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## A BILL FOR AN ACT

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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 nearly  
8 eighty-three thousand cesspools in the State, excluding Niihau  
9 and Lanai, with approximately forty-eight thousand, or fifty-  
10 nine per cent, on Hawaii island; fourteen thousand, or seventeen  
11 per cent, on Kauai; over eleven thousand, or thirteen per cent,  
12 on Maui; eight thousand, or nine per cent, on Oahu; and 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 cost an average of \$30,000 per system or  
7 nearly \$2,500,000,000 for eighty-three thousand cesspools, have  
8 been lagging at a rate of roughly two hundred conversions  
9 annually.

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

18           The legislature also finds that on-bill financing for  
19 renewable energy measures has proven to expand financing  
20 eligibility to underserved ratepayers while mitigating risks for  
21 capital providers in Hawaii and across the nation.



1 Additionally, there are a number of successful on-bill financing  
2 for water programs on the continental United States.

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

6 The purpose of this Act is to:

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

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



1           (3) Enable the counties to collaborate with the authority  
2           to implement the cesspool conversion on-bill financing  
3           program by including the principal and interest loan  
4           repayments for eligible borrowers on the water bill of  
5           each respective county and transmit the collections to  
6           the authority.

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

10           "§196-           Cesspool conversion loan special fund. (a)  
11           There is established in the state treasury the cesspool  
12           conversion loan special fund that shall be administered by the  
13           authority. Funds deposited into the cesspool conversion loan  
14           special fund shall include:

- 15           (1) Moneys appropriated to the cesspool conversion loan  
16           special fund by the legislature;
- 17           (2) Funds from federal, state, county, private, or other  
18           funding sources;
- 19           (3) Moneys received as repayment of loans and interest  
20           payments; provided that the repayment of loans and  
21           interest payments under this paragraph shall not



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



1 the fund may be used to cover administrative and legal costs of  
2 fund management and management associated with individual loans,  
3 which include personnel, services, technical assistance, data  
4 collection and reporting, materials, equipment, and travel for  
5 the purposes of this section.

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

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

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

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



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

3 **"§196-64 Functions, powers, and duties of the authority.**

4 (a) In the performance of, and with respect to the functions,  
5 powers, and duties vested in the authority by this part, the  
6 authority, as directed by the director and in accordance with a  
7 green infrastructure loan program order or orders under section  
8 269-171 or an annual plan submitted by the authority pursuant to  
9 this section, as approved by the commission for the green  
10 infrastructure loan program, may:

11 (1) Make loans and expend funds to finance the purchase or  
12 installation of green infrastructure equipment for  
13 clean energy technology, demand response technology,  
14 and energy use reduction and demand side management  
15 infrastructure, programs, and services;

16 (2) Hold and invest moneys in the green infrastructure  
17 special fund in investments as permitted by law and in  
18 accordance with approved investment guidelines  
19 established in one or more orders issued by the  
20 commission pursuant to section 269-171;



- 1           (3) Hire employees necessary to perform its duties,  
2           including an executive director. The executive  
3           director shall be appointed by the authority, and the  
4           employees' positions, including the executive  
5           director's position, shall be exempt from chapter 76;
- 6           (4) Enter into contracts for the service of consultants  
7           for rendering professional and technical assistance  
8           and advice, and any other contracts that are necessary  
9           and proper for the implementation of the loan program;
- 10          (5) Enter into contracts for the administration of the  
11          loan program, without the necessity of complying with  
12          chapter 103D;
- 13          (6) Establish loan program guidelines to be approved in  
14          one or more orders issued by the commission pursuant  
15          to section 269-171 to carry out the purposes of this  
16          part;
- 17          (7) Be audited at least annually by a firm of independent  
18          certified public accountants selected by the  
19          authority, and provide the results of this audit to  
20          the department and the commission; and



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

3           (b) The authority shall submit to the commission an annual  
4 plan for the green infrastructure loan program for review and  
5 approval no later than ninety days prior to the start of each  
6 fiscal year. The annual plan submitted by the authority shall  
7 include the authority's projected operational budget for the  
8 succeeding fiscal year.

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

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

15           (2) Implement and administer loan programs on behalf of  
16                   other state departments or agencies through a  
17                   memorandum of agreement and expend funds appropriated  
18                   to the department or agency for purposes authorized by  
19                   the legislature;

20           (3) Utilize all repayment mechanisms, including the green  
21                   energy money saver on-bill program, financing tools,



- 1 servicing and other arrangements, and sources of  
2 capital available to the authority;
- 3 (4) Exercise powers to organize and establish special  
4 purpose entities as limited liability companies under  
5 the laws of the State;
- 6 (5) Acquire, hold, and sell qualified securities;
- 7 (6) Pledge unencumbered net assets, loans receivable,  
8 assigned agreements, and security interests over  
9 equipment financed, as collateral for the authority's  
10 borrowings from federal, county, or private lenders or  
11 agencies;
- 12 (7) Utilize the employees of the authority, including the  
13 executive director;
- 14 (8) Enter into contracts for the service of consultants  
15 for rendering professional and technical assistance  
16 and advice and any other contracts that are necessary  
17 and proper for the implementation of the loan fund  
18 program;
- 19 (9) Enter into contracts for the administration of the  
20 loan fund program exempt from chapter 103D;
- 21 (10) Establish loan fund program guidelines;



1 (11) Be audited at least annually by a firm of independent  
2 certified public accountants selected by the authority  
3 and provide the results of the audit to the department  
4 and legislature; and

5 (12) Perform all functions necessary to effectuate the  
6 purposes of this part.

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

11 (1) Make loans and expend funds to finance the upgrade or  
12 conversion of existing cesspools in all counties to  
13 director of health-approved wastewater systems or  
14 connection of properties with existing cesspools to  
15 sewerage systems;

16 (2) Implement and administer the cesspool conversion on-  
17 bill financing program with funding available under  
18 section 342D-83 provided by the department of health  
19 on an annual basis through a memorandum of agreement  
20 and expend funds appropriated to the department for  
21 purposes authorized by the legislature;



- 1       (3) Coordinate with each county water utility, through  
2       memorandums of agreement, to implement the on-bill  
3       repayment mechanism for the cesspool conversion on-  
4       bill financing program to have the principal and  
5       interest loan repayments collected on the water bill  
6       of eligible borrowers, and for each respective county  
7       to transmit those collections to the authority;
- 8       (4) Utilize all repayment mechanisms, financing tools,  
9       servicing and other arrangements, and sources of  
10       capital available to the authority;
- 11       (5) Utilize the employees of the authority, including the  
12       executive director;
- 13       (6) Enter into contracts for the service of consultants  
14       for rendering professional and technical assistance  
15       and advice and any other contracts that are necessary  
16       and proper for the implementation of the cesspool  
17       conversion on-bill financing program;
- 18       (7) Enter into contracts for the administration of the  
19       cesspool conversion on-bill financing program exempt  
20       from chapter 103D;



1       (8) Establish guidelines for the cesspool conversion on-  
2       bill financing program;

3       (9) Be audited at least annually by a firm of independent  
4       certified public accountants selected by the authority  
5       and provide the results of the audit to the department  
6       and legislature; and

7       (10) Perform all functions necessary to effectuate the  
8       purposes of this part.

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

11       (1) The clean energy and energy efficiency revolving loan  
12       fund; and

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

17       SECTION 4. There is appropriated out of the general  
18 revenues of the State of Hawaii the sum of \$                    or so  
19 much thereof as may be necessary for fiscal year 2025-2026 and  
20 the same sum or so much thereof as may be necessary for fiscal  
21 year 2026-2027 to be deposited into the cesspool conversion loan



1 special fund established pursuant to section 196- , Hawaii  
2 Revised Statutes.

3 SECTION 5. There is appropriated out of the cesspool  
4 conversion loan special fund established pursuant to section  
5 196- , Hawaii Revised Statutes, the sum of \$ or so  
6 much thereof as may be necessary for fiscal year 2025-2026 and  
7 the same sum or so much thereof as may be necessary for fiscal  
8 year 2026-2027 for:

- 9 (1) Re-programming of the counties' billing systems to add  
10 the cesspool conversion principal and interest  
11 payments due;
- 12 (2) Automation of the electronic transfer of loan data  
13 between the Hawaii green infrastructure authority's  
14 loan servicer and the counties' billing systems;
- 15 (3) The hiring of one full-time equivalent (1.0 FTE)  
16 program management position; and
- 17 (4) Provision of authorized financial assistance to  
18 eligible low- and moderate-income households to  
19 upgrade, convert, or connect cesspools under the  
20 cesspool conversion on-bill financing program, to be  
21 allocated as follows:



# H.B. NO. 1421

- 1 (A) \$ to the county of Hawaii;
  - 2 (B) \$ to the city and county of Honolulu;
  - 3 (C) \$ to the county of Kauai; and
  - 4 (D) \$ to the county of Maui;
- 5 provided that no county shall receive more than  
6 \$100,000,000 per fiscal year, and no funds shall be  
7 released to a county unless matched on a \$3 to \$1  
8 basis by that county.

9 The sums appropriated shall be expended by the Hawaii green  
10 infrastructure authority for the purposes of this Act.

11 SECTION 6. Statutory material to be repealed is bracketed  
12 and stricken. New statutory material is underscored.

13 SECTION 7. This Act shall take effect on July 1, 2025.

14 INTRODUCED BY:



JAN 23 2025



# H.B. NO. 1421

**Report Title:**

Cesspool Conversion Financing Program; On-bill Financing; Hawaii Green Infrastructure Authority; Special Fund; Appropriation

**Description:**

Establishes and appropriates funds for 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.*

