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Chair

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ENVIRONMENTAL MANAGEMENT COMMISSION

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MEMORANDUM

DATE: May 14, 2021

TO: Maile David, Council Chair
and Hawai'i County Council Members

FROM: Georjean Adams, Chair
Environmental Management Commission

RE: Wastewater Management Funding Consultation

The Environmental Management Commission (EMC) voted at its meeting on March 24, 2021 to recommend the County Council bring in a financial consultant to present options for creating a dedicated and sustainable funding source for wastewater operations maintenance and capital costs that strongly considers, among other options, enterprise funding and energy savings performance contracts.

Environmental Management Director Ramzi Mansour has met several times with the Council and its RAWHEEM and Finance Committees, as well as the EMC, making clear the critical need for new and continuing funding to repair, maintain and improve the county's wastewater management operations. Director Mansour has recommended hiring a financial consultant knowledgeable in environmental funding mechanisms, especially in establishing an Enterprise Fund, to provide options on how to ensure adequate funding for daily and future safe wastewater management. The EMC supports his recommendation.

A study of funding options is necessary as the current sewer fee mechanism and reliance on shifting general fund priorities are insufficient. Grants may be sufficient to fund new capital efforts, but are not sustainable enough for ongoing planning and operation support and present their own timing issues. The EMC was impressed with the concept of an Enterprise Fund as it focuses on a long-term planning process that includes preventative and ongoing maintenance, staffing, training, and future needs, as well as financial reporting and auditing. From the Bizfluent description of an Enterprise Fund (<https://bizfluent.com/facts-7304143-government-enterprise-fund-.html>):

A government's general fund is a pool of cash raised from taxes and can be spent

wherever the government needs it. An enterprise fund is more specific. Enterprise fund money can only be spent on a specific purpose, such as parks and recreation. Most of the funding comes from fees related to the fund's mission. Governments don't have to rely on fees to cover all the fund's spending. If necessary, a government can pay for some of the services with tax dollars. Most of the financing, however, is based on the fees or bonds backed by future fee payments.

Tying fees and services together through an enterprise fund has advantages. Users and the general public can see how much it costs to provide particular services, and why the fees are set at a certain level. It's not always possible to balance fees and the cost of services perfectly, though. A fund may run in the red one year, which is a sign the government needs to raise fees. If the fund turns a profit, the money carries over to operations in the next fiscal year, and fees might drop.

The City and County of Honolulu adopted an ordinance to establish an enterprise fund in 1998 for its Sewer Fund. While Hawai'i County does not have, nor will likely have, the installed customer base that Honolulu has (80 percent of homes connected), the Honolulu wastewater enterprise fund can provide initial guidance to the consultant. The Office of Council Services there can also provide assistance in drafting appropriate legislation. On the capital side, bond counsel will need to be consulted as an enterprise fund is also an investment vehicle and needs to offer the transparency and stability that investors require. Additional resources are available through the National Association of Counties (NACo) as enterprise funds are commonly utilized around the country and exemplify good governance.

We anticipate that a knowledgeable consultant could provide a combination of feasible options. For example, EMC has recommended innovative funding via Energy Savings Performance Contracts (letter to Council October 10, 2020).

Please consider this recommendation as critical to effectively managing our wastewater resources and take prompt action.

Sincerely,



Georjean L. Adams, Chair
Environmental Management Commission

C: Ramzi I. Mansour, Director, Department of Environmental Management