
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 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-approved wastewater systems or connected to sewerage
5 systems by January 1, 2050. However, cesspool conversions,
6 which cost an average of \$30,000 per system or nearly
7 \$2,500,000,000 for eighty-three thousand cesspools, have been
8 lagging at a rate of roughly two hundred conversions annually.

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

17 The legislature also finds that on-bill financing for
18 renewable energy measures has proven to expand financing
19 eligibility to underserved ratepayers while mitigating risks for
20 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 to director of health-approved wastewater
12 systems or connect properties with existing cesspools
13 to sewerage systems, with loan repayments placed on
14 the water bill of the respective property owner;
- 15 (2) Allow the department of health, through a memorandum
16 of agreement, to transfer funding available under
17 section 342D-83, Hawaii Revised Statutes, on an annual
18 basis to capitalize the cesspool conversion on-bill
19 financing program; and
- 20 (3) Enable the counties to collaborate with the Hawaii
21 green infrastructure authority to implement the



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

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

9 "§196- Cesspool conversion loan special fund. (a)

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

14 (1) Moneys appropriated to the cesspool conversion loan
 15 special fund by the legislature;

16 (2) Funds from federal, state, county, private, or other
 17 funding sources;

18 (3) Moneys received as repayment of loans and interest
 19 payments; provided that the repayment of loans and
 20 interest payments under this paragraph shall not
 21 include repayment of loans and interest collected as a



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



1 fund management and management associated with individual loans,
2 which include personnel, services, technical assistance, data
3 collection and reporting, materials, equipment, and travel for
4 the purposes of this section.

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

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

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

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

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



1 **"§196-64 Functions, powers, and duties of the authority.**

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

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

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

19 (3) Hire employees necessary to perform its duties,
20 including an executive director. The executive
21 director shall be appointed by the authority, and the



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



1 approval no later than ninety days prior to the start of each
2 fiscal year. The annual plan submitted by the authority shall
3 include the authority's projected operational budget for the
4 succeeding fiscal year.

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

- 9 (1) Make loans and expend funds to finance the purchase or
10 installation of clean energy technology and services;
- 11 (2) Implement and administer loan programs on behalf of
12 other state departments or agencies through a
13 memorandum of agreement and expend funds appropriated
14 to the department or agency for purposes authorized by
15 the legislature;
- 16 (3) Utilize all repayment mechanisms, including the green
17 energy money saver on-bill program, financing tools,
18 servicing and other arrangements, and sources of
19 capital available to the authority;



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



1 and provide the results of the audit to the department
2 and legislature; and

3 (12) Perform all functions necessary to effectuate the
4 purposes of this part.

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

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

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

20 (3) Coordinate with each county water utility, through
21 memorandums of agreement, to implement the on-bill



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



1 (9) 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 (10) Perform all functions necessary to effectuate the
6 purposes of this part.

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

9 (1) The clean energy and energy efficiency revolving loan
10 fund; and

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

15 SECTION 4. There is appropriated out of the general
16 revenues of the State of Hawaii the sum of \$ or so
17 much thereof as may be necessary for fiscal year 2025-2026 and
18 the same sum or so much thereof as may be necessary for fiscal
19 year 2026-2027 to be deposited into the cesspool conversion loan
20 special fund established pursuant to section 196- , Hawaii
21 Revised Statutes.



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

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



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

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

9 SECTION 6. Statutory material to be repealed is bracketed
 10 and stricken. New statutory material is underscored.

11 SECTION 7. This Act shall take effect on July 1, 3000.



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. Effective 7/1/3000. (HD1)

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