

**REPORT TO THE TWENTY-NINTH LEGISLATURE  
STATE OF HAWAII  
2016**

**STATE WATER POLLUTION CONTROL REVOLVING FUND**

**PURSUANT TO SECTION 342D-82  
HAWAII REVISED STATUTES  
RELATING TO THE  
STATE WATER POLLUTION CONTROL REVOLVING FUND  
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:  
STATE OF HAWAII  
DEPARTMENT OF HEALTH  
ENVIRONMENTAL HEALTH ADMINISTRATION  
ENVIRONMENTAL MANAGEMENT DIVISION  
WASTEWATER BRANCH  
NOVEMBER 2015**

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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) 2015, which began on July 1, 2014 and ended on June 30, 2015. The purpose of this report is to describe the progress in meeting goals set forth in the program's *Intended Use Plan for SFY 2015*, and to discuss the sources and uses of funds during SFY 2015.

### B. EXECUTIVE SUMMARY

The WPCRF Program is in its 26th year of operation and continues to provide low-interest loans to Hawaii's four counties. These loans fund projects such as construction and repair of treatment plants, pump stations, sewer lines, water reuse facilities, conversion of large capacity cesspools, and energy efficiency improvement projects.

During SFY 2015, Hawaii received a federal capitalization grant of \$10,859,000 and 20% state matching funds of \$2,200,000 for a total of \$13,059,000. Total funds committed during this period totaled \$61,202,149.87.

### C. LOAN PROCESS

There are three types of loans used to fund a project:

#### 1. Interim Loan

An *interim loan* 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 interim loans executed during SFY 2015.

Table 1: SFY 2015 Interim Loans						
County	Proj. No.	Project	Loan Amount	Date Executed	District	
					House	Senate
Maui	77-22	Kihei #10 Force Main Replacement	1,620,000.00	01/15/15	11	6
Maui	52-48	Paia Force Main Replacement	1,850,167.00	05/15/15	13	5
		Total	3,470,167.00			

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. This loan is the most significant of the three because once executed, it allows the borrower to receive funds up to the amount already spent on the particular project.

3. Supplemental Loan

Once a funded project is completed, a **supplemental loan** 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 supplemental loan amount.

Table 2 includes final loan (F) amounts which are the amounts originally committed. The table also includes the supplemental loan (S) difference (increase or decrease) from the original final loan amount. Total funds committed during SFY 2015 are based on final and supplemental loans.

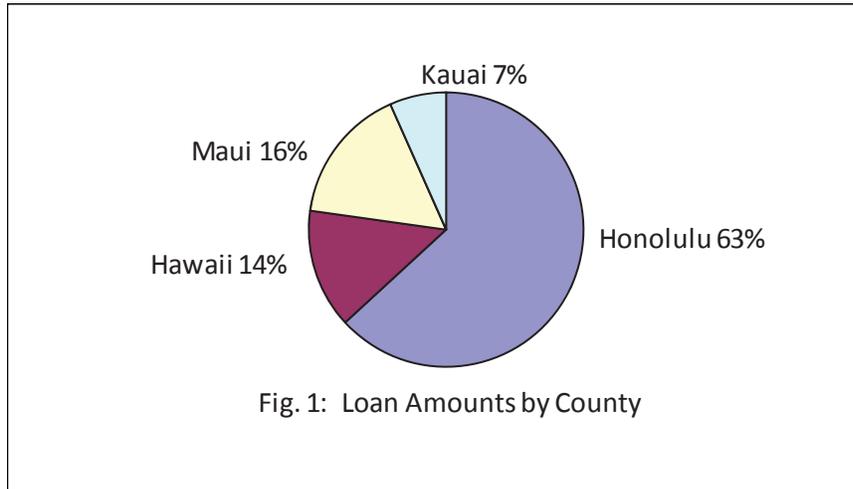
Table 2: Total Funds Committed in SFY 2015 Based on Final & Supplemental Loans						
County	Proj. # & Type of Loan	Project Name	Loan Amount	Date Executed	District	
					House	Senate
Kauai	50-11, F	Eleele Wastewater Treatment Plant Improvements	5,000,000.00	10/15/14	16	8
Maui	77-17, F	South Maui Recycled Water Distribution System Expansion	2,543,970.00	11/15/14	11	6
Honolulu	70-53, F	Energy Savings Performance Contract for Kailua Wastewater Treatment Plant	15,922,832.00	02/15/15	50	24
Hawaii	80-27, F	Kealakehe Wastewater Treatment Plant Aeration Upgrade and Sludge Removal Project	17,968,361.40	04/15/15	6	3
Honolulu	48-00, S2	Ala Moana Wastewater Pump Station Force Mains #3 and #4	20,000,000.00	03/15/15	29	13
Kauai	NPS 59-07, S2	Kauai County Cesspool Conversion Project	0.00	12/15/14	15	8
Maui	52-28, S	Countywide Pump Station Renovations	-69,062.40	03/15/15	9, 12, 13	5, 7
Maui	54-23, S	West Maui Recycled Water - Phase 1 - UV Expansion	-163,297.67	03/15/15	10	6
Maui	54-28, S	Lahaina No. 3 Force Main Replacement	-653.46	03/15/15	10	6
Maui	52-35, S	Wailuku-Kahului Force Main Replacement	0.00	04/15/15	8, 9	5
<b>Total</b>			<b>61,202,149.87</b>			

**D. TOTAL FUNDS COMMITTED**

From SFY 1991 through SFY 2015, the WPCRF has loaned out approximately \$748,964,279. Table 3 and Figure 1 show the breakdown of loans by county. Attachment 1 *Water*

*Pollution Control Revolving Fund Projects Receiving SRF Assistance* provides information on all the final loans executed for the program.

<b>Table 3: Cumulative Loan Amounts</b>		
<b>County</b>	<b>Cumulative Loan Amount (\$)</b>	<b>Percent of Total Amount</b>
Honolulu	470,594,896	63%
Hawaii	108,641,855	14%
Maui	120,014,766	16%
Kauai	49,712,762	7%
<b>Total</b>	<b>748,964,279</b>	<b>100%</b>



**E. MEETING FUNDING REQUIREMENTS**

The WPCRF Program met funding requirements as follows:

1. State Matching Funds

Pursuant to Act 122/14, the Hawaii Legislature appropriated \$2,200,000 in general obligation bond funds for the required 20% state match to the FFY 2014 EPA SRF Capitalization Grant. The state match was transferred to the WPCRF's account in October 2014. Since Hawaii State law prohibits the program to use the state match for administrative purposes, all state match funds are used for loans. This results in a greater percent of state match fund draw versus cash draw for each active capitalization grant.

2. Grant Fund Commitment

The requirement to commit 120% of the \$10,859,000 grant amount (\$13,059,000) was satisfied. During SFY 2015, four final loans and six supplemental loans were executed, totaling \$61,202,149.87.

3. Green Project Reserve (GPR)

**GPR** projects are those which contribute to energy efficiency, water efficiency, and/or sustainable infrastructure. The WPCRF Program is required to make a good faith effort to allocate a minimum amount of funds to GPR projects. Table 4 shows how GPR requirements were met.

Table 4: GPR Requirements for SFY 2015						
SFY	FFY	Grant Amount (\$)	GPR Required (\$)	GPR Project	GPR Amount (\$)	GPR Met?
2015	2014	10,859,000	1,085,900	Energy Savings Performance Contract for Kailua Wastewater Treatment Plant	15,922,832.00	yes
				Eleele Wastewater Treatment Plant Improvements	5,000,000.00	yes

4. Federal Funding Accountability and Transparency Act (FFATA)

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

Table 5: FFATA Reporting					
SFY	FFY	Grant (\$)	FFATA Project	FFATA Amount (\$)	Percent Met
2015	2014	10,859,000	Ala Moana Wastewater Pump Station Force Mains #3 & #4	10,859,000	100%

5. Additional Subsidy

**Additional subsidy** refers to providing funds at a zero interest rate with principal

forgiveness. The amount of additional subsidy must fall within a specified range. Table 6 shows how additional subsidy requirements were met.

Table 6: Additional Subsidy						
SFY	FFY	Grant (\$)	Min. (\$)	Max. (\$)	Project w/ Additional Subsidy	Ad Sub (\$)
2015	2014	10,859,000	590,921	886,382	Eleele Wastewater Treatment Plant Improvements	600,000
					<b>Total</b>	<b>600,000</b>

6. Reporting Requirements

Information on projects with executed final loans has been entered into the **CWSRF Benefits Reporting (CBR)** system. FFATA reporting was completed for Ala Moana Wastewater Pump Station Force Mains #3 and #4 project in March 2015.

7. Other Federal Requirements

The program continues compliance with other requirements to:

- a. Ensure borrowers comply with Davis-Bacon, American Iron and Steel, and Disadvantaged Business Enterprise requirements.
- b. Report on minority and women business enterprises (MBE/WBE).
- c. Maintain a cash draw ratio of 83% (federal funds) to 17% (state funds) or one that satisfies the cash draw ratio requirement.
- d. Continue use of Generally Accepted Government Accounting Standards in accounting, audit, and fiscal procedures.

8. Operating Agreement between the State and EPA

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

- a. Environmental Review

Review of the loan applicant's submittals ensured applicable federal and

state requirements were met. Loan applicants continued to prepare environmental documents in accordance with Hawaii Revised Statutes, Chapter 343, and Hawaii Administrative Rules, Chapter 11-200.

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

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

b. Intended Use Plan (IUP)

The IUP for SFY 2015 was drafted, made available for public comment, published in March 2014, and included with Hawaii's application for an SRF capitalization grant.

c. Other Federal "Cross-Cutter" Requirements

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

## F. GOALS AND ACCOMPLISHMENTS

Each year, the WPCRF Program sets forth goals in its Intended Use Plan. Following are the long and short-term goals and progress made in meeting them.

### 1. Long-Term Goals

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

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

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

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

## 2. Short-Term Goals

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

*Progress:* Energy-efficient pumps and/or blowers were used in the Countywide Pump Station Renovations, Lahaina Wastewater Pump Station No. 2 Modifications, and Wailua Wastewater Treatment Plant Improvements - Ph. I projects. The Energy Savings Performance Contract project is under construction to improve the energy and water efficiencies at the Kailua Wastewater Treatment Plant.

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

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

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

*Progress:* The total loan rate of 1% commands a high demand for loans. Since Hawaii's four 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 2015, the CWSRF 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 first two projects meet GPR criteria to incorporate water reuse and energy efficiency. The sewer line project protects public health by preventing wastewater spills arising from leaks in deteriorated pipes. The last two projects make improvements to the wastewater treatment plants.

1. GPR Projects

- a. The South Maui Recycled Water Distribution System Expansion project expands existing underground 12" R-1 recycled water line approximately 4000 feet to provide R-1 water service to other customers.

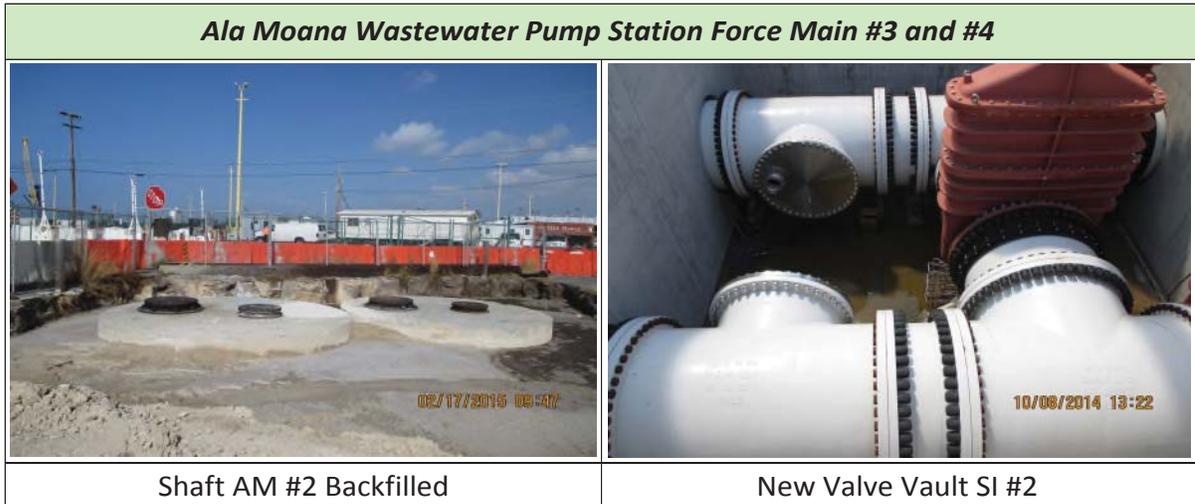


- b. The Energy Savings Performance Contract project focuses on energy and water efficiency at the Kailua Wastewater Treatment Plant.



2. Sewer Line Project

Ala Moana Wastewater Pump Station Force Mains #3 and #4 continues making progress.



3. Wastewater Facility Improvement Projects

- a. The Eleele Wastewater Treatment Plant Improvements include process equipment, electrical system, and disinfection system upgrades.



- b. The Kealakehe Wastewater Treatment Plant Aeration Upgrade project involves the upgrade of the aeration system, removal of the accumulated sludge, replacement of 2 effluent pumps, and repairs to existing lagoon liner.

**Kealakehe WWTP Aeration Upgrade and Sludge Removal Project**



Project Sign



New 30 inch Ductile

**H. FUTURE PROJECTS**

Future projects include those listed in the IUP for the next fiscal year (SFY 2016) and those with interim loans. Table 7 lists interim loans executed before and during SFY 2015.

**Table 7: SFY 2016 Future Projects**

County	Proj. No.	Project	Loan Amount	Interim/CL Executed	District	
					House	Senate
Hawaii	80-17	North Kona Sewer and Effluent Reuse - Phase 1	6,747,000.00	07/15/07	6	3
Maui	54-46	West Maui Recycled Water Expansion	3,160,684.00	08/15/13	10	5
Hawaii	90-04	Naalehu Wastewater Collection System	3,632,850.00	10/15/13	5	3
Maui	77-22	Kihei #10 Force Main Replacement	1,620,000.00	01/15/15	11	6
Maui	52-48	Paia Force Main Replacement	1,850,167.00	05/15/15	13	5
Hawaii	80-35	Kealakehe Wastewater Treatment Plant R-1 Upgrade	6,900,000.00	07/30/15	6	3
Maui	52-50	Waiehu Wastewater Pump Station Force Main Replacement	1,300,000.00	08/03/15	8	5
Maui	54-31	Hawaiian Homes Force Main Replacement	2,240,000.00	08/03/15	8	5

**I. PROGRAM AND NON-PROGRAM ACTIVITIES**

Loan recipients are assessed an interest rate and an administrative fee, also known as a loan fee. The loan fee covers the costs of program activities directly related to administering the CWSRF program, as well as non-program activities that protect and preserve water quality. The following program activities were performed during SFY 2015:

1. Review and approval of loan submittals including loan applications, project reports, plans, specifications, environmental documents, executed contracts, selected itemized bid, eligible costs, site certifications, 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 2015 included administering the water reuse and sludge programs, inspecting operation and maintenance of wastewater treatment facilities, responding to wastewater-related complaints, enforcement of wastewater regulations, and permitting of individual wastewater systems.

## **FINANCES**

### **J. INTERNAL CONTROLS**

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

Based on the annual performance evaluations by EPA and annual financial audits by independent auditors, the WPCRF program's internal controls appear to adequately safeguard assets and provide reasonable assurances of proper recording of financial and provide reasonable assurances of proper recording of financial transactions.

### **K. FINANCIAL ACTIVITIES**

Since its inception, the CWSRF program has received a total of \$273,227,248 in federal capitalization grants. Of the total amount, \$266,775,447.43 has been allocated to fund

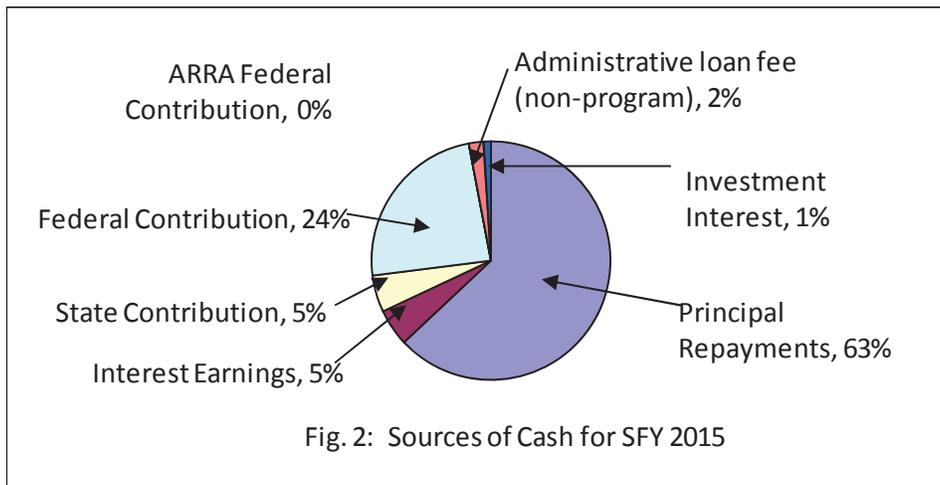
loans for eligible WPCRF projects.

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

Table 8: Funds Received and Loan Allocations	
Source	Amount (\$)
EPA capitalization grant funds	
Amount received since program inception	273,227,248.00
Amount allocated for loans	266,775,447.43
Percent allocated for loans	98%
ARRA funds	
Amount received	30,352,300.00
Amount allocated for loans	29,752,300.00
Percent allocated for loans	98%

1. Sources of Cash

Figure 2 shows sources of cash received or funds drawn upon by the program in SFY 2015.



2. Automated Standard Application for Payments (ASAP)

Table 9 shows funds drawn from the ASAP payment system during SFY 2015.

<b>Table 9: ASAP Draws in SFY 2015</b>	
<b>Source</b>	<b>Amount</b>
EPA capitalization grant funds	\$10,194,187.78
ARRA funds	\$0.00
Total	\$10,194,187.78

3. Loan Repayments and Investment Interest

Accounts and activity codes have been established to track program revenue sources. Fund use is legally restricted to funding only loans for eligible WPCRF projects. Table 10 shows a breakdown of these funds received in SFY 2015.

<b>Table 10: Loan Repayments and Investment Interest</b>		
<b>Source</b>	<b>Amount</b>	<b>Activity Code</b>
Principal repayments from federal funds	\$26,703,546.83	402
Interest from federal funds	\$2,111,282.14	403
Principal repayments from state funds	\$338,215.92	406
Interest from state funds	\$6,573.12	407
Investment interest	\$533,439.60	-
Total	\$29,693,057.61	

4. Administrative Fees and Loan Disbursements

The State provides 20% matching funds for each capitalization grant, but these funds do not contribute to administering the WPCRF Program and providing for water related activities. In order to pay employee salaries, benefits, and comply with federal law which requires that the WPCRF program be operated in perpetuity, the DOH implemented a loan fee program in January 1997. Table 11 shows loan fees collected and operating expenses for SFY 2015.

<b>Table 11: Collected Fees &amp; Operating Expenses</b>	
Program fees	\$117,023.54
Non-program fees	\$1,036,510.84
Operating Expenses	(\$1,880,261.71)

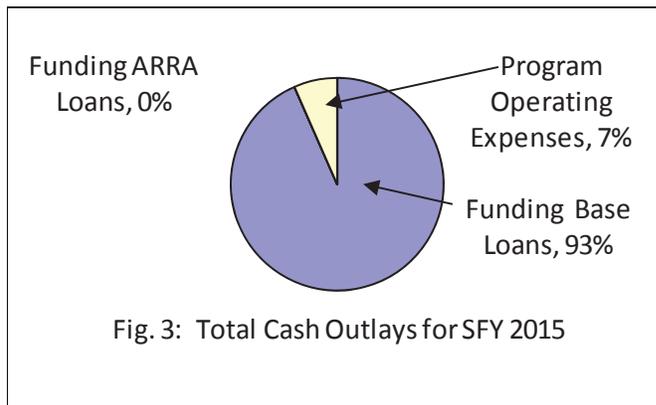
5. Loan Disbursements

Table 12 shows loan disbursements for SFY 2015.

Table 12: Loan Disbursements	
Base loan funds	\$26,668,520.42
ARRA loan funds	\$0.00
Total	\$26,668,520.42

6. Total Cash Outlays

Figure 3 shows total cash outlays for SFY 2015.



**L. CREDIT RISKS OF WPCRF LOANS**

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

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

<b>Table 13: Borrower Credit Risks</b>			
<b>Loan Recipient</b>	<b>Committed Amount</b>	<b>Moody's Fitch Bond Ratings</b>	<b>Percent of WPCRF Loan Portfolio</b>
City & County of Honolulu	\$470,594,896.06	Aa1/AA+	63%
County of Hawaii	108,641,854.54	Aa2/AA-	14%
County of Maui	120,014,766.31	Aa1/AA+	16%
County of Kauai	49,712,762.48	Aa2/AA-	7%
Totals	\$748,964,279.39		100%

**M. AUDITS**

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

The Department of Health (DOH) selected the N&K CPAs, Inc. accounting firm to perform an independent audit of the WPCRF Program's activities and financial statements for SFY 2015. The audit is in progress.

The previous audit was performed and completed by the N&K CPAs, Inc. for SFY 2014. The auditor's previous report for SFY 2014, was published on November 28, 2014, and stated: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America."

For more information on this report, please contact the Wastewater Branch at (808) 586-4294 or the Environmental Resources Office at (808) 586-4575.

## **Attachment 1**

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

STATE OF HAWAII  
WATER POLLUTION CONTROL REVOLVING FUND - YEAR ENDING JUNE 30, 2015  
Att. 1: **PROJECTS RECEIVING WPCRF ASSISTANCE**

**A. FINAL LOANS**

No.	Date	Proj.	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 (design)	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	Kealahou Land Disposal	2.50	1,300,071.00
12	03/01/93	52-14	Wailuku / Kahului WWRF Additions and Modifications	2.50	4,825,074.00
13	05/15/93	80-08	Alii Drive Interceptor Sewer Part "A" and "B"	2.78	3,210,243.00
14	05/15/93	80-09	Waiaha Bay Sewage Pump Station	2.78	3,697,893.00
15	11/08/93	59-10	Lihue STP Optimization-Expansion	2.78	13,438,074.07
16	08/01/93	70-32	Kailua Modification, Phase 3, Maintenance/Storage and Operators Buildings	2.57	5,003,603.00
17	01/03/94	53-20	Waianae Wastewater Treatment Plant, Secondary Treatment Facilities	2.06	27,878,719.95
18	06/01/94	62-04	Ainako Interceptor Sewer, Parts A & B	2.06	2,239,174.01
19	10/01/94	80-10	Alii Drive Interceptor Sewer, Parts 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 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, 2015  
Att. 1: **PROJECTS RECEIVING WPCRF ASSISTANCE**

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

No.	Date	Proj.	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 Solids Handling	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 Solids Handling	2.45	1,344,000.00
42	01/15/02	46-37	Gulick Avenue Relief Sewer	2.34	5,812,837.16
43	01/15/02	70-44	Kailua Heights Wastewater Pump Station Modification	2.34	2,714,347.37
44	01/15/02	70-33	Kailua Wastewater Treatment Plant Disinfection Facility	2.34	2,516,434.22
45	08/15/02	90-03	County Parks Wastewater Facilities Upgrade	2.49	68,506.00
46	08/15/02	NPS C0-01	DFM Road Division Storm Water Equipment	2.96	2,794,141.55
47	11/15/02	52-16	Wailuku-Kahului Wastewater Reclamation Facility Modifications, Phase II	2.49	11,951,083.00
48	07/15/04	62-18	Kalaniana'ole Highway Interceptor Sewer Rehabilitation (Ph.1)	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, 2015  
Att. 1: **PROJECTS RECEIVING WPCRF ASSISTANCE**

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

No.	Date	Proj.	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 Phase1	0.50	88,199,631.00
61	07/15/07	46-68	Kuliouou Sewer Rehabilitation	0.50	9,997,685.66
62	08/15/07	70-45	Wanao Road/Keolu Drive Reconstructed Sewer	0.50	50,716,812.75
63	11/15/07	59-16	Marriott Wastewater Pump Station Improvements	0.50	436,349.45
64	04/15/08	52-19	Wailuku-Kahului Wastewater Pump Station Forcemain Replacement	0.50	9,931,786.00
65	07/15/08	NPS 52-39	Central Maui Landfill Gas Collection and Flare Construction	0.50	3,502,173.00
66	08/15/08	52-32	Wailuku-Kahului Wastewater Reclamation Facility Electrical & Solids Modifications	0.50	2,000,000.00
67	09/15/08	52-28	Countywide Pump Station Renovations (design)	0.50	928,607.60
68	09/15/08	54-06	Lahaina Wastewater Pump Station No. 1 Modifications	0.50	7,050,000.00
69	09/15/08	59-15	Lihue Wastewater Treatment Plant Digester Repair	0.50	4,855,378.43
70	10/15/08	52-31	Islandwide EPA Consent Decree Sewer Rehabilitation	0.50	8,438,769.51
71	01/15/09	NPS 41-07	Molokai Integrated Solid Waste Facility Ph. 3 - Disposal Cell & Drainage Improvements	0.50	3,241,037.97
72	01/15/09	54-11	Front Street Sewer Line Rehabilitation	0.50	447,454.00
73	01/15/10	80-19	Queen Liliuokalani Large Capacity Cesspool Replacement	0.50	9,421,732.13
74	01/15/10	47-04	Waimea Wastewater Treatment Plant Expansion, Phase I	0.50	10,561,925.00
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, 2015  
Att. 1: **PROJECTS RECEIVING WPCRF ASSISTANCE**

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

No.	Date	Proj.	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	0.50	100,000,000.00
80	08/15/12	52-40	Alamaha Force Main Replacement	0.50	1,128,000.00
81	01/15/13	62-38	Kalaniana'ole Avenue Interceptor System Rehabilitation - Ph. II	0.50	8,621,409.00
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	54-28	Lahaina No. 3 Force Main Replacement	0.25	4,719,006.54
84	07/15/13	52-35	Wailuku-Kahului Force Main Replacement	0.25	3,621,040.00
85	07/15/13	54-34	Countywide Pump Station Renovations	0.25	4,023,751.00
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	5,000,000.00
90	11/15/14	77-17	South Maui Recycled Water Distribution System Expansion	0.25	2,543,970.00
91	02/15/15	70-53	Energy Savings Performance Contract for Kailua Wastewater Treatment Plant	0.25	15,922,832.00
92	04/15/15	80-27	Kealahou Wastewater Treatment Plant Aeration Upgrade and Sludge Removal Project	0.25	17,968,361.40
<b>TOTAL FINAL LOAN AMOUNT</b>					<b>\$729,653,578.39</b>

**B. INTERIM LOANS** (definition on page 3)

No.	Date	Proj.	Project Name on Interim Loan	Interest (%)	Amount (\$)
1	07/15/07	80-17	North Kona Sewer and Effluent Reuse	0.50	6,747,000.00
2	01/15/12	62-37	Pua Sewage Pump Station - Pump Replacement	0.50	2,300,000.00
3	08/15/13	54-46	West Maui Recycled Water Expansion	0.25	3,160,684.00
4	10/15/13	90-04	Naalehu Wastewater Collection System	0.25	3,632,850.00
5	01/15/15	77-22	Kihei #10 Force Main Replacement	0.25	1,620,000.00
6	05/15/15	52-48	Paia Force Main Replacement	0.25	1,850,167.00
<b>TOTAL INTERIM LOAN AMOUNT</b>					<b>\$19,310,701.00</b>
<b>TOTAL FINAL &amp; INTERIM LOAN AMOUNT</b>					<b>\$748,964,279.39</b>

## **Attachment 2**

### **Statement of Net Position**

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

	June 30, 2015
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
Current Assets	
Cash and cash equivalents in State Treasury (note C)	\$ 143,384,693.53
Accrued Interest (note D)	419,733.73
Accrued Administrative Loan Fees, program (note D)	20,308.75
Accrued Administrative Loan Fees, non-program (note D)	243,736.67
Accrued interest on investments	165,500.91
Due from state treasury (note B)	28,113.05
Due from federal government	15,743.68
Current maturities of loans receivable (note D)	27,318,065.18
Total Current Assets	171,595,895.50
ARRA Advance (note H)	7,438,075.00
Loans Receivable, net of current maturities (note D)	307,239,563.14
Capital Assets	
Office Equipment (notes B and F)	84,517.80
Less: Accumulated Depreciation (notes B and F)	(73,137.16)
Total Capital Assets	11,380.64
Total Assets	\$ 486,284,914.28
Deferred outflows of resources (note B)	262,037.70
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 486,546,951.98</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
Current Liabilities	
Payroll Payable	\$ 108,401.81
Accounts Payable	14,490.03
Indirect Payable	47,894.76
Accrued Vacation, current portion (note B)	90,050.07
Total Current Liabilities	260,836.67
Accrued Vacation, net of current portion (note B)	205,389.77
Net Pension liability (note B and G)	2,393,166.30
Other Post-employment Benefits (note B and G)	1,407,139.33
Total Liabilities	4,266,532.07
Deferred inflows of resources (note B)	54,774.56
Net Position	
Net Investment in Capital Assets	11,380.64
Restricted	482,214,264.71
Unrestricted	-
Total Net position	482,225,645.35
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 486,546,951.98</b>

The accompanying notes are an integral part of this statement.

## **Attachment 3**

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

State of Hawaii  
Water Pollution Control Revolving Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

	<u>Year Ended</u>
	<u>June 30, 2015</u>
<b>OPERATING REVENUES</b>	
Interest earnings from loans	\$ 2,040,290.94
Administration loan fee earnings, program	103,445.00
Administration loan fee earnings, non-program	<u>1,038,167.64</u>
Total Operating Revenues	3,181,903.58
<b>OPERATING EXPENSES</b>	
Administrative expenses for SRF activities	632,606.76
Administrative expenses for State activities, program	-
Administrative expenses for State activities, non-program	1,502,596.69
Principal forgiveness for ARRA	5,050,316.00
Principal forgiveness for SRF	<u>1,089,898.31</u>
Total Operating Expenses	<u>8,275,417.76</u>
OPERATING INCOME (LOSS)	(5,093,514.18)
<b>NON-OPERATING REVENUES</b>	
Federal contribution	10,381,374.42
ARRA Federal contribution	-
State matching contribution	2,200,000.00
Interest earnings (loss) from investment	<u>591,448.25</u>
Total Non-operating Revenues	<u>13,172,822.67</u>
CHANGE IN NET POSITION	8,079,308.49
Net position - beginning of year, as restated (Note I)	474,146,336.86
Net position - end of year	<u>\$ 482,225,645.35</u>

The accompanying notes are an integral part of this statement.

## **Attachment 4**

### **Statement of Cash Flows**

State of Hawaii  
Water Pollution Control Revolving Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

Cash flows from operating activities:	
Personnel costs	\$ (1,684,346.37)
Payments to vendors	<u>(195,915.34)</u>
Net cash flows used in operating activities	(1,880,261.71)
Cash flows from noncapital financing activities:	<u>12,394,187.78</u>
Net cash flows provided by noncapital financing activities	12,394,187.78
Cash flows from capital and related financing activities:	
Purchase of equipment	<u>-</u>
Net cash flows used by capital and related financing activities	-
Cash flows from investing activities:	
Interest income from loans	2,117,855.26
Administrative loan fees	1,153,534.38
Principal repayments on loans	27,041,762.75
Disbursement of loan proceeds	(26,668,520.42)
Interest from investments	<u>533,439.60</u>
Net cash flows provided by investing activities	4,178,071.57
NET INCREASE IN CASH	14,691,997.64
Cash Balance at July 1, 2014	<u>128,692,695.89</u>
Cash Balance at June 30, 2015	<u>\$ 143,384,693.53</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (5,093,514.18)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	11,479.98
Principal Forgiveness for ARRA	5,050,316.00
Principal Forgiveness for SRF	1,089,898.31
Interest income from loans	(2,040,290.94)
Administrative loan fees	(1,141,612.64)
Pension Expense	85,202.07
IPA expenses	219,225.35
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Due from state treasury	21,832.34
Accrued salaries and other administrative costs	30,951.44
Net deferred outflows / inflows of resources	(255,285.15)
Other post-employment benefits	<u>141,535.71</u>
Net cash used by operating activities	<u>\$ (1,880,261.71)</u>
Supplemental disclosure of non-cash noncapital financing activities:	
In-kind contribution received from federal government	\$ 219,225.35

The accompanying notes are an integral part of this statement.

## **Attachment 5**

### **Notes to Financial Statements**

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

In accordance with the Clean Water Act of 1987 (the Act), the U.S. Environmental Protection Agency's (EPA) direct grants for the construction of wastewater treatment works ended in 1990. The Act provides for the creation of a State Revolving Fund (SRF) loan program to be capitalized in part by federal funds. The Act authorizes states to make loans for construction of publicly owned wastewater treatment works, for implementation of a non-point source pollution control management program and for implementation of an estuary conservation and management program. The SRF serves as the major federal funding source for future wastewater construction projects. Under the Act, from 1989 to 1994, the State of Hawaii received more than \$72.7 million in SRF capitalization grants. The Act expired on September 30, 1995, however the state continues to receive SRF capitalization grants annually from the U.S. EPA and to date, has been awarded over \$273.2 million.

In 1988, the Hawaii State Legislature established a State Water Pollution Control Revolving Fund (WPCRF) program to initiate the federal loan program. The purpose of the WPCRF is to provide loans in perpetuity to county and state agencies for the construction of wastewater treatment facilities and for non-point source projects. Such loans may be at or below market interest rates and be fully amortized for a period not to exceed twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final loan agreement date, whichever is later.

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

**NOTE B - ACCOUNTING POLICIES****1. Financial Statement Presentation**

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

The accompanying financial statements of the WPCRF have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, Basic Financial Statements – and Management's Discussion and Analysis –

for state and local governments. This statement established new financial reporting requirements for state and local governments in the United States of America. It requires new information and restructuring of much of the information that governments have presented in the past. The Department implemented these standards in June 2002.

Other GASB statements are required to be implemented in conjunction with Statement 34. Therefore, the Department has implemented the following GASB Statements: Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for state and local governments: Omnibus, and Statement 38, Certain Financial Statement Note Disclosures.

## 2. Measurement Focus and Basis of Accounting

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

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

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

## 3. Loans Receivable

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

#### 4. Capital Assets

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

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

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

#### 5. Administration Costs

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

#### 6. Fund Accounts

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

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

#### 7. Use of Estimates

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

#### 8. Accrued Vacation

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

#### 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, 2015, accumulated sick leave was approximately \$1,159,400.

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

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

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

#### 11. Deferred Outflows of Resources and Deferred Inflows of Resources

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

#### 12. Pensions

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

### 13. Indirect Cost

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

### 14. Due from State Treasury

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

## NOTE C - CASH AND CASH EQUIVALENTS

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

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

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

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

## NOTE D - LOANS RECEIVABLE

At June 30, 2015, the WPCRF had loans receivable from the following government entities:

	<u>SRF Activity</u>	<u>State Activity</u>
Twenty-one loans with the City & County of Honolulu; due in annual or semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion date.	\$246,879,230.97	\$ -
Four loans with the County of Hawaii; due in annual or semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion date.	\$ 21,552,212.55	\$ -
Twenty-three loans with the County of Maui; due in annual or semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion date.	\$ 47,254,946.22	\$ -

	<u>SRF Activity</u>	<u>State Activity</u>
Eight loans with the County of Kauai; due in semiannual or quarterly payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion date.	<u>\$ 18,871,238.58</u>	<u>\$ -</u>
Total	\$334,557,628.32	\$ -

Loans mature at various dates through 2034. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2016	\$	27,318,065.18
SFY2017	\$	26,756,077.70
SFY2018	\$	26,509,248.43
SFY2019	\$	25,503,717.69
SFY2020	\$	24,026,186.36
Thereafter	\$	<u>204,444,332.96</u>
	<u>\$</u>	<u>334,557,628.32</u>

As of June 30, 2015, interest accrued receivable, program loan fee accrued receivable, and non-program loan fee accrued receivable on loans totaled \$419,733.73, \$20,308.75, and \$243,736.67, respectively.

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

As of June 30, 2015, the WPCRF has committed additional funding to the following counties:

City & County of Honolulu	\$ -
County of Hawaii	12,679,850.00
County of Maui	6,630,851.00
County of Kauai	-
	<hr/>
Total	\$19,310,701.00

#### NOTE E – FEDERAL FUNDING AND STATE MATCH

The WPCRF is capitalized by grants from EPA authorized by Title VI of the Clean Water Act with matching funds from the state. As of June 30, 2015, the EPA has awarded \$273,227,248.00 to the State of Hawaii, of which \$260,570,511.70 has been drawn for loans and program administration expenses. The state has also legislated and committed matching funds of \$54,645,450.67.

The table below summarizes the capitalization grants awarded to the WPCRF, the amounts drawn on each grant, and the funds available for future activity as of June 30, 2015:

<u>Budget Period</u>	<u>FFY</u>	<u>Amount</u>	<u>Total Cash Draws</u>	<u>EPA Draws (deducted prior to issuance of cap grant)</u>	<u>Funds Available</u>
<b>Balance from previous years:</b>	<b>89-06</b>	<b>\$195,144,248.00</b>	<b>\$195,141,748.00</b>	<b>\$ 2,500.00<sup>1</sup></b>	<b>\$ -</b>
03/01/08 - 06/30/17	07	\$ 8,273,000.00	\$ 8,273,000.00	\$ -	\$ -
10/01/08 - 06/30/16	08	\$ 5,223,500.00	\$ 5,223,500.00	\$ -	\$ -
12/31/09 - 06/30/16	09	\$ 5,223,500.00	\$ 5,223,500.00	\$ -	\$ -
04/01/11 - 06/30/17	10	\$ 15,781,000.00	\$ 15,581,000.00	\$ -	\$ -
09/30/11 - 06/30/18	11	\$ 11,436,000.00	\$ 11,372,361.56	\$ -	\$ 63,638.44
09/28/12 - 06/30/19	12	\$ 10,946,000.00	\$ 9,963,901.65	\$ -	\$ 982,098.35
09/30/13 - 06/30/20	13	\$ 10,341,000.00	\$ 9,591,439.70	\$ 350,000.00 <sup>1</sup>	\$ 399,560.30
10/01/14 – 06/30/21	14	\$ 10,859,000.00	\$ 60.79	\$ -	\$10,858,939.21
		<hr/>	<hr/>	<hr/>	<hr/>
		\$273,227,248.00	\$260,570,511.70	\$ 352,500.00	\$12,304,236.30

<sup>1</sup> \$2,500 and \$350,000 was used to pay for an EPA County workshop and a Northbridge Management Study, respectfully. These expenses were deducted from the Admin fund prior to the issuance of the FFY2005 and FFY2013 cap grants; and are recorded in EPA's records and not in FAMIS.

The table below summarizes the state match funds received for each EPA capitalization grant awarded to the WPCRF, the federal fiscal year (grant year), the source of state funds, and the dollar amount of state match for each EPA capitalization grant as of June 30, 2015.

<u>Federal Fiscal Year</u>	<u>Source of State Funds</u>		<u>20% State Match Amount</u>
		Balance from previous years (1989 – 2006):	<u>\$39,028,850.67</u>
2007	Act 281/00	\$154,696.00	
	Act 259/01	21,386.00	
	Act 177/02	28,979.00	
	Act 200/03	34,403.00	
	Act 41/04	33,156.00	
	Act 178/05	386,980.00	
	Act 213/07	<u>995,000.00</u>	\$ 1,654,600.00
2008	Act 158/08		\$ 1,044,700.00
2009	Act 162/09		\$ 1,044,700.00
2010	Act 180/10		\$ 3,156,200.00
2011	Act 164/11		\$ 2,287,200.00
2012	Act 106/12		\$ 2,189,200.00
2013	Act 134/13		\$ 2,068,200.00
2014	Act 122/14		<u>\$ 2,171,800.00</u>
		Total State Match	<u><u>\$54,645,450.67</u></u>

NOTE F - EQUIPMENT

The following are the changes in equipment and accumulated depreciation during SFY 2015:

	Balance at <u>July 1, 2014</u>	SFY 2015		Balance at <u>June 30, 2015</u>
		<u>Increases</u>	<u>Decreases</u>	
Equipment	\$84,517.80	\$ -	\$ -	\$84,517.80
Accumulated Depreciation	(61,657.18)	(11,479.98)	\$ -	(73,137.16)
	<u>\$22,860.62</u>	<u>(\$11,479.98)</u>	<u>\$ -</u>	<u>\$11,380.64</u>

## NOTE G – EMPLOYEE BENEFIT PLANS

### 1. Employees' Retirement System

#### *Plan Description*

All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: <http://ers.ehawaii.gov/>.

#### *Benefits Provided*

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement plans. The three plans provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees 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 employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

#### *Noncontributory Plan*

*Retirement Benefits* - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse / reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of 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.

*Contributory Plan for Employees 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 5 years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 5 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 66-2/3% 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 30% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until

remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 1 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 10 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 Plan for Employees Hired After June 30, 2012*

*Retirement Benefits* - Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 10 years of credited service are eligible to retire at age 60.

*Disability and Death Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Plan for Employees 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 5 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 surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 5 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 10 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 Plan for Employees 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 10 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 EMTs 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 10 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 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death 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 established 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 2015 were 22.00% for police and firefighters and 15.50% for all other employees. Contributions to the pension plan from the Fund were \$255,285 for the fiscal year ended June 30, 2015.

The employer is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory plan employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid plan members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid plan 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, 2015, the WPCRF reported a liability of \$2,393,166 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2014, the WPCRF's proportion of the State's proportion was 0.0100%, which did not change from its proportion at June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2015, the WPCRF recognized pension expense of \$85,203. At June 30, 2015, the WPCRF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,903	\$ (133)
Net difference between projected and actual earnings on pension plan investments	--	(54,642)
Changes in proportion and difference between WPCRF contributions and proportionate share of contributions	850	--
WPCRF contributions subsequent to the measurement date	255,285	--
	<u>\$ 262,038</u>	<u>\$ (54,775)</u>

The \$255,285 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2016	\$ (12,272)
2017	(12,272)
2018	(12,272)
2019	(12,272)
2020	1,066
Total	<u>\$ (48,022)</u>

*Actuarial Assumptions*

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 3.00%

Payroll growth rate 3.5%

Investment rate of return 7.75% per year, compounded annually including inflation

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates its experience studies every five years.

*Discount Rate*

The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

*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 7.75%, 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 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
WPCRF's proportionate share of the net pension liability	<u>\$3,034,913</u>	<u>\$2,393,166</u>	<u>\$1,751,420</u>

### *Pension Plan Fiduciary Net Position*

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

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

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

## **2. Deferred Compensation Plan**

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

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

### 3. Post-Retirement Health Care and Life Insurance Benefits

#### *Plan Description*

The state provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) of 2001, the state contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan, effective July 1, 2003.

The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues annual financial reports that are available to the public by writing to:

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

#### *Funding Policy*

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

The state's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The state's OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The contributions for the WPCRF for the years ended June 30, 2015, 2014, and 2013 were approximately \$123,500, \$112,000, and \$105,400, respectively.

#### *State Policy*

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

*Allocated OPEB Cost*

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

	<u>2015</u>	<u>2014</u>
Annual OPEB cost	\$ 265,070	\$ 253,980
Contributions made	( 123,535)	(112,016)
Increase in net OPEB obligation	<u>141,535</u>	<u>141,964</u>
Net OPEB obligation, beginning of year	1,265,604	1,123,640
Net OPEB obligation, end of year	<u>\$1,407,139</u>	<u>\$1,265,604</u>

The following table summarizes the annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation for the years ending June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Annual OPEB cost	\$ 265,070	\$ 253,980
Percentage of annual OPEB cost contributed	46.60%	44.10%
Net OPEB obligation, end of year	\$1,407,139	\$1,265,604

*Required Supplementary Information and Disclosures*

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

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

## NOTE H – ARRA ADVANCES

The WPCRF committed all of its ARRA stimulus money to the four counties of Hawaii by January 2010. The program used the stimulus money to provide 0% interest and loan fee loans with 100% principal forgiveness.

ARRA funds that are advanced will be classified as “ARRA advance” and will be recorded in the Statement of Net Assets. Once all of the conditions and compliance requirements have been satisfied, the ARRA loans will be completely forgiven and expensed.

## NOTE I – PRIOR PERIOD ADJUSTMENT

The WPCRF adopted the requirements of GASBS 68, as amended, which resulted in a decrease in beginning net position at June 30, 2014. The impact on beginning net position is summarized as follows:

	Amount
Net position at June 30, 2014, as previously reported	\$ 476,502,323.10
Cumulative effect of applying GASBS 68, as amended	
Net pension liability at June 30, 2013	(2,574,067.71)
Deferred outflows of resources - employer and employee contributions made subsequent to the measurement date of the beginning net pension liability but prior to June 30, 2014	218,081.47
	<u>\$ 474,146,336.86</u>

Management of the WPCRF concluded that it was not practical to determine the beginning amounts of all pension-related deferred inflows of resources and deferred outflows of resources. Accordingly, as permitted under the provisions of GASBS 68, as amended, the Fund has only reported the beginning deferred outflow of resources resulting from employer and employee pension contributions made subsequent to the measurement date of the beginning net pension liability but prior to June 30, 2014.