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## A BILL FOR AN ACT

RELATING TO FINANCING.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that the State's streams,  
2 groundwater, and ocean are being harmed by nonpoint  
3 contamination sources such as cesspools where the contaminants  
4 flow directly off the land, rather than through pipes or  
5 ditches. Cesspools are substandard systems consisting  
6 essentially of holes in the ground that do not treat wastewater  
7 but merely dispose of polluted wastewater. There are almost  
8 eighty-three thousand cesspools in the State, with nearly fifty  
9 thousand, or sixty per cent, on Hawaii island; approximately  
10 fourteen thousand, or eighteen per cent, on Kauai; over eleven  
11 thousand, or fourteen per cent, on Maui; almost seven thousand  
12 five hundred, or nine per cent, on Oahu; and approximately one  
13 thousand four hundred, or two per cent, on Molokai.  
14 Collectively, the State's cesspools release more than fifty-  
15 three million gallons of untreated sewage into the ground each  
16 day. Hawaii relies on groundwater for ninety per cent of its  
17 drinking water.



1           In response to the State's cesspool pollution problem,  
2 legislation was enacted in 2017 that requires all cesspools not  
3 excluded by the director of health to be upgraded or converted  
4 to director of health-approved wastewater systems or connected  
5 to sewerage systems by January 1, 2050. However, cesspool  
6 conversions, which are estimated to cost some \$1,300,000,000,  
7 have been lagging.

8           The legislature further finds the upfront costs of cesspool  
9 conversions are a barrier that prevents many cesspool owners  
10 from addressing systems that contribute to the daily release of  
11 untreated sewage into the ground. It is in the public interest  
12 to explore non-traditional financing mechanisms to accelerate  
13 cesspool conversions to provide Hawaii's homeowners additional  
14 financing options, especially for those not able to qualify for  
15 bank and credit union financing at reasonable rates and terms.

16           The legislature also finds that on-bill financing for  
17 renewable energy measures have proven to expand financing  
18 eligibility to underserved ratepayers while mitigating risks for  
19 capital providers in Hawaii and across the nation.  
20 Additionally, there are a number of successful on-bill financing  
21 for water programs on the continental United States.



1           The legislature finds that there are precedent and existing  
2 procedures on the billing and remittance of third-party fees  
3 through the counties' billing systems.

4           The purpose of this Act is to:

5           (1) Direct the Hawaii green infrastructure authority to  
6 create a cesspool conversion on-bill financing program  
7 to provide low-interest loans for low- and moderate-  
8 income homeowners to upgrade or convert existing  
9 cesspools in all counties to director of health-  
10 approved wastewater systems or connect properties with  
11 existing cesspools to sewerage systems, with loan  
12 repayments placed on the real property tax bill of the  
13 respective property owner;

14           (2) Allow the department of health, through a memorandum  
15 of agreement, to transfer funding available under  
16 section 342D-83, Hawaii Revised Statutes, on an annual  
17 basis to capitalize the cesspool conversion on-bill  
18 financing program; and

19           (3) Enable the counties to collaborate with the authority  
20 to implement the cesspool conversion on-bill financing  
21 program by including the principal and interest loan



1            repayments for eligible borrowers on the real property  
2            tax bill of each respective county and transmit the  
3            collections to the authority.

4            SECTION 2. Chapter 196, Hawaii Revised Statutes, is  
5            amended by adding a new section to part IV to be appropriately  
6            designated and to read as follows:

7            "§196-            Cesspool conversion loan special fund. (a)

8            There is established in the state treasury the cesspool  
9            conversion loan special fund that shall be administered by the  
10           authority. Funds deposited into the cesspool conversion loan  
11           special fund shall include:

12           (1) Moneys appropriated to the cesspool conversion loan  
13           special fund by the legislature;

14           (2) Funds from federal, state, county, private, or other  
15           funding sources;

16           (3) Moneys received as repayment of loans and interest  
17           payments; provided that the repayment of loans and  
18           interest payments under this paragraph shall not  
19           include repayment of loans and interest collected as a  
20           result of funds advanced from proceeds of the green  
21           energy market securitization bonds, clean energy and



1           energy efficiency revolving loan fund, or solar  
2           photovoltaic and energy storage loan program; and  
3           (4) Any fees collected by the authority under this  
4           section; provided that moneys collected as a result of  
5           the funds advanced from proceeds of the green energy  
6           market securitization bonds, clean energy and energy  
7           efficiency revolving loan fund, and solar photovoltaic  
8           and energy storage loan program shall be kept separate  
9           from fees collected as a result of funds advanced from  
10           proceeds of the cesspool conversion loan special fund.  
11           (b) Moneys in the cesspool conversion loan special fund  
12           shall be used to provide low-interest loans or other authorized  
13           financial assistance to eligible low and moderate-income  
14           households to upgrade or convert existing cesspools in all  
15           counties to director of health-approved wastewater systems or  
16           connect properties with existing cesspools to sewerage systems,  
17           with loan repayments placed on the real property tax bill of the  
18           respective property owner, on terms approved by the authority.  
19           Moneys from the fund may be used to cover administrative and  
20           legal costs of fund management and management associated with  
21           individual loans, which include personnel, services, technical



1 assistance, data collection and reporting, materials, equipment,  
2 and travel for the purposes of this section.

3 (c) Funds appropriated or authorized from the cesspool  
4 conversion loan special fund shall be expended by the authority.  
5 The authority may contract with other public or private entities  
6 for the provision of all or a portion of the services necessary  
7 for the administration and implementation of the cesspool  
8 conversion on-bill financing program. The authority may set  
9 fees or charges for fund management and technical site  
10 assistance provided under this section.

11 (d) All interest earned on the loans, deposits, or  
12 investments of the moneys in the fund shall become part of the  
13 cesspool conversion loan special fund.

14 (e) The authority may establish subaccounts within the  
15 cesspool conversion loan special fund as necessary.

16 (f) The authority may adopt rules pursuant to chapter 91  
17 to carry out the purposes of this section."

18 SECTION 3. Section 196-64, Hawaii Revised Statutes, is  
19 amended to read as follows:

20 **"§196-64 Functions, powers, and duties of the authority.**

21 (a) In the performance of, and with respect to the functions,



1 powers, and duties vested in the authority by this part, the  
2 authority, as directed by the director and in accordance with a  
3 green infrastructure loan program order or orders under section  
4 269-171 or an annual plan submitted by the authority pursuant to  
5 this section, as approved by the commission for the green  
6 infrastructure loan program, may:

- 7 (1) Make loans and expend funds to finance the purchase or  
8 installation of green infrastructure equipment for  
9 clean energy technology, demand response technology,  
10 and energy use reduction and demand side management  
11 infrastructure, programs, and services;
- 12 (2) Hold and invest moneys in the green infrastructure  
13 special fund in investments as permitted by law and in  
14 accordance with approved investment guidelines  
15 established in one or more orders issued by the  
16 commission pursuant to section 269-171;
- 17 (3) Hire employees necessary to perform its duties,  
18 including an executive director. The executive  
19 director shall be appointed by the authority, and the  
20 employees' positions, including the executive  
21 director's position, shall be exempt from chapter 76;



- 1           (4) Enter into contracts for the service of consultants
- 2                   for rendering professional and technical assistance
- 3                   and advice, and any other contracts that are necessary
- 4                   and proper for the implementation of the loan program;
- 5           (5) Enter into contracts for the administration of the
- 6                   loan program, without the necessity of complying with
- 7                   chapter 103D;
- 8           (6) Establish loan program guidelines to be approved in
- 9                   one or more orders issued by the commission pursuant
- 10                  to section 269-171 to carry out the purposes of this
- 11                  part;
- 12           (7) Be audited at least annually by a firm of independent
- 13                  certified public accountants selected by the
- 14                  authority, and provide the results of this audit to
- 15                  the department and the commission; and
- 16           (8) Perform all functions necessary to effectuate the
- 17                  purposes of this part.
- 18           (b) The authority shall submit to the commission an annual
- 19 plan for the green infrastructure loan program for review and
- 20 approval no later than ninety days prior to the start of each
- 21 fiscal year. The annual plan submitted by the authority shall



1 include the authority's projected operational budget for the  
2 succeeding fiscal year.

3 (c) In the performance of the functions, powers, and  
4 duties vested in the authority by this part, the authority shall  
5 administer the clean energy and energy efficiency revolving loan  
6 fund pursuant to section 196-65.5 and may:

7 (1) Make loans and expend funds to finance the purchase or  
8 installation of clean energy technology and services;

9 (2) Implement and administer loan programs on behalf of  
10 other state departments or agencies through a  
11 memorandum of agreement and expend funds appropriated  
12 to the department or agency for purposes authorized by  
13 the legislature;

14 (3) Utilize all repayment mechanisms, including the green  
15 energy money saver on-bill program, financing tools,  
16 servicing and other arrangements, and sources of  
17 capital available to the authority;

18 (4) Exercise powers to organize and establish special  
19 purpose entities as limited liability companies under  
20 the laws of the State;

21 (5) Acquire, hold, and sell qualified securities;



- 1           (6) Pledge unencumbered net assets, loans receivable,  
2                   assigned agreements, and security interests over  
3                   equipment financed, as collateral for the authority's  
4                   borrowings from federal, county, or private lenders or  
5                   agencies;
- 6           (7) Utilize the employees of the authority, including the  
7                   executive director;
- 8           (8) Enter into contracts for the service of consultants  
9                   for rendering professional and technical assistance  
10                  and advice and any other contracts that are necessary  
11                  and proper for the implementation of the loan fund  
12                  program;
- 13          (9) Enter into contracts for the administration of the  
14                  loan fund program exempt from chapter 103D;
- 15          (10) Establish loan fund program guidelines;
- 16          (11) Be audited at least annually by a firm of independent  
17                  certified public accountants selected by the authority  
18                  and provide the results of the audit to the department  
19                  and legislature; and
- 20          (12) Perform all functions necessary to effectuate the  
21                  purposes of this part.



1        (d) In the performance of the functions, powers, and  
2 duties vested in the authority by this part, the authority shall  
3 administer the cesspool conversion loan special fund pursuant to  
4 section 196-        and may:

5        (1) Make loans and expend funds to finance the upgrade or  
6 conversion of existing cesspools in all counties to  
7 director of health-approved wastewater systems or  
8 connection of properties with existing cesspools to  
9 sewerage systems;

10       (2) Implement and administer the cesspool conversion on-  
11 bill financing program with funding available under  
12 section 342D-83 provided by the department of health  
13 on an annual basis through a memorandum of agreement  
14 and expend funds appropriated to the department for  
15 purposes authorized by the legislature;

16       (3) Coordinate with each county real property tax  
17 department, through memorandums of agreement, to  
18 implement the on-bill repayment mechanism for the  
19 cesspool conversion on-bill financing program to have  
20 the principal and interest loan repayments collected  
21 on the real property tax bill of eligible borrowers,



- 1           and for each respective county to transmit those  
2           collections to the authority;
- 3           (4) Utilize all repayment mechanisms, financing tools,  
4           servicing and other arrangements, and sources of  
5           capital available to the authority;
- 6           (5) Utilize the employees of the authority, including the  
7           executive director;
- 8           (6) Enter into contracts for the service of consultants  
9           for rendering professional and technical assistance  
10           and advice and any other contracts that are necessary  
11           and proper for the implementation of the cesspool  
12           conversion on-bill financing program;
- 13           (7) Enter into contracts for the administration of the  
14           cesspool conversion on-bill financing program exempt  
15           from chapter 103D;
- 16           (8) Establish guidelines for the cesspool conversion on-  
17           bill financing program;
- 18           (9) Be audited at least annually by a firm of independent  
19           certified public accountants selected by the authority  
20           and provide the results of the audit to the department  
21           and legislature; and



1        (10) Perform all functions necessary to effectuate the  
2                    purposes of this part.

3        [~~(d)~~] (e) The authority shall submit an annual report for  
4        [the]:

5            (1) The clean energy and energy efficiency revolving loan  
6                    fund; and

7            (2) The cesspool conversion loan special fund,  
8        to the legislature no later than twenty days prior to the  
9        convening of each regular session describing the projects funded  
10       and the projected energy impacts."

11        SECTION 4. There is appropriated out of the general  
12        revenues of the State of Hawaii the sum of \$                    or so  
13        much thereof as may be necessary for fiscal year 2024-2025 to be  
14        deposited into the cesspool conversion loan special fund.

15        SECTION 5. There is appropriated out of the cesspool  
16        conversion loan special fund the sum of \$                    or so much  
17        thereof as may be necessary for fiscal year 2024-2025 for:

18            (1) Re-programming of the counties' billing systems to add  
19                    the cesspool conversion principal and interest  
20                    payments due;



- 1           (2) Automation of the electronic transfer of loan data
- 2                   between the Hawaii green infrastructure authority's
- 3                   loan servicer and the counties' billing systems;
- 4           (3) The hiring of one full-time equivalent (1.0 FTE)
- 5                   program management position; and
- 6           (4) Provision of authorized financial assistance to
- 7                   eligible low and moderate-income households to
- 8                   upgrade, convert, or connect cesspools under the
- 9                   cesspool conversion on-bill financing program, to be
- 10                  allocated as follows:
- 11                  (A) \$                   to the county of Hawaii;
- 12                  (B) \$                   to the city and county of Honolulu;
- 13                  (C) \$                   to the county of Kauai; and
- 14                  (D) \$                   to the county of Maui;
- 15                  provided that no county shall receive more than
- 16                  \$100,000,000 per fiscal year, and no funds shall be
- 17                  released to a county unless matched on a \$3 to \$1
- 18                  basis by that county.

19           The sum appropriated shall be expended by the Hawaii green  
20 infrastructure authority for the purposes of this Act.



1 SECTION 6. In accordance with section 9 of article VII of  
2 the Hawaii State Constitution and sections 37-91 and 37-93,  
3 Hawaii Revised Statutes, the legislature has determined that the  
4 appropriations contained in H.B. No. , will cause the state  
5 general fund expenditure ceiling for fiscal year 2024-2025 to be  
6 exceeded by \$ or per cent. In addition, the  
7 appropriation contained in this Act will cause the general fund  
8 expenditure ceiling for fiscal year 2024-2025 to be further  
9 exceeded by \$ or per cent. The combined total  
10 amount of general fund appropriations contained in only these  
11 two Acts will cause the state general fund expenditure ceiling  
12 for fiscal year 2024-2025 to be exceeded by  
13 \$ or per cent. The reasons for exceeding the  
14 general fund expenditure ceiling are that:

- 15 (1) The appropriation made in this Act is necessary to  
16 serve the public interest; and  
17 (2) The appropriation made in this Act meets the needs  
18 addressed by this Act.

19 SECTION 7. Statutory material to be repealed is bracketed  
20 and stricken. New statutory material is underscored.

21 SECTION 8. This Act shall take effect on July 1, 2024.



H.B. NO. *Zebb*

1

INTRODUCED BY: *Steve Orr*

JAN 19 2024



# H.B. NO. 2066

**Report Title:**

Cesspool Conversion Financing Program; Hawaii Green Infrastructure Authority; Special Fund; Appropriation; Expenditure Ceiling

**Description:**

Establishes a cesspool conversion on-bill financing program to be administered by the Hawaii green infrastructure authority to provide low-interest loans to eligible homeowners for the upgrade, conversion, or connection of cesspools.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

