

STATE OF HAWAII
HAWAII CLIMATE CHANGE MITIGATION & ADAPTATION
COMMISSION
POST OFFICE BOX 621
HONOLULU, HAWAII 96809

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The Adjutant General
Manager, CZM

**Testimony of
Leah Laramee
Coordinator, Hawai'i Climate Change Mitigation and Adaptation Commission**

**Before the House Committees on
ENERGY & ENVIRONMENTAL PROTECTION
AND
COMMITTEE ON WATER & LAND**

**Tuesday February 13, 2024
9:05 AM
State Capitol, Via Videoconference, Conference Room 325**

**In support of
House Bill 2066
RELATING TO FINANACING**

House Bill 2264 establishes the Cesspool Conversion Revolving Loan Fund and directs green energy market securitization loan repayments and interest to be deposited into the Cesspool Conversion Revolving Loan Fund. The bill requires the Hawai'i Green Infrastructure Authority to administer the Cesspool Conversion Revolving Loan Fund. **The Hawai'i Climate Change Mitigation and Adaptation Commission (Commission) supports this measure.**

The Commission consists of a multi-jurisdictional effort between 20 different departments, committees, and counties. Removal of cesspools for all properties within the Sea Level Rise Exposure Area (SLR-XA), is imperative to the health of nearshore waters and for members of the public accessing coastal resources. Removal may not be achievable by 2050 as directed by Act 125, Session Laws of Hawai'i 2017, without financing support for replacement. The Commission's 2022 update to the *Sea Level Rise Vulnerability and Adaptation Report* Recommended Action 6.4 counsels that the State should expand policy directives beyond the existing income tax credits and requirement for removal by 2050. Specifically, policy must address existing cesspools in the coastal zone in relation to enforcement of existing laws and regulations. Cesspools on the shoreline and in the coastal zone will be an increasing source of nonpoint source pollution as groundwater rises and coastal erosion accelerates. This bill addresses the challenges many homes will have with converting cesspools by providing on bill financing so that cesspool conversion can begin sooner and more equitably.

Mahalo for the opportunity to testify in support of this measure.



STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

NADINE Y. ANDO
DIRECTOR | KA LUNA HO'OKELE

JOSH GREEN, M.D.
GOVERNOR | KE KIA'ĀINA
SYLVIA LUKE
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Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committees on Energy & Environmental Protection and
Water & Land

Tuesday, February 13, 2024

9:05 a.m.

Via Videoconference

On the following measure:
H.B. 2066, RELATING TO FINANCING.

Chairs Lowen and Ichiyama and Members of the Committees:

My name is Iris Ikeda, and I am the Commissioner of the Department of Commerce and Consumer Affairs' Division of Financial Institutions (DFI). The Department offers comments this bill.

The purpose of this bill is to establish 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 Department understands and supports the policy about creating a loan fund for to fund cesspool replacement and green energy improvements but would like to point out an unintended consequence of this type of financing scheme. The Department supports that the repayment of the loans would be simple for the taxpayer/homeowner as the on-bill bill would be part of the property tax assessment.

However, the loans are secured by a lien at the same priority as a real property tax – a “super lien” ahead of other obligations like mortgages. This type of property assessed financing on improvements is similar to PACE (Property Assessed Clean Energy) financing. This type of financing is controversial in Hawaii and on the mainland.

There may be a chilling effect on banks and credit unions who typically sell mortgages to Fannie Mae and Freddie Mac. These government-sponsored enterprises (GSEs) have issued letters stating that it will not buy these types of loans so loans with this type of financing may have to be re-purchased by the lenders. In addition, the Veterans Administration and US Department of Agriculture loans prohibit these schemes on its loans. The end result may be that credit will be less available for consumers and businesses.

The Department is willing to work with the interested parties to see if there is another way to accomplish the goal in this proposal.

Thank you for the opportunity to offer comments on this bill.



Testimony of
Gwen Yamamoto Lau
Executive Director
Hawai'i Green Infrastructure Authority
before the
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
and
HOUSE COMMITTEE ON WATER & LAND
Tuesday, February 13, 2024, 9:05 PM
State Capitol, Conference Room 325
in consideration of
House Bill No. 2066
RELATING TO FINANCING

Chairs Lowen and Ichiyama, Vice Chairs Cochran and Poepoe and Members of the Committees:

Thank you for the opportunity to testify on HB2066 relating to financing. The Hawai'i Green Infrastructure Authority (HGIA) **supports** this bill which establishes a cesspool conversion on-bill financing program to provide low-interest loans to eligible homeowners.

While the majority of property owners required to convert or upgrade their existing cesspools may be able to qualify for bank or credit union financing, access to capital barriers exists for approximately 20,000¹ homeowners. It is imperative that in addition to grants, tax credits and other incentives, the State also provide these low and moderate-income² (LMI) homeowners with a low-cost financing option, which eliminates credit barriers by leveraging innovative on-bill repayment mechanisms, while still being prudent stewards of public funds.

In order to appease our local financial institutions, the design of this financing program can include the following:

- If there is an existing mortgage(s) on the property, the LMI property owner must seek financing from the local³ bank, credit union or finance company that holds or services said mortgage(s).

¹ This estimate is based on the Federal Reserve Bank's unbanked or underbanked metric of 25%.

² Low and moderate-income will be based on HUD/HHFDC's area median threshold by County.

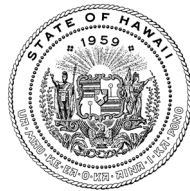
³ This requirement is waived if the mortgage holder or servicer does not have an office in the state of Hawaii.

- In addition to meeting the LMI threshold, the property owner must provide two adverse action notices when applying for this financing program. If there is an existing mortgage on the property, one of the adverse action notices must be from the local bank, credit union or finance company that holds or services said mortgage⁴.
- A portion of the funds can be used to co-create a credit enhancement for our local financial institutions to finance “near-bankable” homeowners with cesspool conversion loans.

Protecting our environment and ensuring clean water is important. Providing LMI homeowners with credit barriers a low-cost financing option to comply with the state’s mandate is equally important.

Thank you for this opportunity to provide comments and testify in support of HB2066.

⁴ In providing an Adverse Action notice, the existing mortgage holder is acknowledging that they are aware that their borrower will be applying for state financing and is unable to assist their customer with a cesspool conversion request.



JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
Ka 'Oihana Mālama Mo'ohelu a Kālā
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEES ON ENERGY AND ENVIRONMENTAL PROTECTION
AND WATER AND LAND
ON
HOUSE BILL NO. 2066

February 13, 2024
9:05 a.m.
Room 325 and Videoconference

RELATING TO FINANCING

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill (H.B.) No. 2066 establishes the Cesspool Conversion Loan Special Fund (CCLSF) to be administered by the Hawai'i Green Infrastructure Authority (HGIA) for the purpose of providing low-interest loans to eligible households to upgrade or convert existing cesspools; appropriates an unspecified amount of general funds in FY 25 for deposit into the CCLSF; appropriates an unspecified amount of special funds out of the CCLSF in FY 25 to provide loan funding; to reprogram and automate the counties' billing systems to share loan data with HGIA's loan servicer; to add cesspool conversion principal and interest payments due; and to hire 1.00 program manager position to administer the CCLSF. Revenues for the CCLSF include legislative appropriations, funds from governmental or private entities, repayment of loans and interest payments, and fees.

As a matter of general policy, B&F does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, HRS. Special funds should:

1) serve a need as demonstrated by the purpose, scope of work and an explanation why

the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. Regarding H.B. No. 2066, it is difficult to determine whether the proposed CCLSF would be self-sustaining.

Thank you for your consideration of our comments.



UNIVERSITY OF HAWAII SYSTEM

‘ŌNAEHANA KULANUI O HAWAII

Legislative Testimony

Hō'ike Mana'o I Mua O Ka 'Aha'ōlelo

Testimony Presented Before the
House Committee on Energy & Environmental Protection
House Committee on Water & Land
Tuesday, February 13, 2024 at 9:05 a.m.

By

Darren T. Lerner, PhD

Director, University of Hawai'i (UH) Sea Grant College Program
School of Ocean and Earth Science and Technology

And

Thomas Giambelluca, PhD

Director, UH Water Resources Research Center

And

Michael Bruno, PhD

Provost

University of Hawai'i at Mānoa

HB 2066 – RELATING TO FINANCING

Chairs Lowen and Ichiyama, Vice Chairs Cochran and Poepoe, and Members of the Committees:

The University of Hawai'i Sea Grant College Program and UH Water Resources Research Center offer comments on HB 2066. This bill would establish a cesspool conversion on-bill financing program to be administered by the Hawai'i green infrastructure authority to provide low-interest loans to eligible homeowners for the upgrade, conversion, or connection of cesspools.

The upgrade and conversion of cesspools to advanced forms of wastewater treatment is critical to avoiding outcomes that could impair Hawai'i's drinking water and ecosystem health. The Cesspool Conversion Working Group reported that the vast majority of cesspool owners cannot afford the upgrade of their cesspool to an advanced form of wastewater treatment. Because it is critical to both human and environmental health that the state's cesspools be eliminated as soon as possible, it is important that a multitude of mechanisms for financial assistance be created for homeowners.

Thank you for the opportunity to testify on this measure.

TESTIMONY OF
LEODOLOFF R. ASUNCION, JR.
CHAIR, PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

TO THE
HOUSE COMMITTEES ON
ENERGY AND ENVIRONMENTAL PROTECTION
AND
WATER AND LAND

Tuesday, February 13, 2024
9:05 a.m.

Chairs Lowen and Ichiyama, Vice Chairs Cochran and Poepoe, and Members of the Committees:

MEASURE: H.B. No. 2066

TITLE: RELATING TO FINANCING.

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.

POSITION:

The Public Utilities Commission (“Commission”) supports the intent of this measure and offers the following comments for consideration.

COMMENTS:

The Commission appreciates the intent of this bill to serve the public interest through establishment of a cesspool conversion revolving loan program to be administered by the Hawaii Green Infrastructure Authority (HGIA). The Commission notes the severity of the problem created by cesspools and the need for financing to support their conversion.

The Commission is charged with establishing and reporting on the achievement of the statewide energy efficiency portfolio standard (EEPS) goal, pursuant to HRS § 269-96. The Commission’s Public Benefits Fee Administrator (or PBFA, also known as Hawaii

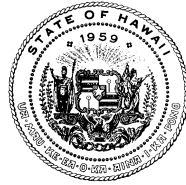
Energy) was statutorily established through HRS § 269-121 through § 269-124 and has been the primary contributor to achieving our state's EEPS target. Hawaii Energy, a nationally recognized energy efficiency implementer, has been successfully delivering energy-reducing and cost-saving programs and services to Hawaii's residents and businesses since its inception nearly 15 years ago, and is funded through a public benefits fee (PBF) surcharge to Hawaiian Electric ratepayers.

The Commission recognizes the success of Hawaii Green Infrastructure Authority's oversight of the Green Energy Market Securitization (GEMS) loan program since its establishment in 2014, and particularly its achievement in the last seven years during which time it deployed over 80% of its available green infrastructure loan funds. The GEMS program is financed through a green infrastructure fee (GIF) paid by Hawaiian Electric ratepayers and was established as an offset of the PBF surcharge to minimize customer bill impact. The Hawaii Green Infrastructure Authority reimburses this offset to the Public Benefits Fee fund annually through GEMS customer loan repayments which replenishes resources for the Hawaii Energy program, who administers the deployment of energy efficiency incentives and services for Hawaiian Electric customers.

The Commission commends HGIA's continued exploration of Green Bank opportunities for Hawaii's residents and businesses, aligned with our state's clean energy, environmental improvement, and equity initiatives. House Bill 2066 importantly proposes a program which supports low- and moderate- income households in service of Hawaii's cesspool remediation goals. Furthermore, the Commission appreciates the innovative financing resource proposals in this bill, and particularly for its intent to keep separate and distinct the cesspool conversion loan special fund from the activities and moneys collected as a result of the funds advanced from proceeds of GEMS program. The Commission understands that this proposed funding mechanism would accomplish the goals of this measure while allowing continued repayment to the PBF during a critical time for energy efficiency.

Thank you for the opportunity to testify on this measure.

JOSH GREEN, M.D.
GOVERNOR OF HAWAII
KE KIA'AINA O KA MOKU'AINA 'O HAWAII



KENNETH S. FINK, MD, MGA, MPH
DIRECTOR OF HEALTH
KA LUNA HO'OKELE

STATE OF HAWAII
DEPARTMENT OF HEALTH
KA 'OIHANA OLAKINO
P. O. BOX 3378
HONOLULU, HI 96801-3378
doh.testimony@doh.hawaii.gov

In reply, please refer to:
File:

**Testimony COMMENTING on HB2066
RELATING TO FINANCING**

REPRESENTATIVE NICOLE E. LOWEN, CHAIR
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

REPRESENTATIVE LINDA ICHIYAMA, CHAIR
HOUSE COMMITTEE ON WATER & LAND

Hearing Date: 2/13/2024

Room Number: 325

1 **Fiscal Implications:** This measure may impact the priorities identified in the Governor's
2 Executive Budget Request for the Department of Health's (Department) appropriations and
3 personnel priorities.

4 **Department Testimony:** The Department acknowledges the intent of this measure to encourage
5 the acceleration of cesspool conversions and allow the Hawai'i green infrastructure authority to
6 retain earned interest to cover its operating expenses while repurposing the repaid principal of
7 green energy market securitization (GEMS) funded solar loans to fund a cesspool conversion
8 revolving loan fund would create a long-term source of capital that, when combined with federal
9 funds, serves a necessary public purpose and respectfully submits the following comments.

10 It is our understanding that chapter 196, Hawai'i Revised Statutes (HRS 196) will be
11 amended. Amendments to HRS 196-64 will describe the functions, powers, and duties of the
12 Hawai'i green infrastructure authority. Amendments to HRS 196-65 will establish the cesspool
13 conversion revolving fund in the Hawai'i green infrastructure special fund that shall be
14 administered by the Hawai'i green infrastructure authority. Amendments to HRS 196-65.5 will
15 administer the revolving loan fund. Additional amendments to HRS 196- will administer the
16 cesspool conversion revolving loan fund.

17 For clarification, the amendments to HRS 196 may reference HRS 342D, but not
18 implement and administer the cesspool conversion revolving fund loan program with funding

1 available under HRS 342D-83, provided by the department of health on an annual basis through
2 a memorandum of agreement and expend funds appropriated to the department for purposes
3 authorized by the legislature.

4 **Offered Amendments:** The Department respectfully suggests the following revisions to
5 the proposed HRS amendments. Additions appear as underlined and deletions appear as
6 strikeouts.

7 SECTION 1, Page 3, lines 14-18: “~~Allow~~Reference the department of health, ~~through a~~
8 ~~memorandum of agreement, to transfer~~model the funding process available under section
9 342D-83, Hawaii Revised Statutes, ~~on an annual basis to~~ capitalize the cesspool conversion on-
10 bill financing program; and”

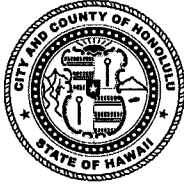
11 SECTION 3 (d)(2), Page 11, lines 10-15: “~~Implement and administer the cesspool~~
12 ~~conversion on bill financing program with funding available under section 342D-83 provided by~~
13 ~~the department of health on an annual basis through a memorandum of agreement and expend~~
14 ~~funds appropriated to the department for purposes authorized by the legislature~~Reference as an
15 example the loan program under chapter 342D-83, provided by the department of health.”

16 Thank you for the opportunity to testify.

DEPARTMENT OF BUDGET AND FISCAL SERVICES
KA 'OIHANA MĀLAMA MO'OHELU A KĀLĀ
CITY AND COUNTY OF HONOLULU

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RICK BLANGIARDI
MAYOR
MEIA



ANDREW T. KAWANO
DIRECTOR
PO'O

CARRIE CASTLE
DEPUTY DIRECTOR
HOPE PO'O

February 9, 2024

The Honorable Nicole E. Lowen, Chair
The Honorable Elle Cochran, Vice-Chair
and Members of the Committee on Energy & Environmental Protection
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

The Honorable Linda Ichiyama, Chair
The Honorable Mahina Poepoe, Vice-Chair
and Members of the Committee on Water & Land
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chairs Lowen and Ichiyama, Vice-Chairs Cochran and Poepoe and Committee Members:

SUBJECT: Testimony with Concerns on House Bill 2066 (2024)
Hearing: February 13, 2024, 9:05 a.m. via Videoconference

The City and County of Honolulu ("City") appreciates the opportunity to testify and provide comments on House Bill 2066 ("HB 2066"), relating to establishing a cesspool conversion on-bill financing program ("Cesspool Conversion Program").

The City supports the State's goal of upgrading or converting cesspools to director of health-approved wastewater systems or to connect to sewage systems by January 1, 2050. In order to meet the State's goal, HB 2066 proposes to add a new section to HRS Chapter 196 to establish a Cesspool Conversion Loan Special Fund ("CCLSF"), from which the Hawai'i Green Infrastructure Authority ("HGIA") would provide low-interest loans or other financial assistance to eligible low and moderate-income households to upgrade or convert their existing cesspools.

However, the City has concerns with HB 2066 because proposed Section 196-___(b) and the amendments to HRS § 196-64(d)(3) would require the HGIA to coordinate with each county to implement an on-bill repayment mechanism so that the counties' real property tax division can collect cesspool conversion loans repayments through real property tax bills from property owners and remit the payments to the HGIA.

The City's real property tax program is procured, designed, and utilized to support the ad valorem assessment, standardized billing and collection of taxes on real property. The City's real property tax program is not structured to support or collect repayments of loans or financing

The Honorable Nicole E. Lowen, Chair
The Honorable Elle Cochran, Vice-Chair
and Members of the Committee on Energy & Environmental Protection
The Honorable Linda Ichiyama, Chair
The Honorable Mahina Poepoe, Vice-Chair
and Members of the Committee on Water & Land
February 9, 2024
Page 2

agreements. While the City appreciates the proposed language in HB 2066 which would appropriate monies from the CCLSF to reprogram the counties' billing systems to collect loan repayments, the language requiring a three-to-one match is unclear, and furthermore, the City's concerns extend beyond the availability of funds to reprogram its billing system.

Real property taxes are the primary source of revenue for the City, and its current real property tax billing and collection structure is critical to maintaining its favorable general obligation bond rating. Interposing additional duties of billing and collecting loan payments on behalf of the State would place a strain on current City staff and other resources. Because lending and financing laws and/or regulations probably apply to the Cesspool Conversion Loan program, new union positions need to be created and funded to avoid labor issues. Consequentially, interposition of additional duties upon the counties through HB 2066 may negatively impact the City's fiscal management and bond rating. For these reasons, the City may be less likely to participate in the program which would further constrain the City's limited capacity, and diversely affect the City's favorable general obligation bond ratings.

HB 2066 also does not account for the fact that financial institutions and mortgage companies pay, on behalf of their borrowers, more than 25% of the real property taxes collected. Such financial institutions and mortgage companies have no obligation or duty to make loan payments to the cesspool conversion loan program. Therefore, consideration should be given to amending HB 2066 to alternatively allow HGIA or its third-party administrator to provide stand-alone billing to the eligible low and moderate income households, which would minimize the risks of delinquent payments and added interest payments from their already limited incomes.


Thank you for the opportunity to provide testimony, and your attention to the City's concerns with HB 2066.

Sincerely,



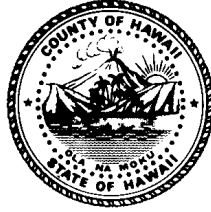
Andrew T. Kawano
Director

APPROVED:



Michael D. Fomby
Managing Director

HEATHER L. KIMBALL
COUNCIL CHAIR
Council District 1 (North Hilo,
Hāmākua, and portion of Waimea)



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Email: Heather.Kimball@hawaiicounty.gov

HAWAI'I COUNTY COUNCIL

25 Aupuni Street, Ste. 1402.
Hilo, Hawai'i 96720

February 12, 2024

House Committee on Energy and Environmental Protection
Honorable Representative Nicole E. Lowen, Chair
House Committee on Water and Land
Honorable Representative Linda Ichiyama, Chair

RE: **Support for HB 2066**

Dear Chair Lowen, Chair Ichiyama, and Members of the Committee on Energy and Environmental Protection and the Committee on Water and Land:

As the Chair of the Hawai'i County Council, I thank you for the opportunity to submit **testimony in SUPPORT of HB 2066, along with proposed amendments**, relating to cesspool conversion financing.

HB2066 represents a commitment by the state to create an authority to provide a cesspool conversion on-bill financing program providing low-interest loans to eligible homeowners. I am grateful for the partnership of the state legislature in helping the counties and individuals address the cost burden of meeting the 2050 cesspool conversion deadline. This bill, in combination with HB2743 creates a novel and fair program to address the urgent need to start a more rapid conversion of cesspools in the state.

I would like to suggest the following amendments:

Page 14, Line 17: State to County ratio be set at 1:1.

Page 14, After Line 18: Please add language "Priority use of cesspool conversion loan special funds shall be given by Counties to areas that will not be included in proposed sewer improvement districts and for sewer connection fees in identified sewer improvement districts."

I do urge that this committee to continue to improve and move HB 2066 through the legislative process. I am certain we can come to a final bill that will be amenable to all involved. Thank you for the opportunity to submit this testimony. If you would like to discuss my knowledge of this matter further, please do not hesitate to contact me directly.

Sincerely,

HEATHER L. KIMBALL

Hawai'i County is an Equal Opportunity Provider and Employer.



To: The Honorable Representative Nicole Lowen, Chair, the Honorable Elle Cochran, Vice Chair, and Members of the Committee on Energy and Environmental Protection.

From: Hawai'i Reef and Ocean Coalition (by Ted Bohlen)

Re: Hearing **HB2066 RELATING TO FINANCING**

Hearing: Tuesday February 13, 2024 9:05 a.m.

Aloha Chair Lowen, Vice Chair Cochran, and Energy and Environmental Protection Committee Members:

The Hawai'i Reef and Ocean Coalition (HIROC) is a group of scientists, educators, filmmakers and environmental advocates who have been working since 2017 to protect Hawaii's coral reefs and ocean.

The Hawai'i Reef and Ocean Coalition STRONGLY SUPPORTS HB2066!

HIROC is deeply concerned about the harm that cesspool pollution inflicts on our precious coral reefs and public health! Hawaii has over 80,000 cesspools that put

about 53 million gallons of raw sewage into our groundwater, streams and ocean every single day! This discharge **exposes people to sewage pathogens that can make them sick**. The release of **nutrients** from cesspools through groundwater and streams into the ocean causes algae growth, which can **smother the coral reefs that are essential to protecting our shorelines, nurturing our fisheries, preserving water quality and enabling our lucrative recreational economy**. Sea level rise will further exacerbate the public health and environmental problems as it will cause more cesspools to overflow onto the surface. Hawaii's reefs will die in warmer, more acidic, and rising oceans if we don't reduce cesspool pollution and other harmful factors now!

Hawaii cesspool owners will need financial assistance to afford the high cost of upgrading cesspools by connecting to a sewer (centralized or decentralized) or installing an on-site system approved by the Department of Health. Hawaii will need various types of financing, including but not limited to grants, conventional loans, non-traditional loans, and tax credits.

This bill will assist homeowners by establishing a cesspool conversion revolving loan fund. This fund would provide non-traditional low-cost loans to low and moderate income homeowners. These loans may be paired with grants or other incentives. The cesspool conversion revolving loan fund will provide a steady source of capital as loans are repaid by borrowers under the Green Energy Market Securitization (GEMS) funded loan program over a 20-year period. Capitalization of the cesspool conversion revolving loan fund may also be augmented with Federal and other funding sources.

The Hawai'i Green Infrastructure Authority may leverage these funds with conventional loan capital, depending on the appetite of our local lenders, by providing credit enhancements to reduce risks for banks and credit unions. This

will further expand access to cesspool conversion financing to “near-bankable” borrowers.

With this bill enabling the Hawai‘i Green Infrastructure Authority to retain its earned interest income under the GEMS financing program, the Legislature will not need to fund the full-time equivalent program management loan officer position with general funds. This position can instead be funded through the interest revenue earned by the Hawai‘i Green Infrastructure Authority.

Please help Hawai‘i’s homeowners and our coral reefs by passing HB2066.

Mahalo!

Hawai‘i Reef and Ocean Coalition and Climate Protectors Hawai‘i (by Ted Bohlen)



TO: House Committee on Energy & Environmental Protection
Representative Nicole E. Lowen, Chair
Representative Elle Cochran, Vice Chair

House Committee on Water & Land
Representative Linda Ichiyama, Chair
Representative Mahina Poepoe, Vice Chair

FROM: Lynn Miyahira representing Public Access to SunScreens (PASS) Coalition
DATE: Tuesday, Feb 13, 2024
TIME: 9:05 AM
PLACE: Conference Room 325 & Videoconference

Re: HB 2066

Position: SUPPORT

The [Public Access to SunScreens](#) (PASS) Coalition is a multi-stakeholder coalition composed of public health groups, dermatologists, sunscreen manufacturers, and leading advocates for skin cancer patients.

We support this measure as it provides important financing support for cesspool conversions.

Cesspools are a pressing issue in Hawaii that impacts our health, water quality, and coral reefs. With over 83,000 cesspools in the state, discharging about 50 million gallons of raw sewage every day, immediate action is needed to mitigate their negative impact. Untreated wastewater leaking from cesspools into nearshore waters can cause high levels of nitrogen in the water (also known as eutrophication). This leads to algae blooms that suffocate and cover our coral reefs.

Many agree that cesspool pollution must be addressed quickly—but the question is who will pay for it? Our hope is that HB 2066 and a cesspool conversion on-bill financing program can be part the solution.

Mahalo you for the opportunity to testify.

Sincerely,

Lynn Miyahira
Public Access to SunScreens (PASS) Coalition

February 13, 2024

The Honorable Nicole E. Lowen, Chair

House Committee on Energy & Environmental Protection

The Honorable Linda Ichiyama, Chair

House Committee on Water & Land

State Capitol, Conference Room 325 & Videoconference

RE: House Bill 2066, Relating to Financing

HEARING: Tuesday, February 13, 2024, at 9:05 a.m.

Aloha Chair Lowen, Chair Ichiyama, and Members of the Joint Committees:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawaii and its over 11,000 members. HAR **supports** House Bill 2066, which 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.

HAR supports the goal of protecting our drinking water, streams, ground water, and ocean resources. We recognize that cesspool conversion is important to preserve our environment. There are approximately 83,000 cesspools divided into three priorities¹ across the State (48,596 on Hawaii Island; 14,300 on Kauai; 11,038 on Maui; 1,400 on Molokai; and 7,491 on Oahu) with only 26 years to meet the state's mandate to convert all cesspools to a Director of Health approved wastewater system. To convert 83,000 cesspools by 2050, at least 3,192 cesspools would need to be converted per year.

Affordability and financial planning are key. The Cesspool Conversion Working Group conducted an affordability analysis² for homeowners. Based on the analysis, 97% of homeowners would be financially burdened by cesspool conversion costs. Equally concerning, even with a \$10,000 rebate 82% of homeowners would still be financially burdened. Most homeowners will not be able to afford to do this alone.

As such, this measure will help homeowners who are unable to afford the upfront costs by allowing them to participate in an on-bill financing program which will provide low-interest loans for low- and moderate-income homeowners to upgrade or convert their existing cesspools, with loan repayments spread out and placed on the real property tax bill of the respective property owner.

Mahalo for the opportunity to testify on this measure.

¹ University of Hawai'i Sea Grant College Program. *Hawai'i Cesspool Prioritization Tool*. <https://seagrant.soest.hawaii.edu/cesspools-tool/>

² Cesspool Conversion Working Group. (2022). *Final Report to the 2023 Regular Session Legislature*. State of Hawai'i Department of Health. <https://health.hawaii.gov/opppd/files/2022/12/Act-170-SLH-2019-Nov-2022.pdf>

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SanHi

GOVERNMENT STRATEGIES

A LIMITED LIABILITY LAW PARTNERSHIP

DATE: February 13, 2024

TO: Representative Nicole Lowen
Chair, Committee on Energy and Environmental Protection

Representative Linda Ichiyama
Chair, Committee on Water & Land

FROM: Mihoko Ito / Tiffany Yajima

RE: **H.B. 2066 – Relating to Financing**
Hearing Date: Tuesday, February 13, 2024 at 9:05 a.m.
Conference Room: 325

Dear Chair Lowen, Chair Ichiyama and Members of the Joint Committees on Energy & Environmental Protection and Water & Land :

We submit this testimony on behalf of the Hawaii Bankers Association (HBA). HBA represents seven Hawai`i banks and one bank from the continent with branches in Hawai`i.

HBA **opposes** H.B.2066, which 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 mechanism used for these loans is a property assessed clean energy loan program, also known as PACE loans.

HBA opposes this measure because it will ultimately hurt homeowners and borrowers seeking to obtain a mortgage loan to sell or buy a home. The fundamental problem with this bill is that creates a “super lien” for PACE loans which are senior to other previously recorded liens by being on par in lien priority with real property taxes. This would essentially allow a PACE loan to jump in priority ahead of a first mortgage and any other liens. Allowing for one type of loan to automatically gain super lien status would negatively impact a bank’s overall stability and elevate risk, which in turn would tighten credit markets and hurt consumers who need access to capital.

While we appreciate the intent of the bill to provide alternative financing options for low- and moderate-income homeowners, we recommend that the State consider a more collaborative approach in partnership with local financial institutions and mortgage lenders.

HBA appreciates that the stated purpose of the measure is to help property owners access financing for the purpose of making improvements to their properties. However, we are opposed to this bill because residential PACE could negatively impact the residential mortgage market and homeowners. Residential PACE loans ultimately hurt homeowners because it reduces their equity in property. It also impacts banks' ability to lend because it ultimately increases lending risks.

We have serious concerns about the structure of residential PACE programs. The Consumer Financial Protection Bureau issued a report on residential PACE loans, which found that the loans cause an increase in borrowers falling behind on their mortgage payments, along with other negative credit outcomes. Putting this pressure on lower-income families is likely to be an unintended consequence of a program as written. Adding debit and monthly payments to lower-income families without significant subsidies would put further pressure on household expenses and puts homeowners at risk to maintain homeownership. Due to the many concerns regarding residential PACE programs and impacts on homeowners, there are very few states who have moved forward with residential PACE.

Knowing that the cesspool conversion deadline is January 1, 2050, HBA is willing to participate in discussions regarding viable alternatives, including special loan programs with subsidies that can meet the intent of this bill. Solutions like intermediary credit enhancements, governmental subsidies, and flexible non-traditional lending terms are routinely used to solve community and economic development financing issues to address community-wide infrastructure and financing gaps for lower-income families. These alternatives would provide longer-term solutions, while also not jeopardizing the safety and soundness of lending portfolios.

Finally, we should note that in 2022, the Legislature did establish a PACE loan program for commercial property (C-PACE) under Act 183 (2022). While the bill as originally proposed included a residential PACE program, due to the significant concerns expressed by the banking industry, the compromise was to allow for C-PACE to move forward, with clear prior written consent provisions by each holder or loan servicer of other existing mortgages or loans. HB2066 as written does not include any safeguards to protect lien holders and makes this bill unworkable for financing entities.

For these reasons, we oppose this bill and ask that it be held in committee. Thank you for the opportunity to testify on this bill.



Testimony to the House Committees on Energy and Environmental Protection; and
Water & Land
Tuesday, February 13, 2024
Conference Room 325

Testimony in Opposition to HB 2066, Relating to Financing

To: The Honorable Nicole Lowen, Chair
The Honorable Elle Cochran, Vice-Chair
The Honorable Linda Ichiyama, Chair
The Honorable Mahina Poepoe, Vice-Chair
Members of the Committees

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 47 Hawaii credit unions, representing over 864,000 credit union members across the state.

HCUL offers the following comments in opposition to HB 2066, Relating to Financing. This bill establishes a cesspool conversion on-bill financing program to be administered by the Hawai'i green infrastructure authority to provide low-interest loans to eligible homeowners for the upgrade, conversion, or connection of cesspools.

While we understand that the intent of this measure is to provide a method of financing for certain improvements, we have been concerned about this particular type of loan being secured by the property itself, which means it is a senior lien. Because the structure of the PACE loan would make the mortgage lien second to the PACE lien, lenders would have to take the risk into account when making the loan. With the home tied to the PACE loan, there is also a significantly higher risk to the borrower.

Further, we would note that many Hawaii financial institutions, including credit unions, currently offer specialized, low-cost loans for green energy home improvements.

Thank you for the opportunity to provide comments on this issue.



Feb. 12, 2024

In Strong Support of **HB2066** Relating to Financing
House Committees on Energy & Environmental Protection (EEP) and Water & Land (WAL)
Hearing on Feb. 13, 9:05am, Rm. 325

Aloha, Chairs Lowen & Ichiyama, Vice-Chairs Cochran & Poepoe, and Committee Members:

On behalf of the non-profit WAI: Wastewater Alternatives & Innovations and the Cesspool Legislative Task Force, I am writing in **strong support of HB2066**. This bill would create a revolving loan program to help homeowners pay for cesspool conversions, which could cost anywhere between \$25,000-\$50,000. This bill is consistent with the recommendations of the State's Cesspool Conversion Working Group, on which I served from 2018-2022.

Under Act 125 (2017), all cesspools are mandated to be converted by 2050. To help finance these conversions, this bill proposes to provide non-traditional low-cost loans, which may be paired with grants or other incentives, to low and moderate-income homeowners. Repurposing principal repaid by borrowers under the Green Energy Market Securitization (GEMS) funded loan program, will provide a steady source of non-General Fund capital for the cesspool conversion revolving loan fund, as GEMS loans are repaid over a 20-year period. Capitalization of the cesspool conversion revolving loan fund may also be augmented with Federal and other funding sources.

Hawaii has more than 83,000 cesspools across the state, discharging 52 million gallons of raw sewage each day into Hawaii's waters. That's similar to a massive sewage spill every day! Along with threats to public health and drinking water resources, new research in *Nature* shows that this polluted wastewater poses significant harm to coral reefs and the near-shore environment (see also [my article in Hawaii Business Magazine](#)). The people of Hawaii need this law to make sure their wastewater systems aren't polluting the groundwater or nearby surface waters.

WAI is an environmental non-profit dedicated to protecting our drinking water, groundwater and near-shore ecosystems by reducing sewage pollution from cesspools and failing septic systems. Our goal is to help find more innovative, affordable, and eco-friendly solutions to wastewater management and help homeowners with the conversion process. Better sanitation systems reduce sewage and nutrient pollution and make properties more valuable, while also protecting public health and valuable natural resources like groundwater, streams, coral reefs and coastal areas.

Hawaii is struggling with serious sewage pollution problems, and the state has a mandate to make sure all cesspools are converted in the next three decades. This bill will provide the necessary funding to create the kind of financing to low-moderate income homeowners that is needed to convert cesspools across the state. Mahalo for your leadership on this issue and support of this bill.

Aloha,

Stuart Coleman

Stuart H. Coleman, Executive Director

HB-2066

Submitted on: 2/1/2024 10:15:48 PM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Beth Anderson	Individual	Support	Written Testimony Only

Comments:

Incentives, including financial assistance to get rid of polluting cesspools should be supported. Cesspools are horrible and have been polluting our ocean, bays, streams, and groundwater for far too long.

I support HB 2066.

HB-2066

Submitted on: 2/2/2024 3:36:07 PM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
John NAYLOR	Individual	Support	Written Testimony Only

Comments:

Aloha,

Residents need assistance to convert ! How about some of that fed infastructure money ?

JN Makawao

HB-2066

Submitted on: 2/2/2024 3:40:17 PM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Douglas Perrine	Individual	Support	Written Testimony Only

Comments:

I support HB 2066, which will help some residents with the cost of converting from cesspools to a better wastewater treatment system, approved by the Director of Health. Please note, however, that this does nothing to address the logjam created by the "approved by the Director of Health" requirement, as pitifully few of the many innovative small scale systems available now have been approved, while septic systems do not remove the nitrogen compounds which damage our coral reefs, and are generally ineffective, expensive, and burdensome. Yet septic systems are what the DOH is promoting to replace cesspools.

HB-2066

Submitted on: 2/8/2024 6:57:30 PM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Ina Solum	Individual	Support	Written Testimony Only

Comments:

Please pass this Bill 2066. Everyone in Hawaii deserves clean and healthy water

Ina Solum

HB-2066

Submitted on: 2/9/2024 8:38:49 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Hilary Smith	Individual	Support	Written Testimony Only

Comments:

Low and middle income homeowners need an affordable financing option for cesspool conversions. The State of Hawaii needs to do everything in its power to make is EASY for people to convert their cesspools and protecto our oceans. Please pass this much-needed bill.

HB-2066

Submitted on: 2/9/2024 9:46:55 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Michael Becker	Individual	Support	Written Testimony Only

Comments:

I support this bill.

HB-2066

Submitted on: 2/9/2024 10:36:13 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Lois Langham	Individual	Support	Written Testimony Only

Comments:

I am in support of this bill to clean up our water and convert cesspool. With bacteria, etc. causing beach closures it is evident that sewage pollution is infiltrating into our island and waters.

HB-2066

Submitted on: 2/10/2024 4:59:53 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Mirah Horowitz	Individual	Support	Written Testimony Only

Comments:

I fully support this legislation to clean up our water and convert cesspools. The residents of our island deserve clean water, and the lack of progress to date is unacceptable.

HB-2066

Submitted on: 2/10/2024 8:28:38 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Lenore Horowitz	Individual	Support	Written Testimony Only

Comments:

I fully support this legislation to clean up our water and convert cesspools. The residents of our island deserve clean water, and the lack of progress to date is unacceptable. Clean water is essential !

HB-2066

Submitted on: 2/12/2024 12:58:54 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Kelly Nishimura	Individual	Support	Written Testimony Only

Comments:

I support HB 2066, to provide low-interest loans to homeowners for the upgrade or conversion of cesspools.

The health of the public and our aina and wai depend on this legislation. Please act now.

Mahalo in advance.

Sincerely,

Kelly Nishimura

HB-2066

Submitted on: 2/12/2024 10:18:04 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Elizabeth Nelson	Individual	Support	Written Testimony Only

Comments:

I am in favor of this legislation to clean up our water and cesspools. I am frustrated by the lack of progress up to now. Thank you.

Elizabeth Nelson

Kaneohe

HB-2066

Submitted on: 2/12/2024 11:42:11 AM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
stuart a. scolnik	Individual	Support	Written Testimony Only

Comments:

I am in favor of this legislation to clean up our water and convert cesspools. I am frustrated by the lack of progress up to now. My children deserve better

HB-2066

Submitted on: 2/12/2024 8:01:30 PM

Testimony for EEP on 2/13/2024 9:05:00 AM

Submitted By	Organization	Testifier Position	Testify
Barbara Shimei	Individual	Support	Written Testimony Only

Comments:

IN SUPPORT