

## **8. WATER SYSTEM FINANCING STRATEGY**

Various Federal, State, and County of Hawai'i funding programs were researched and analyzed. There are several grant and loan programs that can potentially provide funds for water systems serving the public. Each program has its unique rules and regulations. This report will summarize these programs and their applicability to the Ka'u to South Kona Water Master Plan. The most significant limitation of available funding programs is the absence of grant or loan programs for test well drilling. None of the programs researched provide funds for infrastructure until a test well has been successfully installed and pumped.

The details of these programs are complicated and involve many regulations and requirements. The specific terms of these grants and loans will vary depending on the demographics of the community, interest rates, and changes in law. As a result, this study cannot provide in-depth financial calculations for these programs. Such details should be developed as a part of future application processes.

### **8.1. Rural Development, USDA**

The *Rural Utilities Water and Waste Disposal Loan and Grant Program* is administered by the Rural Development Agency of the USDA. The Rural Development program provides low interest loans and grants. This program can provide funding for as much as 40 to 75 percent of the capital costs. This funding source cannot be used for test well drilling but can be used in development of the production well. The program has several types of grants and loans including:

#### Water and Waste Disposal Direct Loans

- Direct loans are made for development of water and wastewater system, including solid waste disposal and storm drainage.
- Loans are for rural areas and cities and towns with a population of 10,000 or less.
- Funds are available to public entities, such as counties and special-purpose districts.
- Priority is given to public entities, in areas with less than 5,500 people, to restore a deteriorating water supply, or to improve, enlarge, or modify a water facility or an inadequate waste disposal facility.
- Applicants must be unable to obtain funds from other sources at reasonable rates and terms. The maximum term for all loans is 35 years.

Water and Waste Disposal Guaranteed Loans

- Guaranteed loans may be made for the same purpose as direct loans.
- Loans are made and serviced by lenders such as banks and savings and loan associations.
- Loan guarantees may be available for up to 90 percent of any eligible loss incurred by the lender.
- Lenders pay a 1 percent guarantee fee, which may be passed on to the loan recipient.

Water and Waste Disposal Grants

- Grants reduce water and waste disposal costs to a reasonable level for users of the system.
- Eligible applicants are the same as for loans.
- They may cover a maximum of 75 percent of eligible facility development costs.

In order to receive assistance applicants must:

- Be unable to obtain needed funds from commercial sources at reasonable rates and terms;
- Have the legal capacity to borrow and to repay loans, to pledge security for loans, and to operate and maintain the facilities;
- Propose facilities that are consistent with any development plans of the State, multi-jurisdictional area, counties, or municipalities where the project is to be located. All facilities must comply with Federal, State, and local laws, including those involving zoning regulations, health and sanitation standards, and water pollution control.

Loan and grant funds provided by Rural Development may be used to:

- Construct, repair, modify, expand, or otherwise improve water supply and distribution systems and waste collection and treatment systems, including storm drainage and solid waste disposal facilities. Certain other costs related to development of the facility may also be covered.
- Acquire needed land, water sources, and water rights.
- Pay costs such as legal and engineering fees when necessary to develop the facilities.

Loan terms specify a maximum repayment period of 40 years. However, the repayment period cannot exceed the useful life of the facilities financed or any statutory limitation on the applicant's borrowing authority. Three interest rates are used. They are set periodically based on an index of current market yields for municipal obligations. Borrowers may choose the interest rate in effect on the date of loan approval or on the date of loan closing. Loans are secured so as to adequately protect the Federal government's interest. Bonds or notes pledging taxes, assessments, or revenues may be accepted if they meet statutory requirements. A mortgage or other lien may also be taken on the applicant's property when State laws permit.

The “poverty interest rate” is currently 4.5 percent. The poverty rate applies when the primary purpose of the loan is to upgrade existing facilities or construct new facilities required to meet applicable health or sanitary standards. It also applies to service areas where the median household income (MHI) is below the poverty line for a family of four. The market rate is set quarterly based on the average of the “Bond Buyer” 11-Bond Index over a four-week period prior to the beginning of the quarter. The intermediate interest rate is the poverty rate plus half of the difference between the poverty rate and the market rate, but not to exceed 7 percent. It applies to loans that do not meet the criteria for either the poverty rate or the market rate.

A Community Development Corporation cannot incur the debt. As a result, it is likely that the community would have to partner with the County of Hawai'i DWS in order to incur the development debt. Rural Development lists the Hawai'i poverty line at \$21,160 a year for 2003. The median income of the Ka'u district was \$29,466 in 2000.

## **8.2. County of Hawai'i**

The County of Hawai'i has several programs that can assist communities in identifying and securing funds for infrastructure improvements. These programs are quite complex and require case-by-case negotiation with property owners, the community, DWS, County Council, and County staff. The program requirements are summarized here for consideration.

### Tax Increment District (Hawai'i County Code, Chap. 33)

- **What:** Property tax revenue increases are dedicated to pay for infrastructure improvements in the district.
- **How:**
  - Initiation by County Council for study.
  - Council adopts ordinance to accept.
- **Requires:** Designation as “Improvement District” or “Community Facilities District.”

### Community Facilities Districts (CFD) (Hawai'i County Code, Chap. 32)

The OVDC attempted to develop a CFD in 2001. The Corporation was not able to obtain the required 25 percent of signatures of HOVE property owners.

- **What:** Special tax levied for improvements with a lien on property.
- **How:**
  - Resolution by County Council for study.
  - Council adopts ordinance to accept.
- **Requires:**
  - Petition with signatures of 25 percent of area landowners.
  - The assessed value of land in the CFD must be at least twice the cost of improvements.

Improvements by Assessment (ID) (Hawai'i County Code, Chap. 12)

This type of district has been formed and implemented for water distribution improvements at Kona Coast View and Wonder View subdivisions in North Kona.

- **What:** Assessed fee for improvements with lien on property.
- **How:**
  - Resolution by County Council for study.
  - Council adopts ordinance to accept.
- **Requires:**
  - Petition with signatures of 60 percent of owners OR 20 percent of owners and 50 percent of residents.
  - The assessed value of land in the CFD must be at least twice the cost of improvements.

**8.3. State of Hawai'i**

The Safe Drinking Water Act, as amended in 1996, established the Drinking Water State Revolving Fund (DWSRF) to make funds available to drinking water systems to finance infrastructure improvements. The program also emphasizes providing funds to small and disadvantaged communities and to programs that encourage pollution prevention as a tool for ensuring safe drinking water.

State of Hawai'i, DOH receives approximately \$7 to 8 million of Federal funds from the EPA each year. About 70 percent of this funding is available to applicants through low interest loans from the DWSRF Loan Fund. Loans to eligible projects will be based on current commercial lending practices. The terms of the loans cannot exceed twenty years. The intent of the DWSRF is to assist water systems in constructing the infrastructure needed to address current and future compliance problems.

The statute allows for both public and private applicants; however, there currently is no mechanism to assist private projects. Anyone can apply for State Drinking Water funds as long as they can show that they can technically, financially, and managerially maintain and operate the facilities and be in compliance with all State and Federal water quality standards. DOH anticipates that a private applicant would wait years unless they assist in the development of a new process for private applicants.

DOH is currently reviewing the feasibility of implementing a linked deposit or other program to assist privately owned Public Water Systems. In 2002, DOH submitted a bill to the State Legislature to establish a linked deposit program. The bill allows DOH to provide interest rate subsidies by depositing revolving fund monies into interest-bearing accounts at participating financial institutions that would in turn issue loans to public water systems for implementation of projects under the DWSRF program. The bill was passed on April 30, 2002. However, the process has not been implemented. Banks would be required to invest large amounts of time and effort with little or no compensation. The linked deposit program is not economically profitable for banks and, as a result, participation has not occurred. Without the participation of lenders, the program will not work.

The County of Hawai'i DWS has applied for these funds on many occasions for well projects. Most of DWS well projects are at least partially funded by the revolving fund. Requirements include:

- Water system development must be classified as “improvements.”
- Projects can only be sized for existing population and “reasonable growth” over the life of the facility.
- Adequate technical, managerial, and financial capability is required to assure loan compliance.

Details of applications, requirements, and terms would have to be developed through collaboration with local State DWSRF Office, DOH Fiscal Office, DWS, and community. The nature of the DWSRF program and applicability for private groups is still very uncertain.

#### **8.4. U.S. Department of Interior**

The U.S. Department of Interior, Bureau of Reclamation has recently initiated Water 2025. The program is committed to addressing water supply challenges throughout the U.S. The program is not a funding mechanism, but an administration that facilitates water projects. The project is still very new and requires that potential applicants consider the following elements in planning:

- Conservation
- Efficiency
- Collaboration
- Improved technology
- Interagency coordination.

The project is still being developed and requires work with members of the U.S. Senate and House. Water 2025 may provide some opportunity for Hawai'i; however; this would require competition with other states experiencing extreme droughts and water shortages.

### **8.5. Case Study: Kona Coast View/Wonder View Improvement District**

A County of Hawai'i Improvement District was implemented for the Kona Coast View/Wonder View community in collaboration with USDA Rural Development and DWS. This community received an RUS grant for 45 percent of the total improvement costs. RUS also provided a loan for the remaining 55 percent of the costs. Over \$1.8 million was granted to assist in lowering the project costs. DWS was the recipient and administrator of the loan for improvements. DWS managed the project and provided technical support. Approximately \$2.8 million was loaned to DWS. Homeowners within the ID will repay the loan through monthly assessment fees.

The project includes 437 improvement district units. The loan term with RUS is 35 years at no more than 5.75 percent interest. Table 8.1 outlines various costs of the project. Capital cost to each owner is \$6,354, paid through monthly payments of \$39 for 35 years.

Cooperation among residents and landowners is important in initiating and establishing an improvement district. A well-informed community that is cohesive can help speed the process. The success of this project also hinged on the cooperation between government and community. The County was committed to the project and kept residents apprised of all infrastructure and financing details. The community needs to be actively involved in the planning and design process to build trust. Their participation and understanding of the project was integral to its adoption and implementation. Community commitment was stressed throughout the project. The community must bear some of the financial costs for implementing water systems.

**TABLE 8.1: KONA COAST VIEW/WONDER VIEW IMPROVEMENT DISTRICT**

RUS Grant	\$1,823,600.00
RUS Loan	\$2,776,000.00
<b>TOTAL</b>	<b>\$4,599,600.00</b>
ID Units	437
<b>Capital Cost Per Unit</b>	<b>\$6,354.00</b>
<b>Monthly Payment</b>	<b>\$39.00</b>

*Source: DWS, Environmental Report, Kona Coastview/Wonder View Subdivision.*

## **8.6. Financial Strategy for Ocean View**

### 8.6.1. Test Wells

Construction costs for the first test well at Ocean View is estimated to be nearly \$1.6 million. The estimate includes costs for land surveys, design, or contingencies. As a part of this Water Master Plan project, \$250,000 was reserved as “leverage funds” for funding the first phase of implementation. The \$250,000 could be used for land surveys, design, and if required, land acquisition. The balance of funds required for a test well, approximately \$1,350,000, must be found in order to move forward with this phase of water source development at Ocean View. Funding for test wells is extremely limited. Once a test well is completed and reliable quality water is identified, many sources of funding then become available. While the test well may be difficult to fund, future development and funding resources are contingent upon its success.

There are two options for funding the cost of the test well:

#### **1. Source: State of Hawai'i**

- State legislation must be introduced
- Capital Improvement Projects (CIP) Allocation

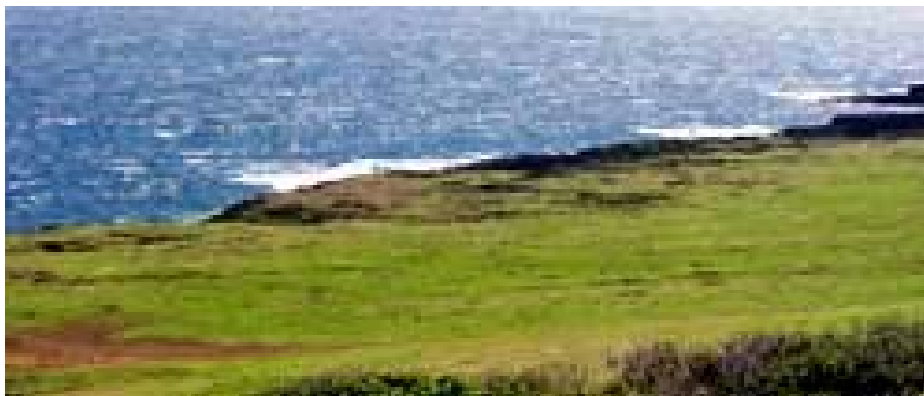
-OR-

#### **2. Private Funds**

\$1.35 million/OV population of 3,000 = \$450.00/person

\$1.35 million/OV homeowners 1,000 = \$1,350.00/homeowner

The balance of funding required for a test well can only be secured from private or State funds. The hope is that new State Legislation can allocate funds for this phase of water development. Legislators in the region will have to introduce a bill presenting this Water Master Plan and the request for funding. Support from the Governor will be essential in assuring that any allocated funds are actually released.



*Coastline area.*

8.6.2. Production Well and Reservoir

Costs for development of a production well and reservoir is estimated at \$2.75 million. A combination of grants and low interest loans are potentially available for this phase of well development.

Eligibility and allocation of funds is based on the median household income of residents. The loan terms of the Rural Development program are attractive with a maximum term of 35 years at a current interest rate of 4.5 to 5 percent. Table 8.3 presents potential funding if the community qualified for grants and loans at terms similar to those received by the Coast View/Wonder View project. Under these terms, residents in a CFD or ID would pay back approximately \$1.23 million. The cost to residents would depend on the size of the district. More “units” in the district will lower costs for individuals. Table 8.3 presents financial data assuming an improvement district from 500 to 1,000 units. Financial details would be negotiated with the community, DWS, and County of Hawai'i Corporation Counsel and Finance Department.

**TABLE 8.2: WELL DEVELOPMENT**

Item	\$
RUS Grant (45%)	1,237,500
RUS Loan (55%)	1,512,500
<b>TOTAL COST</b>	<b>2,750,000</b>
ID Units	1,000 - 500
Capital Cost Per Unit	\$1,512.50 – \$3,025.00
Cost Per Unit*	\$3206.05 - \$6,412.09
Monthly Payment	<b>\$7.63 - \$15.27</b>

\* Assuming interest rate of 5% for 35 years.

### **8.7. Next Steps**

Implementation of water supply projects for the Ka'u to South Kona region will depend on the actions of the community, legislators, and government. In the near term, several actions are required to facilitate funding, design, and construction of Water Master Plan projects.

1. The community should participate in the island-wide DWS Master Plan process and maintain contact with DWS as they identify and prioritize future CIP projects.
2. The County, its planning consultant, and/or the community should conduct a community survey of residents to gauge support for water development.
3. The County and/or the community should present the Water Master Plan to government agencies, legislators, other communities; the plan is a tool to communicate what is needed, why it is needed, and how it can be accomplished.
4. The County DWS should complete improvements to water spigot and standpipe facilities.
5. The County, community, and Water Board can re-evaluate any DWS policies that hinder water development, including standards and rules.

This Master Plan can serve as a guide even as the DWS changes key policies or implements new ones, or as new options for meeting water demands are made available. Needs and projects outlined in this plan can be included within any changes to Hawai'i County's *Water Master Plan*. This Master Plan has an integrated strategy that outlines the best direction currently available.

Public involvement has been an on-going part of the *Water Master Plan* process. Various County departments, the County Water Board, and community were involved throughout the process. As the community and County move forward to implement the *Water Master Plan*, all parties must continue to provide input for updates based on changing circumstances including:

- **Demand factors.** As droughts have illustrated, new driving factors can emerge, changing how the community may implement the *Ka'u to South Kona Water Master Plan*. Changes in drinking water standards or Federal environmental policies are other driving factors that could impact the strategies set forth in the *Water Master Plan*.
- **Changes to options available to meet water demands.** The emergence of new options or loss of existing options needs to be monitored and compared to the current direction of the water system. New treatment processes, materials, construction techniques, or conservation methods may be available in the future.
- **Update of DWS Capital Improvements Plan (CIP).** DWS will update the CIP and determine specific action steps for implementation through 2025. The CIP update would benefit from the direction of this *Water Master Plan*. The integrated strategies of water systems should be consistent with goals of policymakers, the County Water Board, and the community.

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