

DAVID Y. IGE
GOVERNOR OF HAWAII



DEPT. COMM. NO. 117
VIRGINIA PRESSLER, M.D.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:

December 21, 2016

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph Souki, Speaker
and Members of the House of
Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the

Drinking Water Treatment Revolving Loan Fund as required by section 340E-33 of the Hawaii Revised Statutes (HRS). In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at

<http://health.hawaii.gov/opppd/departement-of-health-reports-to-2017-legislature/>.

Sincerely,

A handwritten signature in cursive script that reads "Virginia Pressler".

VIRGINIA PRESSLER

Director of Health

Enc.

c: Legislative Reference Bureau

**REPORT TO THE TWENTY-NINTH LEGISLATURE
STATE OF HAWAII
2017**

DRINKING WATER TREATMENT REVOLVING LOAN FUND

**PURSUANT TO SECTION 340E-33
HAWAII REVISED STATUTES**

**RELATING TO THE
DRINKING WATER TREATMENT REVOLVING LOAN FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH**

DECEMBER 2016

Table of Contents

OPERATIONS & ADMINISTRATION SECTION4

- A. INTRODUCTION 4
- B. PROGRAM SUMMARY 4
- C. MAJOR INITIATIVES 4
 - Meeting Funding Requirements 6
 - 1. State Matching Funds 6
 - 2. Commitment of Funds 7
 - 3. Federal Funding Accountability and Transparency Act (FFATA) 7
 - 4. Additional Subsidy 7
 - 5. Reporting Requirements 8
 - 6. Minority Business Enterprises (MBE) / Woman Business Enterprises (WBE) 9
 - 7. Signage Requirements 9
 - 8. Other Federal Requirements 9
- D. PROGRAM AND SET-ASIDE ACTIVITIES 9
 - 1. Administrative Loan Fees and Administrative Cost (4%) 9
 - 2. Small Systems Technical Assistance (2%) 10
 - 3. State Program Management (10%) 10
 - a. Public Water System Supervision Program 10
 - b. Capacity Development Program 10
 - c. Operator Certification Program 11
 - 4. Local Assistance and Other State Programs (15%) 11
 - a. Source Water Protection Program 11
 - b. Wellhead Protection Program 11
 - c. Technical Assistance Programs for Water System Operators 12
- E. GOALS AND ACCOMPLISHMENTS 14
 - 1. Long Term Goals 14
 - 2. Short Term Goals 16
- F. COMPLIANCE ISSUES 18
- G. DWSRF NATIONAL STRATEGIC PLAN, LOAN RECIPIENT, PROJECTS & TYPES OF ASSISTANCE 18

FINANCIAL SECTION20

- A. INTERNAL CONTROLS 20
- B. ACCOMPLISHMENTS OF THE PROGRAM 20
 - 1. Sources of Funds 20
 - 2. State Match 21
 - 3. Executed Loan Agreements 21

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

4. Automated Standard Application for Payments (ASAP)	21
5. Loan Repayments and Investment Interest.....	21
C. PROGRAM AND SET-ASIDE ACTIVITIES	22
D. CREDIT RISKS OF THE DWTRLF LOANS	23
E. OTHER INFORMATION	23
LIST OF ATTACHMENTS.....	24
ATTACHMENT 1: SUMMARY OF THE DRINKING WATER TREATMENT REVOLVING LOAN FUND	25
ATTACHMENT 2: STATEMENT OF NET POSITION	27
ATTACHMENT 3: STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION.....	28
ATTACHMENT 4: STATEMENT OF CASH FLOWS	29
ATTACHMENT 5: NOTES TO FINANCIAL STATEMENTS	30

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

This annual report is submitted to the State of Hawaii Legislature pursuant to Section 340E-33 of the Hawaii Revised Statutes. It covers the reporting period State Fiscal Year (SFY) July 1, 2015 to June 30, 2016 and describes how the Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) met its goals and objectives as identified in the Intended Use Plan (IUP) and Capitalization Grant Application. This report also discusses the sources and uses of the funds during SFY 2016.

B. PROGRAM SUMMARY

Nationally, the Drinking Water State Revolving Fund (DWSRF) program was established under the Safe Drinking Water Act (SDWA) Amendments of 1996, signed by President Clinton on August 6, 1996. This authorized the EPA to award capitalization grants to states.

The State of Hawaii, Drinking Water Treatment Revolving Loan Fund (DWTRLF) program was established by the 1997 State Legislature as the result of the 1996 Federal amendments to the Safe Drinking Water Act. This allowed the state to accept the capitalization grants from the EPA.

Hawaii's program is managed by the Department of Health (DOH), Safe Drinking Water Branch (SDWB) and Environmental Resources Office-Water Revolving Fund Staff (ERO-WRFS). It provides low-interest loans to its four County water departments for the construction of drinking water infrastructure projects. These projects help to achieve or maintain compliance with drinking water standards, improve and expand their drinking water infrastructure, and help protect the public's health and the environment of Hawaii.

During SFY 2016, Hawaii received a federal capitalization grant of \$8,787,000 and state matching funds of \$1,769,000 for a total of \$10,556,000. Total funds committed during this period totaled \$55,591,357.45.

C. MAJOR INITIATIVES

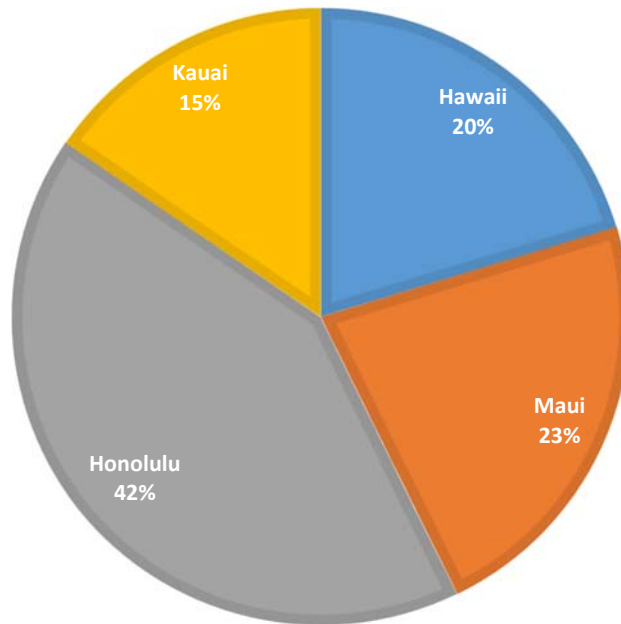
From SFY 1997 through SFY 2016 the DWSRF has issued \$262,436,146.38¹ of final loans to the state's four county water departments. The table below lists the cumulative loan amounts issued to each county.

County	Cumulative Final Loan Amount (\$)
Kauai	40,511,143.18
Honolulu	109,759,399.12
Maui	58,887,764.16
Hawaii	53,277,839.92
Total	262,436,146.38¹

¹ Total does not include \$19,500,000.00 in ARRA funds in SFY 2010

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

The chart below illustrates the share of loans issued to each county since the program’s inception.



Final Loan Agreements executed in SFY 2016:

Borrower	Project Name	Project Location	Loan Amount (\$)
County of Maui, Department of Water Supply	Source Generator Installation – 4 Sites	Maui, HI	1,200,000.00
County of Maui, Department of Water Supply	Omaopio 2.1 MG Tank Replacement	Lower Kula, HI	4,138,000.00
County of Maui, Department of Water Supply	Kualapuu MCC Upgrades	Ualapue, HI	500,000.00
County of Maui, Department of Water Supply	Phase 6 Booster Pump Upgrades	Upper Kula, HI	4,000,000.00
County of Maui, Department of Water Supply	Wailuku Heights Tank 30 Booster Replacement	Wailuku, HI	1,804,849.00
City and County of Honolulu, Board of Water Supply	Honolulu BWS Water System Improvements 2	Honolulu, HI	11,652,948.03
County of Hawaii, Department of Water Supply	Ahualoa-Honokaa Transmission Waterline	Ahualoa, HI	3,200,000.00

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

Borrower	Project Name	Project Location	Loan Amount (\$)
County of Hawaii, Department of Water Supply	Halaula Well Development Phase 1	Halaula, HI	823,420.00
County of Hawaii, Department of Water Supply	Waimea Water Treatment Plant Microfiltration – Phase IV	Waimea, HI	12,896,000.00
County of Hawaii, Department of Water Supply	Laupahoehoe 0.5 MG Reservoir	Laupahoehoe, HI	4,158,170.00
County of Hawaii, Department of Water Supply	Olaa #6 Production Well and 1.0 MG Reservoir	Olaa, HI	6,829,188.42
County of Hawaii, Department of Water Supply	Kapulena Well Development Phase 2 (Production Well and 0.3 MG Reservoir)	Kapulena, HI	4,388,782.00
Total Final Loan Agreements			55,591,357.45

Meeting Funding Requirements

1. State Matching Funds

Required state matching funds equal to 20 percent of the total capitalization grant were provided by the Hawaii State Legislature.

Federal regulations, 40 CFR §35.3550(g) requires that the State must agree to deposit into its SRF an amount equaling to at least 20 percent of the amount of each grant payment. The State must also identify the source of the matching amount in the capitalization grant application and must establish to EPA’s Regional Administrator satisfaction that the source is not Federal money.

Since 1998, the Hawaii DWSRF program has disbursed \$222.8 million² in cumulative project assistance, and has received cumulative state match contributions of \$33.2 million. This is a 671% return on investment for the state of Hawaii in terms of translating state match dollars into safe drinking water infrastructure.

In addition, a recent county construction bond issue for over \$100 million (in 2014) could have saved over \$30,000,000 for rate payers and tax payers over the life of loan repayment if it had been financed through the DWSRF.

The \$481.5 million³ in cumulative total outlays made by the Hawaii CWSRF and DWSRF programs during the life of the two programs for the construction of water and sewer systems and

² Disbursement based on 2016 National Information Management System (NIMS) data through 6/30/2016 - <https://www.epa.gov/sites/production/files/2016-03/documents/hawaiidwsrf15.pdf> on page 22 Line 276 - Cumulative Assistance Disbursed.

³ Cumulative total outlay amount for CWSRF are based on CWSRF NIMS data through 6/30/2016 - page 4 Line 69 - Cumulative Outlays of \$301,556,184 and DWSRF are based on DWSRF NIMS data through 6/30/2016 – page 4 Line 28 – Cumulative Outlays of \$179,934,637.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

the subsequent output produced by those systems is estimated to have generated **\$555.5** million in household earnings for all industries in the state; **11,265** jobs; **\$1.0** billion in value added economic impact; and **\$1.7** billion in household earnings produced as a result of earnings of those workers employed directly by the construction, water and sewer industries.

2. Commitment of Funds

In SFY 2016, there were two (2) requirements to commit funds:

- 1) an amount equal to the amount of each capitalization grant payment (capitalization grant less set-aside and in-kind services amounts) of \$8,201,000.00 and the accompanying state match that is deposited into the loan fund and
- 2) to execute loans in the amount of the Corrective Action Plan (CAP) Item #15 commitment target of \$51.8 million by June 30, 2016.

Both of these requirements were met with the execution of \$55,591,357.45 in final loan agreements.

Final Loan Agreements for all projects identified in Table 5 - Fundable List of the SFY 2016 Intended Use Plan have been executed except for the Iao Surface Water Treatment Plants Upgrades project. The borrower encountered delays in contract execution due to a bid protest. This project has been placed on the SFY 2017 Fundable List. The Halaula Well Development Phase 1 and Olaa #6 Production Well and 1.0 MG Reservoir projects were executed in place of the Iao Surface Water Treatment Plants Upgrades loan.

3. Federal Funding Accountability and Transparency Act (FFATA)

The FFATA requires that the DWSRF program report to the EPA that at least the amount of the capitalization grant was executed through a funded project. This requirement was met with the project listed in the table below:

FFATA Project Name	FFATA Amount (\$)
Waimea Water Treatment Plant Microfiltration Phase IV	8,201,000.00
Total	8,201,000.00

4. Additional Subsidy

In SFY 2016 the DWSRF program was required to provide loan recipients between \$1,640,200.00 and \$2,460,300.00 in additional subsidy. Additional subsidy is required to be committed in final loan agreements within one year of the award of the capitalization grant and is in the form of principal forgiveness.

\$45,000.00 of additional subsidy is expected to be provided to the Omaopio 2.1 MG Tank Replacement project via Contract Modification Form in February 2017.

For SFY 2017, \$1,757,400.00 of additional subsidy is committed to the Piionua-Kukuau Reservoir and Transmission Improvements project and the final loan agreement is expected to be executed in January 2017.

In SFY 2016, Paia-Kuau Waterline Replacement was completed and the final payment request was processed. This project was assigned \$700,000.00 in additional subsidy from the FFY 2010

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

Capitalization Grant. However, the project came up under budget and \$6,529.97 of additional subsidy, roughly 0.05% of the total 30% requirement, was undisbursed.

There was also a shortage to the DWSRF FFY 2011 Capitalization Grant in the amount of \$30,400.00, which is 0.33% of the overall 30% requirement. This was due to a rounding error in the calculation of the 30% additional subsidy amount.

There are no active projects from the State Fiscal Year (SFY) 2011 Priority List which are eligible to receive the remaining additional subsidy for the FFY 2010 or FFY 2011 grant and therefore, the funds will not be reassigned. To do so would expend much more time and effort than reasonable for the small amount that remains. For example, the Contract Modification Form is required to be submitted at least three (3) months before the effective date of the modification and funding adjustments would also be requested (through the same office). These documents are generated/handled by more than five (5) people of various salary levels and may take more than three (3) months to complete.

The DWSRF Program has over-committed the amount of additional subsidy for the FFY 2014 and 2015 Capitalization Grants to ensure that the minimum of 20% is awarded. As stated in the SFY 2017 IUP Amendment 1, page 6, for FFY 2016, “[t]wenty (20) percent of the funds made available under this title to each State for DWSRF capitalization grants shall be used by the State to provide additional subsidy to eligible recipients in the form of principal forgiveness, negative interest loans, or grants (or any combination of these).

“Funds in accordance with this Act have been earmarked for additional subsidization in the form of zero percent interest loans with principal forgiveness. The Hawaii DWSRF program will assess disbursement activity in SFY 2016 to determine which borrower most closely submitted regular monthly payment requests. The [\$1,599,400.00 (20% of the grant less in-kind expenses)] of additional subsidy for SFY 2017 will be awarded to that borrower’s next executed loan. This incentivizes the borrowers to ensure the timely disbursement of their loan funds.”

In addition, the priority for additional subsidies shall be given to communities that could not otherwise afford such projects or that are defined by the State as disadvantaged. To further ensure sustainability of eligible projects receiving additional subsidies, these subsidies shall be directed to: 1) repair, replacement, and upgrade of infrastructure in existing communities; 2) investigations, studies, or plans that improve the technical, financial and managerial capacity of the assistance recipient to operate, maintain, and replace financed infrastructure; and/or 3) preliminary planning, alternatives assessment and eligible capital projects that reflect the full life cycle costs of infrastructure assets, conservation of natural resources, and alternative approaches to integrate natural or “green” systems into the built environment.

The Hawaii Loans and Grants Tracking System (LGTS) is able to provide an up-to-date status of the minimum additional subsidization amount distributed for each capitalization grant. This will assist in preventing a recurrence of a shortage situation in the future.

5. Reporting Requirements

Project information for projects with executed final loan agreements are reported in the EPA’s DWSRF Project Benefits Reporting (PBR) system at <https://owsrf.epa.gov/UserLogin/login.aspx>.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

6. Minority Business Enterprises (MBE) / Woman Business Enterprises (WBE)

As part of the program’s compliance with the federal SRF requirements, form 5700-52A (*U.S. Environmental Protection Agency MBE/WBE Utilization under Federal Grants, Cooperative Agreements, and Interagency Agreements*) is now submitted directly to EPA on a semi-annual basis.

All forms are signed by the program’s authorized representative and are on file with EPA.

7. Signage Requirements

The DWSRF program must comply with the SRF Signage Guidelines in order to enhance public awareness of EPA assistance agreements nationwide. Compliance with this requirement may be achieved by posting a sign for a project at least to the amount of the capitalization grant. The requirement was met with the project listed in the table below:

Project Name	Amount (\$)
Honolulu BWS Water System Improvements 2	8,201,000.00
Total	8,201,000.00

8. Other Federal Requirements

The program continues compliance with other requirements to:

- a. Ensure borrowers comply with Davis-Bacon requirements.
- b. Ensure borrowers comply with American Iron and Steel (AIS) provisions.
- c. Continue the use of Generally Accepted Government Accounting Standards in accounting, audit, and fiscal procedures.

D. PROGRAM AND SET-ASIDE ACTIVITIES

Sections 1452(g)(2) and 1452(k) of the Safe Drinking Water Act allows each state to set-aside up to 31 percent of its federal capitalization grant to support various drinking water program activities including administration, State program management, technical assistance and other special activities. The following activities were conducted in SFY 2016 under these set-asides:

1. Administrative Loan Fees and Administrative Cost (4%)

The state does not contribute any money toward administering the DWTRLF Program and its drinking water-related programs. Furthermore, federal law requires that the DWTRLF program be operated in perpetuity. Thus, to pay for employee salaries and benefits and to comply with the federal law, the DOH implemented a loan fee program on May 17, 2000.

For SFY 2016, the DWTRLF program collected \$645,730.51 in administration loan fee - program income and \$1,771,958.48 in administration loan fee - non-program income. In addition, the program can use up to four percent (4%) of each year’s federal capitalization grant to pay for administrative costs.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

The DWSRF program used \$805,921.83 in loan fee program and non-program income to pay for employee salaries, benefits and other related SDWB operating expenses.

2. Small Systems Technical Assistance (2%)

The SDWB used \$21,353.00 to provide free registration for 54 small water system staff to the 2016 Pacific Water Conference which is the joint conference between the American Water Works Association-Hawaii Section and the Hawaii Water Environment Association (water and wastewater). The conference was a two (2) day event in February with manufacturers' exhibits, technical presentations, and networking opportunities for water system staff.

3. State Program Management (10%)

The Safe Drinking Water Act Amendments of 1996 provided that up to 10 percent of the DWSRF Capitalization Grant could be used for State Program Management. These funds were generally delegated to support four major activities.

a. Public Water System Supervision Program

The SDWB continues to successfully implement the terms of the many drinking water rules for which it either has primary enforcement authority (primacy) or intends to apply for primacy. These include: the Total Coliform Rule, Revised Total Coliform Rule (which superseded the Total Coliform Rule as of 4/1/2016), the Ground Water Rule, the Surface Water Treatment Rule, the LT1 and LT2 Enhanced Surface Water Treatment Rules, the Phase I Volatile Organic Chemical Rule, Phase II SOC/IOC Rule, the Phase V SOC/IOC Rule, Lead and Copper Rule, including Minor and Short-Term Revisions, Revised Public Notification Rule, Revised Radionuclides Rule, Consumer Confidence Rule, Filter Backwash Recycling Rule, Stage 1 and Stage 2 Disinfectant/Disinfection By-Products Rules, and Arsenic Rule, and more.

The Hawaii Public Water System Supervision Program continues to make substantial progress in improving our sanitary survey compliance. The SDWB completed 19 sanitary surveys of public water systems throughout the state during SFY 2016. These surveys contribute significantly to strengthening the protection of drinking water quality. The SDWB Engineering section is expected to be fully staffed by the Fall of 2016. Compliance has been fully staffed since June 2014. Both sections will likely be doing all surveys in-house in SFY 2017.

The program continued to compile laboratory certification information regarding laboratories performing safe drinking water analyses. This information is made available to the water purveyors and the public. Approximately nine (9) microbiological laboratories and 35 chemistry laboratories hold certifications for one (1) or more drinking water contaminants.

b. Capacity Development Program

The program's capacity development program efforts for SFY 2016 were concentrated in the Technical Assistance Contract described in the Local Assistance and Other State Programs (15%) discussion of this report.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

c. Operator Certification Program

The SDWB continues to administer an operator certification program for water treatment plant operators and distribution system operators.

For the period July 1, 2015 to June 30, 2016, Board of Certification of Public Water System Operators met four times. During this period:

- 84 Applications were received for certification review.
- 4 Reciprocal certifications were issued.
- 34 Persons were tested for the WTPO certification. (Examinations administered on July 28, 2015 & January 26, 2016.)
- 16 Persons passed the WTPO certification examination.
- 129 Persons were tested for the DSO certification. (Examinations administered on October 27, 2015 and April 26, 2016.)
- 57 Persons passed the DSO certification examination.
- 219 WTPO certifications were active as of June 30, 2016.
- 509 DSO certifications were active as of June 30, 2016.
- 20 Public water systems required to have level 1 certified water treatment plant operators by the level of the plant.
- 10 Public water systems required to have level 2 certified water treatment plant operators by the level of the plant.
- 5 Public water systems required to have level 4 certified water treatment plant operators by the level of the plant.
- 132 Public water systems with at least one distribution system operator certified at the level of the distribution system of the water system.

4. Local Assistance and Other State Programs (15%)

a. Source Water Protection Program

Source water protection, efforts have been focused on educating water systems, the public, and other applicable organizations on development and implementation of protection strategies and plans. This year, the SDWB continued to meet with water systems and government agencies on the result of the assessments and plans for source water protection. Source water assessments are also being conducted on new drinking water sources as they proceed through the new source approval and engineering report process.

b. Wellhead Protection Program

Hawaii's Wellhead Protection Program (WHP) Plan included a Financial Assistance Program (FAP) that allowed the SDWB to provide funding/grants to public water systems for water protection planning and implementation protection projects and activities. This past year, work on grants were completed and contracts were closed (support amount and closed by date):

- i. Kauai Department of Water (KDOW) to develop a statewide Project WET (Water Education for Teachers) program for source water protection (\$230,000.00 by 2/4/2016)
- ii. Hawaii Department of Water Supply (HDWS) to prepare protection plans and implement protection activities (\$200,000.00 by 2/3/2016)

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

- iii. Maui Department of Water Supply (MDWS) to implement protection plans and activities for the islands of Maui, Molokai, and Lanai, as well as fund watershed protection activities on Maui (\$1,494,959.22 by 4/11/2016)
- iv. Kawela Plantation to develop and implement source water/wellhead protection activities at the Kawela Plantation (PWS248) Water System (\$82,497.77 by 3/1/2016)
- v. West Maui Land Company (WMLC) to prepare protection plans and implement protection activities for the Olowalu and Mahanalui Nui water systems (\$174,298.77 by 3/16/2015)
- vi. County of Hawaii – Finance to assist with funding for on-site disposal system (OSDS) connection within the HDWS Haina Water System’s Source Water Protection (SWP) Area to the Honokaa Sewer Project (\$250,000.00 by 1/6/2014)
- vii. Hawaiian Beaches Water Company (HBWC) to prepare protection plans and implement protection activities (\$48,705.45 by 12/29/2015)
- viii. Hawaiian Shores Community Association (HSCA) to prepare protection plans and implement protection activities (\$17,676.42 by 3/18/2015)
- ix. Comprehensive Leaching Risk Assessment System (CLERS) Model to assist in determining the potential leaching risk of contaminants to groundwater (\$34,931.00 by 9/30/2012; \$42,019.98 by 12/10/2014; and \$60,000.00 by 3/31/2015).
- x. Education activities on water quantity and quality/protection issues for the general public, public water systems, water industry professionals, and stakeholders.
 - (1) To conduct the 3rd Annual One-Day Joint Government Water Conferences in Lihue, Honolulu, Hilo, Kona, and Kahului in August 2015 (\$50,000.00 budgeted for 8/4, 6, 11, 13, 18/2015).
 - (2) To support the Hawaii Water Works Association Annual Conference which included Water Agency Response Network (WARN) and DWSRF presentations (\$20,000.00 by 11/25/2015).
 - (3) To send the Honolulu Theatre for Youth production “H2O: The Story of Water and Hawaii” to the neighbor islands in Fall 2016 (\$14,500.00 by 6/15/2016).

In the future, the WHP-FAP application will be revised and distributed to the public water systems for future protection projects which may include:

- Fund public water systems groundwater protection planning and implementation activities.
- Fund the evaluation of the impact of reused/recycled wastewater on water resources.
- Fund cesspool replacement projects in areas that impact drinking water sources.
- Identify abandoned wells within SWP Areas and fund the sealing and closure of these wells.
- Fund watershed protection projects that impact drinking water sources.

c. Technical Assistance Programs for Water System Operators

i. Circuit Rider Program

The SDWB issued consecutive contracts to provide training to small water systems starting in October 2009 and continuing through September 2017. These contracts are more commonly known as the “Circuit Rider Program.” Under the terms of this contract, the contractor (Rural Community Assistance Corporation) has been meeting with the staff of small, publicly- and privately-owned public water systems and providing hands-on training in technical, financial, and managerial areas.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

This program has focused on raising the technical abilities of water system operators, provided managerial training to board members, and has assisted water system managers in understanding the financial capacity arena. The Circuit Riders are also utilizing different outreach formats, like peer group sessions to discuss topics common to several water systems which also allow the water systems the opportunity to network. The circuit riders made visits to 17 different small public water systems in SFY 2016. In addition, the peer group sessions worked with an additional four (4) different public water systems. Overall, the circuit rider program has made a significant contribution to improving the technical, managerial and financial capacity of existing water systems.

The 2014-2017 Circuit Rider contract is effective October 1, 2014 through September 30, 2017 and utilized 15% SRF set-aside funds through the end of SFY 2016. The remaining contract period will utilize Non-Program Fees.

ii. Continuing Education Training Program for Water System Operators

The SDWB issued a contract to establish a self-sustaining continuing education training program for public water system operators starting in August 2012 and continuing through February 2016. This “CEU Training Program” required the contractor (Hawaii Rural Water Association) to provide a minimum of 300 hours of classroom and on-site training per year to certified operators and other public water system personnel during the contract duration. The CEU Training Program also required the contractor to develop and implement a comprehensive plan to ensure the training continues beyond the 3-year contract duration. HRWA has independently branched out into providing online courses and also a joint conference and exposition. The Hawaii Operator Certification Program still supports those efforts to aid in certification renewal.

iii. Water Loss Audit Training and Technical Assistance Program for Water Systems

For SFY2017 -SFY2019, the SDWB is collaborating with the Department of Land and Natural Resources – Commission on Water Resource Management to provide a water loss control audit training and technical assistance program to county and large capacity water systems, as defined in Act 169, 06/30/2016, (Gov. Msg. No. 1271) - http://www.capitol.hawaii.gov/session2016/bills/GM1271_.pdf (\$200,000.00 by 6/30/2017; \$250,000.00 by 6/30/2018; and \$150,000.00 by 6/30/2019).

iv. Technical Assistance Needs of Water Systems

For SFY2018, the SDWB is working to:

- (1) Identify technical assistance needs of water systems (e.g., operation and maintenance manuals, asset management, valve exercise program, water meter evaluation, identify valve replacement, engineering services evaluation, address and solve deficiency, emergency response plan, meter replacement program, etc.).
- (2) Develop an engineering services contract to conduct a preliminary water system asset management plan and to identify those immediate infrastructure needs which may be DWSRF funded.
- (3) Develop an additional engineering services contract to conduct water storage tank structural inspections and/or valve exercise programs for small water systems.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

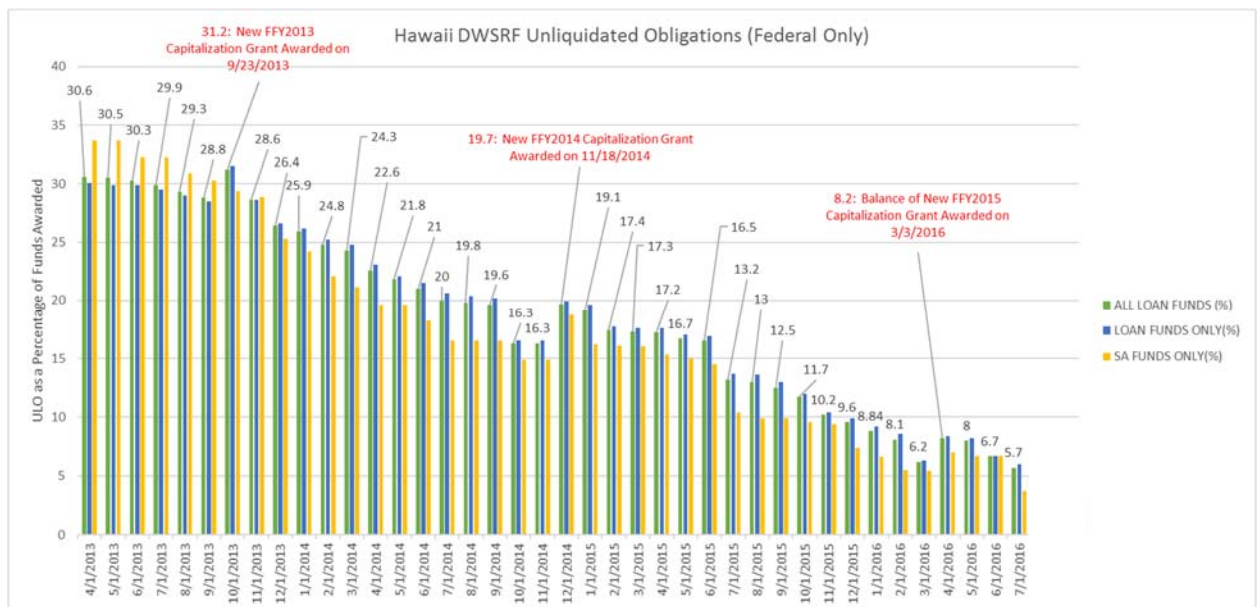
E. GOALS AND ACCOMPLISHMENTS

Section 1452(b) of the Safe Drinking Water Act requires the State to prepare an Intended Use Plan (IUP), identifying the uses of funds in the DWSRF and describing how those uses support the goals of the DWSRF program. The IUP is a requirement in the State’s SRF Capitalization Grant Application process to EPA. It is prepared annually and made available for public comment and review. The program finalized its IUP for SFY 2016 in April 2015 with its final revision done on January 2016. A copy of the latest version (version 3) is available at <http://health.hawaii.gov/sdwb/files/2016/03/SFY2016-IUP-Amend3RevTable1-4-AppC.pdf>.

The following is a summary of the goals and accomplishments for SFY 2016 and a summary of the program achievements throughout the year.

- In SFY 2016, 12 final loan agreements totaling \$55,594,357.45 were executed. This is a **19 percent increase** in the dollar amount loaned as compared to SFY 2015.
- The DOH met the CAP Item #16 disbursement target of \$30 million by June 30, 2016, by disbursing \$32,700,897.95 for loans and set-aside activities.
- The first objective of the April 14, 2014 EPA DWSRF Unliquidated Obligations (ULO) Reduction Strategy required the DWSRF to liquidate the FFY 2013 and prior capitalization grants by September 30, 2016. The second objective of the DWSRF ULO Reduction Strategy is to have only two (2) disbursing capitalization grants.

As of July 1, 2016, the DOH had only \$10,491,563 of Federal ULO (5.7% of \$184,409,058). See the graph below to see the great strides made by the DWSRF program.



1. Long Term Goals

- To assist as many water purveyors as possible to attain compliance with State and Federal Drinking Water Regulations through the low interest loan program.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

The DWSRF program continues to work with all four counties in Hawaii to provide SRF loan funds. The four counties own and manage a majority of the public water systems statewide with small, medium, and large sized systems and the low interest loan funds provide an affordable means of financing numerous projects in different systems. The various projects in the different systems are thus able to provide assistance to many people throughout the State of Hawaii.

- b. To maintain the DWSRF Program in perpetuity.

The DWSRF program continues a conservative approach to expenditures in SFY 2016 ensuring the perpetuity of the program. To supplement the four percent set-aside and administrative demands, the program assesses fees to each loan to ensure that the administrative needs are financed in perpetuity.

The program continues to offer a tiered loan rate structure, as shown in the table below, in SFY 2016 to offer competitive rates to our borrowers and to encourage larger loans. These rates are in place until June 30, 2017 and may be adjusted depending on the ability of the fund to remain in perpetuity.

Total Loan Rate (%)	Interest Rate (%)	Loan Fee (%)	Project Loan Amount (\$)
1.00	0.00	1.00	Over 8 million
1.50	0.50	1.00	4 million to 8 million
2.00	1.00	1.00	Less than 4 million

- c. To research options of providing funds to assist in financing improvements to privately-owned public water systems.

The DWSRF program continues to research the option to loan funds to public water systems owned by the State of Hawaii, such as the Department of Transportation and the Department of Hawaiian Homelands. In addition, the program is also considering extending financing to qualified privately-owned water systems.

In the next 1-3 years, the DWSRF Program will be communicating with other public water systems to educate them on the DWSRF process and requirements. A workshop in May 2017 will be opened to all public water systems interested in learning about the process and requirements. The public water systems may then begin preparations for when the loans may be provided to them (estimated 3-5 years from now).

The in-kind expenses for the Drinking Water Infrastructure Needs Survey and Assessment for SFY 2016 is \$6,000.00.

- d. To promote sustainable infrastructure and energy efficiency through the use of the DWSRF's Green Project Reserve (GPR).

Funds made available from the FFY 2015 capitalization grant may, at the discretion of the State, be used for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Examples of such projects are replacement or rehabilitation of water distribution lines and energy efficient retrofits and

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

upgrades to pumps and treatment processes. Projects are evaluated for their contribution to improving water and energy efficiency, the reduction of greenhouse gasses, and sustainability during the proposed projects application review period.

The Hawaii DWSRF program elected to continue providing funds for the GPR in SFY 2016. A total of \$23,035,948.03, or **262 percent** of the FFY 2015 capitalization grant, was allocated to GPR projects in their executed loan agreements.

2. Short Term Goals

- a. Fully transition engineering and fiscal operations to the Loan and Grants Tracking System (LGTS).

LGTS went into live production in October 2015. Vital engineering and basic fiscal components of the system were in operation at that time. LGTS will continue to be tested and more functions will be fully integrated by mid-2017.

The in-kind expenses for LGTS for SFY 2016 is \$350,000.00.

- b. Continue implementation of some of the recommendations from the Northbridge Environmental Management Consultants’ October 22, 2014 *Hawaii SRF Management Study for the CWSRF and DWSRF Programs* to streamline the Hawaii DWSRF program and increase the program’s pace.

The DOH continued implementing some of the recommendations from the Management Study in SFY 2016.

- The new Priority Scoring Model was implemented.
- The simplified amortization schedule has been implemented.
- The new Model Loan Agreement and Programmatic Financing (ProFi) Agreement have been implemented.
- The Financial Operations and Cash Flow Utilization in the SRF (FOCUS) financial planning model has been incorporated into the planning process.
- The Contract Modification Form has replaced the Supplemental Loan Agreements for those loans which have minor changes.

Other recommendations such as a possible reorganization, promoting a ProFi loan approach to the DWSRF customers and accepting digital signatures for loan agreements are at various stages of implementation.

The in-kind expenses for FOCUS Cash Flow and Management Study for SFY 2016 is \$230,000.00.

- c. Comply with the January 30, 2015 CAP, approved by EPA Region 9 on March 17, 2015. The DWSRF continues to work towards completing the items in the CAP.

In SFY 2016, the DWSRF met the targets below and/or submitted the required deliverables:

CAP Item #	Deliverable and/or Target	Final Date Delivered
5	Amortization Process finalized; Master Loan Agreement and ProFi Agreements implemented	9/16/2015

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

CAP Item #	Deliverable and/or Target	Final Date Delivered
10	LGTS Implementation Plan	10/29/2015
13	Three (3) 15% Set-Aside Positions advertised and filled	11/25/2015
15	SFY 2016 Commitment Target of \$51.8M identified	9/10/2015r
16	SFY 2016 & SFY 2017 Disbursement Plan submitted (SFY 2016 amended to \$30M)	3/11/2016r
18	SFY 2016 Final IUP submitted	9/8/2015r
19	SFY 2015 List of Executed Final Loan Agreements per CAP Item #7 (DWSRF executed \$48,638,387.31; short by \$28,283,883.00; interim target met on 1/4/2016 with \$32,730,538.03 committed)	7/31/2015
20	SFY 2015 Disbursement Evidence per CAP Item #8 (DWSRF disbursed \$52,487,894.68; short by \$7,674,832.29; interim target met on 1/4/2016 with \$10,361,990.11 disbursed)	7/31/2015
21	75% Spending Rate in 15% Set-Aside (76%)	7/31/2015
22	SFY 2017 Commitment Target of \$38.8M (calculated using the FOCUS model)	3/31/2016
23	SFY 2017 Final IUP submitted (Amendment 1 at http://health.hawaii.gov/sdwb/files/2016/07/SFY2017IUPAmend1.pdf).	7/18/2016r
24	SFY 2016 Commitment Target of \$51.8M (DWSRF executed \$55,591,357.45)	6/19/2016
25	SFY 2016 Disbursement Target of \$30M (DWSRF disbursed \$32,700,897.95); SFY 2017 Disbursement Target of \$44,347,640.65	7/20/2016
26	80% Spending Rate in 15% Set-Aside (at 88%)	5/12/2016

Note: r = revised submittal delivery date

- d. Continue modification of the Functional Procedures and the Operating Agreement to reflect and meet the DWSRF requirements and needs.

Most of the Functional Procedures have been updated, however, there are some procedures, such as the State Environmental Review Process, that are awaiting EPA approval of, and other procedures resulting from the Northridge Management Study that are in the process of being developed. The Operating Agreement will be updated following the completion of the Functional Procedures updates.

- e. Continue to follow the implementation of the Capacity Evaluation program and adjust the implementation to meet with the DWSRF loan program needs.

The DWSRF program continues to monitor, discuss and review the technical, managerial and financial status and condition of the four Hawaii Counties, which is the current customer base. Additionally, the Safe Drinking Water Branch (SDWB), through the Capacity Evaluation program, continues to work with various private and small water systems to evaluate their technical, managerial and financial status and condition.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

F. COMPLIANCE ISSUES

The Hawaii DWSRF program has complied with the applicable requirements outlined in the Operating Agreement, Chapter II, Implementation, Section D, State Assurances for the DWSRF Program, and Section E, State Requirements for the Capitalization Grant Agreement. The requirements included the following:

1. Environmental Review - Each DWSRF project has undergone an environmental assessment and review. Environmental assessment documents were prepared by the County Water Departments in accordance with HRS Chapter 343 (Environmental Impact Statements) and Hawaii Administrative Rules, Chapter 11-200, and were submitted to the Office of Environmental Quality Control (OEQC) of the State of Hawaii for review and publication. For exempt projects, DWSRF Exempt Project Certification forms were submitted to the DWSRF program with the qualifying exemption identified.
2. Intended Use Plan - The DWSRF IUP for the State of Hawaii SFY 2016 / FFY 2015 Appropriation was finalized in September 2015. A notice for public participation and input was published on August 17, 2015 with an open comment period until September 15, 2015. No public comments were received within the open comment period.
3. Other Federal Requirements - The County Water Departments certify for each of their DWSRF projects that they are in compliance with American Iron and Steel (AIS), Davis-Bacon, and all the federal cross-cutter rules and regulations. Each project must include the Federal Boiler Plates in the project specifications used for bidding.

G. DWSRF NATIONAL STRATEGIC PLAN, LOAN RECIPIENT, PROJECTS & TYPES OF ASSISTANCE

U.S. Environmental Protection Agency, Drinking Water State Revolving Fund (DWSRF) Strategic Plan Goals and Objectives⁴.

Strategic Plan Goal 2: Protecting America's Waters - Protect and restore waters to ensure that drinking water is safe and sustainably managed, and that aquatic ecosystems sustain fish, plants, wildlife, and other biota, as well as economic, recreational, and subsistence activities.

Strategic Plan Objective 2.1: Protect Human Health – Achieve and maintain standards and guidelines protective of human health in drinking water supplies, fish, shellfish, and recreational waters, and protect and sustainably manage drinking water resources.

Strategic Measure: Water Safe to Drink – By 2018, 92 percent of community water systems will provide drinking water that meets all applicable health-based drinking water standards through approaches including effective treatment and source water protection. (2005 baseline: 89 percent. FY 2013 universe: 51,535 community water systems. Status as of FY 2013: 91.4 percent.)

⁴ FY 2014-2018 EPA Strategic Plan, dated April 10, 2014; page 63; <https://www.epa.gov/planandbudget/strategicplan>.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

Hawaii's Contribution and Support of the National EPA DWSRF Strategic Plan:

The Hawaii DWSRF program supports the above mentioned National USEPA DWSRF Strategic Plan Goal 2 (Protecting America's Waters), Objective 2.1 (Protect Human Health), and Strategic Measure (Water Safe to Drink). Specifically, Hawaii has established and is managing the revolving loan fund to make low-cost loans to water systems to finance the cost of infrastructure projects to achieve or maintain compliance with Safe Drinking Water Act requirements. Hawaii DWSRF activities support USEPA Program Reporting Code (PRC) 201B81E.

Every summer, Hawaii and USEPA negotiate Hawaii's Strategic Plan commitments for the SFY starting July 1st. Hawaii submitted its Strategic Plan commitments for the Federal Fiscal Year starting on October 1st.

All DWSRF loans have assisted public water systems to meet the federal and state drinking water compliance requirements. Details of Hawaii's DWSRF activities supporting the National USEPA Strategic Plan will be submitted to EPA as part of the DWNIMS data collection effort. Last year's plan is available at: http://water.epa.gov/resource_performance/planning/.

FINANCIAL SECTION

The following is a summary of the financial activities of the program for the state fiscal year ended June 30, 2016. The DOH considers the DWTRLF to be a special revolving fund. The fund was established in order to receive proceeds from specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) Appropriations for State Match, loan repayments, and interest earnings from investments and fees.

A. INTERNAL CONTROLS

The DWTRLF program is responsible for establishing and maintaining a system of internal accounting controls to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs. The objective of an internal control system is to provide the program with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition. It also ensures that transactions are executed and recorded with proper authorization to permit preparation of financial statements in accordance with generally accepted accounting principles.

Based on annual Performance Evaluation Reviews by EPA and annual financial audits by independent auditors, we believe that the DWTRLF program's internal controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

B. ACCOMPLISHMENTS OF THE PROGRAM

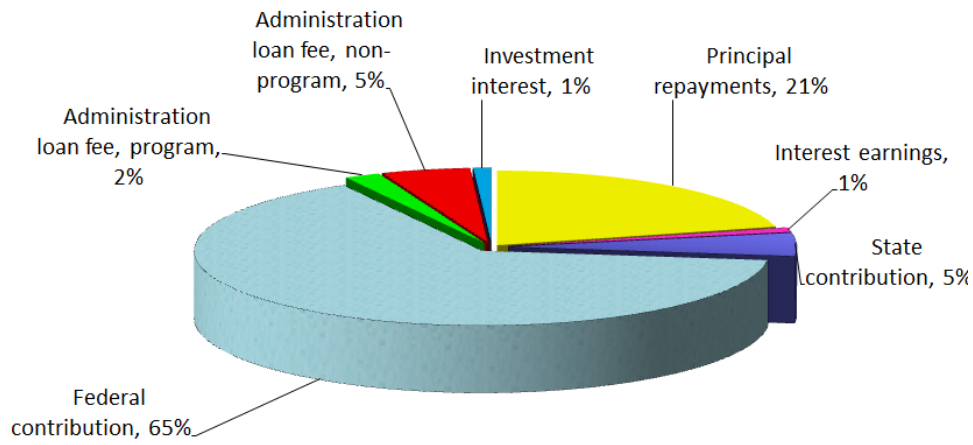
1. Sources of Funds

Since the program's inception, the DOH has received a total of \$184,409,058.00⁵ in federal capitalization grants. Of this amount, \$24,955,892.42 was set aside to support other drinking water program initiatives and administration of the loan program with the remaining \$159,453,165.58 earmarked for DWSRF loan funds.

The Graph below illustrates the percentage breakdown of sources of cash for the SRF program by category received for the SFY 2016.

⁵ Includes \$19.5 million from ARRA and does not include withholdings by EPA of \$1,137,500.00 of in-kind expenses in 2000, 2001, 2005, 2014, 2015, and 2016 for the Management Study, LGTS Development, FOCUS Cash Flow, LGTS Work Assignment, and Drinking Water Infrastructure Needs Survey and Assessment. The total listed matches the amount listed in Table 1 of the SFY2015 IUP at <http://health.hawaii.gov/sdwb/files/2015/09/SFY2016IUPAmend3.pdf>. The total including ARRA and the amounts withheld by EPA is \$185,546,558.00.

**Source of Cash Receipts
By Category for SFY 2016**



2. State Match

Pursuant to Act 119/SLH15, the Hawaii State Legislature appropriated monies from general obligation bond funds for the required 20% state match for the FFY 2015 EPA SRF Capitalization Grant. The state match was transferred into the DWTRLF account in April 2016.

Hawaii State law prohibits the program from using State CIP funds (match funds) for administrative purposes. In order to comply with EPA’s disbursement requirement, the program obligates all of its state match funds to loan projects.

3. Executed Loan Agreements

As of June 30, 2016, the total amount of 79 executed loans since inception was \$282,058,389.22, which includes ARRA.

4. Automated Standard Application for Payments (ASAP)

The program drew \$25,262,864.96 of its capitalization grant funds from the ASAP system during SFY 2016. Of this amount, \$23,382,538.42 was used for DWSRF loans and \$1,880,326.54 for DWSRF set-aside operations.

5. Loan Repayments and Investment Interest

Under the DWSRF, the program established several accounts or activity codes to track the program’s revenue sources. These funds are legally restricted for use to fund expenditures for drinking water infrastructure projects, eligible costs for program set-aside activities under the Safe Drinking Water Act, and administrative costs relating to the operation and maintenance of the DWSRF Program.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

Activity Code	Revenue Source	SFY 2016 Amount Received (\$)
422	Principal from repayments	8,251,498.86
423	Interest from repayments	385,829.04
424	Investment interest	289,072.84

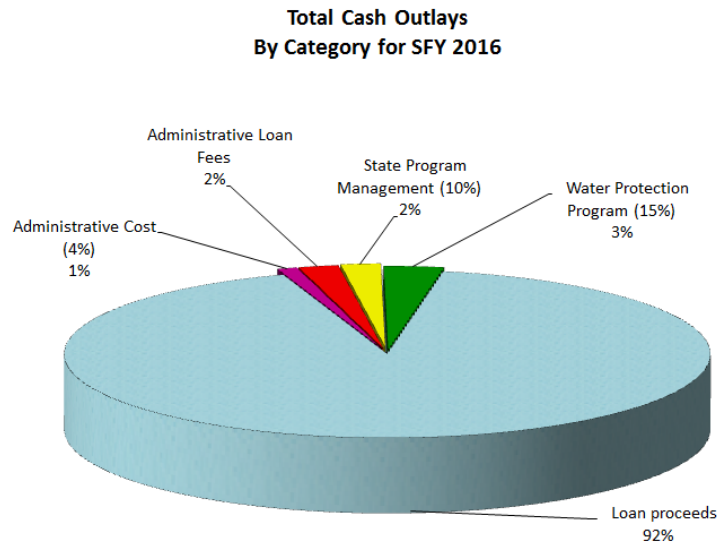
C. PROGRAM AND SET-ASIDE ACTIVITIES

Highlights of the program’s activities are as follows:

To administer the DWSRF program and its related drinking water programs, the program spent \$32,981,267.25. This consisted of the following program expenses:

Activity Code	Program	SFY 2016 Amount Expended (\$)
420, 421, 422	Loan Disbursements	30,460,916.88
425, 426, 430	Administrative Costs	980,522.54
427	State Program Management (10%)	677,508.50
428	Small Systems Technical Assistance (2%)	21,353.00
435	Operator Certification (10%)	9,533.11
436	Wellhead Protection Program (15%)	735,951.47
437	Technical or Financial Assistance to PWSs (15%)	95,481.75
Total Program Expenditures		32,981,267.25

The Graph below shows the significance of loan proceeds in relation to all costs associated with the DWTRLF’s operations.



**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

D. CREDIT RISKS OF THE DWTRLF LOANS

The SRF program requires that every applicant pledge a dedicated source of revenue to repay the loan. Dedicated sources of revenue include a pledge of the county’s full faith credit and/or a pledge of general obligation bonds or a dedicated revenue source.

The following table contains specific information regarding the credit worthiness of our four DWTRLF loan recipients. The table displays the credit rating categories for these recipients. The General Obligation (G.O.) Bond credit agencies, Moody’s Investors Service and Fitch Ratings, gave every Hawaii Board of Water Supply or Water Board a High Quality rating.

In summary, the DOH feels that the DWTRLF loan portfolio carries a high degree of solvency.

Recipients	Committed Amount (\$)	Moody’s/Fitch Bond Rating	Percentage of DWSRF Loan Portfolio
City and County of Honolulu, Board of Water Supply	147,745,221.92	Aa1/AA+	45%
County of Hawaii, Water Board	62,796,092.96	Aa2/AA-	19%
County of Kauai, Board of Water Supply	40,511,143.18	Aa2/AA-	12%
County of Maui, Board of Water Supply	80,387,764.16	Aa1/AA+	24%
Totals	331,440,222.22		100%

E. OTHER INFORMATION

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and Reporting Requirements requested by EPA.

Independent Audit: The accounting firm of N&K CPAs, Inc. was selected by the DOH to perform a financial audit of the DWSRF Program’s activities for SFY 2016. The audit is in progress.

The auditor’s report for the SFY 2015 DWSRF financial statements was published on December 16, 2015. The audit report reads, “In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2015, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.”

The SFY 2016 auditor’s report should be completed and published sometime in December 2016.

Program information: For further information regarding this report, please contact SDWB at: (808) 586-4258 or Environmental Resources Office – Water Revolving Fund Staff at: (808) 586-4575.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

LIST OF ATTACHMENTS

- ATTACHMENT 1: SUMMARY OF THE DRINKING WATER TREATMENT REVOLVING
LOAN FUND
- ATTACHMENT 2: STATEMENT OF NET POSITION
- ATTACHMENT 3: STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION
- ATTACHMENT 4: STATEMENT OF CASH FLOWS
- ATTACHMENT 5: NOTES TO FINANCIAL STATEMENT

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

ATTACHMENT 1: SUMMARY OF THE DRINKING WATER TREATMENT REVOLVING LOAN FUND

Actual and Planned Binding Commitments

No.	Binding Commitment Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
1	11/15/1999	213-0001 Kamole Water Treatment Plant	1.55%	7,840,087.00
2	7/15/2001	130-0001 Waiimea Treatment Plant Upgrades-Phase II [Interim 11/15/00]	1.37%	739,210.00
3	7/15/2001	410-0001 Damage Repairs to Kokolau Tunnel [Interim 11/15/00]	1.37%	1,663,201.02
4	10/15/2001	101-0001 Saddle Road Well "A" [Interim 11/15/00]	1.37%	1,610,048.59
5	4/15/2002	133-0001 Kukuihaele Well "A" (Replace Waiulili Spring) [Interim 7/15/01]	1.01%	334,240.00
6	4/15/2002	139-0001 Makapala Well (Replace Murphy Tunnel) [Interim 7/15/01]	1.01%	1,292,914.85
7	4/15/2002	109-0001 Pahala Well "B" (Replace Aili Tunnel) [Interim 7/15/01]	1.01%	2,326,821.30
8	4/15/2002	107-0001 Kaieie Mauka (Replace Kaieie & Papaikou Springs) [Interim 7/15/01]	1.01%	2,245,936.00
9	4/15/2002	406-0001 Kekaha Well (Kapilimao Well) [Interim 7/15/01]	1.01%	862,882.74
10	3/15/2004	413-0002 Wailua Homesteads Well No. 3 [Interim 7/15/03]	0.54%	397,736.50
11	7/15/2003	404-0001 Rehabilitation of 27" Steel Pipe, Hanapepe-Element Water System [Interim 5/15/02]	0.99%	691,134.00
12	7/15/2003	404-0002 Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3 [Interim 5/15/02]	0.99%	1,243,976.74
13	1/15/2005	410-0005 Rehabilitate Linue Steel Tanks 1 & 2 [Interim 7/15/03]	0.46%	1,243,017.00
14	1/15/2005	413-0005 Ornellas 0.2 MG Tank Refurbish [Interim 7/15/03]	0.58%	809,398.00
15	12/15/2004	331-0002 Waimanalo Well III [Interim 3/15/04]	0.10%	2,251,700.00
16	8/15/2005	335-0004 Pailani Street Water System Improvements [Interim 8/15/05]	0.00%	2,790,658.33
17	8/15/2005	413-0006 16 inch Waterline Replacement along Kuhio Highway, Leho Drive to North Papaloa Road, Wailua, Kauai, Hawaii [Interim 1/15/05]	0.16%	2,305,093.02
18	9/15/2005	333-0001 California Avenue Water System Improvements, Parts II and III [Interim 4/15/05]	0.31%	3,788,303.68
19	9/15/2005	335-0003 Ewa Shaft Granular Activated Carbon (GAC) Treatment Facility [Interim 3/15/04]	0.10%	13,000,184.75
20	11/15/2005	335-0002 Kunia Wells II-Nitrate Treatment Facility [Interim 3/15/04]	0.10%	395,054.20
21	1/15/2007	408-0002 Poipu Road 16 inch Main Replacement [Interim 1/15/05]	0.16%	5,158,885.83
22	2/15/2007	105-0001 Honomu Well "A" (Replace Akaka Falls Spring) [Interim 12/15/03]	0.41%	3,968,080.00
23	3/15/2007	213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement [Interim 1/15/05]	0.15%	9,704,849.00
24	3/15/2008	331-0018 Pearl City Water System Improvements [Interim 5/15/07]	0.01%	1,255,435.00
25	3/15/2008	331-0024 Alewa Water System Improvements [Interim 5/15/07]	0.01%	2,666,036.00
26	3/15/2008	331-0025 Liliha Water System Improvements, Phase B [Interim 5/15/07]	0.01%	1,934,183.88
27	2/15/2009	214-0009 Napili Well "A" Site Improvements [2/15/09]	0.37%	1,629,992.00
28	3/15/2009	400-0001 Stable 1.0 MG Tank & Connecting Waterline [Interim 1/15/08]	0.26%	7,274,997.83
29	4/15/2009	154-0001 Hakalau Spring Improvement [4/15/09]	0.62%	606,167.00
30	5/15/2009	331-0031 Oahu Ave and Huelani Drive 8-Inch Mains [Interim 5/15/08]	0.36%	1,324,452.00
31	8/15/2009	406-0005 Kaunuaui Highway 12-inch Main Replacement Elepaio Road to Huakai Road, Job No. 05-04, KW-27, Kekaha-Waiimea, Kaua'i, Hawaii [Interim 8/15/09]	0.32%	3,989,537.33
32	8/15/2009	434-0003 Waha, Wawae, and Niho Roads Main Replacement, Job No. 05-07, K-07, LO-13, at Kalaheo, Kaua'i, Hawaii [Interim 8/15/09]	0.32%	1,936,018.00
33	1/15/2010	406-0003 Kapilimao 0.5 MG Tank [Interim 8/15/08]	0.42%	3,793,779.17
34	8/15/2010	133-0002 Kapulena Well Development Phase 1 (Interim 11/15/09)	0.00%	1,000,154.00
35	8/15/2010	130-0004 Waiimea Water Treatment Plant Sludge Drying Beds (Interim 8/15/10)	0.12%	3,458,753.00
36	4/15/2011	213-0006 Makawao Waterline Improvements- Ai Street, Kehau, Mole, & Malu Place (Interim 4/15/11)	0.00%	674,409.00
37	8/15/2011	213-0008 Kamole Water Treatment Plant High Lift Pumps (Interim 8/15/11)	0.35%	1,794,000.00
38	8/15/2011	247-0005 Upper Omaopio Road Tank Replacement (Interim 8/15/11)	0.00%	1,082,117.00
39	8/15/2011	247-0006 Middle and Lower Omaopio Road Tanks Replacements (Interim 8/15/11)	0.35%	576,043.00
40	11/15/2011	212-0007 Lower Paia Water Tank Replacement [Interim 11/15/11]	0.35%	1,012,994.00
41	4/15/2012	212-0010 Uluniu Road and Ewa Place Waterline Replacement (Interim 11/15/11)	1.00%	850,000.00
42	8/15/2012	106-0001 Kulaimano Production Well and Supporting Facilities (Interim 8/15/11)	1.00%	1,239,445.80
43	8/15/2012	217-0005 Wakiu Well Replacement (Interim 11/15/11)	0.50%	2,248,485.65
44	8/15/2012	400-0004 Job No. PLH-03, Kahili Horizontal Directional Drilled Well (Interim 2/15/12)	1.00%	678,402.00

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

Actual and Planned Binding Commitments (continued)

No.	Binding Commitment Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
45	12/15/2012	129-0002 Kynnersley #1- 0.3 MG Reservoir Replacement (Interim 11-15-11)	1.00%	2,178,762.00
46	4/15/2013	213-0009 Kaupakalua Road Waterline Improvements Phase 1 (Interim 2/15/12)	1.00%	846,047.00
47	4/15/2013	331-0038 Kealakaha Dr., Pooholua Dr., and Waipao PI 8-In Mains (Commitment 10/10/12)	1.00%	1,064,405.29
48	4/15/2013	331-0049 Kona Street 8-inch Main (Commitment 10/10/12)	0.50%	2,512,721.30
49	4/15/2013	331-0057 Ward Avenue 12-inch and 8-inch Water Mains (Commitment 10/10/12)	1.00%	2,296,015.30
50	4/15/2013	413-0008 Job No. 02-15, Wk28, Waiiua Houselots Main Replacement, Phase I (Interim 2/15/12)	0.50%	4,463,084.00
51	5/15/2013	215-0003 Waikamoi Flume Repair/Replacement (Commitment 11/9/12)	0.00%	7,963,427.38
52	8/15/2013	215-0004 Olinda Water Treatment Plant - Relining of the 8.5 MG Sedimentation Basin (Interim 11/15/11)	1.00%	1,283,418.00
53	10/15/2013	247-0004 Piihola Water Treatment Plant Improvements - Organic Carbon Reduction (Interim 2/15/12)	0.50%	4,283,817.10
54	1/15/2014	213-0014 Paia-Kuau Water System Improvements (Commitment 4/22/13)	1.00%	815,447.00
55	2/15/2014	212-0011 Maui Meadows Booster Pump Station #18 Improvements (Commitment 4/22/13)	1.00%	1,100,000.00
56	4/15/2014	212-0009 Waiiuku Well Development (Interim 2/15/12)	1.00%	2,000,000.00
57	5/15/2014	331-0042 Foster Village Water System Improvements, Part III (Commitment 6/24/13)	1.00%	1,031,787.00
58	5/15/2014	331-0052 Mapunapuna Water System Improvements, Part I (Commitment 6/24/13)	0.50%	5,727,070.00
59	5/15/2014	331-0062 Kamehameha Highway 16-Inch and 8-Inch Mains (Heeia) (Commitment 6/24/13)	0.50%	6,253,645.60
60	5/15/2014	331-0063 Kapiolani Boulevard 12-Inch Main (Commitment 6/24/13)	0.50%	5,472,724.00
61	5/15/2014	331-0059 Woodlawn Drive 8-Inch Main (Commitment 6/24/13)	1.00%	3,397,180.55
62	10/15/2014	HBWS-0002 Honolulu BWS Loan Refinance 1 (No Commitment)	0.00%	26,400,910.01
63	10/15/2014	331-0047 Kalihi Water System Improvements, Part III (Commitment 4/29/14)	0.50%	5,068,079.00
64	11/15/2014	HBWS-0001 Honolulu BWS Water System Improvements 1 (Commitment 9/15/14)	0.00%	9,579,895.00
65	12/15/2014	400-0011 PLH-39, Lihue Baseyard Improvements for the Department of Water (No Commitment)	0.50%	4,000,000.00
66	1/15/2015	213-0015 Haliimaile Tank Replacement (Commit 8/27/13)	1.00%	700,000.00
67	4/15/2015	215-0010 Kula 200 #1 Tank Replacement (Commit 8/27/13)	1.00%	839,782.03
68	11/15/2015	102-0001 Laupahoehoe 0.5 MG Reservoir (Commit 9/15/14)	0.50%	4,158,170.00
69	11/15/2015	129-0001 Halaula Well Development Phase 1 (No Commit Issued)	1.00%	823,420.00
70	11/15/2015	130-0003 Waimea WTP Microfiltration (Commit 6/1/15)	0.00%	12,896,000.00
71	11/15/2015	161-0002 Ahualoa-Honokaa Transmission Waterline (Commit 8/30/13)	1.00%	3,200,000.00
72	12/15/2015	HBWS-0003 Honolulu BWS Water System Improvements 2 (Commit 7/6/15)	0.00%	11,652,948.03
73	3/15/2016	133-0004 Kapulena Well Development Phase 2 (Production Well and 0.3 MG Reservoir) (Commit 5/28/14)	0.50%	4,388,782.00
74	3/15/2016	212-0018 Waiiuku Heights Tank 30 Booster Replacement (Commit 4/15/15)	1.00%	1,804,849.00
75	3/15/2016	215-0009 Phase 6 Booster Pump Upgrades (Commit 8/27/13)	0.50%	4,000,000.00
76	3/15/2016	233-0002 Kualapuu MCC Upgrades (Commit 4/15/15)	1.00%	500,000.00
77	3/15/2016	247-0008 Omaopio 2.1 MG Tank Replacement (Commit 4/15/15)	0.50%	4,138,000.00
78	3/15/2016	MDWS-0001 Source Generator Installation - 4 Sites (Commit 4/15/15)	1.00%	1,200,000.00
79	5/15/2016	112-0004 Oiaa No. 6 Production Well and 1.0 MG Reservoir (No Commit Issued)	0.50%	6,829,188.42
TOTAL FINAL PROJECTS				\$ 262,558,389.22

Planned (Future) Binding Commitments

No.	Date	Project Description (Project Name - Based on the Commitment Letter)	Rate	Loan Amount
1	3/22/2016	C 212-0015 Iao Surface Water Treatment Plants Upgrades	0.00%	21,500,000.00
2	5/23/2016	C 331-0068 Energy Savings Performance Contracting-BWS Facilities	0.00%	32,881,833.00
3	5/23/2016	C HBWS-PF17 Honolulu BWS Pro-Fi SFY 2017	0.50%	5,000,000.00
4	5/25/2016	C 101-0003 Piihonua-Kukuau Reservoir and Transmission Improvements	0.00%	9,500,000.00
TOTAL PLANNED (FUTURE) COMMITMENTS				\$ 68,881,833.00
TOTAL FINAL & PLANNED (FUTURE) PROJECTS				\$ 331,440,222.22

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

ATTACHMENT 2: STATEMENT OF NET POSITION

State of Hawaii Drinking Water Treatment Revolving Loan Fund	
STATEMENT OF NET POSITION	
June 30, 2016	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents in State Treasury (note C)	\$ 52,390,982.88
Accrued Interest (note D)	95,467.53
Accrued Interest from Investment	82,423.19
Accrued Loan Fees, program (note D)	53,076.30
Accrued Loan Fees, non-program (note D)	603,962.18
Due from state treasury (note B)	18,371.56
Due from federal government	114,589.01
Accounts Receivable	2,159.76
Current maturities of loans receivable (note D)	<u>8,880,669.28</u>
Total Current Assets	62,241,701.69
Loans Receivable, net of current maturities (note D)	127,110,301.55
Capital Assets	
Office Equipment (notes B and F)	2,348,737.47
Less: Accumulated Depreciation (notes B and F)	<u>(1,654,483.89)</u>
Total Office Equipment	694,253.58
Transportation Equipment (notes B and F)	59,996.50
Less: Accumulated Depreciation (notes B and F)	<u>(34,271.62)</u>
Total Transportation Equipment	<u>25,724.88</u>
Total Capital Assets	<u>719,978.46</u>
Total Assets	\$ 190,071,981.70
Deferred outflows of resources (note B)	<u>\$ 340,652.94</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 190,412,634.64</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current Liabilities	
Payroll Payable	\$ 110,562.22
Accounts Payable	86,025.39
Indirect Payable	130,380.79
Accrued Vacation, current portion (note B)	<u>51,911.98</u>
Total Current Liabilities	378,870.38
Accrued Vacation, net of current portion (note B)	161,011.41
Net pension liability (note B and G)	1,481,119.66
Other Post-employment Benefits (note B and G)	<u>891,094.05</u>
Total Liabilities	2,912,095.50
Deferred inflows of resources (note B)	574,807.61
Net Position	
Net Investment in Capital Assets	719,978.46
Restricted	186,205,753.07
Unrestricted	<u>-</u>
Total Net Position	<u>186,925,731.53</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 190,412,634.64</u>

The accompanying notes are an integral part of this statement.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

ATTACHMENT 3: STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

For the Year Ended June 30, 2016

OPERATING REVENUES

Interest earnings from Loans (note B)	\$ 390,360.27
Administration loan fee earnings, program (note B)	468,742.98
Administration loan fee earnings, non-program (note B)	<u>1,916,075.85</u>
Total Operating Revenues	2,775,179.10

OPERATING EXPENSES BY PROGRAM ACTIVITIES

Administrative Cost - 4% set-aside	324,812.04
Admin. Technical Assistance - 4% set-aside	-
State Program Management - 10% set-aside	856,724.67
Source Water Protection - 10% set-aside	-
Capacity Development - 10% set-aside	-
Operator Certification - 10% set-aside	9,559.81
Small Systems Technical Assistance - 2% set-aside	21,353.00
Water Protection Program - 15% set-aside	-
Wellhead Protection Program - 15% set-aside	716,587.18
Technical or Financial Assistance - 15% set-aside	70,015.05
Admin Loan Fee - Program	670,062.37
Admin Loan Fee - Non Program	336,401.03
Principal forgiveness for SRF	<u>2,243,542.66</u>
Total Operating Expenses	<u>5,249,057.81</u>

OPERATING LOSS (2,473,878.71)

NON-OPERATING REVENUES

Federal contribution	25,287,250.12
State matching contribution	1,769,000.00
Interest earnings (loss) from Investment (note B)	<u>314,318.33</u>
Total Non-operating revenues and expenses	<u>27,370,568.45</u>

CHANGE IN NET POSITION 24,896,689.74

Net position - beginning of year 162,029,041.79

Net position - end of year \$ 186,925,731.53

The accompanying notes are an integral part of this statement.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

ATTACHMENT 4: STATEMENT OF CASH FLOWS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

Cash flows from operating activities:	
Personnel costs	(1,400,718.88)
Payments to vendors	<u>(1,105,308.60)</u>
Net cash flows used by operating activities	(2,506,027.48)
Cash flows from noncapital financing activities:	
Net cash flows provided by noncapital financing activities	<u>27,031,864.96</u>
Cash flows from capital and related financing activities:	
Purchase of equipment	<u>-</u>
Net cash flows used by capital and related financing activities	-
Cash flows from investing activities:	
Interest income from loans	385,829.04
Administrative loan fees	2,417,688.99
Principal repayments on loans	8,251,498.86
Disbursement of loan proceeds	(30,460,916.88)
Interest from investments	<u>289,072.84</u>
Net cash flows used by investing activities	(19,116,827.15)
NET INCREASE IN CASH	5,409,010.33
Cash Balance at July 1, 2015	<u>46,981,972.55</u>
Cash Balance at June 30, 2016	<u>\$ 52,390,982.88</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (2,473,878.71)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	188,384.16
Principal forgiveness for SRF	2,243,542.66
Interest income from loans	(390,360.27)
Administrative loan fees	(2,384,818.83)
Pension expense	207,061.67
IPA expenses	195,662.58
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Due from State Treasury	2,088.35
Accounts Receivable	(2,159.76)
Accrued salaries and other administrative costs	(20,420.15)
Net deferred outflows/inflows of resources related to pensions	(217,362.26)
Other post-employment benefits	<u>146,233.08</u>
Net cash used by operating activities	<u>\$ (2,506,027.48)</u>
Supplemental disclosure of non-cash noncapital financing activities:	
In-kind contribution received from federal government	\$ 195,662.58

The accompanying notes are an integral part of this statement.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

ATTACHMENT 5: NOTES TO FINANCIAL STATEMENTS

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE A - ESTABLISHMENT AND PURPOSE OF THE DWTRLF

The Safe Drinking Water Act Amendments (SDWA) of 1996 (the Act) authorized the Environmental Protection Agency (EPA) to make capitalization grants to the states for the purpose of providing loans and other types of financial assistance to public water supply systems for drinking water infrastructure.

The Act also authorized the states to set aside funding for prevention programs and administration of the Fund, provided that the amount of funding did not exceed thirty-one percent (31%) of the annual capitalization grant as follows:

1. Up to fifteen percent (15%) may be used to provide local assistance and other state programs.
2. Up to four percent (4%) may be used to cover the costs of program administration.
3. Up to ten percent (10%) may be used for Public Water System Supervision (PWSS) program activities and other initiatives of the SDWA.
4. Finally, up to two percent (2%) may be used to support small systems technical assistance activities.

To receive the federal capitalization grants, the 1997 State of Hawaii Legislature established the Drinking Water Treatment Revolving Loan Fund (DWTRLF). The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years. Prior to July 1, 2015, the first repayment of principal and interest occurs no later than one year after the notice to proceed for construction or the final agreement date, whichever is later. Beginning July 1, 2015, the first repayment of principal and interest occurs no later than one year after the final loan disbursement, one year after the project completion date or three years after the final agreement date, whichever is earliest. The Fund is administered by the Safe Drinking Water Branch, Environmental Management Division of the Department of Health (DOH), State of Hawaii.

NOTE B - ACCOUNTING POLICIES

1. Financial Statement Presentation

The financial statements are intended to present the financial position and results of operations of only that portion of the funds of the DOH, State of Hawaii that is attributable to the transactions of the DWTRLF.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The accompanying financial statements of the DWTRLF have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for state and local governments. This statement established new financial reporting requirements for state and local governments and required new information as well as restructuring much of the information that governments presented in the past. GASB also required additional statements in conjunction with Statement 34 (e.g., Statement 36, Recipient Reporting for Certain Shared Non-exchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for state and local governments: Omnibus, and Statement 38, Certain Financial Statement Note Disclosures). The DOH implemented these standards in fiscal year 2002.

2. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus (i.e., recognizing all revenues earned during the year) and the accrual basis of accounting. Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from services or goods in connection with a proprietary fund’s principal ongoing operation. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the DWTRLF are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds, and interest income from investments are reported as non-operating income.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is management’s policy to use restricted resources first, then unrestricted resources as they are needed.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

3. Loans Receivable

Transactions relating to loans were previously considered operating activities on the statement of cash flows. Effective SFY 2015, all outflows and inflows of loan activity (including interest) will be classified as investing activities.

4. Capital Assets

Capital assets, which include equipment, are reported in financial statements. Management capitalizes equipment if the cost is in excess of \$5,000 and the useful life exceeds one year.

Purchased capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Depreciation expense is recorded in the financial statements. The straight-line method is utilized over the assets' estimated useful life. Generally, the useful life used for equipment is three to seven years.

5. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred which are paid for by other sources of funding from the DOH. These costs include the DOH and state's overhead which the DOH does not assess to the SRF.

6. Fund Accounts

The DWTRLF consists of the State Revolving Fund (SRF) and non-SRF activity. The SRF activity consists exclusively of the state match, federal capitalization grant loans, principal loan repayments, and interest from loans and investments. Non-SRF activity consists of administration loan fees and federal set aside funds.

7. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

8. Accrued Vacation

Employees earn vacation leave at a rate of 14 hours for each month of service. Vacation leave can be accumulated up to a maximum of 720 hours at the end of the calendar year and is convertible to pay upon termination of service.

9. Accumulated Sick Leave

Sick leave accumulates at a rate of 14 hours for each month of service without limit, but may be taken only in the event of an illness and is not convertible to pay upon termination of employment. However, an employee who leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System (ERS). At June 30, 2016, accumulated sick leave was approximately \$529,500.

10. Other Post-employment Benefits (OPEB)

The state provides post-retirement health care and life insurance benefits to qualified retirees classified as other post-employment benefits (OPEB). OPEB costs are measured and disclosed using the accrual basis of accounting. From an accrual accounting perspective, the cost of OPEB should be associated with the periods in which the exchange of salaries and benefits for employee services occur, rather than with the periods when benefits are paid or provided.

GASB 45 requires state and local government employers to move from accounting for OPEB costs from a pay-as-you-go basis to an accrual basis for the actuarially determined annual OPEB cost. The OPEB liability is the long-term financial obligation allocated to the DWTRLF.

11. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

13. Indirect Cost

The state charges the DWTRLF federal grants an indirect cost on direct salaries and wages, including all fringe benefits. It is determined based on a negotiated Federal indirect rate.

14. Due from State Treasury

Due from State Treasury includes amounts due from other State departments and agencies, which were not received at the end of the fiscal year. This includes vacation transfers for employees from other government jurisdictions, or between positions within the same jurisdiction which are financed by different "Means of Finance."

NOTE C - CASH AND CASH EQUIVALENTS

All monies of the DWTRLF are deposited into the state treasury. The state Director of Finance is responsible for the safekeeping of cash in the state treasury in accordance with state laws. The Director of Finance may invest any monies of the state, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the state.

Effective August 1, 1999, cash is pooled with funds from other state agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool System. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account. The state requires that the depository banks pledge, as collateral, government securities held in the name of the state for deposits not covered by federal deposit insurance.

Investments are categorized to give an indication of the level of risk assumed by the DWTRLF. Category 1 includes investments that are insured or for repurchase agreements, collateralized by underlying securities that are so held. Category 2 includes uninsured and unregistered investments for which the broker-dealer in the DWTRLF's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker-dealer, but not in the DWTRLF's name.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Since all of the DWTRLF's cash was included in the state cash pool, the category of risk is not determinable at the Fund level.

NOTE D - LOANS RECEIVABLE

At June 30, 2016, the DWTRLF had outstanding loan receivables with the following government entities:

Twenty-one loans with the City & County of Honolulu, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. \$63,847,205.77

Seventeen loans with the County of Hawaii, Water Board; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. 25,803,243.97

Fifteen loans with the County of Maui, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. 22,259,558.45

Fifteen loans with the County of Kauai, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. 24,080,962.64

Total \$135,990,970.83

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Loans mature at various dates through 2037. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2017	\$ 8,880,669.28
SFY2018	\$ 8,067,057.87
SFY2019	\$ 8,405,035.80
SFY2020	\$ 8,440,810.05
SFY2021	\$ 8,440,638.00
Thereafter	\$ 93,756,759.83
	<u>\$135,990,970.83</u>

As of June 30, 2016, accrued interest receivable, accrued administration loan fee receivable - program income (425), and accrued administration loan fee receivable - non-program income (430) on loans totaled \$95,467.53, \$53,076.30, and \$603,962.18, respectively.

The program believes that all loans will be repaid according to the loan terms. Accordingly, no provision for uncollectible amounts has been recorded.

As of June 30, 2016, the DWTRLF has committed to make additional loans to the following government entities:

City & County of Honolulu, Board of Water Supply	\$37,881,833.00
County of Hawaii, Water Board	9,500,000.00
County of Kauai, Board of Water Supply	-
County of Maui, Board of Water Supply	<u>21,500,000.00</u>
Total	\$68,881,833.00

NOTE E - FEDERAL FUNDING AND STATE MATCH

The DWTRLF is capitalized by grants from EPA authorized by Section 1452 of the Safe Drinking Water Act (the Act) with matching funds from the state. As of June 30, 2016, EPA has awarded \$166,046,558.00 to the state, of which \$159,868,535.55 has been drawn down for loans and set asides. The state has also legislated and committed matching funds of \$33,209,312.00.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS (continued)

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The table below summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2016:

Budget Period	FFY	Amount	DWTRLF Cash Draws	EPA Draws (deducted prior to issuance of cap grant)	Funds Available
Carryover from previous years:	(1997 – 1999)	\$ 27,143,900.00	\$ 27,143,900.00	\$ -	\$ -
02/26/01 - 06/30/08	2000	\$ 7,757,000.00	\$ 7,682,000.00	\$ 75,000.00 ¹	\$ -
09/01/02 - 09/30/08	2001	\$ 7,789,100.00	\$ 7,765,100.00	\$ 24,000.00 ²	\$ -
10/01/03 - 06/30/11	2002	\$ 8,052,500.00	\$ 8,052,500.00	\$ -	\$ -
04/01/04 - 06/30/11	2003	\$ 8,004,100.00	\$ 8,004,100.00	\$ -	\$ -
10/01/05 - 06/30/13	2004	\$ 8,303,100.00	\$ 8,303,100.00	\$ -	\$ -
09/01/06 - 06/30/16	2005	\$ 8,285,500.00	\$ 8,283,000.00	\$ 2,500.00 ³	\$ -
07/01/07 - 06/30/17	2006	\$ 8,229,300.00	\$ 8,229,300.00	\$ -	\$ -
03/01/08 - 06/30/17	2007	\$ 8,229,000.00	\$ 8,229,000.00	\$ -	\$ -
03/01/09 - 06/30/18	2008	\$ 8,146,000.00	\$ 8,146,000.00	\$ -	\$ -
01/01/10 - 06/30/19	2009	\$ 8,146,000.00	\$ 7,797,066.95	\$ -	\$ 348,933.05
04/01/11 - 06/30/17	2010	\$ 13,573,000.00	\$ 13,272,820.00	\$ -	\$ 300,180.00
09/30/11 - 06/30/18	2011	\$ 9,268,000.00	\$ 9,076,400.00	\$ -	\$ 191,600.00
09/28/12 - 06/30/19	2012	\$ 9,125,000.00	\$ 9,125,000.00	\$ -	\$ -
09/30/13 - 06/30/20	2013	\$ 8,421,000.00	\$ 7,868,156.69	\$ 450,000.00 ⁴	\$ 102,843.31
12/01/14 - 06/30/21	2014	\$ 8,787,058.00	\$ 8,539,954.17	\$ -	\$ 247,103.83
10/01/15 - 06/30/19	2015	\$ 8,787,000.00	\$ 3,213,637.74	\$ 586,000.00 ⁵	\$ 4,987,362.26
		\$166,046,558.00	\$158,731,035.55	\$1,137,500.00	\$ 6,178,022.45

¹ The contract amounts for Northbridge (\$25,000) and Cadmus (\$50,000) were deducted from the set-asides (4% and 10%, respectively) FFY2000 cap grant. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

² The \$24,000 was deducted from the FFY2001 cap grant, 10% set-aside for the Cadmus Contract. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

³ The \$2,500 was deducted from the 4% set-aside prior to the issuance of the FFY2005 cap grant for an EPA County workshop. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

⁴ The \$450,000 was deducted from the 4% set-aside prior to the issuance of the FFY2013 cap grant to pay for the Northbridge LGTS computer system. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

⁵ The \$586,000 was deducted from the 4% set-aside prior to the issuance of the FFY2015 cap grant to pay for the Northbridge LGTS computer system. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The table below summarizes the state match funds for each EPA capitalization grant awarded to the DWTRLF. The list shows the federal fiscal year (grant year), source of state funds, and dollar amount of state match for each EPA capitalization grant as of June 30, 2016.

Federal Fiscal Year	Source of State Funds	20% State Match Amount
Totals from previous years:	SFY's 1997 - 2007	\$ 18,358,700.00
2008	Act 158/08 Act 213/07	\$ 1,084,900.00 \$ 544,300.00
	Total 08 Match	\$ 1,629,200.00
2009	Act 162/09 Act 158/08	\$ 1,043,100.00 \$ 586,100.00
	Total 09 Match	\$ 1,629,200.00
2010	Act 180/10 Act 162/09	\$ 2,127,700.00 \$ 586,900.00
	Total 10 Match	\$ 2,714,600.00
2011	Act 164/11 Act 180/10	\$ 1,266,300.00 \$ 587,300.00
	Total 11 Match	\$ 1,853,600.00
2012	Act 106/12 Act 164/11	\$ 376,300.00 \$ 1,448,700.00
	Total 12 Match	\$ 1,825,000.00
2013	Act 134/13	\$ 1,684,200.00
	Total 13 Match	\$ 1,684,200.00
2014	Act 122/14	\$ 1,769,000.00
	Total 14 Match	\$ 1,769,000.00
2015	Act 119/15	\$ 1,757,400.00
	Total 15 Match	\$ 1,757,400.00
	Total 20% State Match	\$ 33,209,312.00

NOTE F - EQUIPMENT

The following are the changes in equipment and accumulated depreciation during the year:

The following are the changes in equipment and accumulated depreciation during the year:

	Balance at <u>July 1, 2015</u>	<u>Adjustments*</u>	<u>SFY 2016</u>		Balance at <u>June 30, 2016</u>
			<u>Increases</u>	<u>Decreases</u>	
Equipment	\$2,408,733.97	\$ -	\$ -	\$ -	\$2,408,733.97
Accumulated Depreciation	(1,500,371.35)	-	(198,394.16)	-	(1,698,765.51)
	\$ 908,362.62	\$ -	\$(198,394.16)	\$ -	\$ 719,978.46

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE G – EMPLOYEE BENEFIT PLANS

1. Employees' Retirement System

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: <http://www.ers.ehawaii.gov>.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Noncontributory Class

- Retirement Benefits – General employees’ retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member’s accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member’s accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits - General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters’ retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

- **Disability Benefits** - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- **Death Benefits** - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- **Retirement Benefits** - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

- Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2016 were 25.00% for police and firefighters and 17.00% for all other employees. Contributions to the pension plan from the DWTRLF were \$217,362 for the fiscal year ended June 30, 2016.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the DWTRLF reported a liability of \$1,481,120 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. The DWTRLF's proportion of the net pension liability was based on an allocation of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2015, the DWTRLF's proportion of the State's proportion was 0.0400%, which decreased from its proportion as of June 30, 2014 of 0.1200%.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

For the year ended June 30, 2016, the DWTRLF recognized pension expense of \$207,062. At June 30, 2016, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 66,493	\$ (56,830)
Changes in assumptions	47,314	--
Net difference between projected and actual earnings on pension plan investments	--	(505,569)
Changes in proportion and difference between DWTRLF contributions and proportionate share of contributions	9,484	(12,409)
DWTRLF contributions subsequent to the measurement date	<u>217,362</u>	<u>--</u>
	<u>\$ 340,653</u>	<u>\$ (574,808)</u>

The \$217,362 reported as deferred outflows of resources related to pensions resulting from DWTRLF contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (197,875)
2018	(197,875)
2019	(197,875)
2020	157,057
2021	<u>(14,949)</u>
Total	<u>\$ (451,517)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Inflation	3.00%
Payroll growth rate	3.50%
Investment rate of return	7.65% per year, compounded annual including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Statistic Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

The actuarial assumptions used in the June 30, 2015 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the Employees' Retirement System of the State of Hawaii elected to lower the investment return assumption effective with the June 30, 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target Allocation	Long-term Expected Arithmetic Rate of Return
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
	100%	

*The real estate, private equity, and real return targets will be the percentage actually invested up to 7.0%, 7.0%, and 5.0%, respectively of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Discount Rate

The discount rate used to measure the net pension liability was 7.65%, a decrease from the 7.75% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Sensitivity of the DWTRLF’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the DWTRLF’s proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the DWTRLF’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
DWTRLF’s proportionate share of the net pension liability	<u>\$1,865,378</u>	<u>\$1,481,120</u>	<u>\$1,096,860</u>

Pension Plan Fiduciary Net Position

The pension plan’s fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan’s fiduciary net position is available in the separately issued ERS financial report. ERS’s complete financial statements are available at <http://www.ers.hawaii.gov>.

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The State's comprehensive annual financial report contains further disclosures related to the State's proportionate share of the net pension liability and employer pension contributions.

Payables to the Pension Plan

At June 30, 2016, the amount payable to the ERS was approximately \$13,000.

2. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

3. Post-Employment Health Care and Life Insurance Benefits

Plan Description

The state provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) of 2001, the state contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan, effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues annual financial reports that are available to the public by writing to:

EUTF at 201 Merchant Street, Suite 1520, Honolulu Hawaii 96813

Funding Policy

The state's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The state's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The state's OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT**

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The contributions for the DWTRLF for the years ended June 30, 2016, 2015, and 2014 were approximately \$111,900, \$92,300, and \$69,100, respectively.

State Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the state's policy on the accounting and reporting for OPEB is to allocate a portion of the state's ARC, interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the state's Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the proportionate share of contributions made by each component unit or proprietary fund for retiree health benefits.

Allocated OPEB Cost

The following table shows the components of the annual OPEB cost that have been allocated to the DWTRLF for the years ended June 30th:

	<u>2016</u>	<u>2015</u>
Annual OPEB cost	\$258,123	\$ 237,168
Contributions made	(111,890)	(92,297)
Increase in net OPEB obligation	<u>146,233</u>	<u>144,871</u>
Net OPEB obligation, beginning of year	744,861	599,990
Net OPEB obligation, end of year	<u>\$891,094</u>	<u>\$744,861</u>

The following table summarizes the annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation for the years ending June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Annual OPEB cost	\$258,123	\$237,168
Percentage of annual OPEB cost contributed	43.35%	38.92%
Net OPEB obligation, end of year	\$891,094	\$744,861

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Required Supplementary Information and Disclosures

Additional information related to the state's health care and insurance benefit plans, including additional OPEB disclosures and required supplementary information is available at the statewide level in the state's CAFR at the following website:

<http://ags.hawaii.gov/accounting/annual-financial-reports/>

NOTE H – INSURANCE COVERAGE

Insurance coverage is maintained at the State level. The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State's general fund.

The Department is covered by the State's self-insured workers' compensation program for medical expenses of injured Department employees. However, the Department is required to pay temporary total and temporary partial disability benefits as long as the employee is on the Department's payroll. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claim liabilities may be re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation benefit claims reported as well as incurred but not reported were reviewed at year end. The estimated losses from these claims were not material.