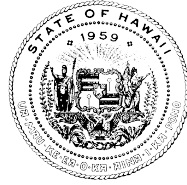


JOSH GREEN, M.D.
GOVERNOR OF HAWAII
KE KIA'AINA O KA MOKU'AINA 'O HAWAII



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

In reply, please refer to:
File:

December 15, 2023

TO: Kenneth S. Fink, MD, MGA, MPH, Director
Department of Health

THROUGH: Kathleen S. Ho, Deputy Director *Kathleen Ho*
Environmental Health Administration

FROM: Joanna L. Seto, P.E., Chief *Joanna L. Seto*
Environmental Management Division

We are seeking your approval of the attached report that is required under Act 153 of Sessions Law of Hawaii 2022, signed into law on June 27, 2022.

Should you have any questions, please contact Ms. Sina Pruder, Wastewater Branch Chief, at extension 64288.

RECOMMEND:

APPROVAL DISAPPROVAL

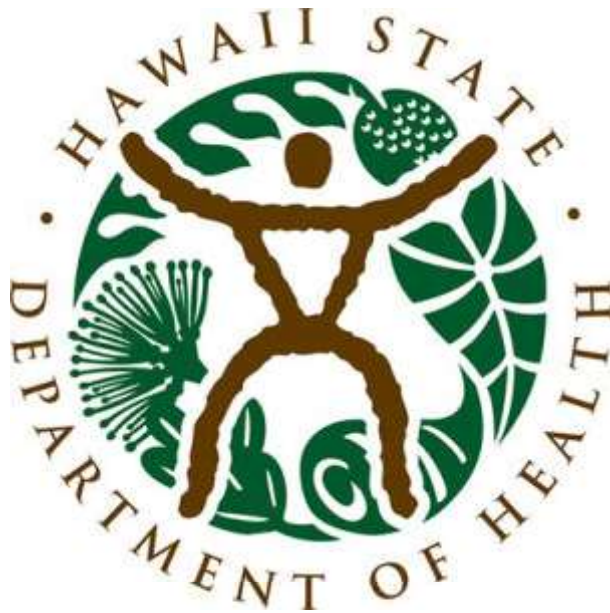
Kenneth Fink

KENNETH S. FINK, MD, MGA, MPH
Director of Health

Date Dec 15, 2023

Cesspool Pilot Grant Program

Final Report to the 2024 Regular Session Legislature



Prepared by the

State of Hawaii Department of Health

In response to Act 143, Session Laws of Hawaii 2022

December 2023

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Appendix A: Hawaii Cesspool Pilot Grant Program Procedures

Executive Summary

Hawaii has approximately 83,000 cesspools that discharge an estimated 50 million gallons of untreated sewage into the State's groundwater and surface waters every day. This antiquated technology threatens drinking waters and presents a risk of human illness and significant harm to streams and coastal resources, including coral reefs.

To address the serious health and environmental concerns of cesspool pollution, Act 125, Session Laws of Hawaii 2017, required all cesspools to be upgraded or converted to a septic system or aerobic treatment unit system, or connected to a sewerage system by 2050.

To facilitate this transition, the Legislature established the cesspool conversion working group through Act 132, Session Laws of Hawaii 2018, aiming to develop a comprehensive plan for statewide cesspool conversion. The law also commissioned a study of sewage contamination in nearshore marine areas to further supplement the Department of Health's research related to cesspools.

In addition, the University of Hawaii's 2021 Hawaii Cesspool Hazard Assessment and Prioritization Tool (HCHAPT) identified three prioritization categories: priority levels 1, 2 and 3. Priority level 1 includes the cesspools with the greatest contamination hazard; priority level 2 includes cesspools with significant contamination hazard; and priority level 3 are areas where cesspools have a pronounced contamination hazard.

The high upfront costs associated with onsite wastewater system replacement are not affordable for many Hawaii residents and are the biggest obstacle to cesspool conversion.

The legislature recognized the requirement to upgrade or convert a cesspool imposes a financial burden on low- and middle-income earners and passed Act 153, Session Laws of Hawaii 2022 that established a grant program to assist struggling property owners, including lessees on Hawaiian Home Lands, with upgrading, converting, or connecting their cesspools to a Department of Health approved wastewater system or connection to an existing sewer system.

I. Purpose of the Cesspool Pilot Grant Program (CPGP)

The purpose of the Cesspool Pilot Grant Program (CPGP) is to provide grant assistance to low- and middle-income property owners with converting, upgrading or connecting cesspools to a more environmentally appropriate method of managing and treating wastewater.

Each grant recipient is eligible to receive up to \$20,000 in reimbursements for their cesspool conversion or connection costs. The grant program had a total of \$5 million that was allocated on a first-come, first-served basis, subject to funding availability.

II. Eligibility Requirements of the CPGP

- A. The applicant must be an owner of real property or a Department of Hawaiian Home Lands (DHHL) lessee.
- B. The cesspool was required to be in either a priority level 1 or 2 area as identified by the University of Hawaii's 2021 Hawaii Cesspool Hazard Assessment and Prioritization Tool (HCHAPT). The following map tool identifies priority areas:
<https://histategis.maps.arcgis.com/apps/webappviewer/index.html?id=8708c5c6d0404d299de2139348442a3a>
- C. The household income of the applicant, based on the owner or lessee's Federal tax return of the most recent and closed taxable year, cannot exceed 140% of the area median income (AMI) as determined by the U.S. Department of Housing and Urban Development.
- D. Cesspools that have been upgraded or converted to an Individual Wastewater System (IWS) that have an Approval-To-Use date or connected to a sewage system prior to July 1, 2022, are ineligible for reimbursement under this grant program.

III. Development of the CPGP

The development of the CPGP commenced on July 15, 2022. It was difficult for Department staff to begin development given the lack of a similar model to serve as a template for the program. Through a collaborative effort with the Attorney General Office, a framework was established for the CPGP.

The Department developed procedures (Appendix A), an application, grant agreement and acceptance letter templates and a website for the program. It took the Department nine months to open applications to the public on March 15, 2023. There was overwhelming interest in this program and after three days of accepting applications, the Department selected 225 eligible grantees.

The Department was not provided additional staff resources to implement this program. This was an immense challenge to support the additional work necessary and was only able to be successful with additional overtime work by the existing program staff.

Below is an outline of the process that was involved with setting up and implementing the grant program without additional staff resources.

Initial Setup

1. Worked with our Deputy Attorney General to develop procedures, application, letters and grant agreement templates for the program.
2. Developed detailed workflow process on the implementation of the program.
3. Developed a comprehensive website - <https://health.hawaii.gov/wastewater/home/ccpgp/> with a training video - <https://youtu.be/S1sOsMDFNsA>.
4. Provided training to staff to answer questions about the grant program.
5. Worked with staff from the Department's Environmental Resources and Accounting Services Office to develop the process and procedures for payment.

It took the Department nine months to setup the grant program before applications could be accepted.

Work Involved after Accepting Applications on March 15, 2023

1. Answered hundreds of phone calls from the public asking questions about the grant program.
2. Developed a database management system to monitor and track the applications submitted.

3. Reviewed the applications for eligibility based on the criteria.
4. Processed and mailed out 258 letters, W-9 forms and grant agreements.
5. Reviewed completed W-9 and grant agreements for accuracy.
6. Created vendor codes with completed W-9s for each of the grantees.
7. Scanned and routed grant agreements through AdobeSign for the Deputy Attorney General and the Director of Health to sign.
8. Filed all completed grant agreements.
9. Processed purchase orders (PO) for each grantee who had an established vendor code and executed agreement.
10. Processed invoices based on receipts received for grant payment and verified an approval to construct the IWS was issued by the Department.

IV. CPGP Statistics to Date

Number of executed agreements and completed W-9s: 204

Number of follow up letters sent out: 75

Number of POs prepared: 204

Number of POs encumbered: 189

Number of payments processed: 55

Total dollar of payments processed: \$1,086,768

V. Findings and Concerns

The Department has been overwhelmed by the interest in the grant program as demonstrated by the high number of applicants. The additional work to accommodate developing the program and processing 204 conversions and grant payments has also strained the Department's resources. Research must be done to refine the specifics of grant awards. Knowing if these grant awards are taxable income in Federal and State taxes and providing this information upfront to grantees would be valuable. Tax credits should be considered as an alternative to grants for those who prefer them.

The Department of Health does not have the available personnel and resources to handle the additional work of implementing a grant program. To manage grant finances, the Department established vendor codes for all grantees and POs that were needed to payout the grantees after reviewing the receipts. The Department would need additional resources and staff dedicated to managing the grant program to sustain the program's function and progress toward long-term goals. At least two full-time employees, a planner and program specialist, are necessary to implement the grant program.

Department staff are time consumed following up with grantees regarding submitting grant agreements and W-9 forms. Many of the grantees are unsure about completing the upgrade due to the additional \$10,000 - \$30,000 out of pocket they may have to pay for and cannot afford. Cesspool owners are grateful for the grant program, but lower income owners still could not afford the upgrade even with the \$20,000 grant. Providing up to \$30,000 for the next grant program would lessen the burden on low- and middle-income property owners.

VI. Recommendations

Financial support is needed for cesspool upgrades moving forward, and funding should be available to homeowners in the form of a grant or tax credit. The Department has developed and implemented procedures to run the cesspool pilot grant program to work toward the State's primary goal of converting all cesspools across Hawaii by 2050. The recommendations below are identified as areas of growth for future iterations of the grant program to improve workflow and better serve our communities. The Department recommends a continued effort to focus on converting high priority areas and supplying grant finances to low- to middle-income homeowners. Furthermore, the Department recommends adjusting grant awards to be accessible for grantees and increasing personnel capacity to better serve the program's needs.

Recommendations for Cesspool Conversion Prioritization and Eligibility

The Department recommends, based on the understanding of the risk cesspools pose to environmental water quality and human health, the following actions be taken to prioritize high risk cesspools for conversion.

1. Continue to focus on providing grant awards to Priority 1 areas as determined by the University of Hawaii's 2021 Hawaii Cesspool Hazard Assessment and Prioritization Tool (HCHAPT). Cesspools within the Priority 1 areas pose the greatest risk to public and environmental health and should be addressed as soon as possible with available funds. Grant eligibility should continue to be limited to applicants in Priority 1 and Priority 2 areas to fulfill these goals.
2. Revise grant eligibility law to award grants to low- and middle-income homeowner occupants. Property owners who are not Hawaii residents and do not occupy their home full-time should not have access to the grant.
3. Continue to include Department of Hawaiian Home Lands lessees as eligible recipients of the grant award.

Recommendations for Grant Awards and Financial Support

The high upfront costs of wastewater system replacement are the greatest obstacle to cesspool conversion in Hawaii. Cesspool owners need financial support to overcome the costs to upgrade or convert their cesspools. Although the State has developed a system for reimbursement during the cesspool pilot grant program, further action is necessary to refine the policies and mechanisms for delivering grant awards to grantees. The Department recommends adjusting the program through the suggestions below to better serve the grantees needs and improve workflow.

1. Adjust the grant award limit to allot \$30,000 per grantee instead of \$20,000. Many grantees still faced a financial burden as they had to pay outstanding costs between \$10,000-\$30,000 out of pocket even with grant awards. The additional funding would benefit grantees and make the program more accessible for lower-income owners.
2. Provide tax credits as an option for grantees instead of grant money. The State should consider issuing tax credits as a future financial incentive instead of grants to provide alternative benefits to grantees. Tax credits appeal to eligible grantees that fall in a higher income bracket that do not want to claim the grant income on their Federal and State taxes. Tax credits would also reduce the complexities entailed in reimbursing grantees for cesspool conversion and lessen strain on personnel.

3. Exempt State income taxes on grant monies received. If the State continues to manage the cesspool grant program, a law should be passed exempting grant monies from being subject to State income tax and allowing the grantee to reap the full benefits of the reimbursement.
4. Develop a more efficient system to distribute grant funds to grantees. The Department worked to create 204 vendor codes and process POs for each individual grantee to reimburse cesspool conversion costs. This process is extensive and unsustainable for broader use in the future.

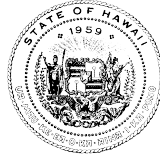
Recommendations for Cesspool Conversion Planning/Program Administration

For the continued success of the cesspool grant program, it is imperative that the State develops the resources and administration necessary for planning and implementation. In addition to operating the program, the Department has also seen an increased number of recent IWS submittals. With the overextended work capacity in the Department, the program cannot be sustained without additional assistance. To remedy this need, the Department recommends investigating the following solutions.

1. Increase personnel dedicated to implementing the grant program at the Department. Existing staff struggled to manage the additional workload and continuing the program without new dedicated staff would be unsustainable. The Department suggests the creation of at least two positions, a planner and program specialist, to administer the program full-time.
2. Consider establishing a new State office dedicated to the implementation and management of all State-directed grant programs. Personnel dedicated to managing State grant resources would streamline processes, improve documentation, and reduce strain on existing staff.

Appendix A

Hawaii Cesspool Pilot Grant Program Procedures



Hawaii Cesspool Pilot Grant Program (CPGP) Procedures

Purpose:

The purpose of this grant program is to assist low- and moderate-income property owners with converting, upgrading or connecting failing cesspools to a more environmentally appropriate method of managing and treating wastewater.

Available Funds:

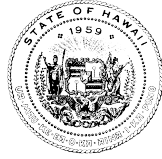
- Each grant recipient is eligible to receive up to \$20,000 in reimbursements for their cesspool conversion or connection costs incurred.
- Grant program will have a total of \$5 million and be allocated on a first-come, first-served basis, subject to funding availability. The submit date of a complete application will determine applicant's priority to receive the available funding.

Eligibility Requirements:

1. Applicant must be an owner of real property or a Department of Hawaiian Homelands (DHHL) lessee.
2. Subject cesspool must be in either a priority level 1 or 2 area as identified by the University of Hawaii's 2021 Hawaii Cesspool hazard assessment and prioritization tool (HCHAPT).
3. Household income of applicant, based on the owner or lessee's federal tax return of the most recent taxable year that has closed, cannot exceed 140% of the area median income (AMI) as determined by the U.S. Department of Housing and Urban Development. Refer to the following table for the 2022 county-by-county break down of the AMI.

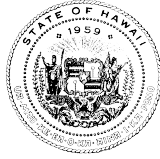
2021 - 140% Area Median Income (AMI)								
Family Size (# of Persons)								
	1	2	3	4	5	6	7	8
Hawaii County	\$84,000	\$95,900	\$107,940	\$119,840	\$129,500	\$139,020	\$148,680	\$158,200
Maui County	\$101,360	\$115,780	\$130,200	\$144,620	\$156,240	\$167,860	\$179,340	\$190,960
Kauai County	\$99,960	\$106,080	\$119,340	\$132,470	\$143,130	\$153,790	\$164,320	\$174,980
City & County-Honolulu	\$118,440	\$135,380	\$152,320	\$169,120	\$182,700	\$196,280	\$209,720	\$223,300

2022 - 140% Area Median Income (AMI)								
Family Size (# of Persons)								
	1	2	3	4	5	6	7	8
Hawaii County	\$93,380	\$106,680	\$119,980	\$133,280	\$144,060	\$154,700	\$165,340	\$175,980
Maui County	\$111,860	\$127,820	\$143,780	\$159,740	\$172,620	\$185,360	\$198,100	\$210,980
Kauai County	\$111,720	\$127,680	\$143,340	\$159,600	\$172,480	\$185,220	\$197,960	\$210,700
City & County-Honolulu	\$128,100	\$146,300	\$164,640	\$182,840	\$197,540	\$212,000	\$226,800	\$241,360



Hawaii Cesspool Pilot Grant Program (CPGP) Procedures

4. Cesspools that have been upgraded or converted to an Individual Wastewater System (IWS) that has an Approval-To-Use date or connected to a sewage system prior to July 1, 2022, are not eligible for reimbursement under this CPGP.
5. If you meet all the eligibility criteria: Please complete and submit a grant application to the Department of Health. Department staff will review your application and will notify you if:
(1) your application is complete; and (2) you are eligible to receive the grant.
6. If it is determined that you are eligible to receive a grant, the applicant will be required to submit the documents listed below to the Department within nine (9) months of receiving a Grant Qualification Letter notifying you that you are eligible to receive the grant. Please be aware that the IWS must be installed and approved for use within nine (9) months to qualify for this grant reimbursement.
 - a. Design plans prepared by a licensed engineer (ENGINEER) must comply with HAR chapter 11-62 for IWS or applicable utility standards for sewer connection and be approved by the Director of Health.
 - b. ENGINEER's final construction inspection report (w/ photos, as-builts and certification) that the individual wastewater system was constructed in accordance with design plans approved by the Director of Health.
 - c. A copy of an approval to use letter of the wastewater system issued by the Director of Health; and
 - d. Receipts of payment made to the licensed engineer and licensed contractor.



Hawaii Cesspool Pilot Grant Program

How to Determine your Household Area Median Income

- Step 1 Create a list of the number of adults and children (all household members) that occupy the home.
- Step 2 Collect 1040 Federal Tax Returns for the most recent year for all household members generating income.
- Step 3 Determine each household member's income by using the ADJUSTED GROSS INCOME on the 1040 Federal Tax Return.
- Step 4 Add together the adjusted gross income for all household members to determine the Total Household Income.
- Step 5 Review chart below and determine whether Total Household Income is equal or less than the income of a family of the same size earning 140% AMI.

2021 - 140% Area Median Income (AMI)								
Family Size (# of Persons)								
	1	2	3	4	5	6	7	8
Hawaii County	\$84,000	\$95,900	\$107,940	\$119,840	\$129,500	\$139,020	\$148,680	\$158,200
Mauai County	\$101,360	\$115,780	\$130,200	\$144,620	\$156,240	\$167,860	\$179,340	\$190,960
Kauai County	\$99,960	\$106,080	\$119,340	\$132,470	\$143,130	\$153,790	\$164,320	\$174,980
City & County-Honolulu	\$118,440	\$135,380	\$152,320	\$169,120	\$182,700	\$196,280	\$209,720	\$223,300

2022 - 140% Area Median Income (AMI)								
Family Size (# of Persons)								
	1	2	3	4	5	6	7	8
Hawaii County	\$93,380	\$106,680	\$119,980	\$133,280	\$144,060	\$154,700	\$165,340	\$175,980
Mauai County	\$111,860	\$127,820	\$143,780	\$159,740	\$172,620	\$185,360	\$198,100	\$210,980
Kauai County	\$111,720	\$127,680	\$143,340	\$159,600	\$172,480	\$185,220	\$197,960	\$210,700
City & County-Honolulu	\$128,100	\$146,300	\$164,640	\$182,840	\$197,540	\$212,000	\$226,800	\$241,360