the proposed temporary subsidy.

The subsidy is projected to cover the following amounts in billings (in USD):

YEAR	BASE FEE SUBSIDY PER USER BIMONTHLY	BASE FEE SUBSIDY TOTAL BIMONTHLY 164 USERS	BASE FEE SUBSIDY TOTAL ANNUALLY 164 USERS	TIER 1&2 USAGE FEE SUBSIDY PER USER BIMONTHLY Est. 18 k- gal per user	TIER 1&2 USAGE FEE SUBSIDY TOTAL BIMONTHLY Est. 18 k- gal per user	TIER 1&2 USAGE FEE SUBSIDY TOTAL ANNUALLY	ANTICIPATED TOTAL SUBSIDY ANNUALLY
FY26	149.88	24,580.32	147,481.92	22.50	3,690.00	22,140.00	169,621.92
FY27	164.42	26,964.88	161,789.28	44.98	7,376.72	44,260.32	206,049.60

YEAR	KCA PAVILION BASE FEE SUBSIDY BIMONTHLY	ANTICIPATED TOTAL SUBSIDY ANNUALLY
FY26	149.88	899.28
FY27	164.42	986.52

*yellow is the subsidy per user per bimonthly bill
*orange is the anticipate annual subsidy provided total

This anticipated total subsidy amounts to less than 33% or 1/3 of the annual revenue generated within the Kawaihae region. Keep in mind that the subsidy is covering the scheduled billing increases, and does not correlate to the actual cost of operation and maintenance of the water system, which is about \$245,000 per year based on FY2023.

NEXT STEPS

Planning staff will continue to work on the mid-term and long-term solutions identified in the Water - Wai Ola priority project including:

- Completing the cost-of-service study and water rates analysis study.
- Updating the water rates schedule in the administrative rules, and terminating the temporary subsidy.
- Identifying a new water source for potable water and non-potable water for Kawaihae.

Recommended Motion Action:

That the Hawaiian Homes Commission (HHC) approve the Temporary Water Bill Subsidy for Kailapa Homestead Lessees on the DHHL Kawaihae Water System as stated.

1. Water – Wai Ola

PROJECT DESCRIPTION

Beneficiaries who attended the beneficiary consultations in Kawaihae for the update to the Regional Plan expressed that their highest priority is addressing the critical need for affordable water in Kawaihae. This project is comprised of three primary components:

- Provide affordable potable water to Kawaihae homesteads.
- Provide options for non-potable water to be used for agricultural or irrigation purposes.
- Find a new water source for the water system currently supplying potable water to Kailapa.

The Kailapa Homestead, where the majority of Kawaihae beneficiaries live, is currently served by the Kawaihae Unit #1 Water System which is a potable water system and provides water to each homestead lot in Kailapa and the community space located at 61-4016 Kai'ōpae Place. Kailapa relies on this potable water system as it is the only water system available to the homestead. The Kawaihae makai homesteads are serviced by the County of Hawai'i Department of Water Supply (DWS), and do not have an option for non-potable water either.

The potable water for the DHHL Kawaihae Unit #1 water system is supplied by Kohala Ranch Water Company (KRWC) from their groundwater well sources located on Kohala Ranch lands. The KRWC also provides potable water to Kohala subdivisions, like the Kohala Estates subdivision and Kohala by the Sea, located to the north of DHHL's Kawaihae lands. Water that is used by Kailapa homesteaders is pumped from the KRWC groundwater wells and piped south to DHHL's Kawaihae lands. The water passes through an interconnection point with DHHL's water system, and then travels from there in DHHL-owned water transmission lines to the Kailapa homestead. DHHL purchases potable water from KRWC at the metered interconnection point at a rate of \$7.03366 per 1,000 gallons of water. In addition to the water usage rate, DHHL is also charged a Power Cost Adjustment rate of \$2.2074 per 1,000 gallons of water. A flat rate maintenance fee of \$300 is also included in KRWC's monthly billings to DHHL. DHHL maintains a temporary water commitment with KRWC, which can be terminated by either party with two years notice.

At present, there are a total of 164 users of the DHHL water system including homestead lots and the community parcel. The operation and maintenance of the DHHL Kawaihae Unit #1 water system is contracted to Pural Water Specialty Company (PWSC), who handles the day-to-day operation as well as any repair and maintenance needed for the system. In addition to maintenance and repair, PWSC also provides meter readings to the DHHL West Hawai'i District Office (WHDO) for individual bimonthly billings for each water user on the system. DHHL's WHDO staff is tasked with handling the individual billing invoices for each user of the Kawaihae Unit #1 water system.

The Hawaiian Homes Commission approved new service rates in 2018, increasing water service fees for residential lessees each year over the next decade, from 2019 to 2029. These water rates were set in an effort for the Department to break even, as for years the Department had been spending millions of Trust funds on providing subsidies to water users all three of its water systems, including the Kawaihae Unit #1 water system. Water users in Kailapa are charged as follows:

1. A residential lessee meter service (base) fee, a flat rate billed bimonthly (for a 60-day period), and
2. A residential lessee service delivery (usage) fee, a fee calculated based on total gallons used per month, charged per 1,000 gallons, and calculated using the residential lessee service delivery (usage) tiers below. Currently, water users on DHHL's Kawaihae water system are being charged based on the FY24 rates in the tables below.

At the time that this water rate policy was adopted, the position of DHHL was that the end goal for the water rates was to “break even”, where the billing collections for water users should equal the expenses for operation and maintenance of the system. Though Kawaihae water rates are the highest, this water policy addresses all three of the water system’s owned by DHHL and any amendments to the water rate schedule should be inclusive of the other systems, its water users, and the potential expense to the Home Lands Trust. A water rate schedule should be equitably applied to all three water systems and its users, to the extent possible. Unlike other water purveyors, DHHL does have other funding sources besides bill collection, like commercial and industrial lease rents, that could be utilized to offset the cost of the water system and operation.

It has been more than five years since the rate increases began taking effect, enough time to assess the impact the 2018 rate increases have had on Kailapa residential lessees. Below is a comparison of DHHL Kawaihae water system delinquency rates compared to other municipal systems in Hawai‘i.

KAWAIHAE WATER SYSTEM SERVICE RATES
APPROVED ON MAY 15, 2018

Residential Lessee Service Rates:

Residential lessee 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"	\$49.07	\$63.37	\$77.70	\$92.06	\$106.46	\$120.90	\$135.37	\$149.88	\$164.42	\$179.01

Residential lessee service delivery (usage) tiers:

	Gallons Bi-Monthly
Tier 1	0 - 10,000
Tier 2	10,001 - 30,000
Tier 3	30,001 - 80,000
Tier 4	Over 80,000

Residential lessee 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	\$3.67	\$4.73	\$5.81	\$6.88	\$7.95	\$9.03	\$10.11	\$11.20	\$12.28	\$13.37
Tier 2	\$4.92	\$6.35	\$7.79	\$9.23	\$10.68	\$12.12	\$13.58	\$15.03	\$16.49	\$17.95
Tier 3	\$6.89	\$8.90	\$10.92	\$12.94	\$14.96	\$16.99	\$19.02	\$21.06	\$23.10	\$25.15
Tier 4	\$8.30	\$10.73	\$13.15	\$15.58	\$18.02	\$20.46	\$22.91	\$25.37	\$27.83	\$30.30

Water usage data for households is not readily available for Hawai'i Island users, though it is available for O'ahu Island households. According to the Honolulu Board of Water Supply, on O'ahu the Average Water User uses 9,000 gallons per month, the Median Water User uses 6,000 gallons per month, and the High Water User uses 35,000 gallons per month. Despite Kailapa residents reporting higher water consumption during beneficiary consultations, paying approximately \$600 monthly, a statewide average will serve as the benchmark for comparing costs between Kailapa and County of Hawai'i rates. Based on this average usage, a Kailapa homesteader with a similar water usage on the DHHL system can expect to be billed in FY24:

- \$120.90 per bill for the base fee for meter service for 60-days of service.
- \$187.26 per bill for 18,000 gallons of water used over 60-days of service.

A total of \$308.16 per bill for 60-days of service based on the Average Water User of 9,000 gallons per month or 18,000 gallons for 60-days of service.

In comparison, a monthly water bill for customers on the County of Hawai'i DWS water system who use 9,000 gallons monthly is \$69.88 per month or \$139.76 for a 60-day billing period. Homesteaders in Kailapa are paying more than double what County water users are charged for a comparable service, and the DHHL water rates are scheduled to increase year after year. Based on the water system service rates approved by the HHC for Kawaihae, in four years a homesteader in Kailapa with the same water usage will be billed \$456.31 a 48% increase of what homesteaders are currently paying. At these rates, some homesteaders may not be able to afford water for their homes.

The County of Hawai'i DWS as of January 2024 has a delinquency rate of 12% for customers on their system who are delinquent over 90 days. For Honolulu's Board of Water Supply (BWS) in 2021, the delinquency rate for their system was 11%. For Maui County Department of Water Supply, the average for Fiscal Year 2023 was 8.13%, and the average for the first six months of 2024 is 8.8%. In 2023, a first notice of delinquency was sent out to 57 of the 164 users of the Kawaihae Unit #1 water system, a delinquency rate of 34.75%. One month later, a second notice of delinquency was sent out to 27 of the 164 users of the system, which is 16.46% of the system users. Shut off notices went out nearly two months after the second notices were sent to 17 users who had yet to remit payment or make arrangements for a payment plan with DHHL, which is 10% of the system users. The initial delinquency rate, prior to DHHL issuing delinquency notices is extremely high in comparison to these other major water purveyors in the State. A cause of the higher delinquency rate on the DHHL Kawaihae system compared to other municipal water purveyors can be partly attributed to the high water rates charged to homestead users.

Kawaihae homesteaders have asked for water rates that align with the rates paid by residential water users in the rest of the County. They would also like to see any options for affordable agricultural/irrigation water. If there were an option for agricultural/irrigation water available to homesteaders in Kailapa, they could reduce their use of potable water for non-potable uses, which would conserve precious potable water and decrease their water bill for potable water. As KRWC's water rates for DHHL are some of the highest water rates in the State, another way to decrease the cost of water for Kailapa homesteaders is to find another water source to supply the potable water system. A water source that costs less than \$7.03366 per 1,000 gallons would allow for lowered water usage rates to be passed along to Kailapa homesteaders.

New Water Source Development

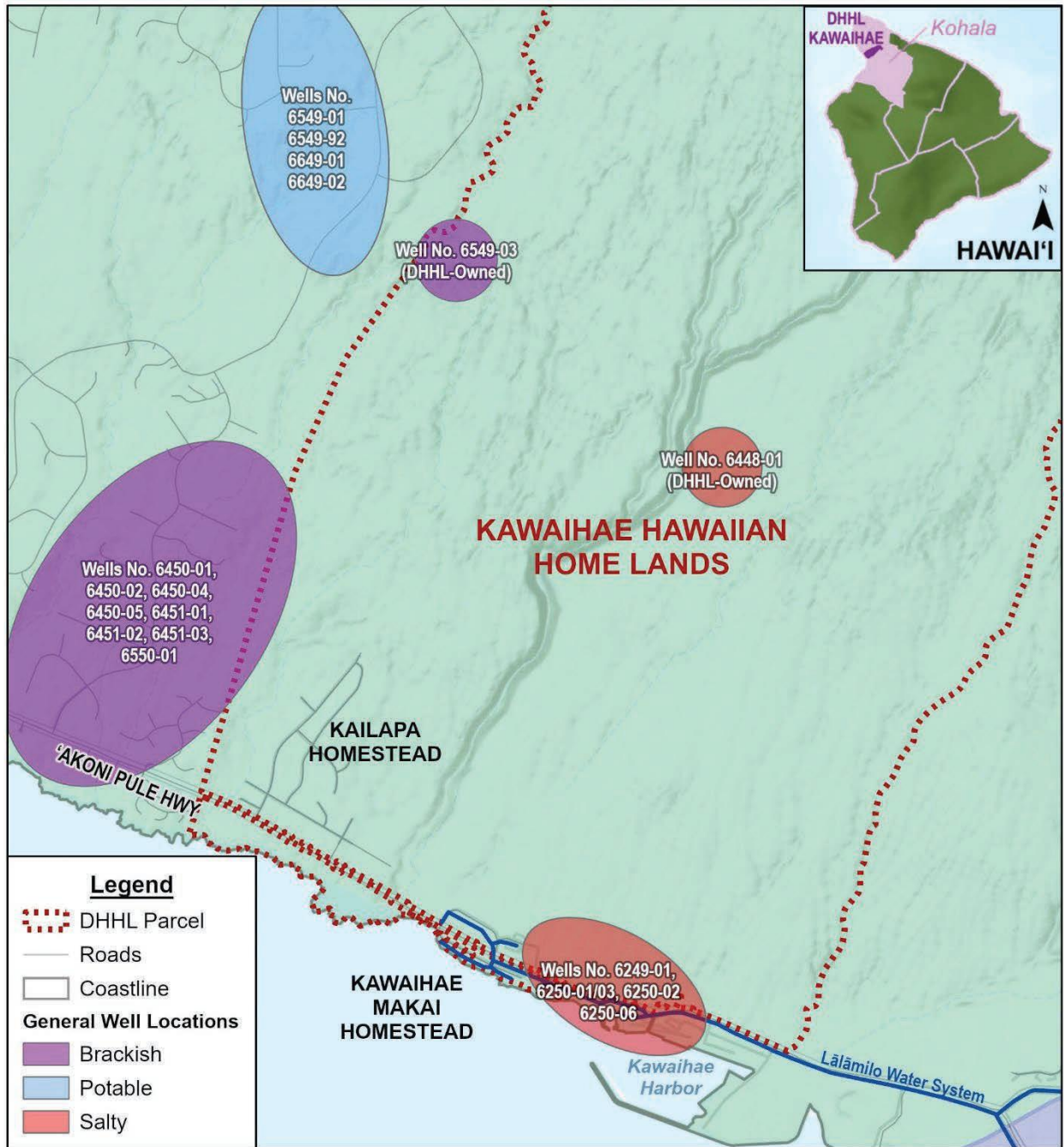
In 2015, DHHL commissioned a water source development feasibility study, conducted by R.M. Towill Corp. The purposed of the study was to identify potential potable water source development options for the Kawaihae lands.

Option	Description	Cost (2013 dollars)
Develop existing exploratory well on DHHL land	An existing exploratory well is located at higher elevation on DHHL lands. But, water produced from the well is near the upper limit of salinity levels and desalinization would be required	\$14.9M
Develop existing exploratory well on DHHL land and connect to Kohala Ranch Water System	Similar to the above option, but involves connecting to the Ranch system and expanding the Ranch's service area. However, water rates would still be controlled by the Ranch and desalinization may still be required to connect to the Ranch system. The Ranch has not indicated any interest in this option.	\$6.6M
Capture Surface Water from Kehena Ditch	Kehena Ditch is located mauka of the DHHL Kawaihae tract and traverses through DLNR and private property. The source is not constant. Improvements needed include transmission lines, 60 MG open reservoir, treatment facility, and 0.50 MG tank. DHHL would need approvals from CWRM and also enter into agreements with Kahua Ranch.	\$27M
Extend DWS System Along Akoni Pule Hwy.	DWS system ends near the DHHL industrial lots south of the Kailapa Homestead Subdivision. Extension of the County system would have to go through Honokoa Gulch and additionally County has indicated a new well would need to be developed. Easements through private property may also be needed to extend the County line to DHHL property.	\$18.5M to \$28.1M not including land acquisition
Development of Kawamata Well and transmission lines	The well is located 8 miles from the Kailapa subdivision on private property. The well is drilled and cased but has not been pump tested. DHHL would need to purchase the well and develop transmission lines to DHHL property.	\$24M not including land acquisition costs

Source: Water Development Options 2015 R.M. Towill Study

In addition to sustaining residential and community needs, securing adequate water resources is essential for fire hazard mitigation to ensure the safety of the Kawaihae homesteads. Between 2003 and 2022, there have been 10 recorded wildfires in the general vicinity. Most recently, Kailapa residents were evacuated from their homes in August 2023 due to the threat of an adjacent wildfire. A subsequent wildfire occurred nearby in December 2023; fortunately, it did not pose a threat to any structural properties.

FIGURE 23. AQUIFERS, WELLS, AND DWS WATER SYSTEM MAP



Kawaihæ Regional Plan Update
AQUIFERS, WELLS &
DWS WATER SYSTEM
 March 2024

This graphic has been prepared for general planning purposes only and should not be used for boundary interpretation or other spatial analysis.



0 1 Mile



PAST ACTIONS

- 1990 – An exploratory well (Well No. 6448-01) was drilled at the 1,400 ft elevation on the south side of Honokoa Gulch.
 - It was determined that this well could never produce potable quality water.
 - At most, this well could potentially produce brackish water suitable to irrigate salt tolerant plants and grasses.
- 1992 – A second exploratory well (Well No. 6549-03) was drilled at the 1,650 ft elevation near DHHL’s north property boundary.
 - Chloride levels were found to be at the upper limit of acceptability for drinking water in Hawai’i.
- 2013 – Tom Nance Water Resource Engineering completed an assessment of water supply alternatives for DHHL’s Kawaihae property.
 - Recommendation: develop a water system using existing Well No. 6549-03.
- 2015 – A Kawaihae Water Assessment Study by R.M. Towill Corporation outlined water resource development options for DHHL.
 - Recommendation: develop Well No. 6549-03 and an accompanying storage and distribution system. Total cost was projected to be approximately \$14.9 million.
 - Disadvantage: additional desalination treatment of Well No. 6549-03 is recommended.
- 2022 – DHHL awarded the Kailapa Community Association a grant to explore the potential for desalination of water from an existing DHHL groundwater well. The studies being conducted under the grant are still in progress.

COMMUNITY INPUT

Attendees of beneficiary consultations #1, #2, and #3 unequivocally expressed that affordable access to water was their number one priority; every discussion consistently circled back to the pressing need for water. One beneficiary highlighted that water has always been an issue in Kawaihae, noting that even the name Kawaihae, meaning “water of wrath,” originated from a dispute over water. Kawaihae homesteaders have been challenged by the lack of accessible/affordable water throughout their entire time living in Kawaihae and are ready for improvements.

To further underscore the community’s sentiment regarding water, the “Water – Wai Ola” project received nearly three times as many votes as the next closest project during the priority project voting. Furthermore, among the 40 written comments received during the voting process, 31 of them emphasized the immediate need for affordable water. A few of the comments are listed below:

- “We want to pay county rate for water like the rest of the homesteaders!”
- “Water rates have soared and currently we have no alternate water source besides Kohala Ranch Wells. Our water source could be discontinued at any time.”
- “Although water is available at Kailapa, the rates we pay are ridiculous. Bring the water down from mauka...so we don’t have to be dependent on Kohala Ranch and so that it supplies the ag/ranch land above Kailapa. We currently cannot even provide our own sustainment or take care of landscaping needs.”

Additional comments were provided in beneficiary consultation #3; a selection of them is listed below:

- How much does our water/water system cost DHHL? We want to see some transparency.
- DHHL is responsible for providing water. Why give the land to us? We didn’t agree to the highest water rate in the State when we accepted our awards.

- No residents voted in support for the DHHL increase in water rates, and nobody knew about it before it happened.
- "I'm being punished for using water."
- "I've been here for 2 years; you can hear the pain in their voices for those who have been here for years. As I'm looking at past actions, we're just going in circles like a washing machine."
- "I cannot even grow a mango tree; it's too expensive."
- "Please help Kailapa get reliable, affordable water so native Hawaiians can grow native Hawaiian plants on native Hawaiian lands."
- "Our service charges are increasing and the concerns for the future are the compromise between food on the table and/or running water in our homes. Our families and majority of our community's economic means will not be able to keep up with these rising costs."
- "I pay \$200 [per month] for water, and I don't even live on property."
- Why should residents pay so much for water? "We don't even drink the water."
- Kailapa water meters and pipes are breaking down and leaking, DHHL should look into smart meters which can also test the quality of the water.
- The water fee is split into two parts: a service fee and a usage fee. DHHL should pay the service fees as a short-term solution.
- "With so much revenue being generated from Kailapa, the industrial/commercial and agricultural, please consider allocating a portion to subsidizing water costs until a permanent solution for affordable water can be found."
- The Land Management Division should review the commercial/industrial lease rates since they are 30 years old.
- Desalination technology has become more advanced and cost effective. Kailapa could use desalination on the water from the brackish wells.
- "The most viable, long-term option for affordable water for Kailapa is county water."

OBJECTIVE

This project aligns with all the community values of Kawaihae. Water, being essential for life, is indispensable for the community's survival and prosperity. It is a vital resource for cultivating food and without it, Kawaihae cannot achieve self-sufficiency in its agricultural endeavors. Traditional land stewardship, or mālama 'āina, requires water to restore the natural environment of Kawaihae. The proposed community garden at the Kailapa Resource Center, intended to foster community connections, would be impracticable without access to water. Similarly, the construction of the Resource Center, which would provide educational opportunities for keiki to kūpuna, would be impossible without water access. Finally, water is essential for Kawaihae beneficiaries to transmit ancestral knowledge through daily activities such as food cultivation.

IMPLEMENTATION ACTION STEPS

The following are the proposed solutions to addressing the issues identified in this priority project:

- Provide a temporary subsidy for Kailapa homesteaders until the water rate schedule can be updated.
- Re-assess DHHL water billing rates to provide more affordable potable water to Kailapa homesteads on the DHHL Kawaihae water system.
- Find a new water source for the water system currently supplying potable water to Kailapa.
- Provide options for non-potable water to be used for agricultural or irrigation purposes.

As this priority project has various components, the implementation action steps articulated here will address each proposed solution separately. These proposed solutions are ordered as short-term, mid-term and long-term solutions.

SHORT-TERM: Provide a temporary subsidy for Kailapa homesteaders until the water rate schedule can be updated.

As the timeframe for updates to the water rate schedule will likely take approximately two (2) years to complete, a temporary subsidy should be implemented for Kailapa homesteaders to provide immediate relief for the high water rates they are facing and make water more in the interim.

1. Go to HHC for approval of a subsidy for users of the Kawaihae Water System in Kailapa.
 - The subsidy for users should cover the base rate for meter service, currently at \$120.90 and scheduled to increase to \$139.37 as of July 1, 2024. This amount is approximately \$138,000 for 164 users for FY24 and \$148,000 for 164 users for FY25.
 - The source of the subsidy could come from a variety of sources including:
 - A portion of the revenue generated from commercial/industrial and pastoral land dispositions in the Kawaihae Region.
 - DHHL land dispositions in Kawaihae generated \$604,521.64 in revenue in 2022.
 - Less than 25% of the annual revenue generated in Kawaihae could subsidize the basic meter fee for Kailapa homesteaders.
 - Currently, DHHL homesteads in Kawaihae have no community benefit agreements and receive 0% of revenue generated from land dispositions in the region.
 - HHL Trust Funds.
 - Other.
2. Continue working on long-term solutions to ensure the subsidy is only necessary as a short-term solution.
3. Upon revision of the water rate schedule, terminate the temporary subsidy and effectuate the water rate schedule as revised.

MID-TERM: Provide affordable potable water to Kawaihae homesteads.

- Re-assess the water rate schedule approved by the HHC in 2018.
 1. Go to HHC to seek budget approval to do update cost of service and water rate studies for the Kawaihae water system. Study should also identify potential solutions to lower the rates for water users in Kailapa homestead and should determine potential annual cost to DHHL trust to subsidize rates to match County rates.
 2. Conduct the analysis.
 3. Present results to HHC.
 4. Based on results, create Draft Rules Version #1, prepared by DHHL staff based on the analysis.
 5. Go to HHC with draft rules for approval to proceed.
 6. Conduct a beneficiary consultation for input on draft rules.
 7. Revise draft rules based on beneficiary input & create Draft Rules Version #2.
 8. Send Draft Rules Version #2 for external review:
 - Legislative Reference Bureau
 - Attorney General
 - Small Business Regulatory Review Board
 9. Go to HHC for approval of Draft Rules Version #2.

10. Seek Governor approval of a Public Hearing Request.
11. Conduct Public Notice & Hearing.
12. Prepare Final Rules based on input from Public Hearing.
13. Go to HHC for adoption of Final Rules.
14. Seek external approvals:
 - Attorney General
 - Small Business Regulatory Review Board
 - Governor
15. Filing and publication of Final Rules.

*As a note, the average timeframe for updates to Administrative Rules is approximately two (2) years and this potential timeframe should be taken into account when reviewing the above implementation action steps.

LONG-TERM: Find a new water source for the water system currently supplying potable water to Kailapa.

- Develop a new potable water source.
 1. Revisit 2015 feasibility study options for providing potable water to Kawaihae.
 2. Schedule consultations with the community to select a preferred option for DHHL to pursue.
 - Meeting 1 – review the options discussed, share information & updates on water sources, water development, and review water matrix.
 - Meeting 2 – discuss & prioritize the options for water source development.
 - Meeting 3 – select a preferred option for water source development for DHHL to pursue.
 3. Water Source development steps
 - Secure funding
 - Due diligence
 - Water credit agreement (if needed)
 - Design & construction
 - Agreement for long-term operation

LONG-TERM: Provide options for non-potable water to be used for agricultural or irrigation purposes.

- Develop a new non-potable water source.
 1. Feasibility study on potential water supply options
 - Desalination
 - Water catchment
 - Kehena Ditch
 2. Schedule meetings with the community to select a preferred option for DHHL to pursue.
 - Meeting 1 – review the options discussed, share information & updates on water sources, water development, and review water matrix.
 - Meeting 2 – discuss & prioritize the options for water source development.
 - Meeting 3 – select a preferred option for water source development for DHHL to pursue.
 3. Water Source development steps
 - Secure funding
 - Due diligence
 - Design & construction
 - Agreement for long-term operation