

**Report to the Thirtieth Legislature  
State of Hawaii  
2019**

**State Water Pollution Control Revolving Fund**

**Pursuant to Section 342D-82  
Hawaii Revised Statutes  
Relating to the  
State Water Pollution Control Revolving Fund  
of the Department of Health**

**Prepared By:  
State of Hawaii  
Department of Health  
Environmental Health Administration  
Environmental Management Division  
Wastewater Branch  
November 2018**

## Table of Contents

Program.....	3
A. Introduction .....	3
B. Executive Summary.....	3
C. Loan Process .....	3
D. Total Funds Committed.....	5
E. Meeting Funding Requirements .....	6
F. Goals and Accomplishments.....	9
G. Current Projects .....	11
H. Future Projects.....	12
I. Program and Non-Program Activities .....	13
Finances .....	15
J. Internal Controls .....	15
K. Financial Activities.....	15
L. Credit Risks of WPCRF Loans.....	17
M. Audits .....	18

## Table of Tables

Table 1: SFY 2018 Commitment Notices.....	3
Table 2: Total Funds Committed in SFY 2018 Based on Final Loans and Loan Amendments .....	5
Table 3: Cumulative Committed Amounts.....	6
Table 4: GPR Requirements for SFY 2018 .....	7
Table 5: FFATA Reporting.....	7
Table 6: Additional Subsidy.....	8
Table 7: SFY 2018 Future Projects.....	13
Table 8: Funds Received and Loan Allocations .....	15
Table 9: ASAP Draws in SFY 2018.....	16
Table 10: Loan Repayments and Investment Interest .....	16
Table 11: Collected Fees and Operating Expenses .....	17
Table 12: Loan Disbursements.....	17
Table 13: Borrower Credit Risks.....	18

## Table of Figures

Figure 1: Committed Amounts by County .....	6
Figure 2: Sources of Cash for SFY 2018.....	16
Figure 3: Total Cash Outlays for SFY 2018 .....	17

## Attachments

1. Water Pollution Control Revolving Fund Projects Receiving SRF Assistance
2. Statement of Net Position
3. Statement of Revenues, Expenses & Changes in Net Position
4. Statement of Cash Flows
5. Notes to Financial Statement

# Program

## A. Introduction

The Water Pollution Control Revolving Fund (WPCRF), also known as the Clean Water State Revolving Fund (CWSRF), was established by Title VI of the Clean Water Act. The purpose of the fund is to support construction of publicly owned wastewater treatment works and management of non-point source pollution and national estuary issues by providing financial assistance in the form of low-interest loans.

This annual report is submitted to the State of Hawaii Legislature pursuant to Section 342D-82 of the Hawaii Revised Statutes. The report covers State Fiscal Year (SFY) 2018, which began on July 1, 2017 and ended on June 30, 2018. The purpose of this report is to describe the progress in meeting goals set forth in the program's Intended Use Plan for SFY 2018, and to discuss the sources and uses of funds during SFY 2018.

## B. Executive Summary

The WPCRF Program is in its 29<sup>th</sup> year of operation and continues to provide low-interest loans to Hawaii's four (4) counties. These loans fund projects such as construction and repair of treatment plants, pump stations, sewer lines, water reuse facilities, energy efficiency improvement projects, conversion of large capacity cesspools, and non-point source projects.

During SFY 2018, Hawaii received a federal capitalization grant of \$10,268,000.00 and state matching funds of \$2,070,000.00 for a total of \$12,338,000.00. Total funds committed during this period totaled \$48,666,510.41.

## C. Loan Process

There is a commitment notice and there are two (2) types of loans used to fund a project:

### 1. Commitment Notice

A **commitment notice** formally commits to funding a project once a loan application and project report are received and approved. The applicant proceeds to fulfill other requirements to obtain a final loan. *Table 1* shows commitment notices issued during SFY 2018.

**Table 1: SFY 2018 Commitment Notices**

County	Project No.	Project Name	Loan Amount	Date Issued	District	
					House	Senate
Kauai	NPS00 59-25	BMP Improvements at Various Refuse Stations	\$ 700,000.00	11/9/2017	16	8
<b>Total</b>			<b>\$ 700,000.00</b>			

2. Final Loan

A **final loan** is executed once all requirements are met. The amount of the loan is based on the project's executed contract amount. The loan, once executed, allows the borrower to receive funds up to the amount already spent on the subject project.

3. Loan Amendment

A **loan amendment** is any modification to the final loan. Once a funded project is completed, a **supplemental loan** or **contract modification form** is issued to set the loan amount based on the actual funds disbursed. This amount may differ and reflect an increase or decrease from the final loan amount, depending on eligible changes during the course of the project. Amortization schedules are based on the loan amendment amount.

*Table 2* includes final loan (F) amounts, which are the amounts originally committed. The table also includes the supplemental loan (S) and contract modification form (CM) difference (increase or decrease) from the original final loan amount. Total funds committed during SFY 2018 are based on final loans and loan amendments.

**Table 2: Total Funds Committed in SFY 2018 Based on Final Loans and Loan Amendments**

County	Project No.	Loan Type	Project Name	Loan Amount	Date Executed	District	
						House	Senate
Hawaii	NPS00 80-24	F	Kealakehe Scrap Metal Yard Remediation	\$ 5,981,910.00	7/15/2017	6	3
Hawaii	NPS00 62-42	F	South Hilo Sanitary Landfill Final Closure	\$ 678,370.00	10/15/2017	2	1
Kauai	C1500 50-11	S1	Eleele Wastewater Treatment Plant Improvements	\$ 218,302.57	10/15/2017	16	7
Maui	C1500 77-24	F	Kihei No. 16 Pump Station Rehabilitation and Force Main Replacement	\$ 5,409,243.00	11/15/2017	11	6
Kauai	NPS00 47-12	F	Kekaha Landfill Lateral Expansion Cell 2	\$ 260,099.00	1/15/2018	16	8
Hawaii	C1500 80-27	S2	Kealakehe Wastewater Treatment Plant Aeration Upgrade and Sludge Removal Project	\$ 823,063.95	1/15/2018	6	3
Honolulu	C1500 48-00	S4	Ala Moana Wastewater Pump Station Force Mains #3 and #4	\$ 10,556,794.00	1/15/2018	29	13
Maui	C1500 52-60	F	Wailuku-Kahului Wastewater Reclamation Facility Solids Building Renovation	\$ 657,605.95	3/15/2018	8, 9, 13	5, 7
Maui	C1500 52-50	CM	Waiehu Wastewater Pump Station Force Main Replacement	\$ (10,273.78)	4/26/2018	8	5
Maui	C1500 52-61	CM	Wailuku-Kahului Wastewater Reclamation Facility Filter Modification	\$ (247,521.07)	4/26/2018	8, 9, 13	5, 7
Maui	C1500 54-34	CM	Countywide Pump Station Renovations	\$ -	4/30/2018	5	2
Maui	C1500 54-22	S1	Lahaina Wastewater Reclamation Facility Modifications, Stage 1A	\$ 20,941,344.00	6/15/2018	10	6
Hawaii	C1500 80-35	S1	Kealakehe Wastewater Treatment Plant R-1 Upgrade	\$ 4,345,143.00	6/15/2018	6	3
Maui	NPS00 52-62	CM	Central Maui Landfill (CML) Phase V Gas Collection System Expansion	\$ (173,205.86)	6/16/2018	9	5
Hawaii	C1500 62-38	CM	Kalaniana'ole Avenue Interceptor System Rehabilitation - Phase II	\$ (774,364.35)	6/29/2018	3	2
<b>Total</b>				<b>\$ 48,666,510.41</b>			

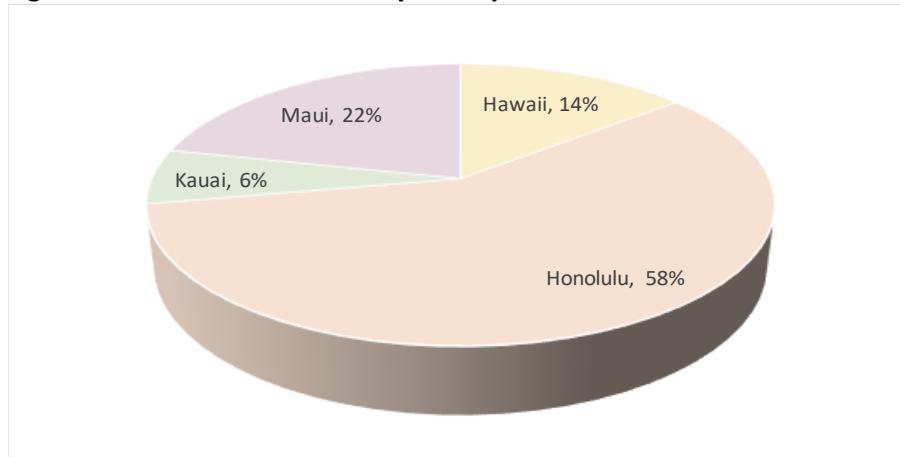
**D. Total Funds Committed**

From SFY 1991 through SFY 2018, the WPCRF has committed \$914,230,281.58. *Table 3* and *Figure 1* show the breakdown of loans by county. *Attachment 1* Water Pollution Control Revolving Fund Projects Receiving SRF Assistance provides information on all the final loans executed for the program.

**Table 3: Cumulative Committed Amounts**

County	Cumulative Loan Amount	Percent of Total Amount
Hawaii	\$ 129,938,529.64	14%
Honolulu	\$ 529,471,914.11	58%
Kauai	\$ 57,994,213.56	6%
Maui	\$ 196,825,624.27	22%
<b>Total</b>	<b>\$ 914,230,281.58</b>	<b>100%</b>

**Figure 1: Committed Amounts by County**



**E. Meeting Funding Requirements**

The WPCRF Program met funding requirements as follows:

1. State Matching Funds

Pursuant to Act 49-17, the Hawaii Legislature appropriated \$2,070,000.00 in general obligation bond funds for the required state match to the FFY 2017 EPA Clean Water State Revolving Fund (CWSRF) Capitalization Grant. The state match was transferred to the WPCRF's account in December 2017. Since Hawaii State law prohibits the program to use the state match for administrative purposes, all state match funds are used for loans.

2. Grant Fund Commitment

The requirement to commit 120% of the \$10,268,000.00 grant amount (\$12,321,600.00) was satisfied. During SFY 2018, five (5) final loans and ten (10) loan amendments were executed, totaling \$48,666,510.41.

3. Green Project Reserve (GPR)

**GPR** projects are those that address:

- a. green infrastructure (e.g. sustainable infrastructure),
- b. water efficiency improvements,
- c. energy efficiency improvements, or
- d. other environmentally innovative activities.

The WPCRF Program is required to make a good faith effort to allocate a minimum amount of funds, not less than 10 percent of the grant amount, to GPR projects. *Table 4* shows how GPR requirements were met.

**Table 4: GPR Requirements for SFY 2018**

SFY	FFY	Grant Amount	GPR Required	GPR Project	GPR Amount	GPR Met?
2018	2017	\$ 10,268,000.00	\$ 1,026,800.00	Kealakehe Wastewater Treatment Plant R-1 Upgrade	\$ 4,345,143.00	Yes

4. Federal Funding Accountability and Transparency Act (FFATA)

**FFATA** requires the reporting of funded project(s) whose loan amounts add up to the exact grant amount. *Table 5* shows how FFATA requirements were met.

**Table 5: FFATA Reporting**

SFY	FFY	Grant*	GPR Project	FFATA Amount	Percent Met?
2018	2017	\$ 9,418,000.00	Ala Moana Wastewater Pump Station Force Mains #3 and #4	\$ 9,418,000.00	100%

\* EPA In-Kind amount of \$850,000.00 was deducted from \$10,268,000.00 for the Northbridge and PG Environmental Contracts.

5. American Iron and Steel (AIS)

The WPCRF Program ensures that the AIS requirement is met. Based on the Section 608 of the Water Resources Reform and Development Act of 2014 amendments, loan applicants were required to certify that the AIS requirement was met. For construction of treatment works projects, specific AIS contract language is included in the CWSRF loan agreement. For construction of treatment works projects and during construction site inspections, the CWSRF engineer checks that the subrecipient’s project/construction manager has verified and received from the contractor certification documents (e.g. step certification process, final manufacturer certification) for the “covered iron and steel products”.

6. Additional Subsidy

Additional subsidy refers to providing funds at an interest rate of zero percent (0%) with principal forgiveness. The State may use not more than thirty percent (30%) of the total amount received by the State in capitalization grants for a fiscal year for providing additional subsidization. However, there is no minimum additional subsidy requirement that CWSRF programs must comply with. The WPCRF program decided not to provide additional subsidy in SFY 2018.

However, Programmatic Conditions require to use ten percent (10%) of the funds available in the Capitalization grant to provide additional subsidy to eligible recipients. *Table 6* shows how Additional Subsidy requirements were met.

**Table 6: Additional Subsidy**

SFY	FFY	Grant	Required 10% of Cap	GPR Project	FFATA Amount
2018	2017	\$ 10,268,000.00	\$ 1,026,800.00	Kealakehe Wastewater Treatment Plant R-1 Upgrade	\$ 1,026,800.00
<b>Total</b>					<b>\$1,026,800.00</b>

7. Affordability Criteria

The WPCRF program established its affordability criteria by September 30, 2015. Based on the current affordability criteria, the program determined that none of the four (4) counties would have difficulty financing projects without additional subsidization. Therefore, no additional subsidy was provided in SFY 2018 based on the affordability criteria.

8. Fiscal Sustainability Plan

Based on Section 603 (d)(1)(E) of the Water Resources Reform and Development Act of 2014 amendments, loan recipients were required to certify in their loan applications that the Fiscal Sustainability Plan requirement was being met.

9. Cost and Effectiveness Analysis

Based on Section 602 (b)(13) of the Water Resources Reform and Development Act of 2014 amendments, loan recipients were required to certify in their loan applications that the cost and effectiveness analysis requirement was being met.

10. Reporting Requirements

Information on projects with executed final loans has been entered into the CWSRF Benefits Reporting (CBR) system. FFATA reporting was completed for Ala Moana Wastewater Pump Station Force Mains #3 and #4 project in February 2018.

11. Other Federal Requirements

The program continues compliance with other requirements to:

- a. Ensure borrowers comply with Davis-Bacon requirements. For construction of treatment works projects, the CWSRF engineer checks:
  - i. That the “CWSRF Boilerplate” document is included in the bid specification and contract and includes the Wage Determination General Decision Number and Modification Number, prior to approving a project for a CWSRF loan;



- ii. That the federal payroll records form (WH-347) and federal interview form (SF-1445) are completed by the contractor, during construction site inspections. The federal forms may be replaced by state forms if they contain all of the same information.
  - iii. That the Davis-Bacon poster (WH-1321) is posted at the job site, during construction site inspections.
- b. Report on minority and women business enterprises (MBE/WBE).
- c. Draw funds from the capitalization grant at a ratio of 100% of the disbursement amount after all state match funds have been disbursed.
- d. Continue use of Generally Accepted Government Accounting Standards in accounting, audit, and fiscal procedures.
- e. Enhance public awareness of EPA assistance agreement nationwide by implementing an EPA-wide initiative focused on signage. The program will ensure compliance of EPA's Signage policy is met by posting signs for projects that are selected as that equivalency project(s). Signs will be posted at public buildings or locations (e.g. public library, government building).

## 12. Operating Agreement between the State and EPA

Compliance with operating requirements continues. These requirements, in the State WPCRF Operating Agreement between the State of Hawaii Department of Health and EPA: Chapter II, Section C, Assurances and Certifications, are as follows:

### a. Environmental Review

Review of the loan applicant's submittals ensured applicable federal and state requirements were met. Loan applicants continued to prepare environmental documents in accordance with Hawaii Revised Statutes, Chapter 343, and Hawaii Administrative Rules, Chapter 11-200.

Prepared documents were published by the State of Hawaii Office of Environmental Quality Control and open to public comment.

Loan applicants certified that a current assessment of environmental impacts of the proposed project was conducted, that all known significant environmental impacts were disclosed, and that all federal "cross-cutter" requirements were met.

### b. Intended Use Plan (IUP)

The IUP for SFY 2018 was drafted, made available for public comment, published in April 2017, and included with Hawaii's application for a CWSRF capitalization grant.

### c. Other Federal "Cross-Cutter" Requirements

Each loan applicant was required to certify that each proposed project complied with all federal "cross-cutting" requirements.

## F. Goals and Accomplishments

Each year, the WPCRF Program sets forth goals in its IUP. The following are the long- and short-term goals and progress made in meeting them.

### 1. Long-Term Goals

- a. Provide financial assistance for eligible projects that protect Hawaii's public health by correcting surface water quality impairment or eliminating and preventing ground water contamination and controlling point and non-point pollution sources. Encourage projects that promote water reuse and energy efficiency, and/or achieve compliance with federal and state water quality standards.

*Progress:* The program supported Hawaii's counties in complying with water quality standards, protecting public health, and incorporating energy-efficient pumps and improving energy and water efficiencies that decrease energy and water demands and costs.

- b. Ensure fiscal soundness and perpetuity of the WPCRF.

*Progress:* Receipt of an EPA grant and state matching funds, meticulous tracking of loans, disbursements, repayments, interest, fees, and investment interest, and borrowers with high credit ratings all help ensure fiscal soundness.

### 2. Short-Term Goals

- a. Promote water reuse, energy efficiency, and/or other innovative environmental projects.

*Progress:* The Kealahou Wastewater Treatment Plant R-1 Upgrade project will produce R-1 water for re-use purposes. The project is in the pre-design phase and will proceed to the design and construction phases of work in the near future.

- b. Reduce EPA unliquidated loan obligations (ULOs).

*Progress:* ULOs refer to EPA capitalization grant funds that haven't yet been disbursed. To minimize ULOs, borrowers submit monthly disbursement statements to allow tracking of each project's spending rate. Federal funds are then assigned accordingly, and county expenditures are reviewed ahead of time to expedite disbursement once a payment request is received.

- c. Provide loans with competitive interest rates while still assuring the program's perpetuity.

*Progress:* The total loan rate of 1.25% commands a high demand for loans. Since Hawaii's four (4) loan applicants are county government agencies with good credit ratings, loan repayment is reliable, helping ensure the fund's perpetuity.

- d. Revisit standard operating procedures to improve program efficiency.

Progress: During SFY 2018, the WPCRF Program continues to implement recommendations from the management study to streamline procedures. Work is in progress on a loan grant tracking system (LGTS) to automate reports and improve program efficiency.

## **G. Current Projects**

The water reuse projects listed below met the GPR criteria. The sewer line projects listed below helped to protect public health by preventing wastewater spills from arising through leaks due to deteriorated pipes. The WPCRF Program also funded projects that involved making improvements to wastewater treatment plants and non-point source projects.

### **1. GPR Projects**

- a. The Kealakehe Wastewater Treatment Plant R-1 Upgrade project will produce R-1 water for reuse purposes. The project is in the design phase and will proceed to construct in the near future.

### **2. Sewer Line Projects**

- a. The Kihei No. 16 Pump Station Rehabilitation and Force Main Replacement project will replace an existing 6-inch diameter, 5,100-foot long force main that is nearing the end of its useful life.
- b. The Ala Moana Wastewater Pump Station Force Mains #3 and #4 project will connect the existing Ala Moana Wastewater Pump Station to the headworks of the Sand Island Wastewater Treatment Plant. The main purpose for adding Force Main #3 is for redundancy for the force main system. The main purpose for adding Force Main #4 is to allow the existing Force Main #1, which has a smaller capacity rating, to be taken out of service.

### **3. Wastewater Facility Improvement Projects**

- a. The Eleele Wastewater Treatment Plant Improvements project will include process equipment, electrical system, and disinfection system upgrades. Major components include replacement of motor control centers, blowers, pumps, headworks equipment, solids dewatering equipment and improvements to the chlorination system.
- b. The Lahaina Wastewater Reclamation Facility Modifications, Stage 1A project will construct a new step-feed aeration basin and secondary clarifier and make modifications to the existing conventional aeration basin, flexible aeration basin, headworks, blower building, electrical room and RAS/WAS system.
- c. The Kealakehe Wastewater Treatment Plant Aeration Upgrade and Sludge Removal project continued the upgrade of the aeration system, removal of the accumulated sludge, replacement of two effluent pumps, and repairs/replacement to existing lagoon liners.
- d. The Wailuku-Kahului Wastewater Reclamation Facility Solids Building Renovation project will include structural and architectural rehabilitation of the existing dewatering building.

#### 4. Non-Point Source Projects

- a. The Kealakehe Scrap Metal Yard Remediation project will remove the lead contaminated soil from the now closed Kealakehe Scrap Metal Salvage Facility.
- b. The South Hilo Sanitary Landfill Final Closure project will help the County of Hawaii to meet the requirements of Hawaii Administrative Rules, Title 11 Chapter 58.1 Solid Waste Management Control.
- c. The Kekaha Landfill Lateral Expansion project will include the completion of regulatory permit application process, completion of design and procurement (including construction plans and technical specifications, bid documents, and bidding technical assistance), and completion of construction (including general construction contractor, engineering services during construction, construction management, and CQA/CQC documentation).

#### **H. Future Projects**

Future projects include those listed in the IUP for the next fiscal year (SFY 2019) and those with commitment notices. *Table 7* lists interim loans executed (ILE) before and commitment notices (CN) issued during SFY 2018.

**Table 7: SFY 2018 Future Projects**

County	Project No.	Project Name	Loan Amount	ILE / CN	District	
					House	Senate
Honolulu	C1500 48-07	Sand Island WWTP - UV Disinfection and Effluent Pump Station Odor Control System	\$ 9,192,960.72	6/30/2016	30	15
Honolulu	C1500 51-78	Honouliuli Influent Pump Station Odor Control System	\$ 8,827,000.00	6/30/2016	41	19
Maui	NPS00 52-64	Central Maui Landfill Phase V-B Extension	\$ 3,625,000.00	N/A	9	5
Kauai	C1500 47-09	Waimea R-1 Wastewater Distribution System Upgrades	\$ 3,000,000.00	N/A	16	7
Kauai	NPS00 47-12 [S1]	Kekaha Landfill Lateral Expansion Cell 2 [S1]	\$ 18,339,901.00	6/30/2016	16	8
Honolulu	C1500 51-76	Honouliuli Water Recycling Facility R-1 Pre-Treatment and UV Disinfection Improvements	\$ 8,110,984.00	9/24/2015	41, 42	19, 20
Honolulu	C1500 48-06	Dowsett Highlands Relief Sewer	\$ 30,000,000.00	N/A	25, 27	13
Maui	C1500 77-16	South Maui Recycled Water System Expansion (2nd Tank)	\$ 6,500,000.00	6/24/2016	10	5
Honolulu	C1500 51-80	Honouliuli WWTP Secondary Treatment Phase 1A - Sludge Drying and Related Facilities	\$ 35,000,000.00	N/A	41	19
Honolulu	C1500 51-81	Honouliuli WWTP Secondary Treatment Phase 1B - Secondary Compliance Facilities	\$ 30,000,000.00	N/A	41	19
Hawaii	NPS00 62-42 [S1]	South Hilo Sanitary Landfill Final Closure [S1]	\$ 19,321,630.00	6/24/2016	2	1
Kauai	C1500 59-23	Hanama'ulu and Kapaia SPS Renovations	\$ 4,000,000.00	9/12/2018	15	8
Kauai	NPS00 59-25	BMP Improvements at Various Refuse Stations	\$ 700,000.00	11/9/2017	16	8

**I. Program and Non-Program Activities**

Loan recipients are assessed an interest rate and an administrative fee, also known as a loan fee. The loan fee covers the costs of program activities directly related to administering the CWSRF program, as well as non-program activities that protect and preserve water quality. The following program activities were performed during SFY 2018:

1. Review and approval of loan submittals including loan applications, project reports, plans, specifications, environmental documents, executed contracts, selected itemized bid, eligible costs, and other required documents.
2. Construction inspections to report progress, ensure compliance with federal and state requirements, and determine if reasonable correlation exists between completed work and progress payments.

3. Frequent meetings and communication to train new loan applicants, assist with required submittals, encourage payment requests, and promote projects incorporating energy-efficiency and water reuse.
4. Financial tracking of federal grants, state match funds, interest, disbursements to loan recipients, loan repayments, amortization schedules, program income, expenses, cash flow reports, coordination with the state budget department, and communication with the loan recipient's fiscal staff.

Non-program activities during SFY 2018 included administering the water reuse and sludge programs, inspecting operation and maintenance of wastewater treatment facilities, responding to wastewater-related complaints, enforcement of wastewater regulations, and permitting of individual wastewater systems.

## Finances

### J. Internal Controls

The WPCRF program is responsible for implementing and maintaining a system of internal accounting controls to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs. An internal control system provides 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 the annual performance evaluations by EPA and annual financial audits by independent auditors, the WPCRF program's internal controls appear to adequately safeguard assets and provide reasonable assurances of proper recording of financial and provide reasonable assurances of proper recording of financial transactions.

### K. Financial Activities

Since its inception, the CWSRF program has received a total of \$304,647,248.00 in federal capitalization grants. Of the total amount, \$296,800,447.43 has been allocated to fund loans for eligible WPCRF projects.

Hawaii also received \$30,352,300 in ARRA stimulus funds of which \$29,752,300 was allocated for principal forgiveness loans and \$600,000 for administrative expenses. *Table 8* summarizes the funds received and allocated for loans.

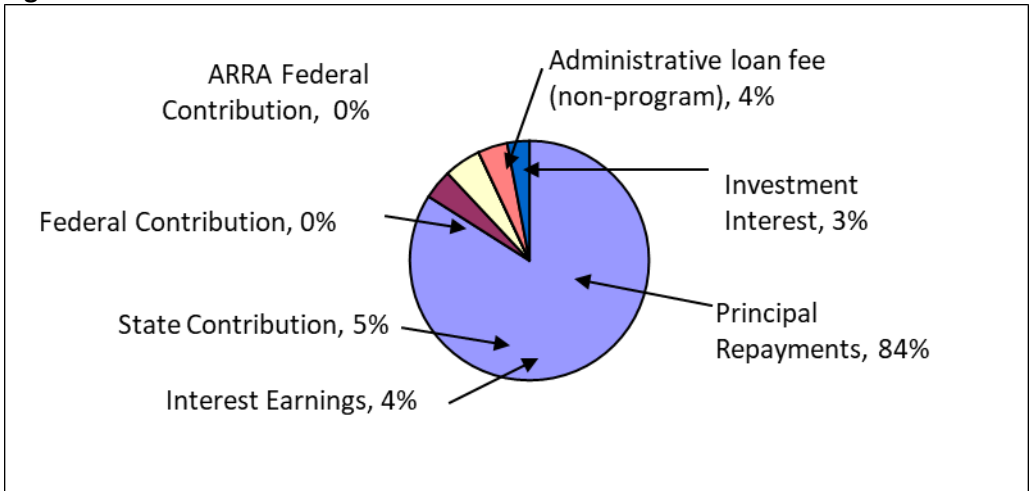
**Table 8: Funds Received and Loan Allocations**

Source	Amount
EPA capitalization grant funds	
Amount received since program inception	\$ 304,647,248.00
Amount allocated for loans	\$ 296,800,447.43
Percent allocated for loans	97%
ARRA funds	
Amount received	\$ 30,352,300.00
Amount allocated for loans	\$ 29,752,300.00
Percent allocated for loans	98%

#### 1. Sources of Cash

*Figure 2* shows sources of cash received or funds drawn upon by the program in SFY 2018.

**Figure 2: Sources of Cash for SFY 2018**



2. Automated Standard Application for Payments (ASAP)

Table 9 shows funds drawn from the ASAP payment system during SFY 2018.

**Table 9: ASAP Draws in SFY 2018**

Source	Amount
EPA capitalization grant funds	\$ -
ARRA funds	\$ -
<b>Total</b>	<b>\$ -</b>

3. Loan Repayments and Investment Interest

Accounts and activity codes have been established to track program revenue sources. Fund use is legally restricted to funding only loans for eligible WPCRF projects. Table 10 shows a breakdown of these funds received in SFY 2018.

**Table 10: Loan Repayments and Investment Interest**

Source	Amount	Activity Code
Principal repayments from federal funds	\$ 32,891,400.86	402
Interest from federal funds	\$ 1,354,878.94	403
Principal repayments from state funds	\$ -	406
Interest from state funds	\$ -	407
Investment interest	\$ 981,059.32	-
<b>Total</b>	<b>\$ 35,227,339.12</b>	

4. Administrative Fees and Loan Disbursements

The State provides 20% matching funds for each capitalization grant, but these funds do not contribute to administering the WPCRF Program and providing for water related activities. In order to pay employee salaries, benefits, and comply with federal law, which requires that the WPCRF



program be operated in perpetuity, the DOH implemented a loan fee program in January 1997. *Table 11* shows loan fees collected and operating expenses for SFY 2018.

**Table 11: Collected Fees and Operating Expenses**

Program fees	\$ 62,185.21
Non-program fees	\$ 1,663,162.70
Operating Expenses	<b>\$ (1,916,914.22)</b>

5. Loan Disbursements

*Table 12* shows loan disbursements for SFY 2018.

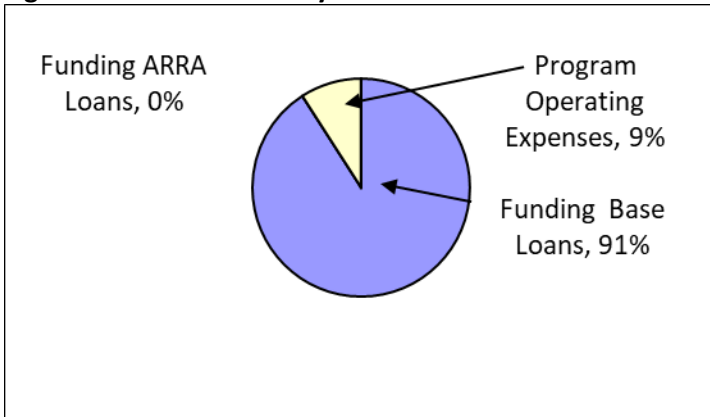
**Table 12: Loan Disbursements**

Base loan funds	\$ 19,170,188.57
ARRA loan funds	\$ -
<b>Total</b>	<b>\$ 19,170,188.57</b>

6. Total Cash Outlays

*Figure 3* shows total cash outlays for SFY 2018.

**Figure 3: Total Cash Outlays for SFY 2018**



**L. Credit Risks of WPCRF Loans**

Each loan applicant is required to pledge a dedicated source of revenue to repay the loan. Examples of dedicated revenue sources include a pledge of the county's full faith credit and/or a pledge of general obligation bonds.

*Table 13* shows the credit worthiness of the four loan recipients. Each recipient was given a high rating by the General Obligation Bond credit agencies, Moody's and Fitch. This helps maintain a solid program and contribute to the program's perpetuity.

**Table 13: Borrower Credit Risks**

<b>Loan Recipient</b>	<b>Committed Amount</b>	<b>Moody's Fitch Bond Ratings</b>	<b>Percent of WPCRF Loan Portfolio</b>
City and County of Honolulu	\$529,471,914.11	Aa1/AA+	58%
County of Hawaii	129,938,529.64	Aa2/AA+	14%
County of Maui	196,825,624.27	Aa1/AA+	22%
County of Kauai	57,994,213.56	Aa2/AA	6%
<b>Totals</b>	<b>\$914,230,281.58</b>		<b>100%</b>

**M. Audits**

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and Reporting Requirements requested by EPA, as well as the Hawaii Revised Statutes, §342D-34.

The Department of Health (DOH) selected the KMH LLP accounting firm to perform an independent audit of the WPCRF Program's activities and financial statements for SFY 2018. The audit is in progress.

The previous audit was performed and completed by the KMH LLP for SFY 2017. The auditor's previous report for SFY 2017, was published on November 30, 2017, and stated: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2017, 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."

For more information on this report, please contact the Wastewater Branch at (808) 586-4294.

# **Attachment 1**

## **Water Pollution Control Revolving Fund Projects Receiving SRF Assistance**

State of Hawaii  
 Waer Pollution Control Revolving Fund - Year Ending June 30, 2018  
 Attachment 1: **WPCRF Projects Receiving SRF Assistance**

**A. FINAL LOANS**

<b>No.</b>	<b>Date</b>	<b>Proj. No.</b>	<b>Project Name on Final Loan</b>	<b>Interest (%)</b>	<b>Amount (\$)</b>
1	03/01/91	70-16	Kailua Sewage Treatment Plant Modification, Ph. 2	2.50	8,184,015.00
2	03/01/91	70-18	Kaneohe Sewage Treatment Plant Modification, Ph. 2	2.50	1,061,464.00
3	03/01/91	68-28	Miomio Wastewater Pump Station and Force Main	2.50	1,303,134.00
4	03/01/91	62-09	Hilo Wastewater Treatment & Conveyance Project, Ph II, Schedule D, G, & H	2.50	12,724,311.00
5	04/16/91	55-02	Kapaa Sewer System, Phase I	2.50	2,654,640.00
6	04/19/91	54-04	Lahaina Wastewater Reclamation Facility Expansion	2.50	500,000.00
7	08/01/93	54-05	Lahaina Wastewater Reclamation Facility Expansion	2.57	7,381,497.00
8	08/01/91	62-05	Waiakea Houselot Interceptor Sewer	2.50	459,321.00
9	02/01/92	70-19	Kailua Wastewater Treatment Plant Modifications, Phase III	2.50	18,039,641.00
10	03/23/92	62-08	Waiakea Mill Pond Sewer System	2.50	1,300,000.00
11	04/20/92	80-05	Kealakehe Land Disposal	2.50	1,300,071.00
12	03/01/93	52-14	Wailuku / Kahului WWRF Additions and Modifications	2.50	4,825,074.00
13	05/15/93	80-08	Alii Drive Interceptor Sewer, Part "A" and "B"	2.78	3,210,243.00
14	05/15/93	80-09	Waiaha Bay Sewage Pump Station	2.78	3,697,893.00
15	11/08/93	59-10	Lihue STP Optimization-Expansion	2.78	13,438,074.07
16	08/01/93	70-32	Kailua Modification, Phase 3, Maintenance/Storage and Operators Buildings	2.57	5,003,603.00
17	01/03/94	53-20	Waianae Wastewater Treatment Plant, Secondary Treatment Facilities	2.06	27,878,719.95
18	06/01/94	62-04	Ainako Interceptor Sewer, Parts A & B	2.06	2,239,174.01
19	10/01/94	80-10	Alii Drive Interceptor Sewer, Part C & D	2.06	3,780,000.00
20	12/01/94	55-02-A	Kapaa Sewer System, Phase I, Contract Change Order No. 9	2.06	698,790.00
21	10/10/95	62-11	Kalaniana'ole Collector Sewers	3.02	1,499,944.00
22	01/16/96	80-12	Alii Drive Interceptor Sewer, Parts E & F	3.02	2,112,654.21
23	04/15/96	54-07	Lahaina Wastewater Pump Station #3 Replacement	2.49	2,644,415.75
24	05/15/96	77-06	Kihei Wastewater Reclamation Facility Expansion, Phase IIB	2.49	9,018,078.31
25	10/01/96	80-11	Holualoa Bay Sewage Pump Station	3.02	3,080,000.00

State of Hawaii  
 Waer Pollution Control Revolving Fund - Year Ending June 30, 2018  
 Attachment 1: **WPCRF Projects Receiving SRF Assistance**

**A. FINAL LOANS** (cont.)

<b>No.</b>	<b>Date</b>	<b>Proj. No.</b>	<b>Project Name on Final Loan</b>	<b>Interest (%)</b>	<b>Amount (\$)</b>
26	06/01/97	68-03	Kahaluu Housing Wastewater Pump Station and Force Main	3.02	3,315,874.14
27	08/01/97	77-09	Kihei Reuse Core Distribution System	2.60	3,231,080.46
28	10/01/97	70-13	Kaneohe Bay South Wastewater Pump Station No. 5 and Force Main	3.02	2,887,402.63
29	02/15/98	70-29	Kailua Heights Wastewater Pump Station Force Main Replacement	2.65	735,321.13
30	02/15/98	70-36	Waikalua Wastewater Pump Station Force Main Replacement	2.65	815,587.00
31	02/15/98	46-61	Ala Moana Emergency Generator Upgrade	2.57	2,970,073.00
32	02/15/98	71-10	North Shore Septage Handling Facility	2.65	6,606,497.12
33	04/15/98	54-17	Lahaina Wastewater Pump Station No. 17 Renovations	2.57	600,000.00
34	02/15/98	46-64	Public Baths Force Main Replacement	2.57	3,403,937.52
35	01/15/99	62-15	Waiakea Houselot Collector Sewer, Phase II	2.61	5,024,266.00
36	04/15/99	60-05	Pauka'a Community Collector Sewer	2.38	2,143,448.00
37	06/15/99	46-31	Nimitz Highway Reconstructed Sewer (Hotel to Auahi)	2.39	23,057,225.29
38	05/15/00	54-14	Kuhua Camp Sewer System Rehabilitation	2.34	1,745,481.34
39	11/15/00	NPS C0-02	Ahuimanu Storm Water Dewatering Facility	2.75	1,118,928.83
40	01/15/01	80-13	Pahoehoe Wastewater Pump Station	2.61	2,817,760.42
41	04/15/01	54-20	Lahaina Wastewater Reclamation Facility Solids Handling	2.45	1,344,000.00
42	01/15/02	46-37	Gulick Avenue Relief Sewer	2.34	5,812,837.16
43	01/15/02	70-44	Kailua Heights Wastewater Pump Station Modification	2.34	2,714,347.37
44	01/15/02	70-33	Kailua Wastewater Treatment Plant Disinfection Facility	2.34	2,516,434.22
45	08/15/02	90-03	County Parks Wastewater Facilities Upgrade	2.49	68,506.00
46	08/15/02	NPS C0-01	DFM Road Division Storm Water Equipment	2.96	2,794,141.55
47	11/15/02	52-16	Wailuku-Kahului Wastewater Reclamation Facility Modifications, Phase II	2.49	11,951,083.00
48	07/15/04	62-18	Kalaniana'ole Highway Interceptor Sewer Rehabilitation	2.37	1,615,980.00
49	10/15/05	NPS 59-07	Kauai County Cesspool Conversion Project	2.13	1,467,016.21
50	01/15/06	46-55	Hart Street Wastewater Pump Station Alternative	0.50	25,324,356.47

State of Hawaii  
 Waer Pollution Control Revolving Fund - Year Ending June 30, 2018  
 Attachment 1: **WPCRF Projects Receiving SRF Assistance**

**A. FINAL LOANS** (cont.)

<b>No.</b>	<b>Date</b>	<b>Proj. No.</b>	<b>Project Name on Final Loan</b>	<b>Interest (%)</b>	<b>Amount (\$)</b>
51	01/15/06	46-60	Ala Moana Wastewater Pump Station Modification	0.50	21,225,055.00
52	01/15/06	51-64	Waipahu Wastewater Pump Station Modification	0.50	8,989,339.27
53	02/15/06	52-30	Kahului Wastewater Pump Station Modification	0.50	2,623,957.00
54	02/15/06	54-12	Lahaina Wastewater Pump Station Nos. 5 and 6 Forcemain Replacement	0.50	3,300,000.00
55	04/15/06	59-13	Lihue Wastewater Treatment Plant Effluent Disposal System	0.50	2,722,304.61
56	09/15/06	NPS 62-10	Hawaii County Cesspool Conversion Project	0.50	8,363,772.53
57	01/15/07	47-07	Waimea Wastewater Treatment Plant Effluent Disposal System	0.50	2,058,817.00
58	05/15/07	55-05	Wailua/Kapaa Sewer System Improvements	0.50	3,876,835.02
59	05/15/07	54-09	Lahaina Wastewater Pump Station No. 4 Modifications	0.50	1,700,000.00
60	06/15/07	46-70	Sand Island Wastewater Treatment Plant Primary Expansion Phase 1	0.50	93,186,373.05
61	07/15/07	46-68	Kuliouou Sewer Rehabilitation	0.50	9,997,685.66
62	08/15/07	70-45	Wanaao Road/Keolu Drive Reconstructed Sewer	0.50	50,716,812.75
63	11/15/07	59-16	Marriott Wastewater Pump Station Improvements	0.50	436,349.45
64	04/15/08	52-19	Wailuku-Kahului Wastewater Pump Station Forcemain Replacement	0.50	9,931,786.00
65	07/15/08	NPS 52-39	Central Maui Landfill Gas Collection and Flare Construction	0.50	3,502,173.00
66	08/15/08	52-32	Wailuku-Kahului Wastewater Reclamation Facility Electrical and Solids Modifications	0.50	2,000,000.00
67	09/15/08	52-28	Countywide Pump Station Renovations (design)	0.50	928,607.60
68	09/15/08	54-06	Lahaina Wastewater Pump Station No. 1 Modifications	0.50	7,050,000.00
69	09/15/08	59-15	Lihue Wastewater Treatment Plant Digester Repair	0.50	4,855,378.43
70	10/15/08	52-31	Islandwide EPA Consent Decree Sewer Rehabilitation	0.50	8,438,769.51
71	01/15/09	NPS 41-07	Molokai Integrated Solid Waste Facility Phase 3 Disposal Cell and Drainage Improvements	0.50	3,241,037.97
72	01/15/09	54-11	Front Street Sewer Line Rehabilitation	0.50	447,454.00
73	01/15/10	80-19	Queen Liliuokalani Large Capacity Cesspool Replacement	0.50	9,421,732.13
74	01/15/10	47-04	Waimea Wastewater Treatment Plant Expansion, Phase I	0.50	9,698,228.51
75	05/15/10	54-25	Hyatt/Kaanapali force Main Replacements	0.50	1,737,541.00

State of Hawaii  
 Waer Pollution Control Revolving Fund - Year Ending June 30, 2018  
 Attachment 1: **WPCRF Projects Receiving SRF Assistance**

**A. FINAL LOANS** (cont.)

<b>No.</b>	<b>Date</b>	<b>Proj. No.</b>	<b>Project Name on Final Loan</b>	<b>Interest (%)</b>	<b>Amount (\$)</b>
76	07/15/11	NPS 72-01	Honokaa Wastewater Treatment Plant Upgrade - Phase 2	0.50	4,513,157.84
77	08/15/11	51-70	Waimalu Sewer Rehabilitation/Reconstruction, Phase 1	0.50	30,000,000.00
78	08/15/11	77-20	Kihei No. 2 Force Main Replacement	0.50	1,022,918.50
79	05/15/12	48-00	Ala Moana Wastewater Pump Station Force Mains #3 and #4	0.00	121,556,794.00
80	08/15/12	52-40	Alamaha Force Main Replacement	0.50	1,128,000.00
81	01/15/13	62-38	Kalaniana'ole Avenue Interceptor System Rehabilitation - Phase II	0.50	7,847,044.65
82	04/15/13	54-23	West Maui Recycled Water - Phase 1 - UV Expansion, County Job #WW11-03	0.50	3,205,090.33
83	07/15/13	52-35	Wailuku-Kahului Force Main Replacement	0.25	3,621,040.00
84	07/15/13	54-34	Countywide Pump Station Renovations	0.25	4,023,751.00
85	07/15/13	54-28	Lahaina No. 3 Force Main Replacement	0.25	4,719,006.54
86	08/15/13	52-33	Central Operations and Maintenance Facility	0.25	500,000.00
87	01/15/14	55-07	Wailua Wastewater Treatment Plant Improvements - Phase I	0.25	1,942,632.69
88	02/15/14	54-10	Lahaina Wastewater Pump Station No. 2 Modifications	0.25	4,478,103.00
89	10/15/14	50-11	Eleele Wastewater Treatment Plant Improvements	0.25	5,218,302.57
90	11/15/14	77-17	South Maui Recycled Water Distribution System Expansion	0.25	2,543,970.00
91	02/15/15	70-53	Energy Savings Performance Contract for Kailua Wastewater Treatment Plant	0.25	15,922,832.00
92	04/15/15	80-27	Kealakehe Wastewater Treatment Plant Aeration Upgrade and Sludge Removal Project	0.25	21,162,933.85
93	01/15/16	52-48	Paia Force Main Replacement	0.25	1,734,737.68
94	01/15/16	77-22	Kihei #10 Force Main Replacement	0.25	1,620,000.00
95	03/15/16	80-17	North Kona Sewer and Effluent Reuse - Phase I	0.25	3,454,500.00
96	05/15/16	52-61	Wailuku-Kahului Wastewater Reclamation Facility Filter Modification	0.25	4,594,178.93
97	06/15/16	NPS 47-11	Gas Collection & Control System For Kekaha Landfill	0.25	4,966,746.00
98	12/15/16	80-35	Kealakehe Wastewater Treatment Plant R-1 Upgrade	0.25	6,158,687.00
99	03/15/17	52-50	Waiehu Wastewater Pump Station Force Main Replacement	0.25	\$827,136.22
100	04/15/17	NPS 52-62	Central Maui Landfill (CML) Phase V Gas Collection System Expansion	0.25	\$1,683,238.14
101	04/15/17	54-22	Lahaina Wastewater Reclamation Facility Modifications, Stage 1A	0.25	\$45,941,344.00
102	04/15/17	54-31	Hawaiian Homes Force Main Replacement	0.25	\$2,240,000.00
103	05/05/17	77-25	Kulanihakoi Street Recycled Water Line Extension	0.25	\$1,473,541.04
104	07/15/17	NPS 80-24	Kealakehe Scrap Metal Yard Remediation	0.25	5,981,910.00
105	10/15/17	NPS 62-42	South Hilo Sanitary Landfill Final Closure	0.25	678,370.00
106	11/15/17	77-24	Kihei No. 16 Pump Station Rehabilitation and Force Main Replacement	0.25	5,409,243.00
107	01/15/18	NPS 47-12	Kekaha Landfill Lateral Expansion Cell 2	0.25	260,099.00
108	03/15/18	52-60	Wailuku-Kahului Wastewater Reclamation Facility Solids Building Renovation	0.25	657,605.95
<b>TOTAL FINAL LOAN AMOUNT</b>					<b>\$845,653,265.58</b>

State of Hawaii  
 Waer Pollution Control Revolving Fund - Year Ending June 30, 2018  
 Attachment 1: **WPCRF Projects Receiving SRF Assistance**

**B. INTERIM LOANS**

No.	Date	Proj. No.	Project Name on Interim Loan	Interest (%)	Amount (\$)
1	01/15/12	62-37	Pua Sewage Pump Station - Pump Replacement	0.50	2,300,000.00
2	08/15/13	54-46	West Maui Recycled Water Expansion	0.25	3,160,684.00
3	10/15/13	NPS 90-04	Naalehu Wastewater Collection System	0.25	3,632,850.00
<b>TOTAL INTERIM LOAN AMOUNT</b>					<b>\$9,093,534.00</b>

**C. COMMITMENT NOTICES**

No.	Date	Proj. No.	Project Name on Commitment Notice	Interest (%)	Amount (\$)
1	09/24/15	51-76	Honouliuli Water Recycling Facility R-1 Pre-Treatment and UV Disinfection Improvements	0.25	6,333,482.00
2	06/20/16	NPS 48-01	Ala Wai Golf Course Access Road and Parking Lot Improvements - NPDES Small MS4 Permit Program	0.25	4,500,000.00
3	06/20/16	NPS 48-04	Ala Wai Golf Course Driving Range Improvements - NPDES Small MS4 Permit Program	0.25	1,500,000.00
4	06/24/16	77-16	South Maui Recycled Water System Expansion (2nd Tank)	0.25	6,500,000.00
5	06/27/16	NPS 90-06	Na'alehu Sewage Pump Station	0.25	550,000.00
6	06/27/16	60-07	Kulaimano & Papaikou Dewatering and Barminutor Replacement	0.25	2,200,000.00
7	06/27/16	90-07	Na'alehu Wastewater Sewage Transmission, Wastewater Treatment and Disposal System	0.25	6,600,000.00
8	06/29/16	52-59	Countywide Wastewater Reclamation Facility (WWRF) Chlorination System Upgrade	0.25	2,000,000.00
9	06/29/16	54-35	Sheraton Wastewater Pump Station Modifications	0.25	1,000,000.00
10	06/29/16	54-49	Napili Wastewater Pump Station No. 5 Modifications	0.25	2,300,000.00
11	06/29/16	54-50	Napili Wastewater Pump Station No. 6 Modifications	0.25	2,300,000.00
12	06/30/16	48-07	Sand Island WWTP - UV Disinfection and Effluent Pump Station Odor Control System	0.25	10,000,000.00
13	06/30/16	51-78	Honouliuli Influent Pump Station Odor Control System	0.25	10,000,000.00
14	03/15/17	59-23	Hanama'ulu and Kapaia SPS Renovations	0.25	3,000,000.00
15	11/09/17	NPS 59-25	BMP Improvements at Various Refuse Stations	0.25	700,000.00
<b>TOTAL COMMITTED AMOUNT</b>					<b>59,483,482.00</b>

**TOTAL FINAL & INTERIM LOAN & COMMITTED AMOUNT** **\$914,230,281.58**



## **Attachment 2**

### **Statement of Net Position**

State of Hawaii  
Water Pollution Control Revolving Fund  
STATEMENT OF NET POSITION

June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and cash equivalents in State Treasury	\$ 170,393,501.74
Accrued Interest	325,840.98
Accrued Administrative Loan Fees, program	7,377.91
Accrued Administrative Loan Fees, non-program	346,544.58
Accrued interest on investments	31,780.75
Due from state treasury	1,101,720.76
Due from federal government	0.00
Current maturities of loans receivable	<u>31,059,584.55</u>
Total Current Assets	203,266,351.27
ARRA Advance	-
Loans Receivable, net of current maturities	321,166,074.33
Capital Assets	
Office Equipment	60,963.31
Less: Accumulated Depreciation	<u>(52,251.30)</u>
Total Capital Assets	<u>8,712.01</u>
Total Assets	\$ 524,441,137.61
Deferred outflows of resources related to pensions	1,013,110.73
Deferred outflows of resources related to OPEB	<u>219,541.72</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 525,673,790.06</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Payroll Payable	\$ 127,530.33
Accounts Payable	17,928.20
Indirect Payable	-
Accrued Vacation, current portion	<u>70,495.34</u>
Total Current Liabilities	215,953.87
Accrued Vacation, net of current portion	194,329.55
Net Pension liability	3,757,649.86
Net OPEB liability	<u>3,706,468.76</u>
Total Liabilities	7,874,402.04
Deferred inflows of resources related to pensions	47,105.22
Deferred inflows of resources related to OPEB	4,630.79
Net Position	
Net Investment in Capital Assets	8,712.01
Restricted	517,738,940.00
Unrestricted	<u>-</u>
Total Net position	<u>517,747,652.01</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 525,673,790.06</u>

The accompanying notes are an integral part of this statement.

## **Attachment 3**

### **Statement of Revenues, Expenses & Changes in Net Position**

State of Hawaii  
Water Pollution Control Revolving Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

Year Ended June 30, 2018

OPERATING REVENUES

Interest earnings from loans	\$ 1,317,116.88
Administration loan fee earnings, program	61,669.84
Administration loan fee earnings, non-program	<u>1,659,667.77</u>
Total Operating Revenues	3,038,454.49

OPERATING EXPENSES

Administrative expenses for SRF activities	856,986.46
Administrative expenses for State activities, program	-
Administrative expenses for State activities, non-program	1,576,551.13
Principal forgiveness for ARRA	-
Principal forgiveness for SRF	<u>-</u>
Total Operating Expenses	<u>2,433,537.59</u>

OPERATING INCOME (LOSS) 604,916.90

NON-OPERATING REVENUES

Federal contribution	208,305.51
State matching contribution	2,070,000.00
Interest earnings (loss) from investment	1,614,258.15
Non-imposed fringe	<u>15,320.96</u>
Total Non-operating Revenues	<u>3,907,884.62</u>

CHANGE IN NET POSITION 4,512,801.52

NET POSITION

Beginning of year, as previously reported	515,096,701.27
Restatement due to change in accounting principle	<u>(1,861,850.78)</u>
Beginning of year, as restated	513,234,850.49
End of year	<u><u>\$ 517,747,652.01</u></u>

The accompanying notes are an integral part of this statement.

## **Attachment 4**

### **Statement of Cash Flows**

State of Hawaii  
Water Pollution Control Revolving Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

Cash flows from operating activities:	
Personnel costs	\$ (1,788,858.85)
Payments to vendors	<u>(128,055.37)</u>
Net cash flows used in operating activities	(1,916,914.22)
Cash flows from noncapital financing activities:	<u>2,070,000.00</u>
Net cash flows provided by noncapital financing activities	2,070,000.00
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	1,354,878.94
Administrative loan fees	1,725,347.91
Principal repayments on loans	32,891,400.86
Disbursement of loan proceeds	(19,170,188.57)
Interest from investments	<u>981,059.32</u>
Net cash flows provided by investing activities	17,782,498.46
NET INCREASE IN CASH	17,935,584.24
Cash Balance at July 1, 2017	<u>152,457,917.50</u>
Cash Balance at June 30, 2018	<u><u>\$ 170,393,501.74</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ 604,916.90
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,236.69
Principal Forgiveness for ARRA	-
Principal Forgiveness for SRF	-
Interest income from loans	(1,317,116.88)
Administrative loan fees	(1,721,337.61)
IPA expenses	208,305.51
Non-imposed fringe	15,320.96
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Due from state treasury	(3,830.12)
Accrued salaries and other administrative costs	(16,121.37)
Net deferred outflows / inflows of resources	359,506.57
Net pension liability	(92,775.21)
Net OPEB liability	<u>44,980.34</u>
Net cash used by operating activities	<u><u>\$ (1,916,914.22)</u></u>

The accompanying notes are an integral part of this statement.

## **Attachment 5**

### **Notes to Financial Statements**

**NOTE A - ESTABLISHMENT AND PURPOSE OF THE WPCRF**

In accordance with the Clean Water Act of 1987 (the Act), the U.S. Environmental Protection Agency's (EPA) direct grants for the construction of wastewater treatment works ended in 1990. The Act provides for the creation of a State Revolving Fund (SRF) loan program to be capitalized in part by federal funds. The Act authorizes states to make loans for construction of publicly owned wastewater treatment works, for implementation of a non-point source pollution control management program and for implementation of an estuary conservation and management program. The SRF serves as the major federal funding source for future wastewater construction projects. Under the Act, from 1989 to 1994, the State of Hawaii received more than \$72.7 million in SRF capitalization grants. The Act expired on September 30, 1995, however the state continues to receive SRF capitalization grants annually from the U.S. EPA and to date, has been awarded over \$304.6 million.

In 1988, the Hawaii State Legislature established a State Water Pollution Control Revolving Fund (WPCRF) program to initiate the federal loan program. The purpose of the WPCRF is to provide loans in perpetuity to county and state agencies for the construction of wastewater treatment facilities and for non-point source projects. Such loans may be at or below market interest rates and be fully amortized for a period not to exceed 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.

In the early years of the program, some funds were used to provide grants, however in March 1991, the state stopped the practice of awarding grants. In 1996, Act 81 was passed and curtailed the Director's authority to provide grants from the WPCRF. Currently, the WPCRF is a loan program.

**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 Department of Health (DOH), State of Hawaii that is attributable to the transactions of the WPCRF.

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



## 2. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus 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 providing 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 WPCRF 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 position is 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.

## 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 property and 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 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 DOH. These costs include the DOH and the state's overhead which the DOH does not assess to the SRF.

**6. Fund Accounts**

The WPCRF consists of the State Revolving Fund (SRF) and state activity. The SRF consists of the state match, federal capitalization grant loans, federal set-aside funds, Water Resources Reform and Development Act (WRRDA) administrative funds, principal loan repayments, and interest from loans and investments.

The state activity consists of administration loan fees and state loan 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.

**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.

Included in accrued vacation is compensatory time off (CTO). Employees may elect to take CTO in lieu of cash payment for overtime worked. CTO can be accumulated up to 240 hours.

**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, 2018, accumulated sick leave was approximately \$862,500.

#### 10. Post-employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at their fair value.

#### 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 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 WPCRF federal grants an indirect cost on direct salaries and wages, including all fringe benefits. The cost 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."

15. Newly Issued Accounting Pronouncements

During fiscal year 2018, the WPCRF implemented GASB Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The Statement required the liability of employers for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position.

Adoption of GASB 75 has resulted in the restatement of the WPCRF's fiscal year 2017 financial statements to reflect the reporting of a net OPEB liability and deferred outflows of resources related to OPEB in accordance with the provisions of GASB 75. As of July 1, 2017, the WPCRF recorded a net OPEB liability and deferred outflows of resources related to OPEB of \$3,661,488 and \$184,246, respectively. The impact of the restatement to beginning net position is as follows:

	2017 (As Previously Reports)	Restatement Adjustment	2017 (As Restated)
Net position at beginning of year	<u>\$515,096,701.27</u>	<u>\$(1,861,850.78)</u>	<u>\$513,234,850.49</u>

**NOTE C - CASH AND CASH EQUIVALENTS**

All monies of the WPCRF 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 was 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 can be categorized to give an indication of the level of risk assumed by the WPCRF. 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 WPCRF'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 WPCRF's name.

Since all of the WPCRF'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, 2018 the WPCRF had loans receivable from the following government entities:

SRF Activity

Fifteen loans with the City & County of Honolulu; due in annual or semiannual payments, including interest ranging from 0.00% to 2.96%, 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 date.

\$230,299,155.26

Eight loans with the County of Hawaii; due in annual or semiannual payments, including interest ranging from 0.25% to 0.50%, 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 date.

\$ 35,647,869.54

SRF Activity

Twenty-eight loans with the County of Maui; due in annual or semiannual payments, including interest ranging from 0.25% to 0.50%, 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 date.

\$ 62,121,822.68

Ten loans with the County of Kauai; due in semiannual or quarterly payments, including interest ranging from 0.25% to 2.13%, 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 date.

\$ 24,156,811.40

Total \$352,225,658.88

Loans mature at various dates through 2039. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2019	\$	31,059,584.55
SFY2020	\$	29,952,400.22
SFY2021	\$	29,852,115.14
SFY2022	\$	29,798,719.17
SFY2023	\$	29,067,321.63
Thereafter	\$	202,495,518.17
	\$	<u>352,225,658.88</u>

As of June 30, 2018, interest accrued receivable, program loan fee accrued receivable, and non-program loan fee accrued receivable on loans totaled \$325,840.98, \$7,377.91, and \$346,544.58, 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, 2018, the WPCRF has committed additional funding to the following counties:

City & County of Honolulu	\$ 32,333,482.00
County of Hawaii	15,282,850.00
County of Maui	17,260,684.00
County of Kauai	<u>3,700,000.00</u>
Total	\$ 68,577,016.00



NOTE E – FEDERAL FUNDING AND STATE MATCH

The WPCRF is capitalized by grants from EPA authorized by Title VI of the Clean Water Act with matching funds from the state. As of June 30, 2018, the EPA has awarded \$304,647,248.00 to the State of Hawaii, of which \$293,481,748.00 has been drawn for loans and program administration expenses. The state has also legislated and committed matching funds of \$60,929,450.67.

The table below summarizes the capitalization grants awarded to the WPCRF, the amounts drawn on each grant, and the funds available for future activity as of June 30, 2018:

<u>Budget Period</u>	<u>FFY</u>	<u>Amount</u>	<u>Total Cash Draws</u>	<u>EPA Draws (deducted prior to issuance of cap grant)</u>	<u>Funds Available</u>
<b>Balance from previous years:</b>	<b>89-06</b>	<b>\$195,144,248.00</b>	<b>\$195,141,748.00</b>	<b>\$ 2,500.00<sup>1</sup></b>	<b>\$ -</b>
03/01/08 - 06/30/17	07	\$ 8,273,000.00	\$ 8,273,000.00	\$ -	\$ -
10/01/08 - 06/30/16	08	\$ 5,223,500.00	\$ 5,223,500.00	\$ -	\$ -
12/31/09 - 06/30/16	09	\$ 5,223,500.00	\$ 5,223,500.00	\$ -	\$ -
04/01/11 - 06/30/17	10	\$ 15,781,000.00	\$ 15,781,000.00	\$ -	\$ -
09/30/11 - 06/30/18	11	\$ 11,436,000.00	\$ 11,436,000.00	\$ -	\$ -
09/28/12 - 06/30/19	12	\$ 10,946,000.00	\$ 10,946,000.00	\$ -	\$ -
09/30/13 - 06/30/20	13	\$ 10,341,000.00	\$ 9,991,000.00	\$ 350,000.00 <sup>1</sup>	\$ -
10/01/14 – 06/30/21	14	\$ 10,859,000.00	\$ 10,859,000.00	\$ -	\$ -
10/01/15 – 06/30/19	15	\$ 10,804,000.00	\$ 10,574,000.00	\$ 230,000.00 <sup>1</sup>	\$ -
10/01/16 – 06/30/20	16	\$ 10,348,000.00	\$ 10,033,000.00	\$ 315,000.00 <sup>1</sup>	\$ -
10/01/17 – 06/30/21	17	\$ 10,268,000.00	\$ -	\$ 850,000.00 <sup>1</sup>	\$ 9,418,000.00
		\$304,647,248.00	\$293,481,748.00	\$ 1,747,500.00	\$ 9,418,000.00

1 \$2,500 was used to pay for an EPA County workshop. \$350,000, \$230,000, and \$315,000 were used to pay for the Northbridge contract. \$250,000.00 of the \$315,000.00 was used to pay for the Northbridge contract and the remaining \$600,000.00 was used for the COH FSP project funds. These expenses were deducted from the Admin fund prior to the issuance of the FFY2005, FFY2013, FFY2015, FFY2016, and FFY2017 cap grants; and are recorded in EPA's records and not in FAMIS.

The table below summarizes the state match funds received for each EPA capitalization grant awarded to the WPCRF, the federal fiscal year (grant year), the source of state funds, and the dollar amount of state match for each EPA capitalization grant as of June 30, 2018.

<u>Federal Fiscal Year</u>	<u>Source of State Funds</u>		<u>20% State Match Amount</u>
		<b>Balance from previous years (1989 – 2006):</b>	<b><u>\$39,028,850.67</u></b>
2007	Act 281/00	\$154,696.00	
	Act 259/01	21,386.00	
	Act 177/02	28,979.00	
	Act 200/03	34,403.00	
	Act 41/04	33,156.00	
	Act 178/05	386,980.00	
	Act 213/07	<u>995,000.00</u>	\$ 1,654,600.00
2008	Act 158/08		\$ 1,044,700.00
2009	Act 162/09		\$ 1,044,700.00
2010	Act 180/10		\$ 3,156,200.00
2011	Act 164/11		\$ 2,287,200.00
2012	Act 106/12		\$ 2,189,200.00
2013	Act 134/13		\$ 2,068,200.00
2014	Act 122/14		\$ 2,171,800.00
2015	Act 119/15		\$ 2,160,800.00
2016	Act 124/16		\$ 2,069,600.00
2017	Act 49/17		<u>\$ 2,053,600.00</u>
		<b>Total State Match</b>	<b><u>\$60,929,450.67</u></b>

NOTE F - EQUIPMENT

The following are the changes in equipment and accumulated depreciation during SFY 2018:

	<u>Balance at July 1, 2017</u>	<u>SFY 2018</u>		<u>Balance at June 30, 2018</u>
		<u>Increases</u>	<u>Decreases</u>	
Equipment	\$84,517.80	\$ 8,897.37	\$32,451.86	\$60,963.31
Accumulated Depreciation	(83,466.47)	(1,236.69)	(32,451.86)	(52,251.30)
	<u>\$1,051.33</u>	<u>(\$7,660.68)</u>	<u>\$ -</u>	<u>\$8,712.01</u>

**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.hawaii.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.

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.

- 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.

- 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

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.

*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 2018 were 25.00% for police and firefighters and 17.00% for all other employees. Contributions to the pension plan from the Fund were \$194,777 for the fiscal year ended June 30, 2018.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for all employees, except for police officers and firefighters, increases to 18.00% on July 1, 2017; 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24% on July 1, 2020.

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, 2018, the WPCRF reported a liability of \$3,757,650 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2017, 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 WPCRF'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, 2017 and 2016, the WPCRF's proportion of the State's proportion was 0.05%.



There were no other changes in assumptions between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2018, the WPCRF recognized pension expense of \$492,174. At June 30, 2018, the WPCRF 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	\$ 37,354	\$ (38,474)
Changes in assumptions	560,741	--
Net difference between projected and actual earnings on pension plan investments	207,683	--
Changes in proportion and difference between WPCRF contributions and proportionate share of contributions	12,555	(8,631)
WPCRF contributions subsequent to the measurement date	<u>194,777</u>	<u>--</u>
	<u>\$ 1,013,110</u>	<u>\$ (47,105)</u>

The \$194,777 reported as deferred outflows of resources related to pensions resulting from WPCRF contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. 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>
2019	\$ 583,962
2020	86,000
2021	72,331
2022	28,351
2023	584
Total	<u>\$ 771,228</u>

*Actuarial Assumptions*

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees’ Retirement System of the State of Hawaii, on December 12, 2016, based on the most recent experience study dated July 5, 2016:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

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 geometric real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63.0%	5.8%
Principal protection	7.0%	0.2%
Real return	10.0%	3.6%
Crisis risk offset	20.0%	3.1%
	100%	

*Discount Rate*

The discount rate used to measure the net pension liability was 7.00%, the same 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 periods of projected benefit payments to determine the total pension liability.

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

The following presents the WPCRF’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the WPCRF’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
WPCRF’s proportionate share of the net pension liability	<u>\$4,751,492</u>	<u>\$3,757,650</u>	<u>\$2,769,876</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>.

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, 2018, there were no payables to the ERS.

### **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.

#### *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 Annual Required Contribution (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.

*Contributions*

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the WPCRF were approximately \$220,000 for the fiscal year ended June 30, 2018. The employer is required to make all contributions for members.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At June 30, 2018, the WPCRF reported a liability of \$3,706,469 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State’s proportion of the net OPEB liability was based on a projection of the State’s long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The WPCRF’s proportion of the net OPEB liability was based on an allocation of the State’s net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2017 and 2016, the WPCRF’s proportion of the State’s share was 0.04%.

There were no changes in assumptions between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

For the year ended June 30, 2018, the WPCRF recognized OPEB expense of \$233,858. At June 30, 2018, the WPCRF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ --
Changes in assumptions	--	--
Net difference between projected and actual earnings on investments	--	(4,631)
WPCRF contributions subsequent to the measurement date	219,542	--
	<u>\$ 219,542</u>	<u>\$ (4,631)</u>

The \$219,542 reported as deferred outflows of resources related to OPEB resulting from WPCRF contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
2019	\$ (926)
2020	(926)
2021	(926)
2022	(926)
2023	(927)
Total	<u>\$ (4,631)</u>

*Actuarial Assumptions*

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%, net of investment expenses, including inflation
Demographic assumptions	Based on the experience study covering the five year period ended June 30, 2015, as conducted for the ERS System-specific mortality tables utilizing scale BB to project generational mortality improvement
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution (BMC). Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50 %, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare trend rates:	
PPO*	Initial rates of 6.60%, 6.60%, and 9.00%; declining to a rate of 4.86% after 14 years
HMO*	Initial rate of 9.00%; declining to a rate of 4.86% after 14 years
Part B & BMC	Initial rates of 2.00% and 5.00%; declining to a rate of 4.70% after 14 years
Dental	3.50%
Vision	2.50%
Life insurance	0.00%

\* Blended rates for medical and prescription drug.

The long-term expected rate of return on EUTF’s investments was determined using a building-block method 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 Rate of Return
U.S. Equity	19.00%	5.50%
International equity	19.00%	7.00%
U.S. microcap	7.00%	7.00%
Private equity	10.00%	9.25%
REITs	6.00%	5.85%
Core real estate	10.00%	3.80%
Global options	7.00%	5.50%
Core bonds	3.00%	0.55%
Long treasuries	7.00%	1.90%
Trend following	7.00%	1.75%
TIPS	5.00%	0.50%
	100.0%	

#### *Discount Rate*

Projected benefits payments are required to be discounted to their actual present values using a single discount rate that reflects (1) a long-term expected rate of return on the EUTF's investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

A single discount rate of 7.00% was used to measure the total OPEB liability. This discount rate was based on the expected rate of return on the EUTF's investments of 7.00%. Beginning with the fiscal year 2019 contributions, the State's funding policy is to pay the recommended actuarially determined contributions, which is based on layered, closed amortization periods. As a result, the EUTF's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on EUTF's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.



*Changes in Net OPEB Liability*

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2017.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning Balance	\$ 3,853,739	\$ 192,251	\$ 3,661,488
Service Cost	61,715	--	61,715
Interest on the total OPEB liability	187,393	--	187,393
Changes of benefit terms	--	--	--
Difference between expected and actual experience	--	--	--
Changes of assumptions	--	--	--
Employer contributions	--	184,246	(184,246)
Net investment income	--	18,447	(18,447)
Benefit payments	(92,650)	(92,650)	--
Administrative expense	--	(47)	47
Other	--	1,481	(1,481)
Net Changes	156,458	111,477	44,981
Ending balance	4,010,197	303,728	3,706,469

*Sensitivity of the WPCRF's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the WPCRF's proportionate share of the net OPEB liability calculated using the discount rate of 7.00%, as well as what the WPCRF's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
WPCRF's proportionate share of the net OPEB liability	\$4,350,218	\$3,706,469	\$3,185,542

*Sensitivity of the WPCRF’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate*

The following presents the WPCRF’s proportionate share of the net OPEB liability calculated using current healthcare cost trend rates, as well as what the WPCRF’s proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
WPCRF’s proportionate share of the net OPEB liability	<u>\$3,155,548</u>	<u>\$3,706,469</u>	<u>\$4,401,793</u>

*OPEB Plan Fiduciary Net Position*

The OPEB plan’s fiduciary net position is determined on the same basis used by the OPEB plan. The EUTF’s financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Employer 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 EUTF financial report. EUTF’s complete financial statements are available at <http://eutf.hawaii.gov>.

*Required Supplementary Information and Disclosures*

The State’s CAFR includes the required footnote disclosures and supplementary information on the State’s OPEB plan.

**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 DOH is covered by the State's self-insured workers' compensation program for medical expenses of injured Department employees. However, the DOH is required to pay temporary total and temporary partial disability benefits as long as the employee is on the DOH'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.