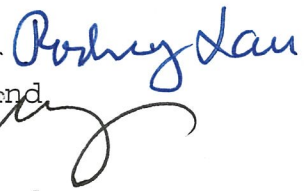


STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

January 27, 2020

TO: Chairman and Members, Hawaiian Homes Commission

FROM: Rodney Lau, Administrative Services Officer 
Stewart Matsunaga, Acting Administrator, Land
Development Division

SUBJECT: Approval to Amend the FY 2020 Development Budget

RECOMMENDED MOTION/ACTION

That the Hawaiian Homes Commission approve Amendment No. 1 to the DHHL FY 2020 Development Budget.

I. DHHL Water System Improvements

BACKGROUND

In 2016 and 2018, the Department of Hawaiian Home Lands (DHHL) was awarded a total of \$28,214,166 in federal grant and loan funds from the US Department of Agriculture Rural Development (USDA RD) Water Environment Program (WEP) for major capital improvements to the DHHL-owned Ho'olehua and Anahola Farm Lots Water Systems. As a condition of these funding awards, DHHL committed to provide a contribution of \$16,043,973. This brings the total project to \$44,258,139 - Ho'olehua \$31,332,33 and Anahola \$12,925,806. Additionally, the USDA WEP program operates on a reimbursement basis, where the awardee is expected to upfront the cash for the project, including securing an interim construction loan.

At the November 2018 Hawaiian Homes Commission (HHC) meeting, an informational workshop and submittals (Items H-1 and H-2) were presented and included project descriptions, costs, and project financing packages. See Exhibits "B" and "C".

DISCUSSION

A. Anahola Farm Lots Water System improvements

The objectives for this project are as follows. See Exhibit "B" for further detail on the project description.

- Increase operational efficiencies and system reliability
- Address water pressure issues
- Repair/replace system components including water tank, distribution lines, fire hydrants, water meters and backflow preventers
- Improve system safety and security

The contracts for the Planning, Design, Construction Management, and Construction (Kaiwa Construction) for Anahola Farm Lots Water System Phase 1 have been awarded and encumbered with DHHL Trust Funds in prior years.

The Invitation for Bid for construction of Phase 2 was bid out in October 2018; bids were received in December 2018. The contract has been awarded to the low bidder, Kiewit Infrastructure West Co. in January 2020 following USDA RD concurrence with contract special conditions. DHHL also recently received concurrence by USDA RD to proceed with executing the construction contract for Phase 2.

Total Project estimated cost is \$12,925,806. See Table 1 below for the cost breakdown.

TABLE 1

Planning and Design	\$1,293,885
Construction Management	541,069
Phase 1 - replace distribution lines, create dual water pressure zones, repair and secure emergency inter-tie with County	3,196,408
Phase 2 - replace 0.5MG storage tank	6,692,786
Other project costs	1,201,658
TOTAL Project Costs	\$12,925,806

Of the total \$12,925,806, DHHL has budgeted for \$5,031,362, additional resources needed is approximately \$8,000,000. See Table 2 below.

TABLE 2

TOTAL Project Costs	\$12,925,806
TOTAL budget available in FY 2020 (encumbered by various contracts)	<5,031,362>
Budget request for FY 2020 Development Budget	7,894,444
	Round to \$8,000,000

After construction completion, should there be remaining federal funds, DHHL has prepared a list of other work items for which to utilize any remaining federal funds. (Note: additional work items must be approved by USDA RD) In priority order, these other items are as follows:

- Price escalation (bond, insurance, labor, and materials) in construction costs
- Change orders and cost overruns during construction
- Any additional equipment needed
- First year's operations and maintenance costs

Therefore, to award the Phase 2 construction contract for the Anahola water improvements project and for other project costs, DHHL is in need of an additional \$8,000,000 in the FY 2019 - 2020 Development Budget.

B. Ho'olehua Water System Improvements

The objectives for this project are as follows. See Exhibit "C" for further detail on the project description.

- Increase operational efficiencies and system reliability
- Achieve 24/7 access to system components
- Address water pressure issues
- Repair/replace system components
- Increase fire protection
- Reduce energy costs
- Improve system safety and security

The contracts for the Planning, Design, and Construction Management have been awarded and encumbered in prior years with DHHL Trust Funds.

Invitation for Bids for the construction of Bid Package 1 and Bid Package 2 were bid out separately in June 2018; bids were received in August 2018. Contracts were awarded to the low bidder for Package 1 and Package 2, Goodfellow Bros. LLC in January 2020 following USDA RD concurrence with contract special conditions. DHHL also recently received concurrence by USDA RD to proceed with executing the construction contracts.

Furthermore, DHHL anticipates purchasing necessary equipment and supplies (Bid Package 4). Lastly, this project includes constructing a photovoltaic system to reduce the high energy costs (approximately 40% of the water system operating budget) to operate this system (Bid Package 3).

Total Project estimated cost \$31,332,333. See Table 3 below for cost breakdown.

TABLE 3

Planning and Design	1,163,125
Construction Management	662,049
Bid package 1 - Ho'olehua sub-projects	19,554,000
Bid package 2 - Kalamaula sub-projects	3,048,540
Bid package 3 - Photo Voltaic project	5,000,000
Bid package 4 - Equipment and Supplies	1,600,000
Other project costs	304,619
TOTAL Project Costs	31,332,333

Of the total \$31,332,333, DHHL has budgeted for \$19,575,174, thus the additional resources needed for the Ho'olehua water project is approximately \$12,000,000. See Table 4 below.

TABLE 4

TOTAL Project Costs	\$31,332,333
DHHL funds encumbered via contracts	1,825,174
Currently budgeted in FY 2020 Development Budget	13,750,000
R/M CIP and or Trust Funds to be re-programmed	4,000,000
TOTAL budget available in FY 2020	19,575,174
Budget request for FY 2020 Development Budget	11,757,159
	Round to \$12,000,000

After construction completion, should there be remaining federal funds, DHHL has prepared a list of other work items for which to utilize any remaining federal funds. (Note: additional work items must be approved by USDA RD) In priority order, these other items are as follows:

- Price escalation (bond, insurance, labor, and materials) in construction costs
- Change orders and cost overruns during construction
- Emergency repairs to the two 3.5MG concrete storage tanks
- Construct protective structures over well pumps and booster pumps
- Stock equipment/supplies on island
- Purchase additional equipment

Therefore, to award the construction contracts and encumber the funds (for Bid Packages 3 PV and 4 Equipment) for the Ho'olehua water improvements project, DHHL is in need for an additional \$12,000,000 in the FY 2019 - 2020 Development Budget.

Summary: Water System Improvements for Anahola and Ho'olehua

This budget amendment request increasing the FY 2020 Hawaiian Home Lands Trust Fund Development budget in the amount of \$20 million to finance the Ho'olehua and Anahola water systems construction costs.

Of the total \$44,258,139 costs for the two (2) projects, approximately \$11,555,000 of the interim construction costs will be recovered when the USDA RD permanent take out loan reimburses the interim financing costs that was incurred for the two projects.

In addition, approximately \$16,629,166 in USDA RD grant funds will be reimbursed to DHHL for construction costs advanced by the department.

Table 5 is a recap of the costs described in the summary.

Table 5	Project Costs	USDA Loan: Reimbursing DHHL Interim Construction (Self-Financed)	USDA Grant: Reimbursing DHHL Construction Advance	Budget Increase
Anahola Farm Lots Water System Improvements	\$12,925,806	\$4,100,000	\$5,025,083	\$8,000,000
Ho'olehua Water System Improvements	\$31,332,333	\$7,455,000	\$11,604,083	\$12,000,000
Total Water System Improvements	\$44,258,139	\$11,555,000	\$16,629,166	\$20,000,000

II. Land Acquisition

Section 30 F., Item No. 16 of Act 49, SLH 2017 as amended by Act 53, SLH 2018, "Hawaiian Home Lands Lot Development, Oahu" provides a source of financing to the Department of Hawaiian Home Lands (HHL 602), to acquire suitable land. Pursuant to the Act, the Department of Agriculture is identified as the expending agency. The purpose of the Act is to transfer two (2) properties in the Whitmore Village (Wahiawa) area totaling 52.768 acres (tax map key numbers (1)1-7-002:044, 22.39 acres and (1)7-002-033, 30.378 acres) to the Department of Agriculture. DHHL is to use the released funds to acquire property for the purposes of the Hawaiian Homes Commission Act, 1920. DHHL intends to use the released funds to acquire three (3) residential properties on Oahu. Total amount for the purchase price, due diligence and initial proposed renovation of the acquired properties is approximately \$8,650,000. It is DHHL's intent to supplement the \$6,900,000 General Obligation Bond financing with the HHL Trust fund.

This budget amendment request increasing the FY 2020 Hawaiian Home Lands Trust Fund Development budget in the amount of \$1.75 million to allow DHHL to acquire property as provided in Act 49, SLH 2017 as amended by Act 53, SLH 2018.

RECOMMENDED MOTION

In summary, the total budget increase to the Hawaiian Home Lands Trust Fund (HHLTF) is \$21,750,000.

1. \$11,555,000 of the interim construction financing which is self-financed by DHHL will be reimbursed to the Hawaiian Home Lands Trust Fund upon the USDA RD permanent takeout loan taking effect.
2. \$16,629,166 of the USDA grant funds will be reimbursed to the Hawaiian Home Lands Trust Fund as costs advanced by DHHL is reimbursed by USDA RD.

Staff respectfully requests approval of the recommended motion as stated above.

Department of Hawaiian Home Lands			
FY 2020 Development Budget			
(000's omitted)			
	Hawaiian Home Lands Trust Fund		
Project / Description	Approved	Budget Increase	Amendment 1
PART A: Lot Development Projects (Addressing the homestead wait list)			
<u>OAHU</u>			
East Kapolei II-C Site Construction	15,000		15,000
Waianae Increment 4	833		833
Land Acquisition, Due Diligence, Renovation		1,750	1,750
Part A Subtotal	15,833	1,750	17,583
PART B: Repair, Maintenance, and Operating Costs (Promoting thriving, healthy communities)			
<u>MOLOKAI</u>			
Molokai Water System/Long-term Improvements	0	12,000	12,000
Drainage Basins and Ditches	1		1
<u>BIG ISLAND</u>			
Kawaihae Improvements	1		1
Laiohua Plant Preserves O/M	1		1
<u>KAUAI</u>			
Anahola Water System - Long-term Improvements	0	8,000	8,000
<u>STATEWIDE PROJECTS</u>			
Maintenance of Fire Breaks	1		1
Rock Fall Mitigation, Statewide	1		1
Street Lamp Repair, Replace, Upgrade	1		1
Part B Subtotal	6	20,000	20,006
Total HHL Trust Fund	\$15,839	\$21,750	\$37,589

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

November 19 - 20, 2018

TO: Chairman and Members, Hawaiian Homes Commission

FROM: Rodney Lau, Administrative Services Officer
Norman Sakamoto, Administrator, Land Development
Division
Kaleo Manuel, Acting Planning Program Manager
Gigi Cairel, Grants Specialist

Subject: Approve to Accept the US Department of Agriculture
Rural Development Loan/Grant Financing for the
DHHL-owned Anahola Farm Lots Water System on the
Island of Kaua'i

RECOMMENDED MOTION/ACTION:

That the Hawaiian Homes Commission (HHC) approves to accept the subsequent \$4,100,000 loan and subsequent \$1,999,946 grant, as part of a financing package awarded to the Department of Hawaiian Home Lands (DHHL) by the US Department of Agriculture Rural Development (USDA RD) to fund capital improvements to the DHHL-owned Anahola Farm Lots Water System (Public Water System #432) on the Island of Kaua'i;

That the HHC delegates authority to the Chairman to negotiate final terms and conditions of the USDA RD loan, including execution of related documents.

BACKGROUND:

The DHHL-owned Anahola Farm Lots Water System serves 75 lessees and their families in the Bayview residential homestead and Anahola Farm Lots. Total population served is approximately 385 people. This water system also provides potable water to one non-homestead lot and has an interconnection tie to the County of Kaua'i, where DHHL may draw water from the County and vice versa for emergency purposes. All other homestead areas on Kaua'i receive potable water from the County of Kaua'i, including residential homesteads in Anahola, Pi'ilani Mai Ke Kai, Hanapepe, and Kekaha.

The Anahola Farm Lots Water System is supplied by a groundwater source from the DHHL Anahola well which was

constructed over 35 years ago by the Department of Land and Natural Resources. Major water system facilities include a half-acre site containing the well, control building, and a 0.5 million gallon (MG) steel storage tank; nearly two miles of distribution lines; and an emergency interconnection between the DHHL Anahola Farm Lots Water System and the County of Kaua'i. The well water is treated at the source with sodium hypochlorite. The system is classified by the Department of Health (DOH) as a Public Water System Grade 1 distribution system and requires a DOH certified operator with a Grade 1 operator license. The operations and maintenance services are provided by a DHHL contractor.

Water quality delivered by the Anahola water system currently meets all Federal and State drinking water quality standards. On a quarterly basis, the DHHL contracted operator conducts water quality testing, as required by DOH. Every three years, DOH conducts a sanitary survey to check site and facility conditions for compliance with Technical, Managerial and Financial capacity standards. Since there have been no significant deficiencies, DOH conducts its sanitary survey every five years. In prior DOH sanitary surveys, DOH provided recommendations to non-significant findings, which DHHL has remediated and corrected over the years, except for storage tank replacement. In the 2018 DOH survey, the Anahola system had no significant deficiencies, yet has six non-significant deficiencies such as recordkeeping and properly updating documents such as the mutual aid agreement with County of Kaua'i and the DHHL Vulnerability Assessment/Emergency Response Plan.

Need for project

The needs for this capital improvement project are many and include:

- (1) Since 1999, DOH has continuously recommended that DHHL replace the Anahola water storage because it is severely rusted on the roof and sides. The rust has degraded to loose flakes. DOH reported algal/fungal growth on the tank sides since 2008. Further, the tank's structural integrity is at risk. The tank has more than reached its useful life of over 30 years old.
- (2) The 2013 DOH sanitary survey noted the lack of security at the interconnect tie between the DHHL Anahola water system and the County. DOH recommended fencing the area and locking the standpipe caps and valves to prevent tampering with a public water supply.
- (3) Aging infrastructure where system components need major repairs or complete replacement.
- (4) Low water pressure in mauka areas and high water pressure in areas makai-side of Kūhio highway
- (5) High level of unaccounted for water due to leaks.

Improvements are needed to improve overall reliability and functionality of the water system. The improvements will not add new users to the system nor expand the service area beyond the Bayview residential homestead and Anahola Farm Lots. Due to the location of the Anahola water system, there is little to no opportunity to physically expand the water system or serve new homestead lots in the near term.

Project description/scope

The scope of this project is to implement much needed improvements to the Anahola Farm Lots Water System including the following.

- Increase operational efficiency
- Replace the storage tank
- Address water pressure issues
- Repair or replace components that have reached their useful life cycle
- Improve water system safety and security

The design and construction of the proposed Anahola Farm Lots Water Project is divided into two phases.

Phase 1 will address water distribution system improvements as follows.

- install a new dual water pressure zone which will increase the water pressure to customers in the mauka area and reduce the extreme high pressures to customers in the makai area, below Kūhio Highway.
- replace aging asbestos concrete pipes with Kaua'i County standard material that have a longer life expectancy.
- replace all fire hydrants, water meters and backflow preventers.
- improve the security in and around the interconnection facility at Kūhio Highway used for emergencies.

Phase 2 construction is to replace the water storage tank and improve the well site.

- construct a temporary 100,000 gallon steel tank.
- demolish the existing 500,000 gallon steel storage tank.
- construct a new concrete storage tank.
- Improve the well site, including replacement of well pump, install a booster pump, install an emergency diesel generator, install an improved chlorination system and install a Supervisory Control and Data Acquisition (SCADA) system. Currently, the well controls are operated manually; the SCADA

system will allow for remote operations and notifications of problems.

Project costs

In 2016, the project cost estimate was \$8.8M. DHHL sought federal funds from the USDA RD Water and Environment Program (WEP) (1) to access USDA RD set-aside grant funds that were available only to DHHL water and waste projects; and (2) to leverage DHHL resources for major capital improvements. USDA awarded \$3M and DHHL committed \$3.8M of its own funds. Total project cost was then reduced to \$6.8M.

In 2018, USDA RD approached and encouraged DHHL to consider applying for additional funds for anticipated project cost overruns. USDA RD had a national "call out" for projects due to the sudden availability of federal dollars that needed to be obligated by the end of the federal fiscal year, September 2018. DHHL submitted an application to seek an additional \$6.1M, thus bringing the total project cost to \$13M. USDA RD subsequently awarded the additional \$6.1M in the form of a loan/grant combination - \$4.1M Loan and \$2M Grant.

TABLE 1
Project Budget

Project Budget Category	2016	2018	Difference
Legal/Administration	\$150,000	\$150,000	\$0
Engineering	\$1,632,860	\$1,628,363	<\$4,497>
Construction	\$4,675,600	\$9,610,477	\$4,934,617
Contingency	\$397,400	\$1,566,966	\$1,169,566
TOTAL	\$6,855,860	\$12,955,806	\$6,099,946

TABLE 2
Summary of USDA Funds

YEAR	USDA awards	DHHL contribution	TOTAL
June 2016	Grant \$3,025,137	\$3,770,723	\$6,795,860
September 2018	Loan \$4,100,000 Grant \$1,999,946	-0-	\$6,099,946
TOTAL	\$9,125,083	\$3,770,723	\$12,895,806
DHHL	Loan re-payment	\$4,100,000	
TOTAL	DHHL Contribution	\$7,870,723	

- Expand the existing control building to enclose well pumps and booster pumps to protect against moisture damage
- Add security measures, including enhanced lighting, to the well/tank site
- Exterior coating to the tank
- Purchase water truck for emergency use
- Stock equipment on island including pumps, motors, etc.

DHHL will seek preliminary approval from USDA RD to add these items in the event there are remaining funds.

TABLE 3
Updated Project Costs

Project Budget Category	USDA Award	DHHL Revised Costs	Difference
Legal/Administration	\$150,000	\$150,000	\$0
Engineering	\$1,628,363	\$1,628,363	\$0
Construction	\$9,610,477	\$8,300,000	<\$1,310,477>
Contingency	\$1,566,966	\$1,566,966	\$0
TOTAL	\$12,955,806	\$11,645,329	<\$1,310,477>

Project Status

At this time, the following is the status of this project.

- Phase 1 (water lines) - Construction contract executed.
- Phase 2 (tank replacement) - Currently is in the bidding process. Bid opening expected in early December 2018.

DISCUSSION

DHHL is seeking approval to accept the 2018 USDA RD loan/grant package to finance the proposed improvements to the Anahola water system. Should DHHL not proceed with the 2018 subsequent USDA RD loan/grant funds and, instead, proceed with the earlier 2016 USDA RD grant funds, the following are the impacts.

- DHHL may move forward with the 2016 USDA RD grant award (\$3,025,137) and DHHL contribution (\$3,770,723).
- There would be no need for DHHL to address USDA RD loan conditions - loan security, interim financing, change to use the federal bid and contract documents.
- DHHL may proceed with the Anahola water system improvements project with minimal disruption and time delays to the project.
- DHHL will continue to use the State bid and contract documents.

- DHHL will need to identify a new source of funds for the estimated project cost shortfall of \$4.8M and any future unforeseen cost overrun.
- DHHL will need to identify a new source of funds for the additional needs, not in the original 2016 scope - includes paving the well/tank site, enclose the well pump, coating of the tank, and purchase of equipment/supplies.

Should DHHL accept the 2018 USDA RD loan/grant package, there are major issues that need to be negotiated and resolved with USDA RD. The USDA RD loan is a new component to the overall financing package and with it comes new funding conditions. The major issues of concern to DHHL are as follows.

- Loan security, collateral, and general obligation bond financing
- Interim financing
- USDA priority order to disburse funds
- Use of State of Hawaii procurement and contracting documents versus federal standard documents

DHHL is optimistic that USDA RD will concur with our proposed alternatives.

Loan Security, Collateral, General Obligation Bond Financing

When a borrower is a public body, USDA's first preference for security are general obligation bonds, which is evidence of the full faith and credit of the borrower. DHHL is unable to provide such security. Instead, DHHL proposes to pledge all revenues from its "available lands" as security in lieu of general obligation bonds, subordinate to the DHHL Revenue Bonds, series 2017 and DHHL Certificates of Participation Series 2017 A (COPS). This proposal would place USDA RD in third position to all revenues from DHHL "available lands."

Status: DHHL will send this proposed alternative to USDA RD for its review and concurrence.

Interim Financing

USDA RD loans are long term (35 years) permanent take-out loans. USDA RD requires its borrowers to seek Interim Financing for the construction period. However, should a borrower be unable to obtain such interim financing with reasonable terms, borrower may request an exception whereby USDA RD would disburse the loans funds directly on a monthly or quarterly basis.

Status: DHHL is pursuing an exception to this USDA RD requirement to obtain Interim Financing.

USDA priority order to disburse funds

This federal requirement is in regards to USDA's priority order on how project funds are to spent and how USDA RD disburses the federal funds.

First priority	Applicant contribution
Second priority	USDA RD loan (awarded in 2018)
Third priority	USDA RD grant (awarded in 2016)
Fourth priority	USDA RD grant (awarded in 2018)

Further, there's a stipulation that should there be remaining funds upon construction completion (ie project comes under budget), USDA may de-obligate such funds. Any reduction in funds will be applied to the USDA RD grant funds first. Generally, the older grant funds from 2016 (\$3,025,127) will be de-obligated first, then the grant funds from 2018 (\$1,999,946). If un-used grant funds are totally de-obligated, then any un-used loan funds will be applied as an extra payment towards the USDA RD loan.

Status: The next opportunity to re-assess costs is when final bid tabulations for all phases are received by the DHHL. Secondly, as project construction nears completion, another assessment of project costs may be made to determine if there will be any remaining funds. Should this project come under budget, DHHL has planned for additional items to re-direct any remaining USDA funds.

Use of federal docs (EJCDC) versus State of Hawaii docs

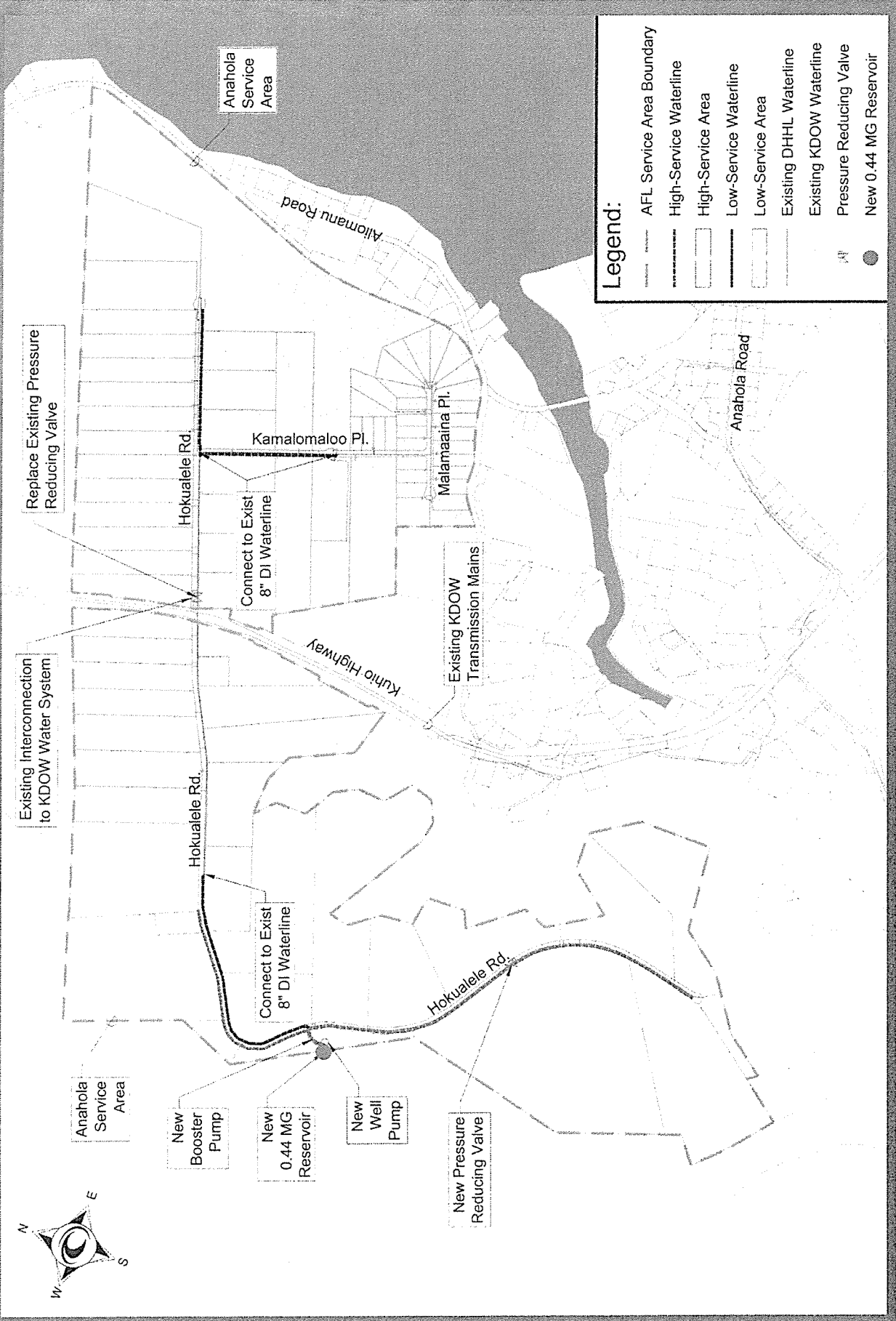
At the time this project started in 2016, USDA RD obligated only grant funds to DHHL. USDA RD regulations required DHHL, as a state agency, to use its own State of Hawaii documents as opposed to the federal standard documents, called the Engineers Joint Contract Documents Committee or "EJCDC". Now in 2018, with the award of federal loan funds, DHHL is no longer exempted from using the EJCDC documents. The challenge is that DHHL has already executed bid and contract documents using the State templates. Changing existing State documents in mid-stream to the federal EJCDC documents will result in time delays and, possibly, loss of the vendors.

The construction contract for Phase 1 is executed, using State of Hawaii documents. DHHL is currently in the bid process for Phase 2 and expects bid opening by early December 2018. Again, State of Hawaii documents were used throughout the procurement process. Should this matter on the EJCDC not be resolved in a timely manner, DHHL may need to consider starting a new procurement process, thus further delaying the project timeline.

EJCDC documents include, but are not limited to, the following:
(a) contract documents between DHHL and engineer, construction contractor, inspector/construction management services; (b) Bid

Anahola			Base Interest	3.125%				
			Adj Interest	37.500%				
Installment			N	33.000	PV	4,100,000.00		
calculated	200,896.58		Monthly Interest	10,677.08				
rounded	200,900.00		Annual Interest	128,125.00				
			Cumulative		Cumulative			
Year	P/I	Interest	Interest Pd	Principal	Principal Pd	Principal Bal	Pt pmts	Due Date
1	128,125.00	128,125.00	128,125.00		-	4,100,000.00		8/31/2021
2	128,125.00	128,125.00	256,250.00		-	4,100,000.00		8/31/2022
3	200,900.00	128,125.00	384,375.00	72,775.00	72,775.00	4,027,225.00	1	8/31/2023
4	200,900.00	125,850.78	510,225.78	75,049.22	147,824.22	3,952,175.78	2	8/31/2024
5	200,900.00	123,505.49	633,731.27	77,394.51	225,218.73	3,874,781.27	3	8/31/2025
6	200,900.00	121,086.91	754,818.18	79,813.09	305,031.82	3,794,968.18	4	8/31/2026
7	200,900.00	118,592.76	873,410.94	82,307.24	387,339.06	3,712,660.94	5	8/31/2027
8	200,900.00	116,020.65	989,431.59	84,879.35	472,218.41	3,627,781.59	6	8/31/2028
9	200,900.00	113,368.17	1,102,799.76	87,531.83	559,750.24	3,540,249.76	7	8/31/2029
10	200,900.00	110,632.81	1,213,432.57	90,267.19	650,017.43	3,449,982.57	8	8/31/2030
11	200,900.00	107,811.96	1,321,244.53	93,088.04	743,105.47	3,356,894.53	9	8/31/2031
12	200,900.00	104,902.95	1,426,147.48	95,997.05	839,102.52	3,260,897.48	10	8/31/2032
13	200,900.00	101,903.05	1,528,050.53	98,996.95	938,099.47	3,161,900.53	11	8/31/2033
14	200,900.00	98,809.39	1,626,859.92	102,090.61	1,040,190.08	3,059,809.92	12	8/31/2034
15	200,900.00	95,619.06	1,722,478.98	105,280.94	1,145,471.02	2,954,528.98	13	8/31/2035
16	200,900.00	92,329.03	1,814,808.01	108,570.97	1,254,041.99	2,845,958.01	14	8/31/2036
17	200,900.00	88,936.19	1,903,744.20	111,963.81	1,366,005.80	2,733,994.20	15	8/31/2037
18	200,900.00	85,437.32	1,989,181.52	115,462.68	1,481,468.48	2,618,531.52	16	8/31/2038
19	200,900.00	81,829.11	2,071,010.63	119,070.89	1,600,539.37	2,499,460.63	17	8/31/2039
20	200,900.00	78,108.14	2,149,118.77	122,791.86	1,723,331.23	2,376,668.77	18	8/31/2040
21	200,900.00	74,270.90	2,223,389.67	126,629.10	1,849,960.33	2,250,039.67	19	8/31/2041
22	200,900.00	70,313.74	2,293,703.41	130,586.26	1,980,546.59	2,119,453.41	20	8/31/2042
23	200,900.00	66,232.92	2,359,936.33	134,667.08	2,115,213.67	1,984,786.33	21	8/31/2043
24	200,900.00	62,024.57	2,421,960.90	138,875.43	2,254,089.10	1,845,910.90	22	8/31/2044
25	200,900.00	57,684.72	2,479,645.62	143,215.28	2,397,304.38	1,702,695.62	23	8/31/2045
26	200,900.00	53,209.24	2,532,854.86	147,690.76	2,544,995.14	1,555,004.86	24	8/31/2046
27	200,900.00	48,593.90	2,581,448.76	152,306.10	2,697,301.24	1,402,698.76	25	8/31/2047
28	200,900.00	43,834.34	2,625,283.10	157,065.66	2,854,366.90	1,245,633.10	26	8/31/2048
29	200,900.00	38,926.03	2,664,209.13	161,973.97	3,016,340.87	1,083,659.13	27	8/31/2049
30	200,900.00	33,864.35	2,698,073.48	167,035.65	3,183,376.52	916,623.48	28	8/31/2050
31	200,900.00	28,644.48	2,726,717.96	172,255.52	3,355,632.04	744,367.96	29	8/31/2051
32	200,900.00	23,261.50	2,749,979.46	177,638.50	3,533,270.54	566,729.46	30	8/31/2052
33	200,900.00	17,710.30	2,767,689.76	183,189.70	3,716,460.24	383,539.76	31	8/31/2053
34	200,900.00	11,985.62	2,779,675.38	188,914.38	3,905,374.62	194,625.38	32	8/31/2054
35	200,707.42	6,082.04	2,785,757.42	194,625.38	4,100,000.00	0.00	33	8/31/2055
Totals	5,022,307.42	2,785,757.42		4,100,000.00				
Year 35 numbers have been adjusted due to rounding of payments.								
Assumptions:								
(1) USDA RD Funding package								
DHHH contribution - \$3,770,723								
USDA Grant (2016) - \$3,055,137								
USDA Grant (2018) - \$1,999,946								
USDA Loan (2018) - \$4,100,000								
TOTAL - \$12,925,806								
(2) USDA Loan Terms								
Re-payment over a period of 35 years.								
Payments due the first two years will consist of interest only.								
Payments for the remaining 33 years will be equal amortized annual installments, beginning two years after loan closing.								
For planning purposes, use a 3.1250% interest rate and an amortization factor of \$49/\$1000, which provides for an annual payment of \$200,900.								
The precise payment amount will be based on the interest rate at loan closing.								
(3) Assumes construction completed by August 2021. First payment due August 31, 2021.								

PROJECT SITE MAP



STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

November 19 - 20, 2018

TO: Chairman and Members, Hawaiian Homes Commission

FROM: Rodney Lau, Administrative Services Officer
Norman Sakamoto, Administrator, Land Development
Division
Kaleo Manuel, Acting Planning Program Manager
Gigi Cairel, Grants Specialist

Subject: Approve to Accept the US Department of Agriculture
Rural Development Loan/Grant Financing for the
DHHL-owned Ho'olehua Water System on the Island of
Moloka'i

RECOMMENDED MOTION/ACTION

That the Hawaiian Homes Commission (HHC) approves to accept the subsequent \$7,455,000 loan and subsequent \$1,592,333 grant, as part of a financing package awarded in September 2018 to the Department of Hawaiian Home Lands (DHHL) by the US Department of Agriculture Rural Development (USDA RD) to fund major capital improvements to the DHHL-owned Ho'olehua Water System (Public Water System #230) on the Island of Moloka'i; and

That the HHC delegates authority to the Chairman to negotiate final terms and conditions of the USDA RD loan, including execution of related documents.

BACKGROUND

The DHHL-owned Ho'olehua water system serves over 500 lessees and their families in Kalama'ula and Ho'olehua homesteads. Total population served is approximately 2,400 people. All other homesteads on Moloka'i receive potable water from the County of Maui, including Kapaakea and Kamiloloa-One Ali'i. In addition, this system delivers drinking water to community facilities such as the Ho'olehua airport, US Post Office, schools, churches and to commercial businesses. This is the only DHHL-owned water system that serves community facilities and businesses. This is an advantage to DHHL because these other water system users pay a higher water rate to help offset costs to operate the system that otherwise would be 100% borne by lessees.

- Achieve 24/7 access to system components by improving roadways
- Increase storage capacity
- Address water pressure issues
- Repair or replace components that have reached their useful life cycle
- Improve water system safety and security

The scope of the project is to implement much needed improvements to the Ho'olehua Water System to improve transmission and provide reliable water service to the existing population over a 35-year planning period. In addition to upgrading the reliability of the existing water system, improvements will seek to create a more sustainable system to minimize unexpected losses of service and reduce annual energy costs. The design and construction of the proposed Ho'olehua Water System improvements project is divided into four bid packages as follows.

Package 1 - Ho'olehua portion of the Ho'olehua Water System
Site numbers 1, 3, 4, 5, 6, 7. Refer to Exhibit B.

- Improve Kauluwai 1.0MG Storage Tank.
- Install a 1,000 gallon above-ground fuel storage tank for the generator.
- Repair the two Ho'olehua 3.5MG storage tanks.
- Replace aging asbestos water piping, pressure relief valves, gate valves, flow controls, well booster pumps and motors, which have reached the end of their useful life.
- Install new water lines and hydrants to provide fire protection to areas not protected now.
- Install new 0.2 MG storage water tank to lower the risk of low pressure and vacuum conditions in the waterline that could result in contamination of the drinking water system through an increase risk of backflow conditions. It will also provide adequate water pressure.
- Provide over 3 miles of all-weather roadways for 24/7 access to most of the water system, storage water tanks and well sites in order to properly maintain and service them.
- Demolish existing DHHL Molokai Maintenance warehouse and construct a new facility to house all of the new construction equipment and properly store water treatment supplies which will allow the Molokai District Office Maintenance crew to provide adequate maintenance and repairs to the Ho'olehua Water System.

Package 2 - Kalama'ula portion of the Ho'olehua Water System
Site number 2. Refer to Exhibit B.

- Improve roadway for 24/7 access to the 0.2MG Kalama'ula storage tank.
- Replace 12-inch transmission main water line.

Package 3 - Photovoltaic (PV) system and solar field

- Implementation of a large 1 mega-watt PV solar field. This should generate over \$300,000 (estimate) in annual electrical savings.

Package 4 - Equipment and supply needs for the entire Ho'olehua Water System.

Project costs

In 2016, the project cost estimate was \$25M. DHHL sought federal funds from the USDA RD Water Environment Program (WEP) (1) to access USDA RD set-aside grant funds available only to DHHL water and waste projects; and (2) to leverage DHHL resources for major capital improvements. USDA awarded \$10M in grant funds and DHHL committed \$12M of its own funds. Total project cost was then reduced to \$22M.

In 2018, USDA RD approached and encouraged DHHL to consider applying for additional funds for anticipated project cost overruns. USDA RD had a national "call out" for projects due to the sudden availability of federal dollars that needed to be obligated by the end of the federal fiscal year, September 2018. DHHL submitted an application to seek an additional \$9M, thus bringing the total project cost to \$31M. USDA RD subsequently awarded the additional \$9M in the form of a loan/grant combination - \$7.4M Loan and \$1.5M Grant.

TABLE 1
Project Budget

Project Budget Category	2016	2018	Difference
Engineering	\$2,035,444	\$2,518,663	\$483,219
Construction	\$18,481,503	\$24,013,781	\$5,532,278
Contingency	\$1,768,053	\$4,799,889	\$3,031,836
TOTAL	\$22,285,000	\$31,332,333	\$9,047,333

TABLE 2
Summary of USDA Funds

YEAR	USDA awards	DHHL contribution	TOTAL
June 2016	Grant \$10,011,750	\$12,273,250	\$22,285,000
September 2018	Loan \$7,455,000 Grant \$1,592,333	-0-	\$9,047,333
TOTAL	\$19,059,083	\$12,273,250	\$31,332,333
	DHHL Loan re-payment	\$7,455,000+	
	TOTAL DHHL Contribution	\$19,728,250+	

Loan terms (for planning purposes):
Period 35 years
Note: payments in first two years is interest only
Interest rate 3.1250%*
Amortization \$49/\$1000
Estimated annual payments \$365,295*

*Note: The precise payment amount will be based on the interest rate at which time the loan is closed and may be different than as stated above. See Exhibit A for the amortization schedule.

The following factors contributed to the differences in cost estimates from 2016 to 2018.

- Project costs generally have gone up in the 2-year period - 2016 and 2018.
- The lengthy DHHL procurement and contracting process
- USDA RD staff changes resulted in time delays of the USDA review of bid and contracting documents
- Guidance from USDA to increase Contingency to 20%
- Guidance from USDA that they were flush with funds that must be obligated by September 2018
- Guidance from USDA that there is no guarantee that USDA will fund future DHHL cost overruns for this Ho'olehua project

During this period, the project scope remained the same. The only change was that DHHL removed \$5M that was originally budgeted with USDA funds in 2016 for the PV project. Instead, DHHL anticipates the PV project to be self-financed through a Purchase Power Agreement (PPA). The \$5M in USDA funds was re-allocated to the other sub-projects - Bid Package 1 (Ho'olehua), Bid Package 2 (Kalama'ula) and Bid Package 4 (Equipment/Supplies).

Based on the factors above, DHHL was conservative in making the request to USDA RD for the additional \$9M. Since the \$9M award from USDA RD, DHHL again evaluated the project costs based on the actual final low bid numbers from Packages 1 and 2 - \$19,554,000 (USDA RD portion \$16,228,000) and \$3,048,540, respectively. Package 4 is estimated at \$1,411,242. With engineering design costs and 10% contingency, this brings up the project cost estimate from \$22M (2016) to \$25M (2018). At this time, it appears the shortfall is \$3M, not \$9M. Thus, DHHL may have remaining funds amounting to \$6M.

Per USDA RD regulations, "remaining funds may be used for eligible loan and grant purposes, provided the use will not result in major changes to the original scope of work and the purpose of the loan and grant remains the same." DHHL has developed a list of work items should there be such remaining

funds when construction is complete for the original scope.
Additional items include the following (in order of priority):

- Any cost overruns experienced during construction, including funds needed for the PV project should the PPA fall through.
- Emergency repairs to the two 3.5MG concrete tanks.
- Replace and re-condition 278 fire hydrants, in addition to the 30 in the original scope.
- Construct protective structures over well pumps & booster pumps to protect moisture damage to pump motors.
- Stock equipment/supplies on island such as gate valves, water laterals, etc.
- Purchase equipment including tapping machine, bits & adapters, etc.

DHHL will seek preliminary approval from USDA RD to add these items in the event there are remaining funds.

TABLE 3
Updated Project Costs

	USDA Award Amounts	DHHL Revised Costs	Difference
Engineering	\$2,518,663	\$2,552,225	\$33,562
Construction	\$24,013,781	\$20,687,781	\$3,326,000
Contingency	\$4,799,889	\$2,068,778	\$2,731,111
TOTAL	\$31,332,333	\$25,308,784	\$6,090,673

Project Status

At this time, the following is the status of this project.

- Packages 1 and 2 - Bids received and ready to award contracts.
- Package 3 - PV project pending State (and possibly USDA RD) approval of bid documents.
- Package 4 - Equipment pending USDA RD approval of Request for Proposal documents.

DISCUSSION

DHHL is seeking approval to accept the 2018 USDA RD subsequent loan/grant package to finance the proposed improvements to the Ho'olehua water system. Should DHHL not proceed with the 2018 subsequent USDA RD loan/grant funds and, instead, proceed with the earlier 2016 USDA RD grant funds, the following are the impacts.

For Bid Packages 1 and 2, DHHL is at the point of contract award. Should this matter on EJCDC not be resolved in a timely manner and the current vendor declines the DHHL contract, DHHL would start a new procurement process. The second lowest bid in the first procurement was \$25,439,306, which is, coincidentally, about a \$6.0M difference from the lowest bidder (\$19,554,000). So, if there are remaining funds, first priority would apply to this situation.

EJCDC documents include, but are not limited to, the following: (a) contract documents between DHHL and engineer, construction contractor, inspector/construction management services; (b) Bid forms; (c) Notice of Award; (d) Standard General Conditions; (e) Change Orders; etc.

Status: The department is proposing to USDA that we continue using the State documents throughout the project period and, as needed, include any federal EJCDC requirements by amendment.

CONCLUSION

The department is in continuous communication with USDA RD to address these matters above and is working diligently and collaboratively to find mutually-agreeable alternatives. The primary benefit to accessing the USDA RD federal funds today for the existing Ho'olehua Water System is to leverage DHHL resources that would otherwise be used for new homestead lots to address the applicant wait list. Secondly, by utilizing the USDA RD funds, DHHL is creating templates for future use of the USDA RD WEP program to finance more DHHL water projects to develop new homestead lots.

RECOMMENDATION

Staff respectfully requests approval of the recommended motion as stated above.

	A	B	D	E	F	G	H	J	K	L	M
1	Hoolehua			Base Interest	3.125%						
2				Adj Interest	37.500%						
3		Installment		N	33.000	PV	7,455,000.00				
4	calculated	\$365,288.79		Monthly Interest	19,414.06						
5	rounded	365,295.00		Annual Interest	232,968.75						
6											
7				Cumulative		Cumulative					
8	Year	P/I	Interest	Interest Pd	Principal	Principal Pd	Principal Balance	Pi pmts	Due Date		
9	1	232,968.75	232,968.75	232,968.75		-	7,455,000.00		8/31/2021		
10	2	232,968.75	232,968.75	465,937.50		-	7,455,000.00		8/31/2022		
11	3	365,295.00	232,968.75	698,906.25	132,326.25	132,326.25	7,322,673.75	1	8/31/2023		
12	4	365,295.00	228,833.55	927,739.80	136,461.45	268,787.70	7,186,212.30	2	8/31/2024		
13	5	365,295.00	224,569.13	1,152,308.93	140,725.87	409,513.57	7,045,486.43	3	8/31/2025		
14	6	365,295.00	220,171.45	1,372,480.38	145,123.55	554,637.12	6,900,362.88	4	8/31/2026		
15	7	365,295.00	215,636.34	1,588,116.72	149,658.66	704,295.78	6,750,704.22	5	8/31/2027		
16	8	365,295.00	210,959.51	1,799,076.23	154,335.49	858,631.27	6,596,368.73	6	8/31/2028		
17	9	365,295.00	206,136.52	2,005,212.75	159,158.48	1,017,789.75	6,437,210.25	7	8/31/2029		
18	10	365,295.00	201,162.82	2,206,375.57	164,132.18	1,181,921.93	6,273,078.07	8	8/31/2030		
19	11	365,295.00	196,033.69	2,402,409.26	169,261.31	1,351,183.24	6,103,816.76	9	8/31/2031		
20	12	365,295.00	190,744.27	2,593,153.53	174,550.73	1,525,733.97	5,929,266.03	10	8/31/2032		
21	13	365,295.00	185,289.56	2,778,443.09	180,005.44	1,705,739.41	5,749,260.59	11	8/31/2033		
22	14	365,295.00	179,664.39	2,958,107.48	185,630.61	1,891,370.02	5,563,629.98	12	8/31/2034		
23	15	365,295.00	173,863.44	3,131,970.92	191,431.56	2,082,801.58	5,372,198.42	13	8/31/2035		
24	16	365,295.00	167,881.20	3,299,852.12	197,413.80	2,280,215.38	5,174,784.62	14	8/31/2036		
25	17	365,295.00	161,712.02	3,461,564.14	203,582.98	2,483,798.36	4,971,201.64	15	8/31/2037		
26	18	365,295.00	155,350.05	3,616,914.19	209,944.95	2,693,743.31	4,761,256.69	16	8/31/2038		
27	19	365,295.00	148,789.27	3,765,703.46	216,505.73	2,910,249.04	4,544,750.96	17	8/31/2039		
28	20	365,295.00	142,023.47	3,907,726.93	223,271.53	3,133,520.57	4,321,479.43	18	8/31/2040		
29	21	365,295.00	135,046.23	4,042,773.16	230,248.77	3,363,769.34	4,091,230.66	19	8/31/2041		
30	22	365,295.00	127,850.96	4,170,624.12	237,444.04	3,601,213.38	3,853,786.62	20	8/31/2042		
31	23	365,295.00	120,430.83	4,291,054.95	244,864.17	3,846,077.55	3,608,922.45	21	8/31/2043		
32	24	365,295.00	112,778.83	4,403,833.78	252,516.17	4,098,593.72	3,356,406.28	22	8/31/2044		
33	25	365,295.00	104,887.70	4,508,721.48	260,407.30	4,359,001.02	3,095,998.98	23	8/31/2045		
34	26	365,295.00	96,749.97	4,605,471.45	268,545.03	4,627,546.05	2,827,453.95	24	8/31/2046		
35	27	365,295.00	88,357.94	4,693,829.39	276,937.06	4,904,483.11	2,550,516.89	25	8/31/2047		
36	28	365,295.00	79,703.65	4,773,533.04	285,591.35	5,190,074.46	2,264,925.54	26	8/31/2048		
37	29	365,295.00	70,778.92	4,844,311.96	294,516.08	5,484,590.54	1,970,409.46	27	8/31/2049		
38	30	365,295.00	61,575.30	4,905,887.26	303,719.70	5,788,310.24	1,666,689.76	28	8/31/2050		
39	31	365,295.00	52,084.05	4,957,971.31	313,210.95	6,101,521.19	1,353,478.81	29	8/31/2051		
40	32	365,295.00	42,296.21	5,000,267.52	322,998.79	6,424,519.98	1,030,480.02	30	8/31/2052		
41	33	365,295.00	32,202.50	5,032,470.02	333,092.50	6,757,612.48	697,387.52	31	8/31/2053		
42	34	365,295.00	21,793.36	5,054,263.38	343,501.64	7,101,114.12	353,885.88	32	8/31/2054		
43	35	364,944.81	11,058.93	5,065,322.31	353,885.88	7,455,000.00	(0.00)	33	8/31/2055		
44	Totals	12,520,322.31	5,065,322.31		7,455,000.00						
45	Year 35 numbers have been adjusted due to rounding of payments.										
46											
47											
48	Assumptions:										
49	(1) USDA RD Funding package										
50	DHHL contribution - \$12,273,250										
51	USDA Grant (2016) - 10,011,750										
52	USDA Grant (2018) - \$1,592,333										
53	USDA Loan (2018) - \$7,455,000										
54											
55	TOTAL - \$31,332,333										
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57	(2) USDA Loan Terms										
58	Re-payment over a period of 35 years.										
59	Payments due the first two years will consist of interest only.										
60	Payments for the remaining 33 years will be equal amortized annual installments, beginning two years after loan closing.										
61	For planning purposes, use a 3.1250% interest rate and an amortization factor of \$49/\$1000, which provides for an annual payment of \$365,295.										
62	The precise payment amount will be based on the interest rate at loan closing.										
63											
64	(3) Assumes construction completed by August 2021. First payment due August 31, 2021.										
65											
66											

EXHIBIT

C

HHC ITEM H-2
EXHIBIT A