

**Report to the Thirty-First Legislature  
State of Hawaii  
2022**

**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  
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1. Water Pollution Control Revolving Fund Projects Receiving CWSRF Assistance
2. Statement of Net Position
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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) 2021, which began on July 1, 2020 and ended on June 30, 2021. The purpose of this report is to describe the progress in meeting goals set forth in the program's Intended Use Plan for SFY 2021, and to discuss the sources and uses of funds during SFY 2021.

## B. Executive Summary

The WPCRF Program is in its 32<sup>nd</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 2021, Hawai'i received a federal capitalization grant of \$12,308,000.00 and state matching funds of \$2,461,600.00 for a total of \$14,769,600.00. Total funds for new commitments during this period totaled \$52,468,699.79. Total funds executed during this period totaled \$56,963,899.27.

## 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 2021.

**Table 1: SFY 2021 Commitment Notices**

County	Project No.	Project Name	Loan Amount	Date Issued	District	
					House	Senate
Kaua'i	C150059-25	BMP Improvements at Various Refuse Transfer Stations	\$ 14,400,000.00	7/1/2020	16	8
Hawai'i	NPS0062-29	Hilo Scrap Metal Yard Remediation	\$ 1,000,000.00	10/9/2020	2	1
Hawai'i	C150062-43	Pua Force Main Installation and Rehabilitation	\$ 3,500,000.00	11/16/2020	6	3
Kaua'i	C150055-11	Wailua Sewage Pump Station (SPS) No. 1 Rehabilitation	\$ 2,459,382.00	11/24/2020	16	8
Hawai'i	NPS0062-42	South Hilo Sanitary Landfill Final Closure	\$ 23,099,588.80	12/3/2020	2	1
Kaua'i	C150047-09	Waimea R-1 Wastewater Distribution System Upgrades	\$ 6,909,728.99	4/29/2021	16	8
Hawai'i	C150062-31	Lanihau Wastewater Pump Station Force Main Replacement	\$ 1,100,000.00	6/10/2021	6	3
<b>Total</b>			<b>\$ 52,468,699.79</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 2021 are based on final loans and loan amendments.

**Table 2: Total Funds Executed in SFY 2021 Based on Final Loans and Loan Amendments**

County	Project No.	Loan Type	Project Name	Loan Amount	Date Executed	District	
						House	Senate
Kaua'i	C150059-23	F	Hanamā'ulu and Kapaia SPS Renovations	\$ 3,925,781.00	11/15/2020	15	8
Honolulu	C150048-00	S5	Ala Moana Wastewater Pump Station Force Mains #3 and #4	\$ (3,687,607.34)	1/15/2021	29	13
Honolulu	C150051-81	S1	Honouliuli WWTP Secondary Treatment Phase 1B - Secondary Compliance Facilities	\$ 45,000,000.00	1/15/2021	41	19
Maui	C150054-22	S2	Lahaina Wastewater Reclamation Facility Modifications, Stage 1A	\$ 3,579,487.81	3/15/2021	10	6
Hawai'i	NPS0062-42	S2	South Hilo Sanitary Landfill Final Closure	\$ 1,890,537.80	4/15/2021	2	1
Kaua'i	C150047-09	F	Waimea R-1 Wastewater Distribution System Upgrades	\$ 6,255,700.00	5/15/2021	16	8
<b>Total</b>				<b>\$ 56,963,899.27</b>			

4. Planned Projects from SFY 2021 IUP versus Actual Executed Projects during SFY 2021

**Error! Reference source not found.** (on next page) includes the following:

- The planned projects (i.e. Project No./Subrecipient/Project Name) from the SFY 2021 IUP;
- The planned dates (i.e. Planned Binding Commitment/Encumbrance) from the SFY 2021 IUP;
- The planned amounts (i.e. Estimated Loan Amount) from the SFY 2021 IUP;
- If a planned project was not executed during SFY 2021, then "Not Executed" is indicated.
- The planned and actual GPR, Additional Subsidization, and FFATA projects;
- If an actual project was executed during SFY 2021, but was not on the SFY 2021 IUP, then "Not on IUP" is indicated.
- The actual dates (i.e. Executed Loan Agreement) that occurred during SFY 2021;
- The actual amounts (i.e. Actual Loan Amount) that occurred during SFY 2021;

**Table 3: Planned Projects from SFY 2021 IUP versus Actual Executed Projects during SFY 2021**

Project No./ Subrecipient/ Project Name	Planned Binding Commitment/ Encumbrance	Estimated Loan Amount	GPR/ Ad Sub	FFATA	Executed Loan Agreement	Actual Loan Amount
59-20: Kaua'i Lihue WWTP Process Improvements	7/15/2020	\$ 4,245,430			1/15/2020	\$ 4,245,430
48-06: Honolulu-ENV Dowsett Highlands Relief Sewer [Supplemental 1]	7/15/2020	\$ 20,12,602			2/15/2020	\$ 20,12,602
80-35: Hawai'i Kealakehe Wastewater Treatment Plant R-1 Upgrade [Supplemental 2] {Design Outside Fence}	7/15/2020	\$ 2,519,231			5/15/2020	\$ 2,519,231
NPS80-24: Hawai'i Kealakehe Scrap Metal Yard Remediation [Supplemental 1] {Construction 2 of 2}	7/15/2020	\$ 2,019,062.51			3/15/2020	\$ 2,019,062.51
NPS47-12: Kaua'i Kekaha Landfill Lateral Expansion Cell 2 [Supplemental 2] {CQA}	7/15/2020	\$ 745,222			1/15/2020	\$ 745,222
90-05: Hawai'i Pahala Large Capacity Cesspool Conversion {Design 1 of 2}	7/15/2020	\$ 2,000,000			Not Executed	Not Executed
59-23: Kaua'i Hanama'ulu and Kapaia SPS Renovations (Refinance)	8/15/2020	\$ 3,925,781 (Refinance)			11/15/2020	\$ 3,925,781
77-24: Maui Kihei No. 16 Pump Station Rehabilitation and Force Main Replacement [Supplemental 1]	8/15/2020	\$ 2,000,000			Not Executed	Not Executed
54-22: Maui Lahaina Wastewater Reclamation Facility Modifications, Stage 1A [Supplemental 2]	8/15/2020	\$ 3,000,000			3/15/2021	\$ 3,579,487.81
59-25: Kaua'i BMP Improvements at Various Refuse Transfer Stations	10/15/2020	\$ 2,049,486			Not Executed	Not Executed
62-31: Hawai'i Lanihau Wastewater Pump Station Force Main Replacement (Refinance)	10/15/2020	\$ 1,500,000 (Refinance)			Not Executed	Not Executed
55-11: Kaua'i Wailua Sewage Pump Station (SPS) No. 1 Rehabilitation	11/15/2020	\$ 2,700,000			Not Executed	Not Executed
62-43: Hawai'i Pua Force Main Installation and Rehabilitation	12/15/2020	\$ 3,500,000			Not Executed	Not Executed
47-09: Kaua'i Waimea R-1 Wastewater Distribution System Upgrades	4/15/2021	\$ 5,500,000	\$ 1,230,800		5/15/2021	\$ 6,255,700
5181: Honolulu-ENV Honouliuli WWTP Secondary Treatment Phase B - Secondary Compliance Facilities [Supplemental 1]	5/15/2021	\$ 30,000,000		\$ 12,308,000	1/15/2021	\$ 45,000,000
NPS62-42: Hawai'i South Hilo Sanitary Landfill Final Closure [Supplemental 2]	Not on IUP	Not on IUP			4/15/2021	\$ 1,890,537.80
	TOTAL	\$ 85,816,844.51	\$ 1,230,800	\$ 12,308,000		\$ 90,293,054.12

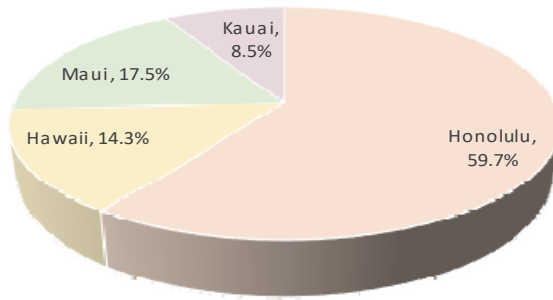
**D. Total Funds Committed and Executed**

From SFY 1991 through SFY 2021, the WPCRF has committed \$1,157,975,416.52 and executed \$1,099,283,696.52. Table 4, Figure 1 and Figure 2 show the breakdown of loans by county.

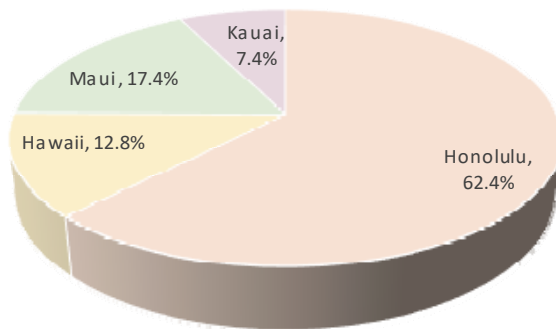
**Table 4: Cumulative Committed and Executed Amounts**

County	Cumulative Committed Loan Amount	Percent of Total Committed Amount	Cumulative Executed Loan Amount	Percent of Total Executed Amount	Quantity Executed Loans
Honolulu	\$ 691,623,267.10	59.7%	\$ 685,623,267.10	62.4%	34
Hawai'i	\$ 165,922,714.16	14.3%	\$ 140,851,060.16	12.8%	25
Maui	\$ 202,265,245.35	17.5%	\$ 191,504,561.35	17.4%	43
Kaua'i	\$ 98,164,189.91	8.5%	\$ 81,304,807.91	7.4%	17
<b>Total</b>	<b>\$ 1,157,975,416.52</b>	<b>100%</b>	<b>\$ 1,099,283,696.52</b>	<b>100%</b>	<b>119</b>

**Figure 1: Committed Amounts by County**



**Figure 2: Executed Amounts by County**



**E. Meeting Funding Requirements**

The WPCRF Program met funding requirements as follows:

1. State Matching Funds

Pursuant to Act 006/20, the Hawai'i Legislature appropriated \$2,487,000.00 in general obligation bond funds for the required state match to the FFY 2020 EPA Clean Water State Revolving Fund (CWSRF) Capitalization Grant. The state match was transferred to the WPCRF's account in March 2021. Since Hawai'i State law prohibits the program to use the state match for administrative purposes, all state match funds are used for loans. *Table 5* shows how the state match requirements were met.

**Table 5: State Match for SFY 2021**

SFY	FFY	State Match Amount	State Match Project	Loan Amount	Percent Met?
2021	2020	\$ 2,461,600.00	Hanamā'ulu and Kapaia SPS Renovations	\$ 3,925,781.00	Yes

Per the SFY 2021 IUP, the project listed in *Table 5* was used for state match and was executed on November 15, 2020. The state match amount was disbursed on June 7, 2021.



2. Grant Fund Commitment

The requirement to commit 120% of the \$12,308,000.00 grant amount (i.e. \$14,769,600.00) was satisfied. During SFY 2021, seven (7) commitment notice letters were issued, totaling \$52,468,699.79. During SFY 2021, two (2) final loans and four (4) loan amendments were executed, totaling \$56,963,899.27.

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 6* shows how GPR requirements were met.

**Table 6: GPR Requirements for SFY 2021**

SFY	FFY	Grant Amount	GPR Required	GPR Project	GPR Amount	GPR Met?
2021	2020	\$ 12,308,000.00	\$ 1,230,800.00	Waimea R-1 Wastewater Distribution System Upgrades	\$ 6,255,700.00	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 7* shows how FFATA requirements were met.

**Table 7: FFATA Reporting for SFY 2021**

SFY	FFY	Grant Amount	FFATA Project	FFATA Amount	Percent Met?
2021	2020	\$ 12,308,000.00	Honouliuli WWTP Secondary Treatment Phase 1-B - Secondary Compliance Facilities [Sup 1]	\$ 12,308,000.00	100.0%

**Equivalency** was not used for SFY 2021. The project listed in *Table 7* was executed on January 15, 2021 and the FFATA amount was disbursed on September 1, 2021.

5. American Iron and Steel (AIS)

The WPCRF Program ensures that the AIS requirement is met. Based on the Section 608 of the Water Resources Reform and Development Act of 2014 amendments, loan applicants were required

to certify that the AIS requirement was met. For construction of treatment works projects, specific AIS contract language is included in the CWSRF loan agreement. For construction of treatment works projects and during construction site inspections, the CWSRF engineer checks that the subrecipient’s project/construction manager has verified and received from the contractor certification documents (e.g. step certification process, final manufacturer certification) for the “covered iron and steel products”.

6. Additional Subsidy

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

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 8* shows how Additional Subsidy requirements will be met.

**Table 8: Additional Subsidy for SFY 2021**

SFY	FFY	Grant	Required 10% of Grant	Additional Subsidy Project	Add. Sub. Amount
2021	2020	\$ 12,308,000.00	\$ 1,230,800.00	Waimea R-1 Wastewater Distribution System Upgrades	\$ 1,230,800.00
<b>Total</b>					<b>\$ 1,230,800.00</b>

7. Affordability Criteria

The WPCRF program established its affordability criteria by September 30, 2015. Based on the current affordability criteria, the program determined that none of the four (4) counties would have difficulty financing projects without additional subsidization. Therefore, no additional subsidy was provided in SFY 2021 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 one (1) following project in March 1, 2021:

- Honouliuli WWTP Secondary Treatment Phase 1B – Secondary Compliance Facilities [Sup 1]

## 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, Title 11, Chapter 200 ("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 requirements of the Federal environmental cross-cutting authorities ("cross-cutters") were met.

b. Intended Use Plan (IUP)

The IUP for SFY 2021 was drafted, made available for public comment, published in May - June 2020, and included with Hawai'i's application for a CWSRF capitalization grant.

c. Other Federal Cross-Cutting Authority Requirements

Each loan applicant was required to certify that each proposed project complied with all Federal cross-cutting authority 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 Waimea R-1 Wastewater Distribution System Upgrades project proposes to provide the Waimea Wastewater Treatment Plant (WWTP) with an effective means to store and distribute R-1 recycled water in order to manage wastewater reuse/disposal and reduce potable water usage. Construction of the system would involve installing a 400,000-gallon R-1 recycled water storage tank and an R-1 recycled water pump station on the existing WWTP site. Associated improvements include rehabilitating an existing force main and adding new service laterals and water meters to provide R-1 recycled water to reuse customers. The construction phase started September 1, 2021 and is scheduled to be completed August 27, 2022.

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

Progress: ULOs refer to EPA capitalization grant funds that have not 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 2021, 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 Waimea R-1 Wastewater Distribution System Upgrades project proposes to provide the Waimea Wastewater Treatment Plant (WWTP) with an effective means to store and distribute R-1 recycled water in order to manage wastewater reuse/disposal and reduce potable water usage. Construction of the system would involve installing a 400,000-gallon R-1 recycled water storage tank and an R-1 recycled water pump station on the existing WWTP site. Associated

improvements include rehabilitating an existing force main and adding new service laterals and water meters to provide R-1 recycled water to reuse customers. The construction phase started September 1, 2021 and is scheduled to be completed August 27, 2022.

## 2. Sewer Line Projects

- a. The Hanamā'ulu and Kapaia SPS Renovations project includes replacing existing pumps and standby generators with larger pumps and a new generator at each pump station. The Hanamā'ulu SPS building will be expanded to house the new generator, and the new generator at the Kapaia SPS will be installed in a weatherproof enclosure. The project includes installation of associated piping and appurtenances, site and electrical work.

## 3. Wastewater Facility Improvement Projects

- a. The Honouliuli WWTP Secondary Treatment Phase 1B – Secondary Compliance Facilities project includes secondary treatment upgrades to the Honouliuli Wastewater Treatment Plant (WWTP) to comply with requirements of paragraph 30 of the 2010 Consent Decree. Included in the project are new activated sludge secondary treatment facilities, including aeration basins and six clarifiers. Also, included is a new generator building, odor control, and electrical and civil upgrades associated with the new facilities.
- b. The Lahaina Wastewater Reclamation Facility Modifications, Stage 1A project will construct a new step-feed aeration basin and secondary clarifier and make modifications to the existing conventional aeration basin, flexible aeration basin, headworks, blower building, electrical room and RAS/WAS system.

## 4. Non-Point Source Projects

- a. The South Hilo Sanitary Landfill Final Closure project includes a final cover system consisting of linear low density polyethylene geomembrane liner, engineered synthetic turf with sand infill, passive landfill gas system with emergency valves, drainage system and detention basins the Final closure of the South Hilo Sanitary Landfill needs to meet the requirements of Hawaii Administrative Rules, Title 11 Chapter 58.1 Solid Waste Management Control.

## H. 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 2021:

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 2021 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

### I. 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.

### J. Financial Activities

Since its inception, the CWSRF program has received a total of \$341,692,248.00 in federal capitalization grants. Of the total amount, \$333,845,447.43 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**

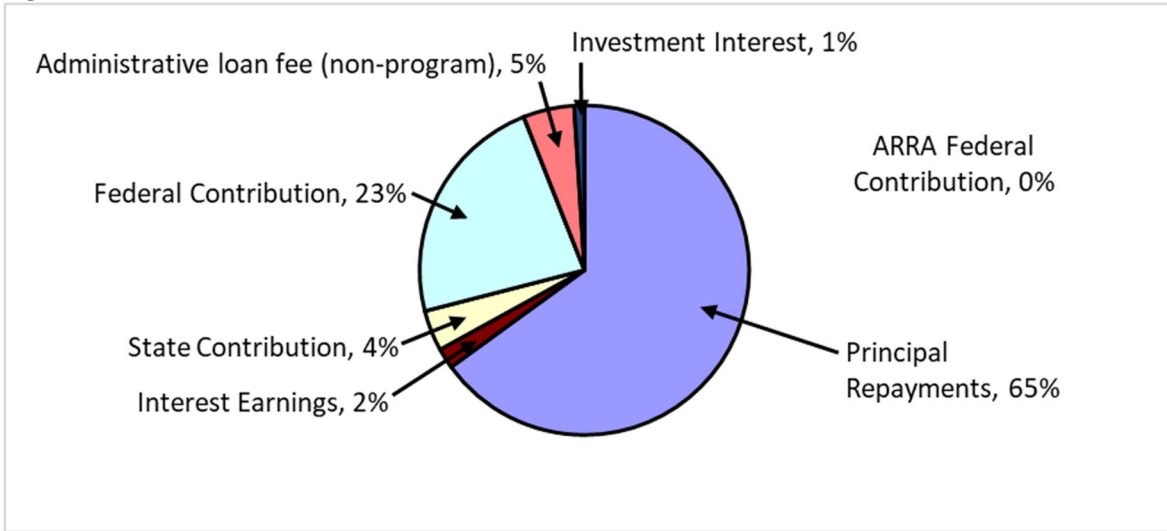
Source	Amount
EPA capitalization grant funds	
Amount received since program inception	\$ 341,692,248.00
Amount allocated for loans	\$ 333,845,447.43
Percent allocated for loans	98%
ARRA funds	
Amount received	\$ 30,352,300.00
Amount allocated for loans	\$ 29,752,300.00
Percent allocated for loans	98%

#### 1. Sources of Cash

*Figure 3* shows sources of cash received or funds drawn upon by the program in SFY 2021.



**Figure 3: Sources of Cash for SFY 2021**



2. Automated Standard Application for Payments (ASAP)

Table 10 shows funds drawn from the ASAP payment system during SFY 2021.

**Table 10: ASAP Draws in SFY 2021**

Source	Amount
EPA capitalization grant funds	\$ 12,306,000.00
ARRA funds	\$ -
<b>Total</b>	<b>\$ 12,306,000.00</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 2021.

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

Source	Amount	Activity Code
Principal repayments	\$ 37,033,548.59	402
Interest repayments	\$ 1,357,823.21	403
Investment interest	\$ 572,032.06	-
<b>Total</b>	<b>\$ 38,963,403.86</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 2021.

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

Program fees	\$ -
Non-program fees	\$ 3,064,470.82
Operating Expenses	\$ (2,356,094.56)

5. Loan Disbursements

Table 13 shows loan disbursements for SFY 2021.

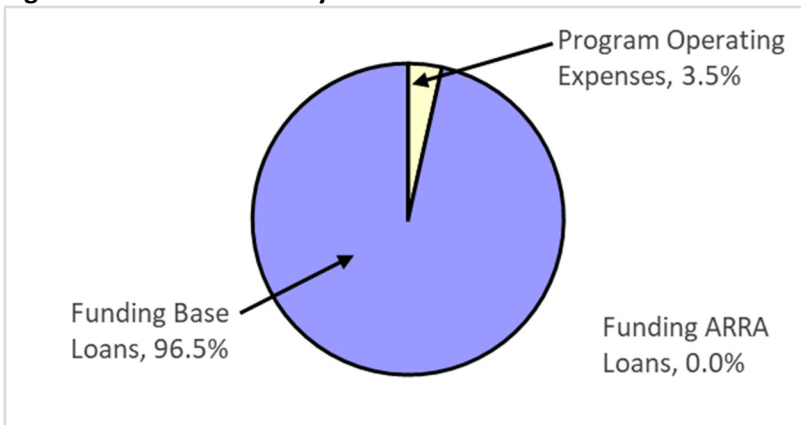
**Table 13: Loan Disbursements**

Base loan funds	\$ 65,079,276.62
ARRA loan funds	\$ -
<b>Total</b>	<b>\$ 65,079,276.62</b>

6. Total Cash Outlays

Figure 4 shows total cash outlays for SFY 2021.

**Figure 4: Total Cash Outlays for SFY 2021**



**K. 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	\$ 691,623,267.10	Aa1/AA+	59.7%
County of Hawai'i	\$ 165,922,714.16	Aa2/AA+	14.3%
County of Maui	\$ 202,265,245.35	Aa1/AA+	17.5%
County of Kaua'i	\$ 98,164,189.91	Aa2/AA	8.5%
<b>Totals</b>	<b>\$ 1,157,975,416.52</b>		<b>100%</b>

## **L. 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 2021. The audit is in progress.

The previous audit for SFY 2020 was performed and completed by the accounting firm KMH LLP. The auditor's previous report for SFY 2020 was dated November 25, 2020 and stated: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WPCRF, as of June 30, 2020, and the changes in its financial position and its cash flows for the 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, 2020  
Attachment 1: WPCRF Projects Receiving SRF 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 Building	2.57	5,003,603.00
17	01/03/94	53-20	Waianae Wastewater Treatment Plant, Secondary Treatment Facilities	2.06	27,878,719.95
18	06/01/94	62-04	Ainako Interceptor Sewer, Parts A & B	2.06	2,239,174.01
19	10/01/94	80-10	Alii Drive Interceptor Sewer, Part C & D	2.06	3,780,000.00
20	12/01/94	55-02-A	Kapaa Sewer System, Phase I, Contract Change Order No. 9	2.06	698,790.00
21	10/10/95	62-11	Kalaniana'ole Collector Sewers	3.02	1,499,944.00
22	01/16/96	80-12	Alii Drive Interceptor Sewer, Parts E & F	3.02	2,112,654.21
23	04/15/96	54-07	Lahaina Wastewater Pump Station #3 Replacement	2.49	2,644,415.75
24	05/15/96	77-06	Kihei Wastewater Reclamation Facility Expansion, Phase IIB	2.49	9,018,078.31
25	10/01/96	80-11	Holualoa Bay Sewage Pump Station	3.02	3,080,000.00

State of Hawaii  
Water Pollution Control Revolving Fund - Year Ending June 30, 2020  
Attachment 1: WPCRF Projects Receiving SRF Assistance

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

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

State of Hawaii  
Water Pollution Control Revolving Fund - Year Ending June 30, 2020  
Attachment 1: **WPCRF Projects Receiving SRF Assistance**

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

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

State of Hawaii  
Water Pollution Control Revolving Fund - Year Ending June 30, 2020  
Attachment 1: WPCRF Projects Receiving SRF Assistance

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

No.	Date	Proj. No.	Project Name on Final Loan	Interest (%)	Amount (\$)
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	117,869,186.66
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 I	0.50	7,847,044.65
82	04/15/13	54-23	West Maui Recycled Water - Phase 1 - UV Expansion, County Job #WW11-03	0.50	3,205,090.33
83	07/15/13	52-35	Wailuku-Kahului Force Main Replacement	0.25	3,621,040.00
84	07/15/13	54-34	Countywide Pump Station Renovations	0.25	4,023,751.00
85	07/15/13	54-28	Lahaina No. 3 Force Main Replacement	0.25	4,719,006.54
86	08/15/13	52-33	Central Operations and Maintenance Facility	0.25	500,000.00
87	01/15/14	55-07	Wailua Wastewater Treatment Plant Improvements - Phase I	0.25	1,942,632.69
88	02/15/14	54-10	Lahaina Wastewater Pump Station No. 2 Modifications	0.25	4,478,103.00
89	10/15/14	50-11	Eleele Wastewater Treatment Plant Improvements	0.25	5,161,874.38
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	15,840,775.34
92	04/15/15	80-27	Kealahou 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	2,690,404.21
96	05/15/16	52-61	Wailuku-Kahului Wastewater Reclamation Facility Filter Modificator	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	Kealahou Wastewater Treatment Plant R-1 Upgrade	0.25	8,677,918.00
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 Expansior	0.25	1,683,238.14
101	04/15/17	54-22	Lahaina Wastewater Reclamation Facility Modifications, Stage 1A	0.25	49,520,831.81
102	04/15/17	54-31	Hawaiian Homes Force Main Replacement	0.25	2,240,000.00
103	05/05/17	77-25	Kulanihako'i Street Recycled Water Line Extension	0.25	1,473,063.59
104	07/15/17	NPS 80-24	Kealahou Scrap Metal Yard Remediation	0.25	8,000,972.51
105	10/15/17	NPS 62-42	South Hilo Sanitary Landfill Final Closure	0.25	23,099,552.80
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	13,331,750.85
108	03/15/18	52-60	Wailuku-Kahului Wastewater Reclamation Facility Solids Building Renovator	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	3,337,610.72
112	05/15/19	48-06	Dowsett Highlands Relief Sewer	0.25	63,112,602.00
113	05/15/19	77-16	South Maui Recycled Water System Expansion (2nd Tank)	0.25	5,023,000.00
114	07/15/19	51-80	Honouliuli WWTP Secondary Treatment Phase 1A - Sludge Drying and Related Facilities	0.25	27,740,890.00
115	07/15/19	51-81	Honouliuli WWTP Secondary Treatment Phase 1B - Secondary Compliance Facilities	0.25	75,000,000.00
116	10/15/19	51-76	Honouliuli Water Recycling Facility R-1 Pre-Treatment and UV Disinfection Improvement:	0.25	8,381,046.27
117	01/15/20	59-20	Lihue WWTP Process Improvements	0.25	4,245,430.00
118	11/15/20	59-23	Hanama'ulu and Kapaia SPS Renovations	0.25	3,925,781.00
119	05/15/21	47-09	Waimea R-1 Wastewater Distribution System Upgrades	0.25	6,255,700.00
<b>TOTAL FINAL LOAN AMOUNT</b>					<b>\$1,099,283,696.52</b>





## **Attachment 2**

### **Statement of Net Position**

State of Hawaii  
Water Pollution Control Revolving Fund  
**Statement of Net Position**  
June 30, 2021

**Assets and Deferred Outflow of Resources**

Current Assets	
Cash and cash equivalents in State Treasury	87,143,445.28
Accounts Receivable	9,381.00
Accrued Interest	363,709.94
Accrued Administrative Loan Fees, program	0.00
Accrued Administrative Loan Fees, non-program	774,758.81
Accrued Interest on Investments	515,899.69
Due from State Treasury	28,090.40
Due from SRF (to State)	0.00
Due from Federal Government	0.00
Current maturities of loans receivable	38,993,414.54
Total for Current Assets	127,828,699.66
ARRA Advance	0.00
Loans Receivable, net of current maturities	446,158,658.53
Capital Assets	702,384.18
Less: Accumulated Depreciation	(386,218.73)
Total for Capital Assets	316,165.45
Total for Assets	574,303,523.64
Deferred outflows of resources related to pensions	912,982.78
Deferred outflows of resources related to OPEB	233,194.67
<b>Total Assets and Deferred Outflow of Resources</b>	<b>575,449,701.09</b>

**Liabilities, Deferred Inflow of Resources, and Net Position**

Liabilities	
Current Liabilities	
Payroll Payable	153,015.73
Accounts Payable	9,594.31
Indirect Payable	0.00
Accrued Vacation, current portion	75,087.61
Total for Current Liabilities	237,697.65
Accrued Vacation, net of current portion	223,536.29
Net Pension liability	4,396,891.58
Net OPEB liability	3,514,626.58
Total for Liabilities	8,372,752.10
Deferred inflows of resources related to pensions	9,574.75
Deferred inflows of resources related to OPEB	277,407.86
Net Position	
Net Investment in Capital Assets	316,165.45
Restricted	566,473,800.93
Unrestricted	0.00
Total for Net Position	566,789,966.38
<b>Total Liabilities, Deferred Inflow of Resources, and Net Position</b>	<b>575,449,701.09</b>

## **Attachment 3**

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

State of Hawaii  
Water Pollution Control Revolving Fund  
**Statement of Revenues, Expenses and Changes in Net Position**  
Year Ended June 30, 2021

Operating Revenues	
Interest earnings from loans	1,373,751.49
Administration loan fee earnings, program	0.00
Administration loan fee earnings, non-program	3,190,009.58
Total for Operating Revenues	4,563,761.07
Operating Expenses	
Administrative expenses for SRF activities	993,111.73
Administrative expenses for State activities, program	0.00
Administrative expenses for State activities, non-program	1,945,299.79
Principal Forgiveness for ARRA	0.00
Principal Forgiveness for SRF	0.00
Total for Operating Expenses	2,938,411.52
<b>Total Operating Income/(Loss)</b>	<b>1,625,349.55</b>
Nonoperating Revenue/(Expense)	
Federal contribution	12,306,000.00
State matching contribution	2,487,000.00
Interest earnings (loss) from investment	582,909.05
Non-imposed fringe	22,583.37
<b>Total Nonoperating Revenue/(Expense)</b>	<b>15,398,492.42</b>
<b>Total Change in Net Position</b>	<b>17,023,841.97</b>
<b>Total Net Position - Beginning of Year</b>	<b>549,766,124.41</b>
<b>Total Net Position - End of Year</b>	<b>566,789,966.38</b>

## **Attachment 4**

### **Statement of Cash Flows**

State of Hawaii  
Water Pollution Control Revolving Fund  
**Statement of Cash Flows**  
Year Ended June 30, 2021

<b>Cash flows from operating activities</b>	
Personnel Costs	(2,238,462.68)
Payments to vendors	(117,631.88)
<b>Total Cash flows from operating activities</b>	<b>(2,356,094.56)</b>
<b>Cash flows from noncapital financing activities</b>	14,793,000.00
<b>Total Cash flows from noncapital financing activities</b>	<b>14,793,000.00</b>
<b>Cash flows from capital and related financing activities</b>	
Purchase of equipment	0.00
<b>Total Cash flows from capital and related financing activities</b>	<b>0.00</b>
<b>Cash flows from investing activities</b>	
Interest income from loans	1,357,823.21
Administrative loan fees	3,064,470.82
Principal repayments on loans	37,033,548.59
Disbursement of loan proceeds	(65,079,276.62)
Interest from investments	572,032.06
<b>Total Cash flows from investing activities</b>	<b>(23,051,401.94)</b>
<b>Total Net increase/(decrease) in cash and cash equivalents</b>	<b>(10,614,496.50)</b>
<b>Total Cash and Cash Equivalents - Beginning of Year</b>	<b>97,757,941.78</b>
<b>Total Cash and Cash Equivalents - End of Year</b>	<b>87,143,445.28</b>
<b>Reconciliation of operating income (loss) to net cash</b>	
<b>Provided by (used by) operating activities</b>	
<b>Total Operating Income (Loss)</b>	<b>1,625,349.55</b>
<b>Adjustments to reconcile operating income to net cash</b>	
Depreciation	137,524.92
Principal Forgiveness for ARRA	0.00
Principal Forgiveness for SRF	0.00
Interest income from loans	(1,373,751.49)
Administrative loan fees	(3,190,009.58)
IPA expenses	0.00
Non-imposed fringe	22,583.37
<b>Total Adjustments to reconcile operating income to net cash</b>	<b>(4,403,652.78)</b>
<b>Change in assets, deferred outflows, liabilities, and deferred inflows</b>	
Accounts Receivable	(9,381.00)
Due from state treasury	(4,011.74)
Accrued salaries and other administrative costs	46,474.52
Net deferred outflows / inflows of resources	263,899.37
Net Pension Liability	351,766.04
Net OPEB Liability	(226,538.52)
<b>Total Change in assets, deferred outflows, liabilities, and deferred inflows</b>	<b>422,208.67</b>
<b>Total Net cash used by operating activities</b>	<b>(2,356,094.56)</b>

## **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 (State) 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 \$342 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, 2021, 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 2020 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, 2021, accumulated sick leave was approximately \$901,600.

#### 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, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 912,982.78	\$ (9,574.75)
Related to Other Postemployment Benefits	233,194.67	(277,407.86)
	<u>\$1,146,177.45</u>	<u>\$(286,982.61)</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 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, 2021 the WPCRF had loans receivable from the following government entities:

Seventeen 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.	\$304,984,697.48
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.	50,374,201.85
Thirty-two 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.	97,386,526.05
Thirteen 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.	32,406,647.69
	<u>485,152,073.07</u>
Less: current maturities	(38,993,414.54)
	<u>\$446,158,658.53</u>

Loans are expected to mature at various dates through 2042. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2022	\$	38,993,414.54
SFY2023	\$	40,372,341.11
SFY2024	\$	40,513,162.71
SFY2025	\$	40,750,437.77
SFY2026	\$	40,939,234.82
SFY2027-2031	\$	146,587,818.78
SFY2032-2036	\$	87,046,609.09
SFY2037-2041	\$	49,085,277.76
SFY2042	\$	863,776.49
		<hr/>
	\$	485,152,073.07
		<hr/> <hr/>

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 2021, \$0 in loans were forgiven. Loans and advances forgiven are performed in accordance with the required conditions.

As of June 30, 2021, the WPCRF were earmarked to be loaned under existing commitment notices to the following counties:

City & County of Honolulu	\$ 6,000,000.00
County of Hawaii	25,071,654.00
County of Maui	10,760,684.00
County of Kauai	16,859,382.00
	<hr/>
Total	\$ 58,691,720.00
	<hr/> <hr/>

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, 2021, the EPA has awarded \$341,692,248.00 to the State of Hawaii, of which \$327,566,932.78 has been drawn for loans and program administration expenses and the remaining \$1,817,315.22 is related to EPA in-kind draws. Total draws including EPA in-kind draws is \$329,384,248.00.

The following summarizes the EPA capitalization grants, amounts drawn on each grant, and the balances available for future loans at June 30, 2021:

Budget Period	FFY	Amount	Total Cash Draws	EPA Draws* (deducted prior to issuance of cap grant)	Funds Available
<b>Balance from Previous Years:</b>	89-15	<b>284,031,248.00</b>	<b>284,031,248.00</b>	<b>652,315.22</b> 1	<b>0.00</b>
10/01/2016 - 06/30/2020	16	10,348,000.00	10,348,000.00	315,000.00	0.00
10/01/2017 - 06/30/2021	17	10,268,000.00	10,268,000.00	850,000.00	0.00
10/01/2018 - 09/30/2023	18	12,431,000.00	12,431,000.00	0.00	0.00
04/01/2020 - 06/30/2024	19	12,306,000.00	12,306,000.00	0.00	0.00
07/01/2020 - 06/30/2025	20	12,308,000.00	0.00	0.00	12,308,000.00
		<b>341,692,248.00</b>	<b>329,384,248.00</b>	<b>1,817,315.22</b>	<b>12,308,000.00</b>

\*Amount was deducted prior to issuance of cap grant. Therefore, the amount shows up in EPA's records and not in FAMIS.

1 \$32,304.00 deducted as in kind from the 1992 grant, from Administrative Expenses set-aside.;\$32,997.00 deducted as in kind from the 1993 grant, from Administrative Expenses set-aside.;\$4,514.22 deducted as in kind from the 1994 grant, from Administrative Expenses set-aside.;\$2,500.00 deducted as in kind from the 2005 grant, from Administrative Expenses set-aside.;\$350,000.00 deducted as in kind from the 2013 grant, from Administrative Expenses set-aside.;\$230,000.00 deducted as in kind from the 2015 grant, from Administrative Expenses set-aside.

2 \$315,000.00 deducted as in kind from the 2016 grant, from Administrative Expenses set-aside.

3 \$850,000.00 deducted as in kind from the 2017 grant, from Administrative Expenses set-aside.

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, 2021, the Fund was in compliance with the 20 percent State matching requirement. The required State match through June 30, 2021 approximated \$68.3 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, 2021.

<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>
		\$2,486,200.00
2019	Act 40/19	\$2,461,200.00
2020	Act 006/20	<u>\$2,461,600.00</u>
	Total State Match	<u><u>\$68,338,450.67</u></u>

## NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2021 was as follows:

	Balance at July 1, 2020	Additions	Retirements/ Disposals	Balance at June 30, 2021
Equipment	\$ 83,046.65	\$ -	\$ 29,561.10	\$ 53,485.55
Intangible Assets - Software	648,898.63	-	-	648,898.63
Accumulated Depreciation	(278,254.91)	(137,524.92)	(29,561.10)	(386,218.73)
	<u>\$453,690.37</u>	<u>\$(137,524.92)</u>	<u>\$ -</u>	<u>\$316,165.45</u>

## NOTE F – ACCRUED VACATION

The changes to the accrued vacation liability during 2021 were as follows:

Balance at July 1, 2020	\$ 257,839
Increase	118,429
Decrease	<u>(77,644)</u>
Balance at June 30, 2021	298,624
Less: Current portion	<u>(75,088)</u>
Noncurrent portion	<u>\$ 223,536</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 the ERS website: <http://ers.ehawaii.gov/resources/financials>.

*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 plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 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 surviving 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 surviving 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 surviving 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 dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving 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 age 55, 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.

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 surviving 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 2021 were 41% for police officers and firefighters and 24% for all other employees. Contributions to the pension plan from the Fund were \$345,949 for the fiscal year ended June 30, 2021.

Per Act 17, Session Laws of Hawaii (SLH) 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for police officers and firefighters increased to 41% on July 1, 2020. The rate for all other employees increased to 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, 2021, the WPCRF reported a liability of \$4,396,892 for its proportionate share of the net pension liability of the State. The net pension liability was measured as of June 30, 2020, 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, 2020 and 2019, the WPCRF's proportion of the State's share was 0.05%.

There was no change in actuarial assumptions as of June 30, 2019 to June 30, 2020.

There were no changes between the measurement date, June 30, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2021, the WPCRF recognized pension expense of \$604,630. At June 30, 2021, 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
Net differences between expected and actual experience	\$ 23,063	\$ --
Changes in assumptions	151,645	(57)
Net difference between projected and actual earnings on pension plan investments	370,145	--
Changes in proportion and difference between WPCRF contributions and proportionate share of contributions	22,181	(9,518)
WPCRF contributions subsequent to the measurement date	<u>345,949</u>	<u>--</u>
	<u>\$ 912,983</u>	<u>\$ (9,575)</u>

At June 30, 2021, the \$345,949 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, 2022.

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>
2022	\$ 173,066
2023	145,299
2024	144,717
2025	54,542
2026	<u>39,835</u>
Total	<u>\$ 557,459</u>



*Actuarial Assumptions*

The total pension liability in the June 30, 2020 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 August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1, 2013 through June 30, 2018:

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 2019 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the Pub-2010 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 nominal rates of return (real returns and inflation) by the target asset allocation percentage. 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%	7.9%
Diversifying Strategies	37.0%	3.7%
	100.0%	

*Discount Rate*

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution

rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
WPCRF's proportionate share of the net pension liability	<u>\$5,648,405</u>	<u>\$4,396,892</u>	<u>\$3,365,137</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's 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. The ERS's complete financial statements are available at <http://ers.ehawaii.gov/resources/financials>.

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, 2021, 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. Postemployment 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 that replaced the Hawaii Public Employees Health Fund 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 at <https://eutf.hawaii.gov/reports/>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

### *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 \$160,149 for the fiscal year ended June 30, 2021. 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, 2021, the WPCRF reported a net OPEB liability of \$3,514,627 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2020, 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, 2020 and 2019, the WPCRF's proportion of the State's share was 0.04%.

There were no changes between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

For the year ended June 30, 2021, the WPCRF recognized OPEB expense of \$290,594. At June 30, 2021, 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	\$ --	\$ (258,823)
Changes in assumptions	33,284	(18,585)
Net difference between projected and actual earnings on OPEB plan investments	39,762	--
WPCRF contributions subsequent to the measurement date	<u>160,149</u>	<u>--</u>
	<u>\$ 233,195</u>	<u>\$ (277,408)</u>

At June 30, 2021, the \$160,149 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 year ending June 30, 2022.

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 Year Ending June 30,</u>	<u>Amount</u>
2022	\$ (42,145)
2023	(42,146)
2024	(41,220)
2025	(36,585)
2026	<u>(42,266)</u>
Total	<u>\$ (204,362)</u>

*Actuarial Assumptions*

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
HMO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for the first year; followed by 4.00% for all future years
Vision	Initial rate of 0.00% for the first year; followed by 2.50% for all future years
Life insurance	0.00%

\* Blended rates for medical and prescription drugs.

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 asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private equity	10.0%	9.66%
U.S. microcap	6.0%	7.85%
U.S. equity	14.0%	6.23%
Non-U.S. equity	16.0%	7.72%
Global options	6.0%	4.65%
Core real estate	10.0%	5.98%
Private credit	6.0%	5.50%
Core bonds	3.0%	0.08%
TIPS	5.0%	0.11%
Long treasuries	6.0%	0.86%
Alternative risk premia	5.0%	1.56%
Trend following	8.0%	2.12%
Reinsurance	5.0%	4.34%
	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%. 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. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend ACT 268 contributions for the fiscal year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This temporary ACT 268 suspension would not derail the plan's long-term funding progress. Even if ACT 268 is suspended through fiscal year ending June 30, 2025, as is being discussed, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Act 229, SLH 2021 suspends the contribution requirement for fiscal years 2022 and 2023. The State has made its full Annual Required Contribution in fiscal year 2021 and intends to make contributions for fiscal years 2022 and 2023. 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.

#### *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, regardless of the timing of the cash flows. 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 <https://eutf.hawaii.gov/reports/>.

#### *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, 2020.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 4,427,534	\$ 686,369	\$ 3,741,165
Service cost	92,622	--	92,622
Interest on the total OPEB liability	297,431	--	297,431
Difference between expected and actual experience	(272,310)	--	(272,310)
Changes of assumptions	(22,296)	--	(22,296)
Employer contributions	--	305,677	(305,677)
Net investment income	--	16,321	(16,321)
Benefit payments	(136,792)	(136,792)	--
Administrative expense	--	(115)	115
Other	--	102	(102)
Net changes	(41,345)	185,193	(226,538)
Ending balance	4,386,189	871,562	3,514,627



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

The following table 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 discount rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
WPCRF’s proportionate share of the net OPEB liability	<u>\$4,217,288</u>	<u>\$3,514,627</u>	<u>\$2,960,932</u>

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

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
WPCRF’s proportionate share of the net OPEB liability	<u>\$2,935,884</u>	<u>\$3,514,627</u>	<u>\$4,263,223</u>

*Required Supplementary Information and Disclosures*

The State’s CAFR includes the required note 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.