Roadmap Report: Puna Region, Hawai'i

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County of Hawai'i

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Background

As one of the nine districts in Hawai'i County, Puna covers the lower east side of the Island of Hawai'i. A diverse and vibrant region, Puna is considered the work of Pele, the Hawaiian Goddess of Fire and Volcanoes, which has resulted in unique natural landscapes including black-sand beaches and lava tree structures.

In May 2018, Puna experienced severe damage when the Kīlauea Volcano erupted. Thousands of people and businesses were displaced. Schools and local businesses were destroyed by lava flows and covered with black volcanic ash. Overall, the economic disaster is estimated to be approximately $950 million, but that doesn’t capture the damage done to native Hawaiian land, which cannot be recovered due to the freshly permanent lava rock covering much of the area. Though it is seen to some as a loss and to others a blessing of new earth, the undeniable truth is that the eruption forever changed this community as well as the ecology of the region, adding acres of new land and shoreline.

Various factors have historically limited economic growth in the Puna region. One major factor is its geographic location. The Puna region is located in one of the most vulnerable areas of the Big Island with high hazardous geological risk. Successive natural disasters such as volcanic activity and hurricanes add more danger and insecurity to the region. Another factor is that community planning and housing investment has been sporadic. Many neighborhoods lack basic infrastructure and some homes do not connect to County infrastructure services. For example, many roads that are covered with lava remain extremely rugged, unpaved, and inaccessible; streets lack lighting and safe sidewalks; neighborhoods lack access to clean water and reliable power.

Much of the economy in Hawai'i County, and especially Puna, is reliant on the tourism and agriculture sectors, both severely harmed by natural disasters as well as the COVID-19 pandemic. As a result, investors are reluctant to invest private capital in the area because of the economic uncertainty resulting from natural disasters. Lack of investment leads to housing shortages, undeveloped areas, and underdeveloped infrastructure, further stressing local resources. This report seeks to identify financing solutions to some of the economic challenges faced by Puna and Hawai’i County.

Project Description

In 2020, Hawai'i County, dedicated partners and stakeholders, and many community members came together to create the Kilauea Recovery and Resilience Plan. One of the Recovery Priorities in the plan is to “create a network of multifunctional community resilience hubs,” but few details are provided for how these hubs could be financed. As the plan outlines:

Resilience Hubs are trusted, community-serving, and physical spaces that can house a range of programs and services that effectively work at the nexus of community resilience, emergency management, climate change mitigation, and social equity. In Puna, where 78% of households are ALICE (Asset Limited, Income Constrained, Employed) and/or in poverty, the Network of Resilience Hubs will help address socio-economic concerns facing the most vulnerable to affect increased resilience for the whole community. Using a network approach will encourage collaboration across issues, sectors, and social conditions to address challenges and empower communities to become more self-determining, socially connected, and successful before, during, and after disruptions.

To help Puna experience sustainable economic recovery, resilience hubs can provide the local community with food, meals, childcare, education, job training, technology supplies, and critical infrastructure. By aligning additional revenue-generating opportunities and identifying capital solutions for the network of resilience hubs, Hawai'i County can invest in a stronger, more equitable local economy that serves the community every day and can mobilize in times of great need.

In 2021, CDFA selected Hawai'i County as one of six communities across the nation to participate in the CDFA-USDA Community Facilities Technical Assistance Program, which brings dedicated technical assistance to the region to better understand how USDA financing programs, and particularly the USDA Community Facilities Program, can be used with other development finance tools to meet community goals. CDFA and Hawai'i County, in coordination with Revitalize Puna and Vibrant Hawai'i, agreed to partner together to identify financing solutions and opportunities to align capital with the resilience hubs concept.

As part of this effort, CDFA conducted a series of interviews with stakeholders throughout Hawai'i County and Puna, visited the region, and held an educational workshop to teach development finance concepts. The CDFA team toured several sites for resilience hubs and met with community leaders to discuss investment potential. Two main sites emerged as promising resilience hubs: Kua O Ka Lā (KOKL) and Hawai'i Academy of Arts & Science Public Charter School (HAAS). Because each site is already a school and serves as an important community asset, identifying investment potential to support the creation of resilience hubs at these locations could be a catalyst for future resilience hubs to be placed throughout Puna and across the island.

About Kua O Ka Lā (KOKL)

The mission of KOKL is to provide Hawaiian culturally-driven, including values-based, and place-based educational experiences through pilina ʻāina, pilina kānaka, and pilina ʻuhane. KOKL offers a specialized program which provides students with core curriculum, content area and electives in-keeping with State of Hawaii requirements, combined with Native Hawaiian values, culture, and place-based approach to education. From the early morning wehena (ceremonial school opening), Kua O Ka La students are encouraged to walk Ke Ala Pono - the right and balanced path.

Financing Challenges:

- Forced to relocate school when it was damaged by the Kilauea eruption and is operating in repurposed buildings
- Located in an area immediately outside of identified USDA rural population zone and therefore does not qualify for USDA Community Facilities funding

Financing Opportunities:

- Ideal candidate for New Markets Tax Credits
- KOKL has plans to develop revenue generating opportunities in the future, which can help attract private investment and loans
- Dedicated staff already working to assemble capital

About Hawai'i Academy of Arts & Science Public Charter School (HAAS)

The mission of the Hawai'i Academy of Arts and Science is to educate, enrich, and inspire the whole student to thrive by understanding the past, navigating the present, and preparing for the future. HAAS offers a wealth of educational program choices for students and families. Curricula and instruction are robust, flexible, evidence based, and customized to meet the variety of student learning needs. Their goal is to develop a strong community of lifelong learners and work together to create an environment where all are successful.

Financing Challenges:

- HAAS requires significant infrastructure investment in order to accommodate their growth and ability to become a resilience hub, which is a capital-intensive process
- Continuing to rebuild school community post-disaster which makes revenue projections difficult to calculate

Financing Opportunities:

- Established relationships with financiers
- Qualifies for USDA Community Facilities funding based on location
- Potential candidate for 501(c)(3) bonds for real estate and/or infrastructure investments

Connecting to the Food System

Along with tourism, agriculture is one of the most important contributors to the local economy. Sugar cultivation and processing used to be the leader in local agriculture. Over time, macadamia nut and papaya plantations, coffee cultivation, and cattle ranching have become the leading commercial activities that generate a large percentage of employment for Hawai'i County. In fact, Puna accounts for about 97% of the state's papaya production. The unique geology and biological resources afford the area diversified agriculture, including various fruits, vegetables, and livestock.

The Kilauea eruption caused significant damage to lands, crops, and facilities, especially in the papaya industry. Farmers continue to struggle to find new land for growing papaya and other crops. Community members struggle with food insecurity and access to affordable, fresh food. Local food entrepreneurs lack safe and accessible space where fresh food can be distributed or processed into new products and meals.

The Kilauea Recovery and Resilience Plan recognizes the critical importance of Hawai'i County's food system to the local economy. By connecting the resilience hubs concept with meeting local food system demands, a powerful dynamic comes together to prepare the community for future disaster recovery while also contributing daily to the local food economy. Taking this approach also helps to attract capital to the resilience hubs because of potential revenue generating opportunities from rents earned or fees paid by local businesses and community members. This gives Puna, and the entire island, a roadmap for attracting long-term investment to a network of resilience hubs while also activating them as important community assets and gathering places.

Engagement between food systems practitioners and development finance professionals is a critical component for ongoing and long-term investment opportunities in a local food system. There are common approaches among successful projects and programs, but the most effective examples understand how the needs of communities – job creation, racial equity, local investment, access to healthy food, land use, etc. – can be aligned for collaborative, impactful outcomes.

CDFA’s Reframe, Build, Plan Strategy

CDFA encourages Hawai’i County to use the “Reframe, Build, Plan” strategy for restoring local and regional food systems. Every organization, community, economic development agency, and small business working in the food sector should adopt this approach to expand financing and drive capital into the local food system.

Reframe

Reframing food as economic development creates opportunities for supporting small food businesses by situating their efforts in a larger strategy. Food is already a proven economic driver, and it can be further integrated into other economic development strategies focused on growth, diversification, or resilience. This approach also identifies where there are gaps and possibilities for further expansion. For this to happen, there must be a shift in perspective through conversation and education about the critical role that food and agriculture already play in the local economy.

Build

Produce a food financing landscape map to highlight possible financing resources at the local, state, and national levels that can be brought into coordination with existing efforts to rebuild the local food system. A landscape map can also help to identify financing gaps, including structural barriers and social and racial inequities that prohibit certain borrowers from accessing capital. Additionally, there can be gaps in market segmentation where capital is not flowing to businesses that fill a certain consumer need, such as a local meat slaughter and processing facility. Start by identifying traditional development finance tools already available at the local, state, and national levels that can be used to strengthen the region’s food system. Be sure to include general financing tools that other states operate at a national level, as well as federal programs.

Plan

A food system finance strategic plan offers guidance for directing and/or establishing financing programs for businesses and projects that operate in and support the local food system. The key outcome of this type of plan is to build a more robust food system by unlocking capital for food-related businesses, projects, and infrastructure to generate economic prosperity in a community. Engagement with a range of food system players and with local development finance agencies is especially critical for creating successful strategic financing plans. This also includes community members who can be engaged as consumers and as representatives of their neighborhoods, both of which are key stakeholder groups in an equitable food system.

Financing Opportunities

Throughout the course of CDFA's engagement with Hawai'i County, several financing opportunities emerged to develop a network of resilience hubs. CDFA encourages Hawai'i County to align available disaster funding along with potential funds from the American Rescue Plan to support the resilience hubs concept. These funds can be used to help future hosts of the resilience hubs (such as KOKL and HAAS) to directly finance investment by filling gaps that other financing tools cannot fill. They can also be used to indirectly finance hubs by helping borrowers pay for professional fees, environmental studies, or other planning requirements in order to see private capital flow to these projects.

The following outline of potential financing tools should be explored by staff at Hawai'i County in consultation with qualified financial and legal advisors.

USDA Community Facilities Program

The USDA Community Facilities Program offers affordable funding, via direct loans and grants, to develop or improve facilities that provide essential public services to communities across rural America. Eligible communities must be located in a rural area with no more than 20,000 residents, with priority given to small communities with a population of 5,500 or less and low-income communities having a median household income below 80% of the state nonmetropolitan median household income. Hawai'i County is an eligible borrower for this program as well as HAAS.

The low interest loan program has several requirements that need to be met, including how the funds may be used and the terms of the loan. The loan terms include no pre-payment penalties, a fixed interest rate, and the loan repayment terms may not be longer than the useful life of the facility.

The USDA Community Facilities Program is an optimal financing choice since its interest rates are fixed for the entire term of the loan. The interest is determined by the median household income of the service area, and there are no pre-payment penalties. The low interest rate makes this loan an affordable and tangible financing option.

Next step: Reach out to local contacts in the USDA Hawaii and Western Pacific office to share this project concept and express interest in the USDA Community Facilities program.

501(c)(3) Bonds

Since critical infrastructure in the Puna region was dramatically destroyed by lava flows, it is crucial to protect what is left and rebuild what is damaged. Retrofitting infrastructure improvements can be very expensive and time-consuming. Bond financing can be a resource for reconstructing critical infrastructure.

Federal and state laws permit certain types of debt financing for a variety of capital improvements on a tax-exempt basis under Federal income tax laws. The principal advantage of this financing method is the lower interest cost in comparison to the interest rate on conventional debt available to borrowers. Tax-exempt bonds are traditionally issued by state and local governmental units for government functions, such as school construction, public infrastructure, and municipal utilities. However, certain private organizations may also utilize the benefits of conduit tax-exempt financing through state and local governmental units as well as quasi-governmental organizations such as Municipal Authorities. Legally designated 501(c)(3) organizations can access this low-cost tax-exempt financing through 501(c)(3) bonds. If the County wishes to discuss this financing approach further, CDFA can make introductions with bond finance experts with relevant experience.

Next step: Identify and contact a project finance expert with experience in 501(c)(3) bond financing.

New Markets Tax Credit Program

The New Markets Tax Credit (NMTC) program was created in the Community Renewal Tax Relief Act of 2000 with the goal to incentivize private sector investment capital into low-income communities (LICs). For the purpose of the NMTC program, LICs are census tracts where either: (1) at least 20% of the population has an income below the federal poverty level; or (2) the median family income does not exceed 80% of the statewide or metropolitan area median family income.

The NMTC program offers a great way to funnel private capital to underserved communities. The Community Development Financial Institutions Fund (CDFI Fund), which administers the NMTC Program, holds a highly competitive application process through which it awards tax credit authority to Community Development Entities (CDEs). These CDEs serve as financial intermediaries through which private capital flows from an investor to a project in a low-income community. The investor chosen by the CDE receives a tax credit totaling 39 percent of the cost of the investment that is claimed over a period of seven years.

NMTC investments may include loans to businesses, commercial, grocery stores, industrial, and/or retail developments, and to developing for-sale housing. From 2003 to 2021, 18 projects throughout the State of Hawai'i have received NMTCs. If KOKL wishes to pursue this financing opportunity, CDFA can suggest several CDEs that have the capability to invest in Hawai'i.

Next step: Identify and contact a CDE that serves Hawaii to assess interest in this project.

Access to Capital Programs

A variety of development finance tools help increase access to capital through direct and indirect financing for projects and businesses. These types of programs could be used as a gap financing measure for KOKL or HAAS, in addition to other sources of funding. Hawai'i County could also create new access to capital programs or leverage existing programs to promote small business growth in relation to local food system development.

Revolving Loan Funds

Revolving Loan Funds (RLFs) offer a flexible source of capital that can be used to help grow small and mid-sized businesses. RLFs are a very popular development finance tool with thousands operating throughout the U.S. and dozens within each state. They are typically used for operating capital, acquisition of land and buildings, new construction and renovations, and purchasing machinery and equipment. An RLF is a funding pool that replenishes itself; as existing loan holders make payments, and the payments are recycled to fund new loans. This structure requires that RLF programs balance the provision of attractive interest rates with the need to earn a reasonable rate of return since the fund must be replenished in order to make future loans. RLF loans are often issued at competitive rates but also tend to offer flexibility with collateral and terms that make them accessible to an extremely wide range of businesses. The majority of RLFs support myriad small business types, though some creative loan funds target specific areas such as food systems, minority or women-owned businesses, and environmental challenges.

To build the capital system necessary to support all elements of the local food system, Hawai'i County should consider using a portion of any available disaster funds to seed a revolving loan fund. This dedicated fund can be targeted to small business owners that desire to locate or relocate to resilience hubs or otherwise need access to capital to grow their food business.

Next step: Catalog existing sources of small business capital in the area to identify gaps that an RLF might fill.

Loan Guarantee Programs

Loan guarantees shift the risk of a loan from the private lender to a third party – usually a governmental entity – that commits to repay a percentage of a borrower’s obligations to the lending institution in the event of a default or loss. Having this guarantee reduces the risk for private lenders, which encourages them to make loans and other sources of capital for small business more available. Loan guarantees are considered a win-win for government and lending institutions when projects are successful because both parties earn returns on their investment. Communities and projects that employ guarantee programs typically partner with established lending institutions that have a history of supporting economic development. These programs allow local and state governments to promote redevelopment in their communities, encourage public-private partnerships, and invest in businesses. There are many types of guarantee programs, each with their own rules, regulations, and characteristics.

Because of the struggles that Puna has historically experienced to encourage investment, and especially in light of new economic challenges post-eruption and post-pandemic, Hawai'i County should consider allocating a portion of available funds to create a loan guarantee program. This effort can dramatically increase private investment, leveraging the small amount of funds the County can dedicate to disaster recovery into much larger sums.

Next step: Begin discussions with local lenders to assess the market demand for a new loan guarantee program.

Acknowledgments

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