

LEGISLATIVE REPORT

SUBJECT: Relating to the State Budget

REFERENCE: Act 213, SLH 2007 (HB 500, HD1, SD1, CD1, Section 79)

ACTION REQUESTED: Report on current and projected usage and costs of electricity, sewer, and water services.

DOE REPORT: **Legislative Background.** In 2007, Act 213, Session Laws of Hawaii (SLH) 2007, provided the operating and capital improvement appropriations and authorizations for State agencies for the fiscal biennium 2007-2009.

Section 79 of this act pertains to the additional general fund appropriations for electricity, sewer, and water services for the Department of Education (DOE) school support in the following sums of:

1. \$1,365,962 for fiscal year 2007-2008 and the sum of \$3,182,543 for fiscal year 2008-2009 for increased electricity costs;
2. \$655,000 for fiscal year 2007-2008 and the sum of \$840,000 for fiscal year 2008-2009 for increased sewer charges; and
3. \$148,429 for fiscal year 2007-2008 and the sum of \$352,322 for fiscal year 2008-2009 for increased water charges.

The above additional general fund appropriations will address the cost of these essential services.

FINDINGS: **Report on Act 213, Section 79**

(1) Electricity

In May 2006, the fiscal year 2007-2008 electricity forecast was developed which projected the cost of electricity for the DOE to be \$39,843,716. This forecast is based on actual billing data up to March 2006 including a projected increase in electricity cost

and usage to support new portables and new facilities. Also, the forecast included the monthly adjustment for the electric utilities' fuel oil prices. The total appropriation for FY 2007-2008 was \$38,348,543 which projected a deficit of \$1,495,173 (\$38,348,543 - \$39,843,716).

In mid-September 2007, the fiscal year 2007-2008 electricity forecast was revised to reflect updated information. This revised forecast projected the cost of electricity for the DOE to be \$36,866,491. This forecast was based on actual monthly billing data up to July 2007 and a revised projection for the increase in electricity cost and usage to support new portables and new facilities. With the appropriation amount of \$38,348,543, the revised forecast indicates a projected surplus of \$1,482,052 (\$38,348,543 - \$36,866,491). This lower forecast amount is based on updated actual monthly data which reflects lower monthly expenditures and usage. Also, the revised number of projects for new portables and new facilities resulted in lower projected increases. At this time, the revised forecast indicates that the DOE has sufficient funding for electricity costs.

It should be noted that the fiscal year 2007-2008 electricity forecast was revised to reflect updated information on energy consumption (usage). This forecast projected that the energy kilowatt-hour (kWh) usage for the DOE will be 153,000,538. This forecast is based on actual billing data up to July 2007 and the projection for increase in electricity usage to support portables and new facilities. Also, this increase in electricity usage is anticipated due to the increase in electrical equipment such as air conditioners and computers.

To address the issue of rising energy usage, the DOE has implemented two solutions: 1) an energy conservation program which will reduce the amount of energy usage of the schools; and 2) energy efficient equipment such as energy efficient lamps.

The DOE implemented the energy conservation program on July 1, 2007. A base allocation benchmark was used for the average monthly

electrical consumption (usage) in the 36 months through June 2006 with adjustments for air conditioning installations and facilities additions. Schools that reduce their energy consumption below the benchmark will receive 50 percent of the energy savings. Schools that fail to reduce their energy consumption will be charged for 50 percent of the energy usage above the benchmark.

The fiscal year 2008-2009 electricity forecast was developed in May 2006 which projected the cost of electricity for the DOE to be \$41,727,107. This forecast which was based on actual billing data up to March 2006 included projected increases in electricity cost and usage to support new portables and new facilities. The total appropriation for FY 2008-2009 was \$40,165,124 which projected a deficit of \$1,561,983 ($\$40,165,124 - \$41,727,107$).

In mid-September 2007, the fiscal year 2008-2009 electricity forecast was revised to reflect updated information. This revised forecast projected the cost of electricity for the DOE to be \$37,495,931. Similar to the FY 2007-2008 forecast, this forecast is based on actual monthly billing data up to July 2007 and the revised projection for the increases in electricity cost and usage to support new portables and new facilities. Also, the forecast includes the monthly adjustment for the electric utilities' fuel oil prices. With the total appropriation amount of \$40,165,124, the revised forecast indicates a projected surplus of \$2,669,193 ($\$40,165,124 - \$37,495,931$). For similar reasons as the FY 2007-2008, this lower forecast amount is the result of updated actual monthly data which reflects lower monthly expenditures and usage. Also, the revised number of new portables and new facilities reflect lower projected increases. At this time, the revised forecast indicates that the DOE has sufficient funding for electricity costs.

The fiscal year 2008-2009 electricity forecast was revised to reflect updated information on energy consumption (usage). This forecast projects that energy kilowatt-hour (kWh) usage for the DOE will be 157,888,815. This forecast is based on actual billing data up to July 2007 and the projected increase in

electricity usage to support new portables and new facilities. Also, this increase in electricity usage as anticipated is due to the increase in electrical equipment such as air conditioners and computers.

(2) Sewer

The DOE was notified by the City and County of Honolulu of new monthly charges which reflect changes to the sewer service charges approved by the City Council effective July 1, 2007. Also, the DOE was notified by the County of Maui that effective July 1, 2007 the monthly charge will increase.

Based on the information on the new monthly rate increases, the FY 2007-2008 forecast was revised which projected the cost of sewer charges to be \$4,853,313. This forecast is based on actual billing data and projection for the increase in sewer costs to support new portables and new facilities. With the total appropriation amount of \$2,949,355, the revised forecast indicates a projected deficit of \$1,903,958 (\$2,949,355 - \$4,853,313). At this time, with the general fund appropriation amount for fiscal year 2007-2008, the revised forecast indicates that the DOE has insufficient funding for sewer charges.

Similar to the FY 2007-2008 revised forecast, the fiscal year 2008-2009 sewer forecast was revised to reflect updated information. This revised forecast projected the cost of sewer to be \$5,232,189. This forecast is based on actual billing data and the revised projections for the increase in sewer costs to support new portables and new facilities. With the total appropriation amount of \$3,134,355, the revised forecast indicates a projected deficit of \$2,097,834 (\$3,134,355 - \$5,232,189). At this time, the revised forecast indicates that the DOE has insufficient funding for the FY 2008 -2009 sewer charges.

(3) Water

The DOE was notified by the City and County of Honolulu's Board of Water Supply of new charges which reflected changes to the water service charges approved by the City Council effective July 1, 2007.

Based on this information on the new rate increases, the FY 2007-2008 forecast was revised resulting in projected costs of water charges to be \$4,476,122. This forecast is based on actual billing data and projections for the increase in water cost to support new portables and new facilities. With the total appropriation amount of \$3,689,293, the revised forecast indicates a projected deficit of \$786,829 (\$3,689,293 - \$4,476,122). At this time, the revised forecast indicates that the DOE has insufficient funding for the water charges.

Similar to the FY 2007-2008 revised forecast, the fiscal year 2008-2009 water forecast was revised to reflect updated information. This revised forecast projects that the cost of water will be \$5,424,881. This forecast is based on actual billing data and the revised projection for increase in water cost to support the new portables and the new facilities. With the total appropriation amount of \$3,893,186, the revised forecast indicates a projected deficit of \$1,531,695 (\$3,893,186 - \$5,424,881). At this time, the revised forecast indicates that the DOE has insufficient funding for water charges.

To address the issue of rising water cost and usage, the DOE has been working with the counties' Board of Water Supply personnel on excessive water usage. Based on the average monthly water consumption, the County will inform the DOE of high water readings which can be due to possible water leaks. Upon receiving abnormal readings information, the schools are notified to investigate the high readings and corrective action is taken such as repairing water leaks.

FY 2007-2008 Utilities Services Funding Issue

At this time, with the additional general fund appropriation amount for the fiscal year 2007-2008, the revised forecasts indicate that the DOE has insufficient funding for the water and sewer charges. In addition, costs for gas are projected to exceed current appropriations. No additional appropriations were requested for the FY 2008-2009 biennium.

Deficits in gas charges are projected to be \$1,138,420 in FY 2007-2008 and \$1,324,270 for FY 2008-2009.

To address the insufficient funding for utility services, the DOE will be utilizing the FY 2006-2007 electricity carryover and the appropriations in electricity for FY 2008 and FY 2009 that exceed currently projected costs. Due to lower fuel oil prices and lower energy consumption during the 2007 fiscal year, the carryover amount was about \$3.7 million.

It should be noted that the FY 2006-2007 projection was developed when fuel oil prices were rising. For example, the forecast for the island of Oahu was based on \$70 per barrel of oil. However, during the latter part of 2006, the fuel oil price declined as low as \$50 per barrel of oil. Since January 2007, the fuel oil prices have been increasing.

RECOMMENDATIONS: It should be noted that the operations, including projecting costs and managing payments for all utilities, have been consolidated in the Auxiliary Services Branch, Office of School Facilities and Support Services.

The additional general fund appropriations will provide for the increasing cost of utility services. Utilities must be provided for the proper, safe, and sanitary operation of the schools. Adequate funding is necessary to provide the schools' basic utility services. The DOE will continue to vigorously implement energy conservation practices and programs such as energy efficient equipment in the design of new school facilities; e.g. high efficiency lighting.

For FY 2007-2008, the DOE has sufficient funding by utilizing the FY 2006-2007 electricity carryover to meet the current projected costs for water, sewer and gas charges.

The attachment sets forth projected balances and shortfalls in all utilities and shows that DOE with current appropriations and the ability to move funds may not be able to meet the projected utility costs for FY 2008-2009.

Department of Education
Utility Forecast

| UTILITY | FY 2007-2008 FORECAST | FY 2007-2008 APPROPRIATION | FY 2007-2008 ALLOCATION BALANCE |
|---|--------------------------|-------------------------------|---------------------------------------|
| Electricity | \$36,866,491 | \$38,348,543 | \$1,482,052 |
| Water | \$4,476,122 | \$3,689,293 | -\$786,829 |
| Sewer | \$4,853,313 | \$2,949,355 | -\$1,903,958 |
| Gas (Cafeteria) | \$1,923,143 | \$1,000,000 | -\$923,143 |
| Gas (Non-Cafeteria) | \$508,394 | \$293,117 | -\$215,277 |
| FY 2007-2008 Total Utilities Variance Amount | | | -\$2,347,155 |

| UTILITY | FY 2008-2009 FORECAST | FY 2008-2009 APPROPRIATION | FY 2008-2009 ALLOCATION BALANCE |
|---|--------------------------|-------------------------------|---------------------------------------|
| Electricity | \$37,495,931 | \$40,165,124 | \$2,669,193 |
| Water | \$5,424,881 | \$3,893,186 | -\$1,531,695 |
| Sewer | \$5,232,189 | \$3,134,355 | -\$2,097,834 |
| Gas (Cafeteria) | \$2,040,545 | \$1,000,000 | -\$1,040,545 |
| Gas (Non-Cafeteria) | \$576,842 | \$293,117 | -\$283,725 |
| FY 2008-2009 Total Utilities Variance Amount | | | -\$2,284,606 |

Electricity appropriations available to meet other utility shortfalls:

| | |
|---------------------------|--------------------|
| Carryover from FY 2007 | \$3,700,000 |
| Projected Balance FY 2008 | 1,482,052 |
| Projected Balance FY 2009 | <u>2,669,193</u> |
| | \$7,851,245 |

Water, Sewer and Gas Shortfalls:

| | |
|-----------------|----------------------|
| FY 2008 | \$(3,829,207) |
| FY 2009 | <u>(4,953,799)</u> |
| Total Shortfall | \$(8,783,006) |

Projected costs will vary from actual and funds may not be sufficient for FY 2008-2009. However, projections of cost based on additional months of actual expenditures may show that current appropriations for electricity will be able to meet the projected deficits for water, sewer and gas.