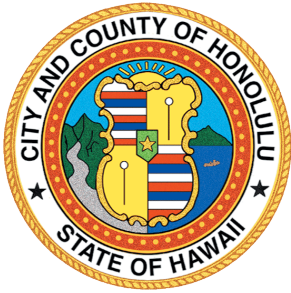




Office of the City Auditor



**City and County of
Honolulu
State of Hawai`i**

**Report to the Mayor
and the
City Council of Honolulu**

**City and County of Honolulu
Sewer Fund**

**Financial Statements
June 30, 2025 and 2024**

Table of Contents

| | Page |
|---|------|
| I. Financial Statements | |
| Independent Auditor's Report..... | 1 |
| Management's Discussion and Analysis (Unaudited)..... | 4 |
| Statement of Net Position..... | 10 |
| Statement of Revenue, Expenses, and Changes in Net Position | 12 |
| Statement of Cash Flows..... | 13 |
| Notes to Financial Statements..... | 15 |
| II. Required Supplementary Information (Unaudited) | |
| Schedule of the City's Proportionate Share of the Net Pension Liability Last Ten Fiscal Years | 51 |
| Notes to Schedule of the City's Proportionate Share of the Net Pension Liability Last Ten Fiscal Years | 52 |
| Schedule of Pension Contributions Last Ten Fiscal Years | 53 |
| Schedule of Changes in Net OPEB Liability and Related Ratios Last Ten Fiscal Years | 54 |
| Schedule of OPEB Contributions Last Ten Fiscal Years | 55 |
| Notes to Schedule of OPEB Contributions Year Ended June 30, 2025 | 56 |

Financial Statements



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Chair and Members of the City Council
City and County of Honolulu:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City and County of Honolulu - Sewer Fund ("Sewer Fund"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Sewer Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Fund as of June 30, 2025, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Sewer Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, the financial statements are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the City and County of Honolulu ("City") that is attributable to the transactions of the Sewer Fund. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2025, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sewer Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the schedule of the City's proportionate share of the net pension liability, notes to schedule of the City's proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in net other postemployment benefits ("OPEB") liability and related ratios, schedule of OPEB contributions, and notes to schedule of OPEB contributions on pages 50 through 55 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 22, 2025

City and County of Honolulu - Sewer Fund

Management's Discussion and Analysis (Unaudited)
June 30, 2025

The following summary discussion and analysis of the financial statements for the year ended June 30, 2025 are provided by the City and County of Honolulu's wastewater enterprise ("Wastewater Enterprise"). The summary is designed to provide an introduction to the Sewer Fund financial statements and the financial condition of the Wastewater Enterprise. We encourage readers to also review the financial statements as a whole.

Financial Highlights

- An average of 98.62 million gallons per day of wastewater were collected and treated in fiscal year 2025, a decrease of 1.6% from fiscal year 2024. As of June 30, 2025, the Wastewater Enterprise had approximately 149,000 customer accounts and served approximately 780,000 residents.
- Total assets and deferred outflows of resources were \$6.5 billion and exceeded total liabilities and deferred inflows of resources by \$3.1 billion as of June 30, 2025. As of June 30, 2025, net position (difference between assets, deferred inflows/outflows of resources, and liabilities) increased by \$177.7 million, or 6.0%, from June 30, 2024. The increase in net position in 2025 was primarily due to an increase in capital assets.
- As of June 30, 2025, total assets increased by \$423.9 million to \$6.5 billion, representing a 6.9% increase from the prior fiscal year. The increase in total assets in 2025 was primarily due to an increase in capital assets.
- Total current and restricted assets increased by 4.8% or \$77.8 million to \$1.7 billion at June 30, 2025. The increase in 2025 was primarily due to an increase in restricted assets.
- Total current liabilities decreased by 4.7% or \$13.5 million to \$275.1 million as of June 30, 2025, primarily due to decreases in bonds payable. As of June 30, 2025, total liabilities increased 7.8% or \$244.9 million to \$3.4 billion due to an increase in revenue bonds payable.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Wastewater Enterprise's financial statements, which consist of the basic financial statements and notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Wastewater Enterprise's finances, in a manner similar to a private-sector business.

City and County of Honolulu - Sewer Fund

Management's Discussion and Analysis (Unaudited)
June 30, 2025

The statement of net position present information on the Wastewater Enterprise's assets, liabilities, and deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Wastewater Enterprise is improving or deteriorating. Net position increases when revenues and subsidies exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net position, which indicates an improved financial position.

The statement of revenues, expenses, and changes in net position present information showing how the Wastewater Enterprise's net position changed during the past fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The statement of cash flows present changes in cash and cash equivalents, resulting from operating, financing, and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

City and County of Honolulu - Sewer Fund

Management's Discussion and Analysis (Unaudited)

June 30, 2025

Financial Analysis

The following are the highlights of the condensed statements of net position for the Wastewater Enterprise (in thousands of dollars):

Condensed Statements of Net Position

| | <u>2025</u> | <u>2024</u> |
|---|---------------------|---------------------|
| Assets: | | |
| Current assets | \$ 1,659,168 | \$ 1,627,954 |
| Restricted assets, noncurrent | 47,139 | 545 |
| Capital and intangible right-of-use assets, net | 4,717,153 | 4,364,005 |
| Deferred outflows of resources | <u>98,646</u> | <u>105,653</u> |
| Total assets and deferred outflows | <u>\$ 6,522,106</u> | <u>\$ 6,098,157</u> |
| Liabilities: | | |
| Current liabilities | \$ 275,128 | \$ 288,663 |
| Noncurrent liabilities | 3,097,318 | 2,838,838 |
| Deferred inflows of resources | <u>31,460</u> | <u>30,182</u> |
| Total liabilities and deferred inflows | 3,403,906 | 3,157,683 |
| Net investment in capital assets | 1,849,228 | 1,676,048 |
| Restricted for debt service | 95,081 | 109,582 |
| Unrestricted | <u>1,173,891</u> | <u>1,154,844</u> |
| Total net position | <u>3,118,200</u> | <u>2,940,474</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 6,522,106</u> | <u>\$ 6,098,157</u> |

Net Position

Net position (the difference between assets, liabilities, and deferred inflows/outflows of resources) may serve, over time, as a useful indicator of a government's financial position. In the case of the Wastewater Enterprise, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3.1 billion and \$2.9 billion at the end of fiscal years 2025 and 2024, respectively. Additions of capital assets resulted in a 10.0% increase in net position from fiscal year 2024 to 2025. The largest portion of the Wastewater Enterprise's net position represented its net investment in capital assets (e.g. land, buildings, transmission and distribution system, etc.). The Wastewater Enterprise uses these capital assets to provide wastewater services on the Island of Oahu and consequently, capital assets are not available to liquidate liabilities or other spending.

City and County of Honolulu - Sewer Fund

Management's Discussion and Analysis (Unaudited)

June 30, 2025

The following are the highlights of the condensed statements of revenues, expenses and changes in net position (in thousands of dollars):

Condensed Statements of Revenues, Expenses, and Changes in Net Position

| | <u>2025</u> | <u>2024</u> |
|---|----------------------------|----------------------------|
| Operating revenues | \$ 478,032 | \$ 470,605 |
| Operating expenses | <u>(259,875)</u> | <u>(237,675)</u> |
| Operating income | 218,157 | 232,930 |
| Nonoperating revenues (expenses) | | |
| Interest income | 69,474 | 60,097 |
| Interest expense | (89,157) | (82,024) |
| Other | <u>10,535</u> | <u>14,110</u> |
| Income before transfers and capital contributions | 209,009 | 225,113 |
| Transfers out | (23,290) | (23,581) |
| Capital contributions | <u>1,588</u> | <u>5,487</u> |
| Change in net position | 187,307 | 207,019 |
| Net position | | |
| Beginning of year, as previously reported | 2,940,474 | 2,733,455 |
| Prior period adjustment | <u>(9,581) *</u> | <u>-</u> |
| Beginning of year | <u>2,930,893</u> | <u>2,733,455</u> |
| End of year | <u><u>\$ 3,118,200</u></u> | <u><u>\$ 2,940,474</u></u> |

* The net position at the beginning of fiscal year 2025 was restated by \$9.6 million as a result of the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 101, *Compensated Absences* ("Statement No. 101"). Comparative activity for fiscal year 2024 has not been restated in accordance with the transition guidance in Statement No. 101.

The changes in net position were primarily due to:

- Operating revenues, comprised mainly of sewer service charges, increased 1.6% to \$478.0 million for fiscal year 2025 compared to the prior fiscal year. Sewer service charge rates remained the same in fiscal years 2025 and 2024.
- Operating expenses increased \$22.2 million or 9.3% to \$259.9 million for fiscal year 2025 compared to the prior fiscal year. The primary increase in fiscal year 2025 was due to increased depreciation and amortization and administrative and general operating expenses.

City and County of Honolulu - Sewer Fund

Management's Discussion and Analysis (Unaudited)
June 30, 2025

- Interest expense increased by \$7.1 million or 8.7% to \$89.2 million for fiscal year 2025 compared to the prior fiscal year. The increase in 2025 were primarily due to increased interest expense on wastewater revenue bonds.
- Contributed capital decreased to \$1.6 million in fiscal year 2025, a decrease from \$5.5 million in fiscal year 2024. Contributed capital represents assets (primarily capital assets) transferred to other city governmental funds and other entities. Approximately \$23.3 million and \$23.6 million were transferred out during fiscal year 2025 and 2024, respectively, for the Wastewater Enterprise's share of central administrative expenses incurred by the City.

Capital Assets and Debt Administration

Capital Assets

The Wastewater Enterprise's investment in capital assets amounted to \$4.7 billion, net of accumulated depreciation, as of June 30, 2025, an increase of \$353.1 million or 8.1%. Capital assets include land, buildings, infrastructure, land improvements, equipment, machinery, and leased equipment for the 9 treatment plants, 71 pumping stations, and over 2,100 miles of sewer line that makes up the Wastewater Enterprise. Capital assets are added, rehabilitated or replaced according to the infrastructure and facilities twenty-year capital plan.

Long-term Debt

Wastewater revenue bonds and State revolving fund loans are the primary long-term financing instruments used to fund the acquisition of capital assets. Revenue bonds outstanding as of June 30, 2025 totaled \$2.6 billion. State revolving fund notes payable outstanding at June 30, 2025 totaled \$362.8 million.

Debt service coverage was 232% on Senior Revenue Bonds, 196% on all revenue bonds, and 167% on all debt at June 30, 2025. Debt service coverage exceeded the requirements of bond covenants and policies of the City Council in 2025. Additional information on the Wastewater Enterprise's capital assets and long-term debt can be found in the notes to the financial statements.

City and County of Honolulu - Sewer Fund

Management's Discussion and Analysis (Unaudited)
June 30, 2025

Currently Known Facts, Decisions or Conditions

The Department of Environmental Services undertook a wastewater rate study to assess the current rate structure and evaluate alternatives, to confirm rate revenue requirements for the improvement program through 2040, and to evaluate the adequacy of the rates and propose revisions as appropriate. Bill 60 was introduced to amend wastewater rates in the Revised Ordinances of Honolulu and became an ordinance on June 24, 2025. The rate adjustments take effect on January 1, 2026, and will increase sewer fees annually over a 6.5-year period. The first increase of 6% begins on January 1, 2026, followed by increases of 7.5% in July 2026, and 8.5%, 9%, 9%, 9%, and 9% each July thereafter through 2031. Beginning July 1, 2032, an annual 3 percent sewer rate increase adopted by ordinance will take effect each year. In addition to annual increases, the structure of the sewer fee will shift making total amounts billed more directly tied to water consumption. Beginning in January 2026, the structure of sewer fees will shift towards 40% fixed and 60% volumetric, compared to 73% fixed and 27% volumetric prior to January 1, 2026. The significant base component of the rate structure and growth in customers prevents changes in water use from having a major impact on revenues.

The Department of Environmental Services is currently undertaking a capital improvement program adopted by the Department and approved by the City Council. The Capital Improvement Program is being undertaken for the purposes, among others, of meeting the requirements of certain consent decrees, permits, or administrative orders entered into by the Department with Federal and State regulatory bodies and reliably serving projected growth in the number of customers served by the Wastewater System. The cost of the Capital Improvement Program, is expected to be financed primarily from: (i) proceeds of Senior Bonds and Subordinate Obligations (including Clean Water State Revolving Fund loans) previously issued and currently available, (ii) proceeds of additional Senior or Junior Bonds (including the Series 2025 Bonds) and Subordinate Obligations (currently expected to consist primarily of Clean Water State Revolving Fund loans) to be issued in the future, (iii) Net Revenues of the Wastewater System, and (iv) Wastewater System Facilities Charges.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City and County of Honolulu, Department of Environmental Services, 91-2060 Franklin D. Roosevelt Avenue, Ewa Beach, Hawaii, 96706.

City and County of Honolulu - Sewer Fund

Statement of Net Position
June 30, 2025
(Amounts in thousands)

Assets and Deferred Outflows of Resources

| | |
|---|--------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 242,429 |
| Receivables: | |
| Accounts, net of allowance for uncollectible accounts of \$3,644 in 2025 | 75,699 |
| Interest | 12,955 |
| Total receivables | 88,654 |
| Investments | 1,315,856 |
| Employee advances | 352 |
| Inventories of materials and supplies | 10,902 |
| Other assets | 975 |
| Total current assets | 1,659,168 |
| Restricted Assets – Investments | 47,139 |
| Capital Assets, Net | 4,716,089 |
| Intangible Right-of-Use Assets, Net | 1,064 |
| Total assets | 6,423,460 |
| Deferred Outflows of Resources: | |
| Deferred refunding costs, net | 64,181 |
| Deferred pension costs | 19,185 |
| Deferred other postemployment benefit costs | 11,096 |
| Deferred asset retirement obligations costs | 4,184 |
| Total deferred outflows of resources | 98,646 |
| Total assets and deferred outflows of resources | \$ 6,522,106 |

The accompanying notes are an integral part of these financial statements.

City and County of Honolulu - Sewer Fund

Statement of Net Position (Continued)

June 30, 2025

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

| | |
|---|--------------|
| Current Liabilities: | |
| Accounts payable | \$ 133,739 |
| Interest payable | 55,079 |
| Bonds payable | 45,107 |
| Notes payable | 36,271 |
| Accrued payroll | 2,206 |
| Other liabilities | 2,726 |
| | <hr/> |
| Total current liabilities | 275,128 |
| Notes Payable | 326,559 |
| General Obligation Bonds Payable, Net | 158 |
| Asset Retirement Obligations | 14,761 |
| Revenue Bonds Payable, Net | 2,569,452 |
| Net Pension Liability | 114,690 |
| Net Other Postemployment Benefits Liability | 52,924 |
| Other Liabilities | 18,774 |
| | <hr/> |
| Total liabilities | 3,372,446 |
| Deferred Inflows of Resources: | |
| Deferred pension costs | 8,954 |
| Deferred other postemployment benefit costs | 21,551 |
| Deferred leases | 955 |
| | <hr/> |
| Total deferred inflows of resources | 31,460 |
| Net Position: | |
| Net investment in capital assets | 1,849,228 |
| Restricted for debt service | 95,081 |
| Unrestricted | 1,173,891 |
| | <hr/> |
| Total net position | 3,118,200 |
| | <hr/> |
| Total liabilities, deferred inflows of resources, and net position | \$ 6,522,106 |

The accompanying notes are an integral part of these financial statements.

City and County of Honolulu - Sewer Fund

Statement of Revenues, Expenses, and Changes in Net Position

June 30, 2025

(Amounts in thousands)

| | |
|---|----------------------------|
| Operating Revenues: | |
| Sewer service charges | \$ 464,175 |
| Other revenue | 13,857 |
| Total operating revenues | <u>478,032</u> |
| Operating Expenses: | |
| Depreciation and amortization | 100,317 |
| Administrative and general | 73,370 |
| Utilities | 26,879 |
| Contractual services | 29,724 |
| Fringe benefits | 16,763 |
| Materials and supplies | 10,438 |
| Fuel and lubricants | 1,457 |
| Maintenance | 927 |
| Total operating expenses | <u>259,875</u> |
| Operating income | <u>218,157</u> |
| Nonoperating Revenues (Expenses): | |
| Interest income | 69,474 |
| Interest expense | (89,157) |
| Net increase in fair value of investments | 10,229 |
| Other | 306 |
| Total nonoperating expenses, net | <u>(9,148)</u> |
| Income before transfers and capital contributions | 209,009 |
| Transfers Out | (23,290) |
| Capital Contributions | 1,588 |
| Change in net position | <u>187,307</u> |
| Net Position, Beginning of year, as previously reported | 2,940,474 |
| Prior period adjustment | <u>(9,581)</u> |
| Net Position, Beginning of year, as restated | <u>2,930,893</u> |
| Net Position, End of year | <u><u>\$ 3,118,200</u></u> |

The accompanying notes are an integral part of these financial statements.

City and County of Honolulu - Sewer Fund

Statement of Cash Flows
 For the Year Ended June 30, 2025
 (Amounts in thousands)

| | |
|---|--------------------------|
| Cash Flows from Operating Activities: | |
| Cash received from customers | \$ 475,310 |
| Cash payments to suppliers | (80,001) |
| Cash payments to employees | (79,506) |
| Other receipts | 1,197 |
| | <u>317,000</u> |
| Net cash provided by operating activities | |
| Cash Flows from Noncapital Financing Activities -- | |
| Transfers Out | <u>(23,290)</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Acquisition and construction of capital assets | (445,211) |
| Proceeds from issuance of notes | 43,961 |
| Repayments on notes | (34,413) |
| Interest paid on notes | (3,881) |
| Payment to escrow agent for crossover refunding | (6) |
| Proceeds from issuance of bonds, net | 707,041 |
| Repayments on bonds | (477,613) |
| Interest paid on bonds | (89,213) |
| Principal paid on leases and subscriptions | (622) |
| Interest paid on leases and subscriptions | (69) |
| | <u>(300,026)</u> |
| Net cash used in capital and related financing activities | |
| Cash Flows from Investing Activities: | |
| Purchase of investments | (1,707,517) |
| Proceeds from maturity of investments | 1,635,260 |
| Interest on investments | 70,788 |
| | <u>(1,469)</u> |
| Net cash used in investing activities | |
| Net decrease in cash and cash equivalents | |
| | (7,785) |
| Cash and Cash Equivalents, Beginning of Year | <u>250,214</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 242,429</u></u> |

The accompanying notes are an integral part of these financial statements.

City and County of Honolulu - Sewer Fund

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2025

(Amounts in thousands)

Reconciliation of Income From Operations to Net Cash

Provided by Operating Activities:

| | |
|---|-------------------|
| Operating income | \$ 218,157 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | |
| Depreciation and amortization | 100,317 |
| Write-off of capital assets | 10,645 |
| Changes in assets, liabilities, and deferred inflows and outflows of resources: | |
| Accounts receivable | (2,907) |
| Other assets | 1 |
| Inventories of materials and supplies | (1,500) |
| Deferred outflows from pension | (1,900) |
| Deferred outflows from other postemployment benefits | 3,205 |
| Deferred outflows from asset retirement obligations | 259 |
| Accounts payable | 5,285 |
| Other liabilities | 1,149 |
| Asset retirement obligations | 577 |
| Net pension liability | (2,831) |
| Net other postemployment benefits liability | (14,718) |
| Due to other City funds | (17) |
| Deferred inflows from pension | 233 |
| Deferred inflows from other postemployment benefits | 1,052 |
| Deferred inflows from leases | (7) |
| Net cash provided by operating activities | <u>\$ 317,000</u> |

Supplemental Disclosure of Noncash Capital and Related Financing Activities:

The Sewer Fund received approximately \$1.6 million in contributions of capital assets from government agencies and developers, which are recorded as capital contributions at their cost or estimated cost for the year ended June 30, 2025.

Approximately \$16.8 million capital asset acquisitions were included in accounts payable at June 30, 2025.

Amortization of net bond premiums, (discounts) and (deferred loss on refunding) amounted to approximately \$16.9 million, (\$145,000) and (\$6.1) million, respectively, in fiscal year 2025.

Approximately \$3.0 million of the Sewer Fund's notes payable was forgiven in fiscal year 2025.

The accompanying notes are an integral part of these financial statements.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

1. Financial Reporting Entity

The Sewer Fund was established as an enterprise fund effective July 1, 1999 in conjunction with the November 1998 City Resolution 98-193, CD1, authorizing the issuance of the Wastewater System Revenue Bonds for the City and County of Honolulu's ("City") wastewater system. The fund accounts for the operations of the City's wastewater system.

The Sewer Fund is one of the various enterprise funds of the City. The Sewer Fund's financial statements reflect only its portion of the proprietary fund type. The City's Director of Budget and Fiscal Services maintains the central accounts for all City funds and publishes financial statements for the City annually, which include the Sewer Fund's financial activities.

2. Summary of Significant Accounting Policies

a. Basis of Presentation

The Sewer Fund is included in the City's Enterprise Funds. The Sewer Fund's financial statements are intended to present the financial position, change in financial position, and cash flows of only that portion of the funds of the City's Enterprise Funds that is attributable to the transactions of the Sewer Fund.

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

b. Basis of Accounting

The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

c. Use of Estimates

The accompanying financial statements have been prepared in accordance with US GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Significant items subject to such estimates and assumptions included revenue recognized related to unbilled accounts, allowance for uncollectible accounts, net pension liability, net other postemployment benefits ("OPEB"), asset retirement obligations ("ARO"), and measurement of leases. Actual results could differ from those estimates.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements

June 30, 2025

2. Summary of Significant Accounting Policies (continued)

d. Cash and Cash Equivalents

Cash includes amounts in demand and time deposits primarily with various financial institutions in the State of Hawai'i. Cash on deposit with financial institutions is collateralized in accordance with state statutes. Investments with original maturity of three months or less when purchased are considered cash equivalents.

e. Investments

Investments consist of U.S. Treasury and government securities and nonparticipating guaranteed investment contracts. All nonparticipating investment contracts are recorded at amortized cost. Participating investment contracts with maturities of one year or more are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Participating investment contracts with maturities of less than one year are recorded at amortized cost.

f. Inventories of Materials and Supplies

Inventories of materials and supplies are stated at weighted average cost. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

g. Receivables

Sewer service charge revenues are accrued by the City based on estimated billings for services provided through the end of the fiscal year. Receivables included estimated unbilled sewer charges amounting to approximately \$42.3 million at June 30, 2025. The allowance for doubtful accounts is based on the aging of accounts receivable. Approximately 90% of balances over 120 days are regarded as uncollectible.

h. Restricted Assets

Revenue bond indentures allow the City to invest in U.S. government securities. At June 30, 2025, restricted assets consisted of unspent debt proceeds of approximately \$46.6 million and investments held in clearance accounts of approximately \$557,000, totaling \$47.1 million.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

i. Capital Assets

Capital assets include property, plant and equipment, including infrastructure (sewer system, network of pipes, and sewer mains). Assets with an initial individual cost of \$10,000 or more for equipment and \$100,000 or more for buildings, structures and infrastructure, and an estimated useful life of more than one year are capitalized. Such assets are recorded at cost or estimated cost.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | <u>Years</u> |
|--------------------------------------|--------------|
| Buildings and land improvements | 10 – 50 |
| Transmission and distribution system | 13 – 100 |
| Equipment and machinery | 5 – 25 |

Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in administrative and general expenses within the results of operations.

Normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Betterments are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

j. Leases – Lessee

The Sewer Fund recognizes a lease liability and a right-of-use lease asset (“lease asset”) in the statement of net position. The Sewer Fund has a policy to recognize lease liabilities and lease assets for all land leases and leases with an initial individual present value of expected payments of \$10,000 or more for equipment and \$100,000 or more for buildings, structures and infrastructure, and a lease term of more than one year.

At the commencement of a lease, the Sewer Fund initially measures the lease liability at the present value of payments expected to be made during the lease term. Variable payments based on future performance or usage of the lease asset are not included in the measurement of the lease liability. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

j. Leases – Lessee (continued)

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease asset into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that management determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Sewer Fund determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) the lease term, and (3) lease payments.

- The Sewer Fund uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease as well as any periods covered by the Sewer Fund's option to extend the lease if it is reasonably certain, based on all relevant factors, that management will exercise that option. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Sewer Fund is reasonably certain to exercise.

The Sewer Fund monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. The Sewer Fund's lease assets and lease liabilities are recorded in intangible right-of-use assets, net and other current and noncurrent liabilities, respectively, in the statement of net position.

k. Leases – Lessor

The Sewer Fund recognizes lease receivables and deferred inflows of resources in the statement of net position. The Sewer Fund has a policy to recognize lease receivables and deferred inflows of resources for all land leases and leases with an initial individual present value of expected receipts of \$10,000 or more for equipment and \$100,000 or more for buildings, structures and infrastructure, and a lease term of more than one year. Variable payments based

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

k. Leases – Lessor (continued)

on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease receivable.

At the commencement of a lease, the Sewer Fund initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Key estimates and judgments related to leases include how the Sewer Fund determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) the lease term, and (3) lease payments.

- The Sewer Fund uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease as well as any periods covered by the lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lease.

The Sewer Fund monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. At June 30, 2025, the lease receivable of approximately \$955,000 is recorded in other assets in the statement of net position.

l. Subscription-Based Information Technology Arrangements

A subscription-based information technology arrangement ("SBITA") is a contract that conveys control of the right to use a SBITA vendor's information technology ("IT") software alone or with underlying IT assets for a period of time in an exchange or exchange-like transaction. The Sewer Fund has a policy to record a subscription liability with individual values of \$10,000 or more and a subscription term greater than one year. Variable payments based on future

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

l. Subscription-Based Information Technology Arrangements (continued)

of vendee or usage of the underlying IT assets are not included in the measurement of the subscription liability. Subscriptions assets are amortized over the subscription term or the life of the underlying IT asset, whichever is less. The Sewer Fund's IT assets and subscription liabilities are recorded in intangible right-of-use assets, net and other current and noncurrent liabilities, respectively, in the statement of net position.

m. Asset Retirement Obligations

AROs represent the liabilities where both an external obligating event and internal obligating event have occurred, and the liability is reasonably estimable and recorded based on the City's best estimates of the current value of outlays expected to be incurred. The AROs are reevaluated annually for the effects of general inflation or deflation and any events that would cause a significant change in the estimated outlays. Refer to Note 7 for more information.

n. Original Issue Discounts or Premiums

Original issue discounts or premiums on bonds are amortized ratably over the terms of the respective issues and are offset against the bonds payable in the statement of net position.

o. Compensated Absences

Accrued Vacation

Employees are credited with vacation at the rate of one and three-quarters working days per month. Accumulation of such vacation credits is limited to 90 days at calendar year-end and is convertible to pay upon termination of employment. Such compensated absences has been accrued and reflected as other current and noncurrent liabilities in the statement of net position.

Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month without limit. Sick leave is taken only in the event of illness and is not convertible to pay; however employees who retire or leave government service in good standing with sixty or more unused sick leave days are entitled to an additional service credit in the retirement system. The City uses historical payroll usage data and reviews employer policies to estimate the percentage of the accumulated sick leave that is expected to be paid or used. The City estimated that 43.7% of the sick leave will be converted to retirement credit with the retirement system and therefore accrued 56.3% of the accumulated unpaid sick leave earned by the employees. Sick leave is

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

o. Compensated Absences (continued)

Sick Leave (continued)

recorded as current and noncurrent other liabilities on the statement of net position. Refer to Note 2y for discussion of implementation of GASB Statement No. 101.

p. Arbitrage Liability

The City is subject to the arbitrage rebated provisions of the Internal Revenue Code of 1986, as amended, which requires issuers of tax-exempt bonds to rebate to the U.S. Treasury excess earnings on the investment of bond proceeds that are not spent on eligible project costs within the prescribed time frame. The City monitors compliance with these regulations and calculates any arbitrage rebate liability as of the end of each reporting period. Arbitrage rebate liability is recorded as noncurrent other liabilities on the statement of net position.

q. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent consumptions of net position that apply to future periods and will not be recognized as an outflow of resources (expenditures) until then. The balances consist of:

1. Deferred charges on refunding bonds resulting from the difference between the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt on a basis that approximates the effective-interest method.
2. Differences between projected and actual experience and changes in assumptions are recognized in pension/OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions/OPEB through the pension/OPEB plans (active and inactive employees) determined as of the beginning of the measurement period. The average of expected remaining service lives for the purposes of recognizing the applicable deferred outflows and inflows of resources established in fiscal year 2024 for pension and OPEB are 4.9866 years and 6.0273 years, respectively.
3. A corresponding deferred outflow of resources equal to the ARO is also recognized. The deferred outflow of resources is amortized over the remaining useful life of the related capital assets.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements

June 30, 2025

2. Summary of Significant Accounting Policies (continued)

q. Deferred Outflows and Inflows of Resources (continued)

4. Deferred inflow of resources resulting from leases where the Sewer Fund is the lessor equal to the present value of payments expected to be received during the lease. The deferred inflows of resources are recognized over the life of the lease in a systematic and rational method.

Additionally, differences between projected and actual earnings on pension/OPEB plan investments are recognized in pension/OPEB expense using a systematic and rational method over a closed five-year period.

Contributions to the pension/OPEB plans from the employer subsequent to the measurement date of the net pension/OPEB liability and before the end of the reporting period are reported as deferred outflows of resources.

r. Pension

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

s. Other Postemployment Benefits

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 benefits terms. Investments are reported at their fair value.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements

June 30, 2025

2. Summary of Significant Accounting Policies (continued)

t. Net Position

Net position is comprised of the accumulated income from operating and nonoperating revenues, expenses, transfers, and capital contributions. Net position is classified in the following three components: net investment in capital assets, restricted for debt service, and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and is reduced by outstanding debt that is attributable to the acquisition, construction or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments at fiscal year-end are not included in the calculation of the amount of net investment in capital assets. Restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first, then unrestricted resources as they are needed.

u. Operating Revenues and Expenses

The City distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Sewer Fund's principal wastewater operations. The principal operating revenues are from charges for wastewater system usage, while operating expenses include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

v. Capital Contributions

Capital contributions represent assets transferred from or constructed utilizing contributions from governmental agencies and developers and recorded at cost on the date placed in service.

w. Transfers

Transfers include authorized transfers of resources from the fund legally required to receive them to the fund through which such resources are to be expended. Transfers also include reimbursement of funds to the City's General Fund for expenditures of the General Fund on behalf of the Sewer Fund. During the year ended June 30, 2025, approximately \$23.3 million were transferred out for the Sewer Fund's share of central administrative expenses incurred by the City.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

x. Risk Management

The City and the Sewer Fund is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if the information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. The estimated losses are primarily funded through the City's General Fund, which serves as the central account for risk management financing.

y. Recently Adopted Accounting Pronouncements

In June 2022, GASB issued Statement No. 101, *Compensated Absences* ("Statement No. 101"). The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The Statement requires a liability to be reported for certain types of compensated absences and establishes guidelines for measuring the liability. Prior to the adoption of Statement No. 101, only accrued vacation was accrued for as a liability. The Sewer Fund adopted the applicable requirements under Statement No. 101, effective July 1, 2024. The adoption resulted in the recognition of a liability for previously unaccrued sick leave which met the criteria for recognition under Statement No. 101. The City implemented the provisions of this Statement which resulted in a restatement to the fund balance of \$9.6 million for the Sewer Fund.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures* ("Statement No. 102"). The objective of Statement No. 102 is to provide users of the financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that are essential to their analyses for making decisions or assessing accountability. The Sewer Fund adopted the applicable requirements under Statement No. 102, effective July 1, 2024. The adoption of the applicable requirements did not have a material impact on the Sewer Fund's financial statements.

z. New Accounting Pronouncements

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements* ("Statement No. 103"). The objective of Statement No. 103 is to improve key components of the financial reporting model. The purposes of the improvements are to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and to address certain application

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

z. New Accounting Pronouncements (continued)

issues. Statement No. 103 is effective for fiscal years beginning after June 15, 2025. Management has not yet determined the effect Statement No. 103 will have on its financial statements.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets* (“Statement No. 104”). The objective of Statement No. 104 is to provide users of governmental financial statements with essential information about certain types of capital assets. Statement No. 104 is effective for fiscal years beginning after June 15, 2025. Management has not yet determined the effect Statement No. 104 will have on its financial statements.

In December 2025, GASB issued Statement No. 105, *Subsequent Events* (“Statement No. 105”). The objective of Statement No. 105 is to improve the financial reporting requirements for subsequent events. Statement No. 105 is effective for fiscal years beginning after June 15, 2026. Management has not yet determined the effect Statement No. 105 will have on its financial statements.

3. Cash and Investments

The cash and investment balances reported in the accompanying statements of net position are included in the City’s investment pool that is substantially used by all of the City’s funds. Information pertaining to credit risk, interest rate risk, and fair value measurements is available for only the investment pool, which is disclosed in the City’s Annual Comprehensive Financial Report (“ACFR”) available at City’s website: <https://www8.honolulu.gov/bfs/annual-comprehensive-financial-report/>.

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies; obligations of other states, cities and counties; mutual funds; and bank repurchase agreements. Investments in repurchase agreements are primarily U.S. government or federal agency securities. Section 46-50, Hawaii Revised Statutes, the City’s investment policy, and Resolution 18-115, CD1 govern acceptable types of investments. The City’s Resolution 07-51, CD1 governs the deposit and short-term investment of general excise and use tax revenues.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

3. Cash and Investments (continued)

The City structures the investment portfolio so that securities mature to meet cash requirements for ongoing operations, avoiding the need to sell securities on the open market prior to maturity. This practice decreases the City's exposure to risk caused by the fluctuation in interest rates. The City may invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools. As of June 30, 2025, the City had \$329 million of investments in money market mutual funds and no investments in external investment pools.

4. Credit Risk

Financial instruments, which potentially expose the City to concentrations of credit risk, consist primarily of cash, investments in debt securities, and accounts receivable from customers. Cash and cash equivalents are maintained in various financial institutions in the State. Credit risk related to investments in debt securities has been mitigated by limiting such investments to debt obligations of the U.S. government. All the City's investments at June 30, 2025 were invested in the City's pooled investment fund.

The customer base is concentrated among commercial, industrial, residential and governmental customers located within Honolulu, Hawaii. Although the City is directly affected by Honolulu's economy, management does not believe significant credit risk exists at June 30, 2025, except as provided in the allowance for uncollectible accounts. The City manages its credit exposure through procedures designed to identify and monitor credit risk.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

5. Capital Assets and Intangible Right-of-Use Assets

The capital assets and intangible right-of-use (“ROU”) assets activity for the year ended June 30, 2025 was as follows (in thousands of dollars):

| | Balance at July 1, 2024 | Additions | Retirements / Transfers | Balance at June 30, 2025 |
|--|----------------------------|-------------------|----------------------------|-----------------------------|
| Depreciable assets | | | | |
| Buildings and improvements | \$ 1,488,546 | \$ 15,362 | \$ - | \$ 1,503,908 |
| Transmission and distribution system | 2,679,568 | 389,318 | (70) | 3,068,816 |
| Equipment and machinery | 180,538 | 6,676 | (1,047) | 186,167 |
| Land improvements | 6,183 | - | - | 6,183 |
| Total depreciable assets | 4,354,835 | 411,356 | (1,117) | 4,765,074 |
| Less: Accumulated depreciation | | | | |
| Buildings and improvements | (496,188) | (33,089) | - | (529,277) |
| Transmission and distribution system | (720,875) | (56,324) | 68 | (777,131) |
| Equipment and machinery | (108,948) | (10,095) | 980 | (118,063) |
| Land improvements | (2,276) | (167) | - | (2,443) |
| Total accumulated depreciation | (1,328,287) | (99,675) | 1,048 | (1,426,914) |
| Net depreciable assets | 3,026,548 | 311,681 | (69) | 3,338,160 |
| Intangible ROU assets | | | | |
| Building | 1,376 | - | - | 1,376 |
| Equipment and machinery | 272 | 42 | (16) | 298 |
| Subscriptions | 648 | - | - | 648 |
| Total intangible ROU assets | 2,296 | 42 | (16) | 2,322 |
| Less: Accumulated amortization | | | | |
| Building | (412) | (275) | - | (687) |
| Equipment and machinery | (70) | (50) | 16 | (104) |
| Subscriptions | (150) | (317) | - | (467) |
| Total accumulated amortization | (632) | (642) | 16 | (1,258) |
| Net intangible ROU assets | 1,664 | (600) | - | 1,064 |
| Land | 56,336 | 1,587 | - | 57,923 |
| Construction in progress | 1,279,457 | 455,399 | (414,850) | 1,320,006 |
| Total capital assets and intangible ROU assets, net | <u>\$ 4,364,005</u> | <u>\$ 768,067</u> | <u>\$ (414,919)</u> | <u>\$ 4,717,153</u> |

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

5. Capital Assets and Intangible Right-of-Use Assets (continued)

Depreciation and amortization expense was approximately \$100.3 million for the year ended June 30, 2025.

Leases

The Sewer Fund entered into agreements to lease buildings that expire in 2028 through 2041.

The Sewer Fund leases various information technology equipment under contracts ranging from one to ten years through January 2033.

6. Long-Term Liabilities

a. General Obligation Bonds

The City issues general obligation bonds for the construction of major capital facilities. The Sewer Fund's general obligation bonds are collateralized by or expected to be paid from sewer user charges. These instruments are a direct obligation of the City for which its full faith and credit is pledged. The general obligation bonds for the Sewer Fund were issued in 2020 in the original amount totaling approximately \$456,000 and mature serially through fiscal year 2028. The general obligation bonds bear interest at rates ranging from 1.83% to 2.17% at June 30, 2025. No new general obligation bonds have been issued to finance construction of Sewer Fund capital facilities since fiscal year 1998. General obligation bonds issued after 1998 were used for refunding. Subsequently, Sewer Fund capital facilities were funded by wastewater system revenue bonds.

b. Wastewater System Revenue Bonds

Wastewater system revenue bonds in the City's business-type activities with outstanding balances as of June 30, 2025 were issued during fiscal years 2017 through 2025, in the original amount totaling \$2.8 billion, less discounts of \$3.5 million and adjusted for premiums of \$276.9 million, which are being amortized over the related term of the bonds. As of June 30, 2025, unamortized net premiums amounted to approximately \$181.4 million. The bonds bear interest at 0.30% to 5.25% at June 30, 2025 and mature at various dates through fiscal year 2055. The wastewater system revenues collateralize the revenue bonds.

On September 25, 2024, the City issued wastewater system revenue bonds Senior Series 2024A in the amount of \$287.2 million, tax exempt Senior Series 2024B in the amount of \$23 million, and tax exempt Junior Series 2024 in the amount of \$58 million. The bonds mature

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

6. Long-Term Liabilities (continued)

b. Wastewater System Revenue Bonds (continued)

annually on July 1, 2039 through 2054 and bear interest at rates ranging from 5.00% to 5.25%. The City may exercise its option of redemption on or after July 1, 2034 in whole or in part, at any time, in any amount thereof, plus interest accrued to the date fixed for redemption thereof, without premium. The proceeds of the Senior Series 2024A bonds were used to fund various current capital projects, and the proceeds of the tax exempt Senior Series 2024B and Junior Series 2024 bonds were used to refund Senior Series 2016C and 2019C; and Junior Series 2018A and 2019B, respectively.

On April 2, 2025, the City issued wastewater system revenue bonds tax exempt Senior Series 2025 in amount of \$190.9 million and tax exempt Junior Series 2025 in the amount of \$66.5 million. The bonds mature annually on July 1, 2032 through 2038 and bear an interest rate of 5%. For the Senior Series 2025 bonds maturing on and after July 1, 2036, the City may exercise its option of redemption on or after July 1, 2035 in whole or in part, at any time, in any amount thereof, plus interest accrued to the date fixed for redemption thereof, without premium. The Junior Series 2025 bonds are not subject to optional redemption prior to maturity. The proceeds of the Senior Series 2025 and Junior Series 2025 bonds were used to refund Senior Series 2015A, 2015B, and 2020A; and Junior Series 2015A, respectively.

The wastewater system revenue bonds issued are limited special obligations of the City. The net revenues and all funds and accounts established other than the rebate account, the subordinate obligation account, and the reimbursable obligation account, and, in certain instances, the common reserve account or separate series reserve accounts have been pledged as security for the payment of debt service on the bonds. In an event of default, the bonds contain a provision that the holders of not less than 25% in principal amount of the bonds then outstanding may declare that all the principal and accrued interest is due and payable immediately. An event of default includes but is not limited to the following situations: failure to pay principal, redemption price, and interest due; failure to punctually perform or observe any of the covenants, agreements or conditions; and filing a petition in bankruptcy. The City has covenanted and agreed to maintain the wastewater system in good repair, to fix rates and charges sufficient to meet the net revenue requirement, to not dispose of the properties comprising the wastewater system, to maintain and keep proper books, and other actions consistent with conducting the business of the wastewater system in an efficient and economical manner.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

6. Long-Term Liabilities (continued)

c. Defeased Bonds

The Sewer Fund defeased certain general obligation and revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the assets of the irrevocable trusts and the liability for the defeased bonds are not included in the Sewer Fund's financial statements. At June 30, 2025, approximately \$606.0 million of the Sewer Fund's bonds outstanding were considered defeased.

d. Notes Payable

The notes payable to the State are for the construction of necessary treatment works and for other projects intended for wastewater reclamation or waste management. During fiscal year 2025, the City issued notes payable amounting to \$40.4 million. The notes amounted to \$362.8 million at June 30, 2025, bearing interest ranging from 0.00% to 0.50%, and require annual principal and interest payments through fiscal year 2046.

The notes payable are collateralized by the City's wastewater net revenue. The outstanding loans contain a provision that, in the event of default, the Director of the State of Hawai'i Department of Health ("DOH") shall be entitled to collect a rate of 12% simple interest per year commencing on the repayment due date and ending on the date of the check or warrant issued by the City. A default is deemed to exist if repayment of loan fees or current loans are not paid when due, if the City fails to fulfill its obligation, or if the City becomes financially insolvent. The City covenanted that it shall exercise its revenue bonds, revenue, assessment, and other authority as needed to the extent allowed by law to pay the semiannual repayments and loan fees.

Total interest costs incurred in 2025 were \$89.2 million.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

6. Long-Term Liabilities (continued)

d. Notes Payable (continued)

Scheduled maturities of long-term debt are as follows (in thousands of dollars):

| Years ending June 30, | General Obligation Bonds | Revenue Bonds – Direct Placements | Revenue Bonds | Notes Payable – Direct Borrowings | Total Principal | Total Interest |
|-----------------------|--------------------------------|--|---------------------|--|---------------------|-------------------|
| 2026 | \$ 77 | \$ 14,440 | \$ 30,590 | \$ 36,271 | \$ 81,378 | \$ 105,638 |
| 2027 | 78 | 17,965 | 31,040 | 34,123 | 83,206 | 101,969 |
| 2028 | 80 | 18,395 | 32,520 | 26,802 | 77,797 | 99,952 |
| 2029 | - | 19,445 | 39,900 | 25,256 | 84,601 | 97,734 |
| 2030 | - | 19,435 | 46,870 | 25,464 | 91,769 | 95,271 |
| 2031–2035 | - | 96,560 | 422,790 | 104,656 | 624,006 | 424,671 |
| 2036–2040 | - | - | 656,755 | 86,123 | 742,878 | 297,269 |
| 2041–2045 | - | - | 439,735 | 23,802 | 463,537 | 173,514 |
| 2046–2050 | - | - | 342,435 | 333 | 342,768 | 89,781 |
| 2051–2055 | - | - | 204,225 | - | 204,225 | 23,652 |
| | 235 | 186,240 | 2,246,860 | 362,830 | 2,796,165 | \$ 1,509,451 |
| Less: Current portion | (77) | (14,440) | (30,590) | (36,271) | (81,378) | |
| | <u>\$ 158</u> | <u>\$ 171,800</u> | <u>\$ 2,216,270</u> | <u>\$ 326,559</u> | <u>\$ 2,714,787</u> | |

City and County of Honolulu - Sewer Fund

Notes to Financial Statements

June 30, 2025

6. Long-Term Liabilities (continued)

e. Asset Retirement Obligations

The Sewer Fund accounts for certain costs associated with the future dismantling and removal of underground storage tanks in accordance with US GAAP. Under US GAAP, the act of placing the tanks into operation requires the Sewer Fund to recognize a liability and corresponding deferred outflow of resources equal to the estimated current cost of activities that state law requires the City to perform upon retirement of the tanks in the future. The tanks currently have estimated lives ranging from 7-21 years.

The amounts reported as a liability and deferred outflow of resources at June 30, 2025 were determined based on probability-weighted engineering estimates of what it would cost to perform all dismantling and removal tasks. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

f. Changes in Long-Term Liabilities

Activity for long-term liabilities, other than net pension and OPEB, for the year ended June 30, 2025 was as follows (in thousands of dollars):

| | Balance at July 1, 2024 (as restated) | Additions | Reductions | Balance at June 30, 2025 | Amount Due Within One Year |
|------------------------------------|---|------------|--------------|-----------------------------|----------------------------------|
| General obligation bonds | \$ 310 | \$ - | \$ (75) | \$ 235 | \$ 77 |
| Revenue bonds – direct placements | 200,335 | - | (14,095) | 186,240 | 14,440 |
| Revenue bonds | 2,079,085 | 625,555 | (457,780) | 2,246,860 | 30,590 |
| Notes payable – direct borrowings | 356,818 | 40,304 | (34,292) | 362,830 | 36,271 |
| | 2,636,548 | 665,859 | (506,242) | 2,796,165 | 81,378 |
| Add: Unamortized net premium | 119,312 | 83,799 | (21,729) | 181,382 | - |
| Total long-term debt | 2,755,860 | 749,658 | (527,971) | 2,977,547 | 81,378 |
| Compensated absences | | | | | |
| Accrued vacation | 7,924 | 910 | - | 8,834 | 522 |
| Sick leave | 9,581 | 537 | - | 10,118 | 1,150 |
| Total compensated absences | 17,505 | 1,447 | - | 18,952 | 1,672 |
| Arbitrage liability | - | 850 | - | 850 | - |
| Asset retirement obligations | 14,184 | 577 | - | 14,761 | - |
| Lease and subscription obligations | 1,720 | 538 | (1,118) | 1,140 | 496 |
| Total long-term liabilities | \$ 2,789,269 | \$ 753,070 | \$ (529,089) | \$ 3,013,250 | \$ 83,546 |

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

7. Net Position

At June 30, 2025, net position consisted of the following (in thousands of dollars):

| | |
|--|----------------------------|
| Net investment in capital assets | |
| Net capital assets | \$ 4,716,089 |
| Net intangible ROU assets | 1,064 |
| Deferred outflows of resources – deferred refunding costs, net | 64,181 |
| Less: | |
| Wastewater general obligation bonds payable, net of unamortized premiums and discounts | (235) |
| Wastewater system revenue bonds payable, net of unamortized premium, discount, and issue cost | (2,614,482) |
| Notes payable | (362,830) |
| Lease liability and subscription obligations | (1,140) |
| Amount of debt related to unspent debt proceeds | <u>46,581</u> |
| | 1,849,228 |
| Restricted for debt service | 95,081 |
| Unrestricted | <u>1,173,891</u> |
| | <u><u>\$ 3,118,200</u></u> |

8. Employee Benefit Plans

a. Defined Benefit Pension Plan

Plan Description

Substantially all eligible employees of the City are members of the ERS, a cost-sharing multiple-employer defined benefit pension plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS is composed of three classes: contributory, noncontributory and hybrid retirement classes. Prior to July 1, 1984, the plan consisted of only a contributory class. In 1984, legislation was enacted to create a new noncontributory class for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security were precluded from the noncontributory class. The noncontributory class provides for reduced benefits and covers most eligible employees hired starting July 1, 1984. Employees hired before that date were allowed to continue under the contributory class or to

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plan (continued)

elect the new noncontributory class and receive a refund of employee contributions. In 2004, legislation was enacted to create a hybrid retirement class, which took effect July 1, 2006. Employees in the contributory and noncontributory classes were given the option to join the hybrid class or to remain in their existing class effective July 1, 2006. Starting July 1, 2006, all new employees covered by social security are required to join the hybrid class.

All benefits vest after five or ten years of credited service. Vesting is determined by the employee's class and date of hire. The monthly retirement allowance benefit formula is calculated based on the employee's age, years of credited service, average final compensation ("AFC"), and multiplier.

For employees who became members prior to January 1, 1971, the AFC is the average salary earned during the five highest paid years of service, including the vacation payment or the average salary earned during the three highest paid years of service excluding any lump sum vacation payment. For employees who became members on January 1, 1971 through June 30, 2012, the AFC is based on the three highest paid years of service excluding the vacation payment. For employees who became members after June 30, 2012, the AFC is the highest five years excluding any lump sum vacation payment.

The ERS issues an Annual Comprehensive Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawai'i, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813 or found on the ERS website at <http://ers.ehawaii.gov/resources/financials>.

Contributions

General employees covered under the contributory class and hired prior to July 1, 2012 are required to contribute 7.80% of their salary and will receive pensions based on a 2.00% multiplier. General employees hired after June 30, 2012 are required to contribute 9.80% of their salary with pensions based on a 1.75% multiplier. General employees covered under the hybrid class prior to July 1, 2012 are required to contribute 6.00% of their salary and will receive pensions based on a 2.00% multiplier. General employees hired after June 30, 2012 are required to contribute 8.00% of their salary with pensions based on a 1.75% multiplier.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plan (continued)

Employees covered under the noncontributory class will receive pensions based on a 1.25% multiplier.

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 Sewer Fund's contribution requirement for the year ended June 30, 2025 was approximately \$11.2 million.

The City is required to contribute the remaining amounts necessary to pay contributory class benefits and all amounts necessary to pay noncontributory class benefits. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method.

On May 18, 2017, the Governor signed into law Act 17 (Session Laws of Hawaii ("SLH") 2017), which increased future employer contributions to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for all employees, other than police and firefighters, increased to 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020 and thereafter.

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

At June 30, 2025, the Sewer Fund reported a liability of \$114.7 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Sewer Fund's proportion of the net pension liability was based on a projection of the Sewer Fund's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of ERS, actuarially determined. The Sewer Fund's proportionate share of the City's proportionate share as of June 30, 2024 was 4.57%.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plan (continued)

For the year ended June 30, 2025, the Sewer Fund recognized pension expense of \$11.3 million. At June 30, 2025, the Sewer Fund reported deferred outflows and inflows of resources related to pensions from the following sources (in thousands of dollars):

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between actual and expected experience | \$ 2,625 | \$ (2,467) |
| Net difference between projected and actual earnings on pension plan investments | 3,354 | - |
| Changes of assumptions | 193 | (297) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,817 | (6,190) |
| Sewer Fund contributions subsequent to the measurement date | <u>11,196</u> | <u>-</u> |
| | <u>\$ 19,185</u> | <u>\$ (8,954)</u> |

The \$11.2 million reported as deferred outflows of resources related to pension at June 30, 2025, resulting from Sewer Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows (in thousands of dollars):

| | |
|-----------------------|-----------------|
| Years ending June 30, | |
| 2026 | \$ (3,245) |
| 2027 | 2,229 |
| 2028 | 493 |
| 2029 | <u>(442)</u> |
| | <u>\$ (965)</u> |

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plan (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2024 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|-----------------|
| Inflation | 2.50 % |
| Projected salary increases, including inflation | 3.75 % – 6.75 % |
| Investment rate of return, including inflation | 7.00 % |

There were no changes to ad hoc postemployment benefits including cost-of-living adjustments.

The actuarial assumptions used in the actuarial valuation as of June 30, 2024 were based on results of the experience study dated June 14, 2022, with most of the assumptions based on the period from July 1, 2016 through June 30, 2021.

There were no other changes in assumptions between the measurement date, June 30, 2024, and the reporting date, June 30, 2025, that are expected to have a significant effect on the proportionate share of the net pension liability.

The post-retirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality table which are projected on a fully generational basis by the long-term rates of scale MP from the year 2022 and with multiplier and setbacks based on plan and group experience. 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 “resampling 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.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plan (continued)

The target allocation and best estimate of long-term geometric average strategic range for each major asset class as of June 30, 2024 are summarized in the following table:

| Strategic Allocation (Risk-Based Classes) | Long-Term Target Allocation | Expected Long-Term Geometric Average Strategic Range* |
|--|-----------------------------------|---|
| Broad growth: | | |
| Public Equity | 20.00 % | 7.20 % |
| Private Equity | 19.00 % | 9.90 % |
| Liquid Credit | 4.00 % | 6.50 % |
| Private Credit | 8.00 % | 9.20 % |
| Real Estate | 9.00 % | 6.30 % |
| Infrastructure | 7.00 % | 7.30 % |
| Timber/Agriculture/Infrastructure | 3.00 % | 5.30 % |
| Total broad growth | 70.00 % | |
| Diversifying strategies: | | |
| Systematic Trend Following | 8.00 % | 3.80 % |
| Long Treasuries | 4.00 % | 4.30 % |
| Intermediate Government | 14.00 % | 4.00 % |
| Reinsurance | 4.00 % | 5.30 % |
| Total diversifying strategies | 30.00 % | |
| | 100.00 % | |

* Uses an expected inflation of 2.5%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plan (continued)

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 Sewer Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Sewer Fund's proportionate share of the net pension liability | \$ 159,430 | \$ 114,690 | \$ 77,631 |

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 June 30, 2024 measurement date.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

b. Defined Benefit Pension Plan (continued)

Payables to the Pension Plan

At June 30, 2025, the Sewer Fund had no payable to ERS.

c. Postemployment Healthcare and Life Insurance Benefits

Plan Description

Pursuant to Act 88 (SLH 2001), the employers provide certain health care (medical, prescription, vision and dental) and life insurance benefits to all qualified employees. The EUTF, established on July 1, 2003, is an agent, multiple-employer defined benefit plan.

The EUTF issues a stand-alone financial report that is publicly available at <https://eutf.hawaii.gov>. Questions concerning any of the information contained therein or requests for any additional financial information related to that report should be addressed to EUTF, P.O. Box 2121, Honolulu, Hawaii 96805-2121.

City Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the City's policy on the accounting and reporting for OPEB is to allocate a portion of the City's net OPEB liability, deferred inflows and outflows, and OPEB expense to proprietary funds that are reported separately in stand-alone financial statements or in the City's ACFR. The basis for the allocation is the proportionate share of contributions made by each proprietary fund for retiree health benefits.

Benefits Provided

For employees hired before July 1, 1996, the employers pay 100% of the base monthly contribution for employees retiring with ten or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. The employers' contributions are based on the plan (single, two-party or family) selected by the retiree.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

d. Postemployment Healthcare and Life Insurance Benefits (continued)

For employees hired after June 30, 1996 and retiring with 25 years or more of service, the employers pay the entire base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the employers pay 75% of the base monthly contribution. For those retiring with at least ten years but fewer than 15 years of service, the employers pay 50% of the base monthly contribution. For those retiring with fewer than ten years of service, the employers make no contributions. If the retiree was hired before July 1, 2001, the employers' contributions are based on the plan (single, two-party or family) selected by the retiree. If the retiree was hired on or after July 1, 2001, the employers are responsible for the single plan base monthly contribution while the retiree must pay the difference if family coverage is elected.

Employees Covered by Benefit Terms

At July 1, 2024, the City had the following number of plan members covered:

| | |
|---|----------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 8,095 |
| Inactive plan members entitled to but not yet receiving benefits | 773 |
| Active plan members | <u>8,650</u> |
| Total plan members | <u><u>17,518</u></u> |

Contributions

Act 268 (SLH 2013) required EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund OPEB for retirees and their beneficiaries. It established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make their annual required contributions (now known as actuarially determined contributions) effective with fiscal year 2014.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

b. Postemployment Healthcare and Life Insurance Benefits (continued)

The employers' OPEB contributions (comprised of pay-as-you-go retiree costs and prefunding amounts paid to EUTF) are established by Hawaii State statutes. The retiree is responsible to pay the difference if the single plan base monthly contribution is less than the cost of the monthly premium for those employees hired on or after July 1, 2001. For fiscal years 2019 through 2021, the employers' prefunding contribution shall be equal to 100% of the valuation amount determined by an actuary retained by the EUTF board. Commencing with fiscal year 2019, the annual contribution shall be equal to the actuarially determined amount. In any fiscal year, should an employer's contribution be less than the actuarially determined amount, the difference shall be transferred to the OPEB trust account from the employer's portion of the transient accommodations tax revenues and all other of its revenues held by the State.

OPEB contributions for the year ended June 30, 2025 amounted to approximately \$10.6 million. The employer is required to make all contributions for members.

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2025, the Sewer Fund reported a liability of \$52.9 million for its proportionate share of net OPEB liability. The net OPEB liability was measured as of July 1, 2024 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The City's proportion of the net OPEB liability was based on an allocation of the City's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2024, the Sewer Fund's share of the City's net OPEB liability was 5.60%.

There were no changes in assumptions between the measurement date, July 1, 2024, and the reporting date, June 30, 2025, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

b. Postemployment Healthcare and Life Insurance Benefits (continued)

For the year ended June 30, 2025, the Sewer Fund recognized OPEB expense of approximately \$343,000. At June 30, 2025, the Sewer Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands of dollars):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ (16,950) |
| Changes of assumptions | - | (1,569) |
| Net difference between projected and actual earnings on OPEB plan investments | 489 | - |
| Change in proportionate share between City funds | - | (3,032) |
| Sewer Fund contributions subsequent to the measurement date | 10,607 | - |
| | <u>\$ 11,096</u> | <u>\$ (21,551)</u> |

The \$10.6 million reported as deferred outflows of resources related to OPEB at June 30, 2025 resulting from Sewer Fund's contribution subsequent to measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | |
|-----------------------|--------------------|
| Years ending June 30, | |
| 2026 | \$ (8,361) |
| 2027 | (4,583) |
| 2028 | (4,302) |
| 2029 | (2,172) |
| 2030 | (1,600) |
| Thereafter | <u>(44)</u> |
| | <u>\$ (21,062)</u> |

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

b. Postemployment Healthcare and Life Insurance Benefits (continued)

Actuarial Assumptions

The total OPEB liability reflected in the actuarial valuation report as of July 1, 2024 was determined using the following actuarial assumptions and methods, applied to all periods including in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Valuation date | July 1, 2024 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.00% |
| Inflation | 2.50% |
| Salary increases | 3.75% to 6.75% including inflation |
| Demographic assumptions | Based on the 2022 Hawaii ERS Actuarial Experience Study as conducted June 30, 2021 for the ERS |
| Mortality | System-specific mortality tables utilizing scale MP2021 to project generational mortality improvement |
| Participation rates | 98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution (“BMC”). Healthcare participation rates of 25%, 65% and 90% for retirees that receive 0%, 50% or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B. |
| Healthcare cost trend rates | |
| PPO* | Initial rate of 6.20%, declining to a rate of 4.25% after 20 years |
| HMO** | Initial rate of 6.20%, declining to a rate of 4.25% after 20 years |
| Part B & BMC | Initial rate of 5.00%, declining to a rate of 4.25% after 20 years |
| Dental | 4.00% |
| Vision | 2.50% |
| Life insurance | 0.00% |

* Blended rates for medical and prescription drugs.

** Includes prescription drug assumptions.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements

June 30, 2025

8. Employee Benefit Plans (continued)

b. Postemployment Healthcare and Life Insurance Benefits (continued)

The long-term expected rate of return on EUTF's investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|--|---|
| Private Equity | 15.00 % | 10.10% |
| U.S. Microcap | 3.00 % | 8.30% |
| Global Equity | 30.00 % | 6.00% |
| Real Assets | 12.00 % | 5.00% |
| Private Credit | 10.00 % | 7.80% |
| TIPS | 2.50 % | 2.10% |
| Long Treasuries | 5.00 % | 2.60% |
| Reinsurance | 5.50 % | 5.10% |
| Alternative Risk Premia | 5.00 % | 3.80% |
| Trend Following | 10.00 % | 2.40% |
| Tail Risk / Long Volatility | 2.00 % | -1.30% |
| | <u>100.0 %</u> | |

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 Sewer Fund's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

b. Postemployment Healthcare and Life Insurance Benefits (continued)

Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability (amounts in thousands). The ending balances are as of the measurement date, July 1, 2024.

| | <u>Total OPEB Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net OPEB Liability</u> |
|---|---------------------------------|--|-------------------------------|
| Balance at June 30, 2024 | \$ 138,665 | \$ 71,024 | \$ 67,641 |
| Service cost | 2,532 | - | 2,532 |
| Interest on the total OPEB liability | 9,592 | - | 9,592 |
| Difference between expected and actual experience | (9,539) | - | (9,539) |
| Employer contributions | - | 10,691 | (10,691) |
| Net investment income | - | 6,496 | (6,496) |
| Benefit payments | (5,319) | (5,319) | - |
| Administrative expense | - | (6) | 6 |
| Other | (248) | (127) | (121) |
| Net changes | <u>(2,982)</u> | <u>11,735</u> | <u>(14,717)</u> |
| Balance at June 30, 2025 | <u>\$ 135,683</u> | <u>\$ 82,759</u> | <u>\$ 52,924</u> |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the Sewer Fund's net OPEB liability calculated using the discount rate of 7.00%, as well as what the Sewer Fund's 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 (amounts in thousands):

| | <u>1% Decrease (6.00%)</u> | <u>Current Discount Rate (7.00%)</u> | <u>1% Increase (8.00%)</u> |
|---|------------------------------------|--|------------------------------------|
| Sewer Fund's proportionate share of the net OPEB liability | <u>\$ 72,608</u> | <u>\$ 52,924</u> | <u>\$ 37,230</u> |

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

8. Employee Benefit Plans (continued)

b. Postemployment Healthcare and Life Insurance Benefits (continued)

The following table presents the Sewer Fund's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the Sewer Fund's 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 (amounts in thousands):

| | <u>1% Decrease</u> | <u>Healthcare Cost Trend</u> | <u>1% Increase</u> |
|---|------------------------|----------------------------------|------------------------|
| Sewer Fund's proportionate share of the net OPEB liability | <u>\$ 36,620</u> | <u>\$ 52,924</u> | <u>\$ 73,640</u> |

Payables to the OPEB Plan

At June 30, 2025, the Sewer Fund had no payables to EUTF.

9. Management Agreement

The Board of Water Supply ("BWS") has an agreement with the City's Department of Environmental Services (the "Department") to provide certain services through June 30, 2026, for the billing and collection of sewer service charges. These fees are included in contractual services expense in the Sewer Fund. Service fees amounted to approximately \$5.0 million for the year ended June 30, 2025.

10. Commitments

a. Construction Contracts

The City has contractual commitments for the Sewer Fund of approximately \$1.2 billion at June 30, 2025, primarily for construction contracts.

b. Deferred Compensation Plan

All full-time employees of the Sewer Fund are eligible to participate in the City's Public Employees' Deferred Compensation Program ("Plan") adopted pursuant to Internal Revenue Code Section 457. The Plan permits eligible employees to defer a portion of their salary until future years by contributing to a fund managed by a plan administrator. The deferred compensation amounts are not available to employees until termination, retirement, death, or unforeseeable emergency.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

10. Commitments (continued)

b. Deferred Compensation Plan (continued)

A trust fund was established to protect plan assets from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Deferred compensation plan assets are not reported in the financial statements.

c. Environmental Protection Agency Consent Decree

The Waste Water Treatment Plants (“WWTP”) and other facilities operated by the Department are governed by permits issued by the State of Hawai‘i, Department of Health (“DOH”), including National Pollutant Discharge Elimination System (“NPDES”) Permits; Underground Injection Control Permits; Wastewater Management Permits; and Clean Air Branch Covered Source and NonCovered Source Permits.

The City is contesting certain conditions for the Waianae WWTP NPDES Permit in two separate matters. One matter is currently pending before the Intermediate Court of Appeals (“ICA”) on a procedural issue. The City submitted a renewal application for the Waianae WWTP NPDES while that matter remained pending. On October 4, 2022, DOH published a draft public notice NPDES Permit for the Waianae WWTP. The City filed a request for a contested case hearing on November 3, 2022, which was dismissed by the DOH Hearings Officer on December 16, 2022. On June 6, 2023, the City filed an appeal for the dismissal of its request for the contested case hearing to the ICA. The Waianae WWTP NPDES Permit remains in effect under an administrative extension to December 30, 2025, or until the effective date of the reissued permit.

On December 17, 2010, and subsequently amended on March 27, 2012, a Consent Decree was entered among the City and County, the United States Environmental Protection Agency (“USEPA”), DOH and several non-governmental organizations to settle certain previous environmental lawsuits relating to the City and County’s wastewater system. The consent decree outlines a program of improvements to the wastewater collection and treatment systems. The consent decree allows 10 years for completion of work on the collection system, 14 years for the upgrade of the Honouliuli WWTP to secondary treatment, and up to 25 years, with the possibility of a three-year extension, for the upgrade of the Sand Island WWTP to secondary treatment.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

10. Commitments (continued)

c. Environmental Protection Agency Consent Decree (continued)

The collection system portion of the Consent Decree was closed with EPA and DOH approval via letter dated January 28, 2021, with a final collection system project completed by the agreed-upon deadline of May 31, 2022. The City and County also completed secondary treatment upgrades to the Honouliuli WWTP prior to the consent decree deadline of June 1, 2024. Improvements to the Sand Island WWTP are on schedule to meet the consent decree deadline of December 31, 2035.

During the course of operating the Wastewater System, occasional events of non-compliance with other permits, laws, and regulations occur, including:

- Wastewater spills, which are subject to reporting pursuant to the NPDES Permits and DOH regulations.
- Exceedance of interim effluent limits set forth in the 2010 Consent Decree for the Sand Island WWTP, which is reported monthly with the discharge monitoring report for the plant.
- Exceedance of effluent limits set forth in the NPDES Permits for the WWTPs, which are reported monthly with the discharge monitoring reports for the plants. On June 26, 2023, DOH issued a Notice of Violation and Order (“NOVO”) for the Kailua Regional Wastewater Treatment Plant for this non-compliance. As a result, an Administrative Order on Consent (“AOC”) was entered into with the EPA effective September 28, 2023. The City and County is currently complying with the terms of the AOC to resolve the matters at issue in the NOVO.
- On August 11, 2020, DOH issued a Notice of Apparent Violation and Request for Information regarding the City’s Honouliuli WWTP. The City and County responded on September 10, 2020.

No other incident of noncompliance is subject to existing or threatened enforcement.

City and County of Honolulu - Sewer Fund

Notes to Financial Statements
June 30, 2025

10. Commitments (continued)

d. Pending Wastewater System Litigation

The City and the Sewer Fund generally are self-insured with respect to general liability claims. During the year ended June 30, 2025, the Department reached settlements of lawsuits and claims related to the wastewater system and paid judgment, settlements and losses with general funds approximating \$79,000.

The City's Corporation Counsel is of the opinion that the expected liability arising out of any pending litigation would not constitute a material impairment of the Sewer Fund's financial position.

11. Subsequent Events

On September 24, 2025, the City issued wastewater system revenue bonds, Senior Series 2025B for \$216.9 million and proceeds will be used to fund certain additions and improvements to the wastewater system. The Senior Series 2025B matures annually on July 1, 2040 through July 1, 2055 and are subject to redemption, at the option of the City on or after July 1, 2035, in whole or in part at any time.

**Required Supplementary Information
(Unaudited)**

City and County of Honolulu - Sewer Fund

Schedule of the City's Proportionate Share of the Net Pension Liability
 Last Ten Fiscal Years
 (Amounts in thousands)

Defined Benefit Plan

The following presents the Schedule of the City's Proportionate Share of the Net Pension Liability for the City as a whole, of which the Sewer Fund is one of its various enterprise funds.

| Measurement Period Years ending June 30, | Proportion of Net Pension Liability | Proportionate Share of Net Pension Liability | Covered Payroll | Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of Total Pension Liability |
|---|---|---|--------------------|--|--|
| 2024 | 17.82 % | \$ 2,521,723 | \$ 731,641 | 344.67 % | 62.62 % |
| 2023 | 18.40 % | 2,539,655 | 693,097 | 366.42 % | 61.91 % |
| 2022 | 18.57 % | 2,408,410 | 678,834 | 354.79 % | 62.76 % |
| 2021 | 18.78 % | 2,291,700 | 708,949 | 323.25 % | 64.25 % |
| 2020 | 19.25 % | 2,946,327 | 697,585 | 422.36 % | 53.18 % |
| 2019 | 18.99 % | 2,691,403 | 675,044 | 398.70 % | 54.87 % |
| 2018 | 18.39 % | 2,449,335 | 649,455 | 377.14 % | 55.48 % |
| 2017 | 17.82 % | 2,307,225 | 626,639 | 368.19 % | 54.80 % |
| 2016 | 18.17 % | 2,428,894 | 599,494 | 405.16 % | 51.28 % |
| 2015 | 17.41 % | 1,520,529 | 578,043 | 263.05 % | 62.42 % |

See accompanying independent auditors' report.

City and County of Honolulu - Sewer Fund

Schedule of Pension Contributions
Last Ten Fiscal Years
(Amounts in thousands)

Defined Benefit Plan (continued)

Prior to the measurement period ended June 30, 2024, there were no other factors, including the use of different assumptions, that significantly affect trends reported in these schedules.

Contribution rates are a percentage of pensionable payroll and are set by statute based on the recommendation of the ERS actuary. Act 256 (SLH 2007) established contribution rates beginning July 1, 2008 through June 30, 2012. Act 163 (SLH 2011) established contribution rates beginning July 1, 2012 through July 1, 2015. Act 17 (SLH 2017) established new contribution rates beginning July 1, 2017 until statutory changes are implemented. Contribution rates by year are as follows:

| <u>Effective Starting</u> | <u>Police and Fire</u> | <u>General Employees</u> |
|--------------------------------|----------------------------|------------------------------|
| July 1, 2020 and thereafter | 41.0 % | 24.0 % |
| July 1, 2019 | 36.0 % | 22.0 % |
| July 1, 2018 | 31.0 % | 19.0 % |
| July 1, 2017 | 28.0 % | 18.0 % |
| July 1, 2016 | 25.0 % | 17.0 % |
| July 1, 2015 | 24.0 % | 16.5 % |
| July 1, 2014 | 23.0 % | 16.0 % |

Act 152 (SLH 2012) amended the definition of compensation for new employees hired after June 30, 2012 for the purpose of pension benefit calculations. Compensation is defined as normal periodic payments and does not include overtime, supplemental payments, bonuses, lump sum salary differentials, and other types of differentials. For employees hired prior to July 1, 2012, compensation includes overtime, supplemental payments, bonuses, and other types of differentials for the purpose of pension benefit calculations.

Act 153 (SLH 2012) requires employers to pay additional contributions for those employees who retire on or after July 1, 2012 with significant “non-base pay” increases in the three or five years used to calculate their average final compensation and maximum retirement allowances. The amount is determined by comparing the maximum retirement allowance that would have been received without the significant non-base pay increase to the actual maximum allowance. These amounts are assessed, on a fiscal year basis, for all retirees meeting the criteria during the previous fiscal year.

See accompanying independent auditors’ report.

City and County of Honolulu - Sewer Fund

Schedule of Pension Contributions
 Last Ten Fiscal Years
 (Amounts in thousands)

Defined Benefit Plan (continued)

The following presents the Schedule of Pension Contributions for the City as a whole, of which the Sewer Fund is one of its various enterprise funds.

| Years ending June 30, | Statutorily Required Contributions | Contributions in Relation to Statutorily Required Contributions | Contribution Excess (Deficiency) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------------|--|---|--|--------------------|---|
| 2025 | \$ 289,878 | \$ 289,722 | \$ (156) | \$ 788,776 | 36.73 % |
| 2024 * | 268,046 | 267,804 | (242) | 731,641 | 36.60 % |
| 2023 * | 269,329 | 269,336 | 7 | 693,097 | 38.86 % |
| 2022 | 255,144 | 254,958 | (186) | 678,834 | 37.56 % |
| 2021 | 248,028 | 247,806 | (222) | 708,949 | 34.95 % |
| 2020 | 214,275 | 214,735 | 460 | 697,585 | 30.78 % |
| 2019 | 177,773 | 178,100 | 327 | 675,044 | 26.38 % |
| 2018 | 154,219 | 159,115 | 4,896 | 649,455 | 24.50 % |
| 2017 | 140,342 | 139,569 | (773) | 626,639 | 22.27 % |
| 2016 | 135,217 | 129,245 | (5,972) | 599,494 | 21.56 % |

* Revised from previous financial statements.

See accompanying independent auditors' report.

City and County of Honolulu - Sewer Fund

Schedule of Changes in Net OPEB Liability and Related Ratios
Last Ten Fiscal Years*
(Amounts in thousands)

Postemployment Healthcare and Life Insurance Benefits

The following presents the Schedule of Changes in Net OPEB Liability and Related Ratios for the City as a whole, of which the Sewer Fund is one of its various enterprise funds.

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total other postemployment benefits ("OPEB") liability | | | | | | | |
| Service cost | \$ 45,387 | \$ 43,356 | \$ 46,818 | \$ 46,760 | \$ 48,571 | \$ 46,337 | \$ 45,097 |
| Interest on the total OPEB liability | 171,800 | 164,188 | 174,522 | 171,227 | 173,748 | 164,237 | 156,132 |
| Difference between expected and actual experience in the measurement of total OPEB liability | (170,746) | (3,188) | (221,768) | (85,484) | (159,334) | (8,029) | (36,013) |
| Changes of assumptions | - | - | (52,779) | - | (13,893) | 16,163 | 31,794 |
| Benefit payments | (95,205) | (98,051) | (87,331) | (83,609) | (84,768) | (83,155) | (80,555) |
| Net change in total OPEB liability | (48,764) | 106,305 | (140,538) | 48,894 | (35,676) | 135,553 | 116,455 |
| Total OPEB liability – beginning | 2,479,196 | 2,372,891 | 2,513,429 | 2,464,535 | 2,500,211 | 2,364,658 | 2,248,203 |
| Total OPEB liability – ending | <u>\$ 2,430,432</u> | <u>\$ 2,479,196</u> | <u>\$ 2,372,891</u> | <u>\$ 2,513,429</u> | <u>\$ 2,464,535</u> | <u>\$ 2,500,211</u> | <u>\$ 2,364,658</u> |
| Plan fiduciary net position | | | | | | | |
| Employer contributions | \$ 191,348 | \$ 188,884 | \$ 198,487 | \$ 190,924 | \$ 184,467 | \$ 178,141 | \$ 144,051 |
| Net investment income | 116,505 | 54,449 | (22,797) | 196,073 | 13,659 | 22,640 | 30,895 |
| Benefit payments | (95,205) | (98,051) | (87,331) | (83,609) | (84,768) | (83,155) | (80,555) |
| OPEB plan administrative expense | (114) | (75) | (90) | (101) | (102) | (169) | (95) |
| Other | 23 | 415 | (262) | (154) | (135) | 36,615 | - |
| Net change in plan fiduciary net position | 212,557 | 145,622 | 88,007 | 303,133 | 113,121 | 154,072 | 94,296 |
| Plan fiduciary net position – beginning | 1,271,563 | 1,125,941 | 1,037,934 | 734,801 | 621,680 | 467,608 | 373,312 |
| Plan fiduciary net position – ending | <u>1,484,120</u> | <u>1,271,563</u> | <u>1,125,941</u> | <u>1,037,934</u> | <u>734,801</u> | <u>621,680</u> | <u>467,608</u> |
| Net OPEB liability – ending | <u>\$ 946,312</u> | <u>\$ 1,207,633</u> | <u>\$ 1,246,950</u> | <u>\$ 1,475,495</u> | <u>\$ 1,729,734</u> | <u>\$ 1,878,531</u> | <u>\$ 1,897,050</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 61.06 % | 51.29 % | 47.45 % | 41.30 % | 29.81 % | 24.87 % | 19.77 % |
| Covered-employee payroll | \$ 731,641 | \$ 700,587 | \$ 671,835 | \$ 721,450 | \$ 698,284 | \$ 676,389 | \$ 657,253 |
| Net OPEB liability as a percentage of covered-employee payroll | 129.34 % | 172.37 % | 185.60 % | 204.52 % | 247.71 % | 277.73 % | 288.63 % |

* Data for prior fiscal years is not available. Table will be built prospectively.

** Revised from previous financial statements.

See accompanying independent auditors' report.

City and County of Honolulu - Sewer Fund

Schedule of OPEB Contributions

Last Ten Fiscal Years*

(Amounts in thousands)

Postemployment Healthcare and Life Insurance Benefits

The following presents the Schedule of OPEB Contributions for the City as a whole, of which the Sewer Fund is one of its various enterprise funds.

| Years ending June 30, | Actuarially Determined Contribution | Actual Contribution | Contribution Excess (Deficiency) | Covered Employee Payroll | Contributions as a Percentage of Covered Employee Payroll |
|-----------------------|---|------------------------|--|--------------------------------|---|
| 2025 | \$ 193,217 | \$ 193,217 | \$ - | \$ 788,776 | 24.50 % |
| 2024 ** | 191,347 | 191,347 | - | 731,641 | 26.15 % |
| 2023 | 188,884 | 188,884 | - | 700,587 | 26.96 % |
| 2022 | 198,487 | 198,487 | - | 671,835 | 29.54 % |
| 2021 | 190,924 | 190,924 | - | 721,450 | 26.46 % |
| 2020 | 184,467 | 184,467 | - | 698,284 | 26.42 % |
| 2019 | 178,141 | 178,141 | - | 676,389 | 26.34 % |
| 2018 | 167,470 | 144,051 | (23,419) | 657,253 | 21.92 % |

* Information prior to the year ended June 30, 2018 is not available. As information becomes available in future years, up to ten years will be displayed prospectively.

** Revised from previous financial statements.

See accompanying independent auditors' report.

City and County of Honolulu - Sewer Fund

Notes to Schedule of OPEB Contributions
Year Ended June 30, 2025

| | |
|---------------------------------------|---|
| Valuation date | The actuarially determined contribution for fiscal year ended June 30, 2025 was developed in the July 1, 2022 valuation. |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.00% |
| Inflation | 2.50% |
| Amortization method * | Level percent, closed |
| Equivalent single amortization period | 13% as of fiscal year ended June 30, 2025 |
| Amortization growth | 2.50% |
| Asset method | Four-year smoothed market |
| Salary increases | 3.75% to 6.75%; including inflation |
| Demographic assumptions | Based on the 2022 Hawaii ERS Actuarial Experience Study, as conducted June 30, 2021 for the Hawaii ERS |
| Mortality | System-specific mortality tables utilizing ultimate scale MP2021 to project generational mortality improvement |
| Participation rates | 98% healthcare participation assumptions for retirees that receive 100% of the Base Monthly Contribution (“BMC”). Healthcare participation rates of 25%, 65% and 90% for retirees that receive 0%, 50% or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B |
| Healthcare cost trend rates | |
| PPO ** | Initial rate of 6.40%, declining to a rate of 4.25% after 22 years |
| HMO ** | Initial rate of 6.40%, declining to a rate of 4.25% after 22 years |
| Part B & BMC | Initial rate of 5.00%, declining to a rate of 4.25% after 22 years |
| Dental | 4.00% |
| Vision | 2.50% |
| Life insurance | 0.00% |

* Closed bases are established at each valuation for new unfunded liabilities.

** Blended rates for medical and prescription drugs.

See accompanying independent auditors’ report.