

DAVID Y. IGE  
GOVERNOR OF HAWAII



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DIRECTOR OF HEALTH  
**DEPT. COMM. NO. 320**

**STATE OF HAWAII**  
**DEPARTMENT OF HEALTH**  
P. O. BOX 3378  
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In reply, please refer to:

December 26, 2019

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

The Honorable Scott K. Saiki, Speaker  
and Members of the House of  
Representatives  
Thirtieth State Legislature  
State Capitol, Room 431  
Honolulu, Hawaii 96813

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

For your information and consideration, I am transmitting a copy of the Annual Report of the State of Hawaii Water Pollution Control Revolving Fund pursuant to Section 342D-82 of the Hawaii Revisited Statutes (HRS).

In accordance with Section 93-16, HRS, I am also informing you that the report may be viewed electronically at:

<https://health.hawaii.gov/opppd/department-of-health-reports-to-2020-legislature/>

Sincerely,

A handwritten signature in black ink that reads "Bruce S. Anderson".

Bruce S. Anderson, Ph.D.  
Director of Health

Enclosures

**Report to the Thirtieth Legislature  
State of Hawaii  
2020**

**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 2019**

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## 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) 2019, which began on July 1, 2018 and ended on June 30, 2019. The purpose of this report is to describe the progress in meeting goals set forth in the program's Intended Use Plan for SFY 2019, and to discuss the sources and uses of funds during SFY 2019.

### B. Executive Summary

The WPCRF Program is in its 30<sup>th</sup> year of operation and continues to provide low-interest loans to Hawai'i'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 2019, Hawai'i received a federal capitalization grant of \$12,431,000.00 and state matching funds of \$2,054,000.00 for a total of \$14,485,000.00. Total funds committed during this period totaled \$69,235,331.90.

### 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 2019.

**Table 1: SFY 2019 Commitment Notices**

County	Project No.	Project Name	Loan Amount	Date Issued	District	
					House	Senate
Kaua'i	C150059-23	Hanama'ulu and Kapaia SPS Renovations	\$ 4,000,000.00	9/12/2018	15	8
Kaua'i	C150059-25	BMP Improvements at Various Refuse Stations	\$ 1,100,000.00	9/14/2018	16	8
Hawai'i	NPS0080-24	Kealakehe Scrap Metal Yard Remediation	\$ 9,430,765.35	2/19/2019	6	3
Honolulu	C150048-06	Dowsett Highlands Relief Sewer	\$ 50,000,000.00	3/5/2019	25, 27	13
Hawai'i	NPS0062-42	South Hilo Sanitary Landfill Final Closure	\$ 22,000,000.00	3/20/2019	2	1
Kaua'i	C150059-20	Lihue WWTP Process Improvements	\$ 3,500,000.00	6/4/2019	16	8
Hawai'i	C150062-31	Lanikai Wastewater Pump Station Force Main Replacement	\$ 1,100,000.00	6/17/2019	6	3
<b>Total</b>			<b>\$ 91,130,765.35</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 executed. 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 executed during SFY 2019 are based on final loans and loan amendments.

**Table 2: Total Funds Executed in SFY 2019 Based on Final Loans and Loan Amendments**

County	Project No.	Loan Type	Project Name	Loan Amount	Date Executed	District	
						House	Senate
Honolulu	C150048-07	F	Sand Island WWTP - UV Disinfection and Effluent Pump Station Odor Control System	\$ 9,192,960.72	12/15/2018	30	15
Honolulu	C150051-78	F	Honouliuli Influent Pump Station Odor Control System	\$ 8,827,000.00	12/15/2018	41	19
Honolulu	C150046-70	S2	Sand Island Wastewater Treatment Plant Primary Expansion Phase 1	\$ -	1/15/2019	30	13
Maui	C150077-25	CM	Kulanihakoi Street Recycled Water Line Extension	\$ (477.45)	1/31/2019	11	6
Maui	NPS0052-64	F	Central Maui Landfill Phase V-B Extension	\$ 3,624,388.94	3/15/2019	9	5
Honolulu	C150048-06	F	Dowsett Highlands Relief Sewer	\$ 43,000,000.00	5/15/2019	25, 27	13
Maui	C150077-16	F	South Maui Recycled Water System Expansion (2nd Tank)	\$ 5,023,000.00	5/15/2019	10	5
Kaua'i	NPS0047-11	CM	Gas Collection & Control System For Kekaha Landfill	\$ (431,540.31)	4/30/2019	16	8
<b>Total</b>				<b>\$ 69,235,331.90</b>			

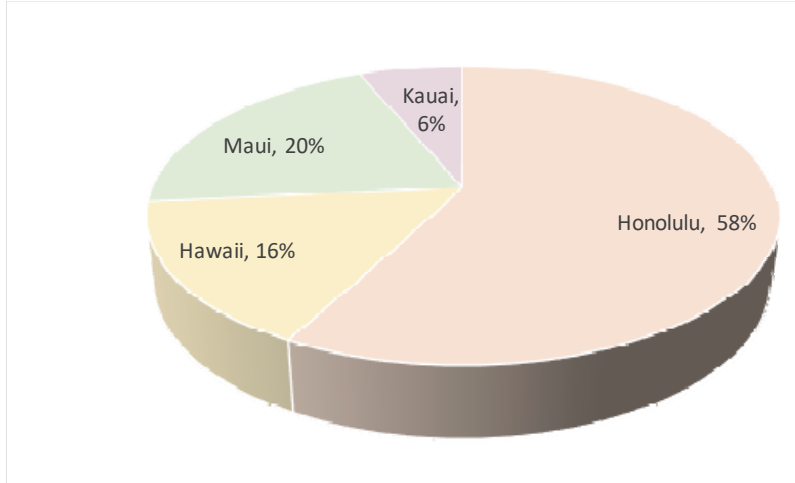
**D. Total Funds Committed**

From SFY 1991 through SFY 2019, the WPCRF has committed \$987,736,098.83 *Table 3* and *Figure 1* show the breakdown of loans by county.

**Table 3: Cumulative Committed Amounts**

County	Cumulative Loan Amount	Percent of Total Amount
Honolulu	\$ 570,491,874.83	58%
Hawai'i	\$ 155,809,014.99	16%
Maui	\$ 198,972,535.76	20%
Kaua'i	\$ 62,462,673.25	6%
<b>Total</b>	<b>\$ 987,736,098.83</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 53/18, the Hawai'i Legislature appropriated \$2,054,000.00 in general obligation bond funds for the required state match to the FFY 2018 EPA Clean Water State Revolving Fund (CWSRF) Capitalization Grant. The state match was transferred to the WPCRF's account in December 2018. Since Hawai'i 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 \$12,431,000.00 grant amount (i.e. \$14,917,200.00) was satisfied. During SFY 2019, five (5) final loans and three (3) loan amendments were executed, totaling \$69,235,331.90.

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 2019**

SFY	FFY	Grant Amount	GPR Required	GPR Project	GPR Amount	GPR Met?
2019	2018	\$ 12,431,000.00	\$ 1,243,100.00	South Maui Recycled Water System Expansion (2nd Tank)	\$ 5,023,000.00	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 for SFY 2019**

SFY	FFY	Grant Amount	FFATA Project	FFATA Amount	Percent Met?
2019	2018	\$12,431,000.00	Honouliuli Influent Pump Station Odor Control System	\$ 4,831,000.00	38.9%
			Sand Island WWTP - UV Disinfection and Effluent Pump Station Odor Control System	\$ 7,600,000.00	61.1%
				\$12,431,000.00	100.0%

Regarding the previous year’s FFATA reporting, the funded project was updated on the FFATA Subaward Reporting System (FSRS). *Table 6* shows the following:

- the funded project that was reported in the annual report for SFY 2018 and originally reported in FSRS and
- the updated funded project that was revised in FSRS.

**Table 6: FFATA Reporting for SFY 2018**

FFATA Project Reported in SFY 2018 Annual Report					
SFY	FFY	Grant Amount*	FFATA 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%
Updated FFATA Project					
SFY	FFY	Grant Amount*	FFATA Project	FFATA Amount	Percent Met?
2018	2017	\$ 9,418,000.00	Lahaina Wastewater Reclamation Facility Modifications, Stage 1A [Supplemental #1]	\$ 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".

The following are notable AIS issues that were resolved and completed:

- C150052-60 Wailuku-Kahului Wastewater Reclamation Facility Solids Building Renovation: On September 24, 2018, the County of Maui engineer informed the Department of Health (DOH) that the contractor had not yet submitted the AIS final manufacturer certification letter and requested advice; that same day, the DOH informed the EPA Hawai'i office of the possible situation and requested a teleconference meeting to discuss. On September 25, 2018, the DOH teleconferenced with the EPA and possible non-compliance letter and action were discussed. On November 12, 2018, the contractor submitted the AIS final manufacturer certification letter to the County of Maui. On November 20, 2018, the County of Maui submitted the AIS final manufacturer certification letter to the DOH. This AIS issue was resolved and closed.
- C150051-81 Honouliuli WWTP Secondary Treatment Phase 1B - Secondary Compliance Facilities: On March 1, 2019, the contractor contacted the DOH regarding a possible AIS project waiver request. On March 6, 2019, the DOH informed the EPA Hawai'i office of the possible AIS project waiver request. On March 20, 2019, the DOH submitted the AIS project waiver request to the EPA. On June 7, 2019, the EPA granted a project waiver of AIS requirements to the City and County of Honolulu for large diameter butterfly valves. This AIS issue was resolved and closed.

## 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.

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 7* shows how Additional Subsidy requirements will be met.

**Table 7: Additional Subsidy for SFY 2019**

SFY	FFY	Grant	Required 10% of Grant	Additional Subsidy Project	Add. Sub. Amount
2019	2018	\$ 12,431,000.00	\$ 1,243,100.00	South Maui Recycled Water System Expansion (2nd Tank)	\$ 1,243,100.00
<b>Total</b>					<b>\$1,243,100.00</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 2019 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 the two (2) following projects in January 2019:

- Honouliuli Influent Pump Station Odor Control System
- Sand Island WWTP – UV Disinfection and Effluent Pump Station Odor Control System

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 Hawai'i DOH 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 the Hawai'i State Environmental Review Process (SERP), Hawai'i Revised Statutes, Chapter 343, and Hawai'i Administrative Rules, Chapter 11-200.

Prepared documents were published by the State of Hawai'i 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 2019 was drafted, made available for public comment, published in April 2018, and included with Hawai'i'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 Hawai'i'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 Hawai'i'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 Kealakehe Wastewater Treatment Plant R-1 Upgrade project will produce R-1 water for re-use purposes. The project will be almost complete with the pre-design phase, has started the design phase, and will proceed to the construction phase in the near future.

The South Maui Recycled Water System Expansion (2<sup>nd</sup> Tank) project will construct a new 2<sup>nd</sup> 1,000,000-gallon tank for storage of R-1 recycled water and upgrade the flow meter, 14-inch to 18-inch piping, and feeding tank at the Wastewater Reclamation Facility. The construction phase started July 1, 2019 and is scheduled to be completed July 1, 2021.

- 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 Hawai'i'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 2019, 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 project 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 South Maui Recycled Water System Expansion (2nd Tank) project will construct a new 2nd 1,000,000-gallon tank for storage of R-1 recycled water and upgrade the flow meter, 14-inch to 18-inch piping, and feeding tank at the Wastewater Reclamation Facility. The construction phase started July 1, 2019 and is scheduled to be completed July 1, 2021.

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

- a. The Dowsett Highlands Relief Sewer project includes construction of relief sewers, upsizing of existing sewers, and sewer rehabilitation, in the area of Dowsett Highlands and Nu'uauu for purposes of addressing inflow/infiltration in accordance with requirements of the 2010 Consent Decree. The project also addresses updated flow projections. A new gravity relief sewer is recommended to divert flows away from sewers with capacity issues identified, with the goal of alleviating flow surcharge conditions, which could cause sanitary sewer overflows during wet weather events. The relief sewer alignment is proposed along portions of Nu'uauu Pali Drive, Pali Highway, Nu'uauu Avenue, and Dowsett Avenue, to the intersection of Nu'uauu Avenue and School Street. The work also includes some rehabilitation of existing sewers and manholes, which will help meet the goals of the project.

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

- a. The Sand Island WWTP – UV Disinfection and Effluent Pump Station Odor Control System project includes construction for the UV disinfection and effluent pump station facilities. The new system will include new covers, ducting, fans, and carbon scrubber system for treating odors. The carbon system is suitable for this low sulfide application and is an energy efficient and sustainable technology, using less water and chemicals than other alternatives. Also, the motors, fans, and ducts will be designed for high efficiency for the work performed.

- b. Honouliuli Influent Pump Station Odor Control System project includes construction of a new odor control system for the headworks area. The new system will include an upgraded fan system and new underground air duct system with capacity to draw more air from the air spaces in the wetwell and influent trunk sewers. The project includes a new biofilter odor treatment system. The biological treatment system was selected in part because of its energy efficiency and reduced use of chemicals. Also, the motors, fans, and ducts will be designed for high efficiency for the work performed as compared to the existing system.

4. Non-Point Source Projects

- a. Central Maui Landfill Phase V-B Extension project includes construction of the liner and drainage for the next 4.7-acre lateral expansion (i.e. Phase V-B) in accordance with RCRA Subtitle D Regulations (HAR 11-58). Phase IV and Phase V are reaching final elevations and it is necessary for the next lateral expansion to be constructed to continue solid waste landfilling.

**H. Future Projects**

Future projects include those listed in the IUP for the next fiscal year (SFY 2020) and those with commitment notices. *Table 8* lists interim loans executed (ILE) before and commitment notices (CN) issued during SFY 2019.

**Table 8: SFY 2019 Future Projects**

County	Project No.	Project Name	Loan Amount	ILE / CN	District	
					House	Senate
Honolulu	C150051-80	Honouliuli WWTP Secondary Treatment Phase 1A - Sludge Drying and Related Facilities	\$ 27,740,890.00	N/A	41	19
Honolulu	C150051-81	Honouliuli WWTP Secondary Treatment Phase 1B - Secondary Compliance Facilities	\$ 30,000,000.00	N/A	41	19
Honolulu	C150051-76	Honouliuli Water Recycling Facility R-1 Pre-Treatment and UV Disinfection Improvements	\$ 8,381,046.27	9/24/2015	41, 42	19, 20
Honolulu	C150048-06 [S1]	Dowsett Highlands Relief Sewer [Supplemental #1]	\$ 20,112,602.00	N/A	25, 27	13
Kaua'i	NPS0047-12 [S1]	Kekaha Landfill Lateral Expansion Cell 2 [Supplemental #1]	\$ 13,527,256.98	6/30/2016	16	8
Hawai'i	NPS0080-24 [S1]	Kealakehe Scrap Metal Yard Remediation [Supplemental #1]	\$ 3,448,855.35	2/19/2019	6	3
Hawai'i	NPS0062-42 [S1]	South Hilo Sanitary Landfill Final Closure [Supplemental #1]	\$ 20,530,645.00	3/20/2019	2	1
Hawai'i	C150080-35 [S2]	Kealakehe Wastewater Treatment Plant R-1 Upgrade [Supplemental #2]	\$ 15,133,454.00	9/13/2019	6	3
Kaua'i	C150059-20	Lihue WWTP Process Improvements	\$ 3,500,000.00	6/4/2019	16	8
Kaua'i	C150059-23	Hanama'ulu and Kapaia SPS Renovations	\$ 4,000,000.00	9/12/2018	15	8
Kaua'i	NPS0059-25	BMP Improvements at Various Refuse Stations	\$ 1,100,000.00	9/14/2018	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 2019:

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 2019 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 \$317,078,248.00 in federal capitalization grants. Of the total amount, \$309,231,447.43 has been allocated to fund loans for eligible WPCRF projects.

Hawai'i 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 9* summarizes the funds received and allocated for loans.

**Table 9: Funds Received and Loan Allocations**

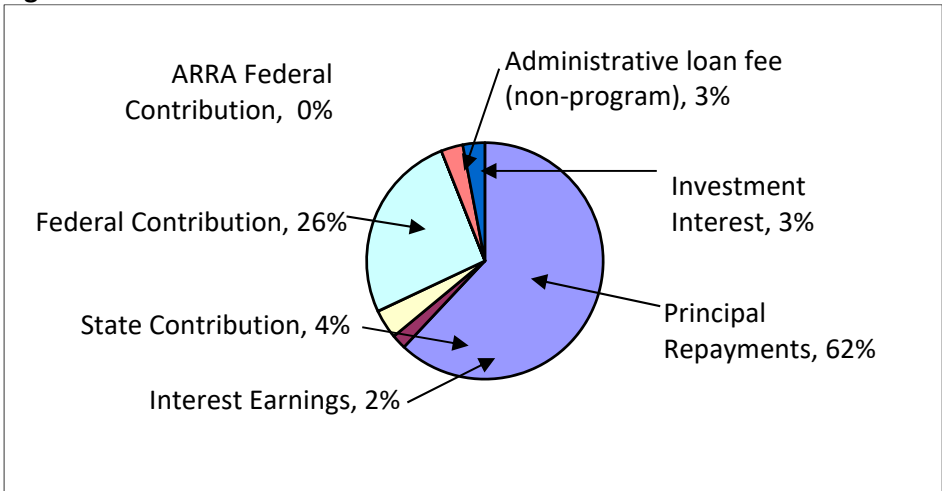
Source	Amount
EPA capitalization grant funds	
Amount received since program inception	\$ 317,078,248.00
Amount allocated for loans	\$ 309,231,447.43
Percent allocated for loans	98%
ARRA funds	
Amount received	\$ 30,352,300.00
Amount allocated for loans	\$ 29,752,300.00
Percent allocated for loans	98%

#### 1. Sources of Cash

*Figure 2* shows sources of cash received or funds drawn upon by the program in SFY 2019.



**Figure 2: Sources of Cash for SFY 2019**



2. Automated Standard Application for Payments (ASAP)

Table 10 shows funds drawn from the ASAP payment system during SFY 2019.

**Table 10: ASAP Draws in SFY 2019**

Source	Amount
EPA capitalization grant funds	\$ 12,979,853.15
ARRA funds	\$ -
<b>Total</b>	<b>\$ 12,979,853.15</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 11 shows a breakdown of these funds received in SFY 2019.

**Table 11: Loan Repayments and Investment Interest**

Source	Amount	Activity Code
Principal repayments from federal funds	\$ 31,188,915.18	402
Interest from federal funds	\$ 1,209,209.43	403
Principal repayments from state funds	\$ -	406
Interest from state funds	\$ -	407
Investment interest	\$ 1,285,595.61	-
<b>Total</b>	<b>\$ 33,683,720.22</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 12* shows loan fees collected and operating expenses for SFY 2019.

**Table 12: Collected Fees and Operating Expenses**

Program fees	\$ -
Non-program fees	\$ 1,705,175.74
Operating Expenses	<b>\$ (2,198,161.09)</b>

5. Loan Disbursements

*Table 13* shows loan disbursements for SFY 2019.

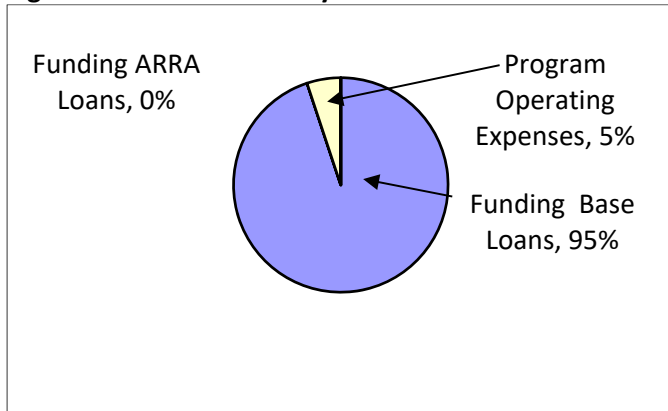
**Table 13: Loan Disbursements**

Base loan funds	\$ 40,785,534.95
ARRA loan funds	\$ -
<b>Total</b>	<b>\$ 40,785,534.95</b>

6. Total Cash Outlays

*Figure 3* shows total cash outlays for SFY 2019.

**Figure 3: Total Cash Outlays for SFY 2019**



**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 14* 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 14: 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	\$ 570,491,874.83	Aa1/AA+	58%
County of Hawai'i	\$ 155,809,014.99	Aa2/AA+	16%
County of Maui	\$ 198,972,535.76	Aa1/AA+	20%
County of Kaua'i	\$ 62,462,673.25	Aa2/AA	6%
<b>Totals</b>	<b>\$ 987,736,098.83</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 Hawai'i Revised Statutes, §342D-34.

The DOH selected the accounting firm KMH LLP to perform an independent audit of the WPCRF Program's activities and financial statements for SFY 2019. The audit is in progress.

The previous audit for SFY 2018 was performed and completed by the accounting firm KMH LLP. The auditor's previous report for SFY 2018 was dated November 30, 2018 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, 2018, 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 CWSRF Assistance**

State of Hawaii  
Water Pollution Control Revolving Fund - Year Ending June 30, 2019  
Attachment 1: **Water Pollution Control Revolving Fund Projects Receiving CWSRF Assistance**

**A. FINAL LOANS**

No.	Date	Proj. No.	Project Name on Final Loan	Interest (%)	Amount (\$)
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
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

State of Hawaii  
Water Pollution Control Revolving Fund - Year Ending June 30, 2019  
Attachment 1: **Water Pollution Control Revolving Fund Projects Receiving CWSRF Assistance**

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

No.	Date	Proj. No.	Project Name on Final Loan	Interest (%)	Amount (\$)
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
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

State of Hawaii  
Water Pollution Control Revolving Fund - Year Ending June 30, 2019  
Attachment 1: **Water Pollution Control Revolving Fund Projects Receiving CWSRF Assistance**

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

No.	Date	Proj. No.	Project Name on Final Loan	Interest (%)	Amount (\$)
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
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

State of Hawaii  
Water Pollution Control Revolving Fund - Year Ending June 30, 2019  
Attachment 1: **Water Pollution Control Revolving Fund Projects Receiving CWSRF Assistance**

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

No.	Date	Proj. No.	Project Name on Final Loan	Interest (%)	Amount (\$)
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	4,535,205.69
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	1,473,063.59
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
109	12/15/18	48-07	Sand Island WWTP - UV Disinfection and Effluent Pump Station Odor Control System	0.25	9,192,960.72
110	12/15/18	51-78	Honouliuli Influent Pump Station Odor Control System	0.25	8,827,000.00
111	03/15/19	NPS52-64	Central Maui Landfill Phase V-B Extension	0.25	3,624,388.94
112	05/15/19	48-06	Dowsett Highlands Relief Sewer	0.25	43,000,000.00
113	05/15/19	77-16	South Maui Recycled Water System Expansion (2nd Tank)	0.25	5,023,000.00
<b>TOTAL FINAL LOAN AMOUNT</b>					<b>\$914,888,597.48</b>





## **Attachment 2**

### **Statement of Net Position**

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

June 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and cash equivalents in State Treasury	\$ 177,832,554.81
Accrued Interest	314,148.05
Accrued Administrative Loan Fees, program	2,375.42
Accrued Administrative Loan Fees, non-program	393,198.49
Accrued interest on investments	(0.00)
Due from state treasury	3,395,229.76
Due from federal government	0.00
Current maturities of loans receivable	<u>30,912,954.43</u>
Total Current Assets	212,850,460.96
ARRA Advance	-
Loans Receivable, net of current maturities	329,882,524.22
Capital Assets	
Office Equipment	76,970.33
Intangible Assets - software	648,898.63
Less: Accumulated Depreciation and Amortization	<u>(141,995.90)</u>
Total Capital Assets	<u>583,873.06</u>
Total Assets	\$ 543,316,858.24
Deferred outflows of resources related to pensions	918,383.24
Deferred outflows of resources related to OPEB	<u>327,859.72</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 544,563,101.20</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Payroll Payable	\$ 134,715.23
Accounts Payable	8,349.10
Indirect Payable	-
Accrued Vacation, current portion	<u>76,643.95</u>
Total Current Liabilities	219,708.28
Accrued Vacation, net of current portion	150,536.85
Net Pension liability	3,806,865.72
Net OPEB liability	<u>3,736,977.82</u>
Total Liabilities	7,914,088.67
Deferred inflows of resources related to pensions	50,311.86
Deferred inflows of resources related to OPEB	60,961.88
Net Position	
Net Investment in Capital Assets	583,873.06
Restricted	535,953,865.73
Unrestricted	<u>-</u>
Total Net position	<u>536,537,738.79</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 544,563,101.20</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, 2019

OPERATING REVENUES

Interest earnings from loans	\$ 1,197,516.50
Administration loan fee earnings, program	(5,002.49)
Administration loan fee earnings, non-program	<u>1,751,829.65</u>
Total Operating Revenues	2,944,343.66

OPERATING EXPENSES

Administrative expenses for SRF activities	1,016,095.54
Administrative expenses for State activities, program	439,989.27
Administrative expenses for State activities, non-program	1,511,297.98
Principal forgiveness for ARRA	-
Principal forgiveness for SRF	<u>1,026,800.00</u>
Total Operating Expenses	<u>3,994,182.79</u>

OPERATING INCOME (LOSS) (1,049,839.13)

NON-OPERATING REVENUES

Federal contribution	14,228,751.78
State matching contribution	2,054,000.00
Interest earnings (loss) from investment	3,551,153.98
Non-imposed fringe	<u>6,020.15</u>
Total Non-operating Revenues	<u>19,839,925.91</u>

CHANGE IN NET POSITION 18,790,086.78

NET POSITION

Beginning of year	517,747,652.01
End of year	\$ 536,537,738.79

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, 2019

Cash flows from operating activities:	
Personnel costs	\$ (2,032,670.28)
Payments to vendors	<u>(149,483.79)</u>
Net cash flows used in operating activities	(2,182,154.07)
Cash flows from noncapital financing activities:	
Net cash flows provided by noncapital financing activities	<u>15,033,853.15</u>
Cash flows from capital and related financing activities:	
Purchase of equipment	<u>(16,007.02)</u>
Net cash flows used by capital and related financing activities	(16,007.02)
Cash flows from investing activities:	
Interest income from loans	1,209,209.43
Administrative loan fees	1,705,175.74
Principal repayments on loans	31,188,915.18
Disbursement of loan proceeds	(40,785,534.95)
Interest from investments	<u>1,285,595.61</u>
Net cash flows used by investing activities	(5,396,638.99)
NET INCREASE IN CASH	7,439,053.07
Cash Balance at July 1, 2018	<u>170,393,501.74</u>
Cash Balance at June 30, 2019	<u><u>\$ 177,832,554.81</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,049,839.13)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization	89,744.60
Principal Forgiveness for SRF	1,026,800.00
Interest income from loans	(1,197,516.50)
Administrative loan fees	(1,746,827.16)
In-kind contribution from EPA	600,000.00
Non-imposed fringe	6,020.15
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Due from state treasury	3,830.12
Accrued salaries and other administrative costs	(40,038.29)
Net deferred outflows / inflows of resources	45,947.22
Net pension liability	49,215.86
Net OPEB liability	<u>30,509.06</u>
Net cash used by operating activities	<u><u>\$ (2,182,154.07)</u></u>

Supplemental Disclosure of Non-cash Capital and Related Financing Activities:

The Fund received approximately \$649,000 for the year ended June 30, 2019, in contributions of capital assets from governmental agencies, which are recorded as federal contributions at estimated fair value.

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 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 \$317 million.

In 1988, the Hawaii State Legislature established a State Water Pollution Control Revolving Fund (WPCRF or Fund) 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. The Fund is administered by the Wastewater Branch, Environmental Management Division of the Department of Health (DOH), State of Hawaii.

**NOTE B – SIGNIFICANT ACCOUNTING POLICIES****1. Financial Statement Presentation**

The accompanying financial statements are intended to present the financial position, results of operations, and cash flows of only that portion of the State and DOH that is attributable to the transactions of the WPCRF and do not purport to present the financial position, results of operation or cash flows of the State or DOH.

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 revenue. Principal forgiveness for loans is reported as operating expenses.

### 3. 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. These estimates, among others, include the allowance for uncollectible accounts, depreciable lives of capital assets, and the pensions and other postemployment benefits (OPEB) liability.

### 4. Equity in Cash and Cash Equivalents and Investments in State Treasury

All monies of the WPCRF are held in 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. At June 30, 2019, information relating to the types, insurance, collateral, and related interest rate, credit and custodial risks of funds deposited with the State Treasury was not available since such information is determined on a statewide basis and not for individual departments. 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.

#### 5. Loans Receivable

Loans made to the counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan, and request reimbursement from the Fund. Interest is calculated from the date that loan funds are disbursed, and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed, and interest accrued during the project period. The capitalization grants for federal fiscal years 2010 through 2018 allow for portions of loans to be forgiven upon satisfaction of certain requirements.

#### 6. Administrative Loan Fees

The administrative loan fee program pays for the Fund's administration, including employee salaries and benefits. The program applies an administrative loan fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.

#### 7. Capital Assets

Management capitalizes an asset 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 is three to seven years.

#### 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, 2019, accumulated sick leave was approximately \$756,000.

#### 10. Net Position

Net position are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. 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.

WPCRF's net position is classified into two net position categories.

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets.

*Restricted-expendable* consists of restricted assets less liabilities whose use by WPCRF are subject to externally-imposed stipulations that can be fulfilled by actions of WPCRF pursuant to those stipulations or that expire by the passage of time.

#### 11. 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 costs which the DOH does not assess to the WPCRF, since they are not practical to determine.

#### 12. 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.

#### 13. Expenses

The statement of revenues, expenses and changes in net position presents expenses on a functional basis. The natural classifications of expenses are presented in the supplementary schedule of operating expenses.

## 14. 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. The following is a breakdown of deferred outflows of resources and deferred inflows of resources as of June 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 918,383.24	\$ (50,311.86)
Related to Other Postemployment Benefits	327,859.72	(60,961.88)
	<u>\$1,246,242.96</u>	<u>\$ (111,273.74)</u>

## 15. 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.

## 16. Other Post-employment Benefits (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.

## 17. Indirect Cost

The State charges the WPCRF federal grants an indirect cost on direct salaries and wages primarily related to interest income, including all fringe benefits. It is determined based on a negotiated rate.

## 18. 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.

## NOTE C - LOANS RECEIVABLE

At June 30, 2019 the WPCRF had loans receivable from the following government entities:

Fourteen loans with the City & County of Honolulu; due in 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.	\$210,947,199.34
Nine loans with the County of Hawaii; due in 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.	39,693,594.18
Twenty-nine loans with the County of Maui; due in 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.	87,516,790.16
Eleven loans with the County of Kauai; due in semiannual 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.	22,637,894.97
	<u>360,795,478.65</u>
Less: current maturities	(30,912,954.43)
	<u><u>\$329,882,524.22</u></u>

Loans are expected to mature at various dates through 2040. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2020	\$	30,912,954.43
SFY2021	\$	31,822,571.05
SFY2022	\$	31,789,909.77
SFY2023	\$	31,075,727.17
SFY2024	\$	31,114,285.79
SFY2025-2029	\$	128,157,675.93
SFY2030-2034	\$	58,550,083.08
SFY2035-2039	\$	17,104,125.82
SFY2040	\$	268,145.61
		\$ 360,795,478.65

Management believes that all loans will be repaid according to the loan terms or portions will be forgiven upon satisfaction of certain requirements; accordingly, no provision for uncollectible amounts has been recorded.

In fiscal year 2019, \$1,026,800 in loans were forgiven. Loans and advances forgiven are performed in accordance with the required conditions.

As of June 30, 2019, the WPCRF were earmarked to be loaned under existing commitment notices to the following counties:

City & County of Honolulu	\$ 12,333,482.00
County of Hawaii	41,153,335.35
County of Maui	10,760,684.00
County of Kauai	8,600,000.00
Total	\$ 72,847,501.35

## NOTE D – CONTRIBUTED CAPITAL

The WPCRF is capitalized by grants from EPA authorized by Title VI of the Clean Water Act and matching funds from the State. As of June 30, 2019, the EPA has awarded \$317,078,248.00 to the State of Hawaii, of which \$306,461,601.15 has been drawn for loans and program administration expenses.

The following summarizes the EPA capitalization grants, amounts drawn on each grant, and the balances available for future loans at June 30, 2019:

<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	\$ 9,418,000.00	\$ 850,000.00 <sup>1</sup>	\$ -
10/01/18 – 09/30/23	18	\$ 12,431,000.00	\$ 3,561,853.15	\$ -	\$ 8,869,146.85
		\$317,078,248.00	\$ 306,461,601.15	\$ 1,747,500.00	\$ 8,869,146.85

<sup>1</sup> \$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 \$850,000.00 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 State is required to match 20 percent of the estimated amount of the grant from the EPA and does so in the year that the capitalization grant is awarded. Through June 30, 2019, the Fund was in compliance with the 20 percent State matching requirement. The required State match through June 30, 2019 approximated \$63.4 million, of which the entire amount has been utilized.

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, 2019.

<u>Federal Fiscal Year</u>	<u>Source of State Funds</u>	<u>20% State Match Amount</u>
	Balance from previous years (1989 – 2013):	<u>\$52,473,650.67</u>
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	\$ 2,053,600.00
2018	Act 161/89	\$4,889.25
	Act 161/89	105,482.00
	Act 161/89	318,503.00
	Act 328/97	3,325.75
	Act 53/18	<u>2,054,000.00</u>
		<u>\$2,486,200.00</u>
	Total State Match	<u><u>\$63,415,650.67</u></u>

## NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Balance at July 1, 2018	Additions	Retirements / Disposals	Balance at June 30, 2019
Equipment	\$60,963.31	\$ 16,007.02	\$ -	\$ 76,970.33
Intangible Assets - Software	-	648,898.63	-	648,898.63
Accumulated Depreciation	(52,251.30)	(89,744.60)	-	(141,995.90)
	<u>\$ 8,712.01</u>	<u>\$ 575,161.05</u>	<u>\$ -</u>	<u>\$583,873.06</u>

## NOTE F – ACCRUED VACATION

The changes to the accrued vacation liability during 2019 were as follows:

Balance at July 1, 2018	\$ 264,825
Increase	60,379
Decrease	<u>(98,024)</u>
Balance at June 30, 2019	227,181
Less: Current portion	<u>(76,644)</u>
Noncurrent portion	<u><u>\$ 150,537</u></u>

## NOTE G - EMPLOYEE BENEFIT PLANS

**1. Pension Plan***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 Hawaii Revised Statutes (HRS) Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: <http://www.ers.ehawaii.gov>.

*Benefits Provided*

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) 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. For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service 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 2019 were 31% for police and firefighters and 19% for all other employees. Contributions to the pension plan from the Fund were \$229,948 for the fiscal year ended June 30, 2019.

Per Act 17 (Session Laws of Hawaii (SLH) of 2017), employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for all employees, except for police officers and firefighters, increased to 19% on July 1, 2018; and increases to 22% 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, 2019, the WPCRF reported a liability of \$3,806,866 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2018, 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, 2018 and 2017, the WPCRF's proportion of the State's share was 0.04% and 0.05% respectively.

There was no change in actuarial assumptions as of June 30, 2017 to June 30, 2018. There were no changes in assumptions between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2019, the WPCRF recognized pension expense of \$377,098. At June 30, 2019, 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	\$ 43,642	\$ (25,850)
Changes in assumptions	434,853	--
Net difference between projected and actual earnings on pension plan investments	200,897	--
Changes in proportion and difference between WPCRF contributions and proportionate share of contributions	9,043	(24,462)
WPCRF contributions subsequent to the measurement date	<u>229,948</u>	<u>--</u>
	<u>\$ 918,383</u>	<u>\$ (50,312)</u>

The \$229,948 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, 2020. 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>
2020	\$ 176,171
2021	162,502
2022	118,522
2023	90,755
2024	<u>90,173</u>
Total	<u>\$ 638,123</u>



*Actuarial Assumptions*

The total pension liability in the June 30, 2018 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 cost of living allowances.

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 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's Board of Trustees) 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 asset 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%	7.1%
Principal protection	7.0%	2.5%
Real return	10.0%	4.1%
Crisis risk offset	20.0%	4.6%
	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%)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
WPCRF’s proportionate share of the net pension liability	<u>\$4,951,801</u>	<u>\$3,806,866</u>	<u>\$2,863,042</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.ehawaii.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, 2019, there was no payable 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, SLH 2001, the state contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan, effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

#### *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 net OPEB liability, deferred inflows and outflows, and OPEB expense, 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 was approximately \$294,000 for the fiscal year ended June 30, 2019. 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, 2019, the WPCRF reported a liability of \$3,736,978 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2018, 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, 2018 and 2017, the WPCRF's proportion of the State's share was 0.03% and 0.04% respectively.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

For the year ended June 30, 2019, the WPCRF recognized OPEB expense of \$272,306. At June 30, 2019, 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	\$ --	\$ (56,302)
Changes in assumptions	34,076	--
Net difference between projected and actual earnings on investments	--	(4,660)
WPCRF contributions subsequent to the measurement date	293,784	--
	<u>\$ 327,860</u>	<u>\$ (60,962)</u>

The \$293,784 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, 2020. 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>
2020	\$ (5,562)
2021	(5,562)
2022	(5,562)
2023	(5,563)
2024	(4,637)
Total	<u>\$ (26,886)</u>

#### *Actuarial Assumptions*

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five-year period ended June 30, 2015 as conducted for the ERS, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%, net of investment expenses, including inflation
Healthcare trend rates:	
PPO*	Initial rates of 10.00%; declining to a rate of 4.86% after 13 years
HMO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
Contribution	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rates of 5.00% for the first three years; followed by 4.00%
Vision	Initial rates of 0.00% for the first three years; followed by 2.50%
Life insurance	0.00%

\* Blended rates for medical and prescription drug.

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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	15.00%	5.05%
Non-U.S. equity	17.00%	6.50%
U.S. microcap	7.00%	7.00%
Private equity	10.00%	8.65%
Private credit	6.00%	5.25%
Alternative risk premia	5.00%	2.45%
Core real estate	10.00%	4.10%
Global options	7.00%	4.50%
Core bonds	3.00%	1.30%
Long treasuries	6.00%	1.90%
Trend following	9.00%	3.00%
TIPS	5.00%	0.75%
	100.0%	

#### *Single Discount Rate*

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.62% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-year Municipal GO AA Index"). Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan 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, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning Balance	\$ 4,010,197	\$ 303,728	\$ 3,706,469
Service Cost	73,702	--	73,702
Interest on the total OPEB liability	228,199	--	228,199
Changes of benefit terms	--	--	--
Difference between expected and actual experience	(67,477)	--	(67,477)
Changes of assumptions	40,839	--	40,839
Employer contributions	--	219,542	(219,542)
Net investment income	--	25,295	(25,295)
Benefit payments	(111,113)	(111,113)	--
Administrative expense	--	(83)	83
Other	--	--	--
Net Changes	164,150	133,641	30,509
Ending balance	<u>4,174,347</u>	<u>437,369</u>	<u>3,736,978</u>

*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	<u>\$4,418,004</u>	<u>\$3,736,978</u>	<u>\$3,201,858</u>

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

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>\$3,172,694</u>	<u>\$3,736,978</u>	<u>\$4,469,295</u>

*OPEB Plan Fiduciary Net Position*

The OPEB plan's fiduciary net position has been 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 on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The 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.

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