

DAVID Y. IGE
GOVERNOR OF
HAWAII



SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

KEKOA KALUHIWA
FIRST DEPUTY

JEFFREY T. PEARSON, P.E.
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

Testimony of
SUZANNE D. CASE
Chairperson

Before the Senate Committees on
WATER AND LAND
and
PUBLIC SAFETY, INTERGOVERNMENTAL, AND MILITARY AFFAIRS

Monday, February 13, 2017
3:00 PM

State Capitol, Conference Room 224

In consideration of
SENATE BILL 633
RELATING TO WATER SECURITY FINANCING

Senate Bill 633 proposes to add a new chapter to the Hawaii Revised Statutes (HRS) to establish a water security fund for the purposes of providing matching grants for projects related to water security, establish eligible grantees, designate what moneys are to be deposited into the fund, and impose a new water security fee. This measure would also create a water security advisory group to advise the Commission on Water Resource Management (Commission) of the Department of Land and Natural Resources (Department) on water security projects to select for grant funding. **The Department appreciates the intent of this bill, but respectfully requests that this measure be deferred as written, pending the results of the two-year water security pilot program authorized pursuant to Act 172, Session Laws of Hawaii (SLH) 2016.**

Act 172, SLH 2012, established a two-year pilot program for a water security advisory group and grant program, and which authorized a \$750,000 appropriation from the general revenues of the State for fiscal years 2016-2017. The Act requires annual reports on the pilot program prior to the convening of the 2017 and 2018 regular legislative sessions. The Department respectfully requests that, prior to making any statutory changes to establish a permanent program, this measure be deferred pending the results of the pilot program and submittal of annual reports that will provide valuable insight and knowledge to inform future legislation.

In the Department's testimony on House Bill 2040, which subsequently enacted into law as Act 172, the Department requested additional staff resources to carry out this measure; however additional staff resources were not provided. Act 172 was assigned to the Commission to

implement. While the Commission has been working diligently to implement Act 172, lack of adequate staff resources has had an impact on other current programs and projects and has resulted in the delay of other priority initiatives, such as the development of a water shortage plan for the Pearl Harbor Aquifer, completion of the update to the Water Resource Protection Plan, and amendments to our administrative rules for permitting systems.

Commission workload also substantially increased as a result of Act 169 from last Session. Act 169 is a new process established within the Commission to implement standardized water loss audits for public water systems in accordance with methods adopted by the American Water Works Association (AWWA). Under Act 169, beginning on July 1, 2018, county-owned public water systems are required to submit annual water loss audits, and beginning on July 1, 2020, remaining large capacity public water systems in Hawaii are required to submit annual water loss audits. While the Commission supports this new audit requirement, as it will ultimately help utilities to conserve water through data-driven cost-effective strategies to increase system efficiency and control water loss, managing the additional workload is proving to be quite a challenge.

Should the Legislature opt to pass this bill, additional staff resources and funding will be required to implement this permanent grant process within the Commission to avoid taking scarce resources and personnel from other important Commission functions. Based on our limited experience to date, the Commission anticipates that a new planner position will be required to administer the new grant process. This position would be responsible for the initial establishment of the water security advisory group and the filling of any vacancies that should arise over time, providing staff support in the scheduling of group meetings in compliance with the Sunshine Law, taking meeting minutes, preparing requests for proposals with evaluation criteria in coordination with the water security advisory group, certifying matching funds for eligible applicants, preparing public notices for advertising the requests for proposals, reviewing and organizing proposals received, preparing a priority list of proposals for approval by the water security advisory group, facilitating discussions with priority listed offerors, and preparing notices of best and final offers.

The Department anticipates a minimum of two new contract specialist positions would be required to prepare and process contract documents for each grant awardee; prepare memoranda of agreement for each award; monitor contracts for compliance with contract deliverables schedule, process invoices, account for matching funds, ensure timely disbursement of grant funds, manage contracts for any proposed changes in scope or schedule, and meet as needed with grant awardees to resolve any issues or questions related to the grant or contract. A minimum of two positions are anticipated to be needed because it is expected that numerous grants will be awarded during each award cycle. It is conceivable that awarded projects may have durations of two or more years. New grants requiring contract administration may thus be awarded while prior grant award contracts are still ongoing. Therefore, there may be numerous contracts requiring simultaneous management and oversight.

In addition, a new accountant position would be needed to meet the bill's requirement to establish fiscal controls and accounting procedures sufficient to, at minimum, assure proper accounting for appropriate accounting periods of payments, disbursements, revenues, and fees

received and made for fund balances at the beginning and end of the accounting period, and to prepare annual financial reports to the legislature. The Commission currently lacks staff with this specialized expertise.

An additional concern regarding this bill is with Section 174C-E, HRS, which provides that federal grant funds or appropriations, legislative appropriations, and all fees collected under this chapter shall be deposited into the fund. The Department respectfully suggests that language be included to clarify that only moneys related to this part be designated. For example, the Commission is authorized to collect fees to defray the costs of its permitting systems, and these fees are deposited into the existing Water Resource Management Fund which is used to fund positions and also for Commission functions related to the protection and management of the water resources trust. The Department offers the following clarifying amendments to lines 12 to 14 on Page 4 of this bill:

- (1) Federal grant funds or appropriations made for the purposes of this part;
- (2) Appropriations by the legislature made for the purposes of this part;
- (3) All fees collected under this [~~chapter~~] part;

Alternatively, a change in wording from shall to may, on line 11 of page 4, would also provide the discretion needed to ensure that payroll and operating funds now going towards support of the Commission's current operations will not be diverted into this proposed new fund.

Finally, pursuant to SECTION 3 under §174C-E, the Commission will require additional funding to meet the State's share of the cost incurred by the county boards of water supply in the collection of the water security fee.

Thank you for the opportunity to comment on this measure.

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON WATER AND LAND
AND PUBLIC SAFETY, INTERGOVERNMENTAL, AND MILITARY AFFAIRS
ON
SENATE BILL NO. 633

February 13, 2017
3:00 p.m.
Room 224

RELATING TO WATER SECURITY FINANCING

Senate Bill No. 633 establishes a water security fee on the use of all water withdrawn from municipal and private water systems. The fee amount is unspecified. The bill creates the Water Security Fund to provide matching grants to eligible parties for water security projects. The fund would be administered by the Commission on Water Resource Management and generate revenues through federal grant funds, legislative appropriations, water security fees, investment earnings, and any moneys directed to the fund from other sources. Senate Bill No. 633 establishes a water security advisory group to evaluate and prioritize water security projects for the Commission.

The Department of Budget and Finance takes no position on establishing a fee for water security projects. However, the department does have concerns with the Water Security Fund. As a matter of general policy, the department does not support the creation of any special fund or revolving fund which does not meet the requirements

of Sections 37-52.3 or 37-52.4, HRS. Special or revolving funds should: 1) serve a need that cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. In regards to Senate Bill No. 633, it is unclear if a special or revolving fund is being proposed and whether the fund would be self-sustaining and provide a substantive grant matching program.

Thank you for your consideration of our comments.



DEPARTMENT OF WATER SUPPLY • COUNTY OF HAWAII

345 KEKŪANAŌ'A STREET, SUITE 20 • HILO, HAWAII 96720

TELEPHONE (808) 961-8050 • FAX (808) 961-8657

February 10, 2017

Honorable Chair Karl Rhoads, Honorable Vice-Chair Mike Gabbard, and Committee Members
Committee on Water and Land
State Senate
Hawaii State Capitol, Room 224
415 South Beretania Street
Honolulu, HI 96813

Honorable Chair Clarence Nishihara, Honorable Vice-Chair Glenn Wakai, and Committee Members
Committee on Public Safety, Intergovernmental, and Military Affairs
State Senate
Hawaii State Capitol, Room 224
415 South Beretania Street
Honolulu, HI 96813

Dear Chair Rhoads and Chair Nishihara:

Subject: Senate Bill 633 – Relating to Water Security Financing
Hearing: February 13, 2017, 3:00 p.m.

The Department of Water Supply, County of Hawai'i (HDWS) supports the intent of Senate Bill 633 (SB633), but would seek consideration on several matters as described below.

1. The Water Security Advisory group, as created by Act 172 (16), has yet to develop the water security evaluation criteria, assignment of priorities, etc. Before a monetary amount per thousand gallons is inserted into SB 633, HDWS would like to be consulted and included in the discussion regarding the rationale around the amount required to support water security activity.
2. SB 633 does not indicate how the water security fund will be dispersed in a fair and proportional manner to each of the counties where the water security fees originate. We would like to see SB 633 address potential issues of larger utilities and their customers potentially subsidizing the cost to implement projects in other water utilities, which have smaller customer bases—or vice versa.
3. Any new fees or water rates assessed upon HDWS's customers would require a public hearing and approval by the Water Board of the County of Hawaii. We would like to see SB 633 address this process and how it would align with the current language in the bill.

... Water, Our Most Precious Resource ... Ka Wai A Kāne ...

The Department of Water Supply is an Equal Opportunity provider and employer.

Honorable Chair Karl Rhoads, Honorable Vice-Chair Mike Gabbard, and Committee Members

Page 2

February 10, 2017

Thank you for your time and consideration on HDWS's testimony for this proposed bill. Should you have additional questions, please do not hesitate to contact us at (808) 961-8050.

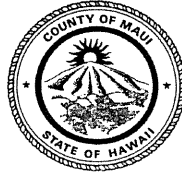
Sincerely yours,

A handwritten signature in black ink, appearing to read 'K. Okamoto', written in a cursive style.

for Keith K. Okamoto, P.E.
Manager-Chief Engineer

KKU:dfg

ALAN M. ARAKAWA
Mayor



DAVID TAYLOR, P.E.
Director

GLADYS C. BAISA
Deputy Director

DEPARTMENT OF WATER SUPPLY
COUNTY OF MAUI
200 SOUTH HIGH STREET
WAILUKU, MAUI, HAWAII 96793-2155
www.mauiwater.org

February 10, 2017

Testimony of the Maui County Department of Water Supply

In consideration of S.B. 633 Relating to Water Security Financing

Senate Committees on Water and Land and Public Safety,

Intergovernmental, and Military Affairs

Monday, February 13, 2017, 3:00 pm, Conference Room 224

Dear Honorable Chair Rhoads and Chair Nishihara and Members of the Senate Committee on Water and Land and the Senate Committee on Public Safety, Intergovernmental, and Military Affairs:

S.B. 633 proposes to amend the Hawaii Revised Statutes by adding a new chapter to establish a water security fund for the purposes of providing matching grants for projects related to water security, establish eligible grantees, designate what moneys are to be deposited into the fund, and impose a new water security fee. This measure would also create a water security advisory group to advise the Commission on Water Resource Management on water security projects to select for grant funding. The Department of Water Supply (DWS) appreciates the intent of this measure, but respectfully requests that this measure be deferred as written, pending the results of the two-year water security pilot program authorized pursuant to Act 172, Session Laws of Hawaii 2016

The DWS currently allocates approximately \$2,000,000 per year to watershed protection. We intend to continue aggressive funding for this purpose. Our concern is that any legislative action be consistent with our current funding priorities.

Thank you for the opportunity to provide testimony on this measure.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "D. Taylor", is written over a horizontal line.

DAVID TAYLOR, P.E.
Director of Water Supply

"By Water All Things Find Life"