NEW ISSUE | **RATING:**
BOOK-ENTRY ONLY | **Moody's: Aa2**
(See "RATING" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the Department, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the State of Hawaii under the Facility Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Counsel, the portion of each Base Rental Payment designated as and constituting interest paid by the State of Hawaii under the Facility Lease and received by the registered owners of the Certificates is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Special Counsel is of the opinion that the Certificates and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates or the amount, accrual or receipt of such interest. See "TAX MATTERS" in this Official Statement.

$15,125,000
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Certificates of Participation
(Kapolei Office Facility)
2017 Series A

Dated: Date of Delivery | **Due: November 1, as shown on inside cover**

The State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2017 Series A (the "Certificates"), are being delivered: (i) to refund on a current basis all outstanding certificates of participation previously issued to finance the construction of an office building and conference facility for the Department of Hawaiian Home Lands of the State of Hawaii (the "Department"); and (ii) to pay the costs of execution and delivery of the Certificates. The Certificates will be executed and delivered as fully registered certificates in book entry form, initially registered in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), New York, New York. The Certificates are being executed and delivered in denominations of $5,000 or any integral multiple thereof. Interest evidenced and represented by the Certificates is payable on May 1 and November 1 of each year, commencing November 1, 2017.

Individual purchases of the Certificates will be made exclusively in book-entry form. Purchasers of the Certificates will not receive physical certificates representing their interests in the Certificates purchased. The principal and interest evidenced and represented by the Certificates are payable directly to DTC by The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee"). Upon receipt of payments of such principal and interest, DTC will in turn remit such principal and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES – Book-Entry Only System."

The Certificates will be executed and delivered pursuant to an Amended and Restated Trust Agreement (the "Trust Agreement") by and among the State of Hawaii (the "State"), by the Department, The Bank of New York Mellon Trust Company, N.A., as Trustee and as successor to the prior lessor. The Certificates evidence and represent the interests of the registered owners thereof in certain rental payments (the "Base Rental Payments") to be paid by the State, by the Department, as lessee (in such capacity, the "Lessee") under a Facility Lease Agreement dated December 1, 2006 (as amended by that certain First Amendment to Facility Lease Agreement dated August 1, 2017, the "Facility Lease") from The Bank of New York Mellon Trust Company, N.A., as successor to the prior lessor (as such successor, the "Lessor"). Subject to the State's appropriation of funds as described herein, the Lessee's obligation to make such rental payments is absolute. Pursuant to an Assignment Agreement between the Lessor and the Trustee, the Lessor assigned to the Trustee and the Trustee accepted all of the Lessor's rights and obligations under the Facility Lease.

The Certificates are subject to extraordinary, mandatory and optional prepayment prior to their maturity dates, as described herein. See "THE CERTIFICATES – Prepayment Provisions."

THE FACILITY LEASE RENTAL PAYMENTS DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE STATE IS OBLIGATED TO APPROPRIATE FUNDS OR TO LEVY ANY FORM OF TAXATION OR FOR WHICH THE STATE HAS LEVIED ANY FORM OF TAXATION. THE CERTIFICATES DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OR ANY STATUTE OF THE STATE.

THE STATE IS NOT REQUIRED TO APPROPRIATE FUNDS FOR THE FACILITY LEASE RENTAL PAYMENTS. ALL OBLIGATIONS OF THE LESSEE UNDER THE FACILITY LEASE ARE LIMITED TO FUNDS APPROPRIATED OR OTHERWISE MADE AVAILABLE, FROM TIME TO TIME, BY THE STATE LEGISLATURE TO PAY AMOUNTS DUE UNDER THE FACILITY LEASE. IF THE LEGISLATURE FAILS TO APPROPRIATE FUNDS FOR LEASE RENTAL PAYMENTS, AND NO OTHER MONEYS OF THE LESSEE ARE AVAILABLE FOR SUCH PURPOSE, THE LESSOR MAY TERMINATE THE FACILITY LEASE WITHOUT PENALTY. SUCH FAILURE TO APPROPRIATE AND TERMINATION DOES NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE FACILITY LEASE.

The Certificates are offered when, as and if issued and received by the Underwriter, and are subject to the approval of validity by Orrick, Herrington & Sutcliffe, LLP, special counsel to the Department. Certain legal matters will be passed upon for the State of Hawaii by the Attorney General and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Certificates in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about August 25, 2017.

Stifel

Dated: July 25, 2017

$15,125,000
STATE OF HAWAII
Department of Hawaiian Home Lands
Certificates of Participation
(Kapolei Office Facility)
2017 Series A

CERTIFICATE PAYMENT SCHEDULE

Principal Payment Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] (419801)
2017	$ 950,000	2.000%	0.820%	AU9
2018	$ 750,000	3.000%	0.950%	AV7
2019	$ 780,000	3.000%	1.050%	AW5
2020	$ 805,000	4.000%	1.160%	AX3
2021	$ 840,000	4.000%	1.250%	AY1
2022	$ 875,000	4.000%	1.390%	AZ8
2023	$ 915,000	5.000%	1.530%	BA2
2024	$ 960,000	5.000%	1.710%	BB0
2025	$1,010,000	5.000%	1.870%	BC8
2026	$1,060,000	5.000%	2.050%	BD6
2027	$1,115,000	5.000%	2.220%	BE4
2028	$1,170,000	5.000%	2.380%*	BF1
2029	$1,230,000	5.000%	2.530%*	BG9
2030	$1,300,000	5.000%	2.620%*	BH7
2031	$1,365,000	5.000%	2.680%*	BJ3

* Priced to the par call date of November 1, 2027.

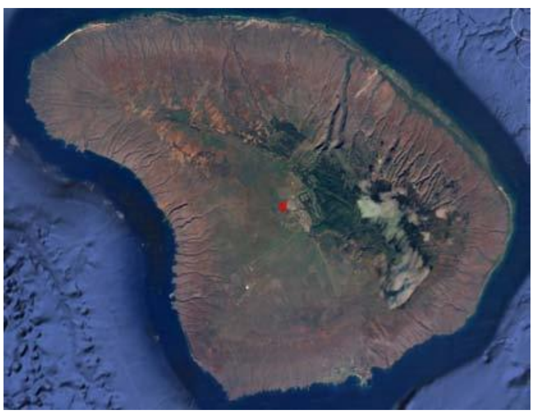
† Copyright, American Bankers Association. CUSIP data provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the Department nor the Underwriter takes any responsibility for the accuracy of such numbers.

Map of Hawaiian Home Lands

Kauaʻi

Oʻahu

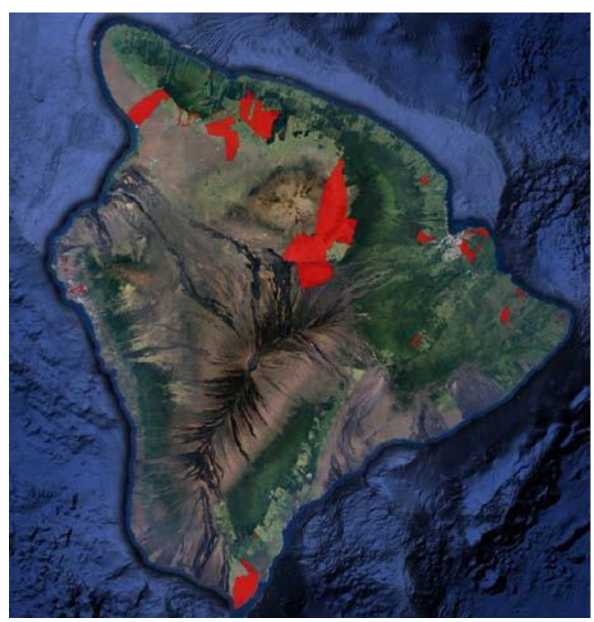
Lānaʻi



Maui

Molokaʻi

Hawaiʻi



Red denotes Hawaiian home lands

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information, and nothing contained herein is, or shall be relied upon as, a promise of the State or a promise or representation of the Underwriter. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Certificates in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering of the Certificates, and, if given or made, such information or representation must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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STATE OF HAWAII
Department of Hawaiian Home Lands
Certificates of Participation
(Kapolei Office Facility)
2017 Series A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto (this "Official Statement"), is to furnish information in connection with the offering and sale of $15,125,000 aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2017 Series A (the "Certificates"). Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Trust Agreement or the Facility Lease referred to below and in Appendix A hereto.

AUTHORITY AND PURPOSE

Authority and Purpose

The Certificates are being issued pursuant to Chapter 37D, Hawaii Revised Statutes, and the Amended and Restated Trust Agreement to be dated as of August 1, 2017 (the "Trust Agreement") to be entered into by the State of Hawaii (the "State"), by its Department of Hawaiian Home Lands (the "Department"), and The Bank of New York Mellon Trust Company, N.A., as trustee thereunder (in such capacity, the "Trustee") and as successor to Wells Fargo Bank, National Association, as lessor. The proceeds of the Certificates will be used: (i) to refund on a current basis all outstanding State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2006 Series A (the "Prior Certificates"), previously issued to finance the construction of the Department's headquarters, including an office building and conference facility, on Oahu, Hawaii (as discussed under "THE CERTIFICATES – General" and "THE DEPARTMENT OF HAWAIIAN HOME LANDS – Introduction" herein), (ii) to fund the Certificate Reserve Fund established under the Trust Agreement; and (iii) to pay the costs of execution and delivery of the Certificates.

Plan of Refunding

In connection with the refunding of the Prior Certificates, a portion of the proceeds of the Certificates will be deposited into a "Refunding Fund" to be established with the Trustee in an amount sufficient to prepay all outstanding Prior Certificates upon call for optional prepayment on August 25, 2017. All moneys on deposit in the Refunding Fund shall be applied to the prepayment of such Prior Certificates on such date.

THE CERTIFICATES

General

The Certificates will be executed and delivered in an aggregate principal amount of $15,125,000, will be dated as of the date of their initial execution and delivery, and will evidence and represent the principal components of the "Base Rental Payments" (described below) coming due on November 1 of the years (each, a "Certificate Payment Date"), and the interest components of such Base Rental Payments at the rates, set forth on the inside cover page of this Official Statement. The Certificates will be executed and delivered as fully registered certificates without coupons, in denominations of $5,000 or any integral multiple thereof.

Interest represented by the Certificates will be payable semiannually on May 1 and November 1 of each year (each, an "Interest Payment Date"), commencing November 1, 2017, and will be calculated based on a 360-day year of twelve 30-day months. The interest represented by the Certificates will be payable to the person whose name appears on the Certificate registration books of the Trustee as the Owner thereof as of the close of business on the 15th day of the month immediately preceding the month in which the Interest Payment Date occurs, whether or not such day is a business day, such interest to be paid by check or draft mailed on such Interest Payment Date to such Owner at such address as appears on such registration books or at such address as may have been filed with the Trustee for that purpose. So long as the DTC book-entry system is used for the Certificates, interest and principal shall be paid to DTC. See "Book-Entry Only System" below.

The Certificates are being issued to refund the outstanding Prior Certificates previously issued to finance the construction of an office building and conference facility (the "Improvements") for the Department. The Improvements, which serve as the head office of the Department, are located on a 9.2-acre parcel of land (the "Site" and, together with the Improvements, the "Premises") owned by the State of Hawaii (the "State"), through the Department, in East Kapolei, Oahu.

In connection with the financing of the Improvements, the Site was leased by the State, by the Department, as ground lessor, to Wells Fargo Bank, National Association, as the original ground lessee (in such capacity, the "Prior Ground Lessee"), pursuant to a Ground Lease dated as of December 1, 2006, as amended by a First Amendment to Ground Lease, dated August 1, 2017 (as amended, the "Ground Lease"), each between such parties. Pursuant to a Facility Lease Agreement dated as of December 1, 2006 (the "Original Facility Lease"), the Site and the Improvements thereon (collectively, the "Facility") is being leased by Wells Fargo Bank, National Association, as the original lessor thereunder (in such capacity, the "Prior Lessor"), to the State, by its Department of Budget and Finance on behalf of the Department, as lessee (in such capacity, the "Lessee"). The Prior Certificates represent proportionate interests in the "Base Rental Payments" under the Original Facility Lease. Pursuant to an Assignment Agreement dated as of December 1, 2006 (the "Prior Assignment"), the Prior Lessor assigned to the Prior Trustee for the benefit of the holders of the Prior Certificates all the Prior Lessor's right, title and interest in the Facility Lease, including the rights to receive the Base Rental Payments under the Original Facility Lease.

In connection with the issuance of the Certificates, (i) the State, by the Department, the Trustee, and the Lessor will enter into the Trust Agreement, pursuant to which the Trustee will issue the Certificates and the proceeds thereof will be used to refund the Prior Certificates; (ii) Wells Fargo Bank, National Association, will assign to the Trustee all of its rights as Prior Ground Lessee and Prior Lessor, including the right to receive Base Rental Payments under the Original Facility Lease, and (iii) the Original Facility Lease will be amended for the purpose of modifying the Base Rental Payments thereunder pursuant to a First Amendment to Facility Lease Agreement dated as of August 1, 2017 (the Original Facility Lease, as so amended, being herein referred to as the "Facility Lease") between The Bank of New York Mellon Trust Company, N.A., as successor to the Prior Lessor (in such capacity, the "Lessor") and the Department, as Lessee. As so modified, the Base Rental Payments will be equal, in the aggregate, to the principal and interest components of the Certificates, and the Certificates will evidence and represent the proportionate interests of the registered owners thereof (the "Owners") in the modified Base Rental Payments.

The Base Rental Payments and additional rental payments due under the Facility Lease (collectively, the "Rental Payments") do not constitute an obligation for which the State is obligated to appropriate funds or to levy any form of taxation or for which the State has levied any form of taxation. The Certificates do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the constitution or any statute of the State.

The State is not required to appropriate funds for Rental Payments. All obligations of the Lessee under the Facility Lease are limited to funds appropriated or otherwise made available from time to time by the State legislature to pay amounts due under the Facility Lease for the fiscal year in which such payments are due. If the State Legislature fails to appropriate funds for Rental Payments, and no other moneys of the Lessee are available for such purpose, the Lessor may terminate the Facility Lease without penalty. Such failure to appropriate and termination does not constitute an event of default under the Facility Lease. If the Facility Lease is terminated, the Trustee has the right to repossess and relet the Facility. See Appendix B – "GENERAL INFORMATION ABOUT THE STATE OF HAWAII," Appendix C – "FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII," and Appendix D – "EXTRACTS FROM THE CONSTITUTION OF THE STATE OF HAWAII" for additional information regarding the State government, its financial condition and certain economic factors that could affect the financial condition of the State government and the availability of funds appropriated for Rental Payments.

Subject to the State's appropriation of funds, the Lessee's obligation to make Rental Payments is absolute and unconditional, and shall not be abated through accident or unforeseen circumstances (including any delay in completion of the construction of the Improvements), or by reason of any defect in or damage to or loss or destruction of the Facility from whatever cause.

Brief descriptions of the Certificates, the Trust Agreement, the Ground Lease, the Facility Lease, the Assignment, the Department, and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Certificates, the Trust Agreement, the Ground Lease, the Facility Lease, the Assignment, and other documents are qualified in their entirety by reference to the actual documents.

Prepayment Provisions

The Certificates are subject to prepayment on any date prior to their respective Certificate Payment Dates, as a whole or in part, from prepaid Base Rental Payments made by the Lessee from funds received by the State due to a casualty loss or governmental taking of the Facility or portions thereof, if such amounts are not used to repair or replace the Facility in accordance with the provisions of the Facility Lease, under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and in the Facility Lease, at a prepayment price equal to the sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium.

The Certificates payable on or after November 1, 2028 shall be subject to prepayment prior to their respective stated Certificate Payment Dates, at the option of the Lessee, as a whole or in part, on any date, from any source of available funds, including purchase price payments made by the Lessee pursuant to the Facility Lease, on or after November 1, 2027, at a prepayment price equal to 100% of the principal amount called for prepayment plus accrued interest to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever less than all the Outstanding Certificates are to be prepaid, the Trustee shall select the Certificates to be prepaid from those bearing such Certificate Payment Dates as shall be selected by the Lessee. Whenever less than all the Outstanding Certificates bearing any particular Certificate Payment Date are to be prepaid on any date, the Trustee shall select the Certificates to be prepaid from the Outstanding Certificates bearing such Certificate Payment Date by lot in any manner of selection that the Trustee deems fair.

Notice of Prepayment. Notice of prepayment will be sent by first class mail, postage prepaid, to the respective Owners of any Certificates (i.e., Cede & Co., as nominee for DTC, so long as the DTC book-entry system is used for the Certificates) designated for prepayment at their addresses as they appear on the books of the Trustee not less than 30 nor more than 60 days prior to the prepayment date. Such notice will set forth, among other things, the prepayment date, the place of prepayment and the prepayment price and will state that the interest represented by the Certificates designated for prepayment shall cease to accrue from and after such prepayment date and that on such prepayment date there will become due and payable on each of the Certificates designated for prepayment the prepayment price represented thereby. Failure of the Trustee to mail notice of any prepayment will not affect the validity of proceedings for prepayment of the Certificates not affected by such failure. A conditional notice of prepayment may be provided and, if so provided, shall include a description of the conditions to prepayment.

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid and moneys for the payment of the prepayment price on the Certificates to be prepaid are held by the Trustee, then on the prepayment date designated in such notice the Certificates so called for prepayment shall become payable at the prepayment price specified in such notice; and from and after the date so designated interest represented by the Certificates so called for prepayment shall cease to accrue, such Certificates shall cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates shall have no rights in respect thereof except to receive payment of the prepayment price represented thereby. The Trustee shall, upon surrender for payment of any of the Certificates to be prepaid on or after the specified prepayment date, pay such Certificates at the prepayment price thereof.

Book-Entry Only System

Unless otherwise noted, the following description of the procedures and record-keeping with respect to beneficial ownership interests in the Certificates, payment of interest and other payments on the Certificates to Participants (defined below) or Beneficial Owners (defined below) of the Certificates, confirmation and transfer of beneficial ownership interests in the Certificates and other bond-related transactions by and among DTC, the Participants and Beneficial Owners of the Certificates is based solely on information furnished by DTC. Accordingly, the Department and the Underwriter do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly

("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of redemption proceeds, principal and interest with respect to the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to DTC is the responsibility of the Department, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Certificates are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates representing the Certificates will be printed and delivered.

In reviewing this Official Statement it should be understood that while the Certificates are in the book-entry system, references in other sections of this Official Statement to Owners should be read to include the person for which a Direct or Indirect Participant acquires an interest in the Certificates, but: (i) all rights of ownership must be exercised through DTC and the system of book-entry; and (ii) notices that are to be given to Owners by the Department will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Direct Participants by its usual procedures so that the Direct and Indirect Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

Neither the Department nor the underwriter will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or any Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest with respect to the Certificates, (iii) any notice which is permitted or required to be given to Owners under the Trust Agreement, (iv) the selection by DTC of any Direct Participant to receive payment in the event of a partial redemption of the Certificates, (v) any consent given or other action taken by DTC as Owner of the Certificates, or (vi) any other event or purpose.

Table 1
ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Certificates are expected to be applied as follows:

Sources:	
Principal Amount of Certificates	$15,125,000.00
Original Issue Premium	2,613,723.95
Prior Funds on Hand	2,553,037.29
Total Sources	$20,291,761.24
Uses:	
Deposit to Refunding Fund	$18,739,020.83
Deposit to Certificate Reserve Fund[1]	1,400,750.00
Costs of Issuance[2]	151,990.41
Total Uses	$20,291,761.24

[1] Equal to Certificate Reserve Requirement, as discussed under 'SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Certificate Reserve Fund" herein.

[2] Includes Underwriter's discount.

Table 2
CERTIFICATE PAYMENT SCHEDULE

The following is the payment schedule for the Certificates (assuming no prepayment of Base Rental Prepayments).

Period Ending June 30	Principal Component	Interest Component	Annual Base Rentals
2018	$ 950,000	$ 449,666	$ 1,399,666
2019	750,000	641,700	1,391,700
2020	780,000	618,750	1,398,750
2021	805,000	590,950	1,395,950
2022	840,000	558,050	1,398,050
2023	875,000	523,750	1,398,750
2024	915,000	483,375	1,398,375
2025	960,000	436,500	1,396,500
2026	1,010,000	387,250	1,397,250
2027	1,060,000	335,500	1,395,500
2028	1,115,000	281,125	1,396,125
2029	1,170,000	224,000	1,394,000
2030	1,230,000	164,000	1,394,000
2031	1,300,000	100,750	1,400,750
2032	1,365,000	34,125	1,399,125
Totals:	$15,125,000	$5,829,491	$20,954,491

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Lease Payments

Pursuant to the Facility Lease, the Lessor will lease the Facility to the Lessee for a term expiring on November 1, 2031, subject to extension or early termination in accordance with the terms of the Facility Lease. The Base Rental Payments under the Facility Lease are equal to the principal and interest components represented by the Certificates. Base Rental Payments are due on each May 1 and November 1 during the term of the Facility Lease. The Lessee will be required to deposit each semiannual Rental Payment with the Trustee on or before the 25th day of the preceding April or October, as applicable. Subject to the State's appropriation of funds as described herein, the Lessee's obligation to make Rental Payments is absolute and unconditional, and shall not be abated through accident or unforeseen circumstances (including any delay in completion of the construction of the Improvements), or by reason of any defect in or damage to or loss or destruction of the Facility from whatever cause.

Pursuant to the Assignment, the Lessor has assigned to the Trustee for the benefit of the Owners all its right, title and interest in the Facility Lease, including its rights to receive and enforce payment of the Base Rental Payments. Pursuant to the Trust Agreement, the Base Rental Payments are held in trust for the benefit of the Owners and will be used for the punctual payment of the interest and principal evidenced and represented by the Certificates and will not be used for any other purpose while any of the Certificates remain Outstanding.

Budget and Appropriations Process

Chapter 37D, Hawaii Revised Statutes, requires that there will be included in the executive budget request to the State legislature, for each fiscal period, amounts sufficient to permit the payment of all amounts that will be due on the Facility Lease during that fiscal period. Pursuant to the Facility Lease, the Department will covenant to submit to the Department of Budget and Finance, for inclusion in the executive budget request to the State legislature pursuant to Chapter 37D, Hawaii Revised Statutes, an operating budget of the Department for each fiscal period that includes scheduled Base Rental Payments and Additional Rental Payments. However, the State legislature is not obligated to appropriate funds for Rental Payments and, in the event that the State legislature does not appropriate funds for Rental Payments and no other moneys of the Lessee are available for such purpose, the Lessor will be permitted to terminate the Facility Lease without penalty. Reference is made to "CERTAIN RISK FACTORS" herein for a discussion of certain potential consequences of a failure by the State legislature to appropriate funds for Rental Payments. Reference is also made to APPENDIX C – "FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII" for financial information about the State and to 'APPENDIX B – "GENERAL INFORMATION ABOUT THE STATE OF HAWAII" for A for certain information regarding economic conditions within the State that may affect the financial condition of the State and the availability of funds for Rental Payments.

The State legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days. At least 30 days before the legislature convenes in regular session in an odd-numbered year, the Governor shall submit to the legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch and the legislative branch are submitted by their respective leaders to the legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, shall have been transmitted to the Governor.

In each regular session in an even-numbered year, the Governor may submit to the legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill. In such session to which the Governor submits to the legislature a supplemental appropriations bill, no other appropriations bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the legislature, shall be passed on final reading until the supplemental appropriations bill shall have been transmitted to the Governor. To become law, a bill must pass three readings in each house on separate days.

Each bill passed by the legislature shall be certified by the presiding officers and clerks of both houses and thereupon be presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the legislature. Except for items appropriated to be expended by the judicial and legislative branches, the Governor may veto any specific item or items in any bill that appropriates money for specific purposes by striking out or reducing the same; but the Governor shall veto other bills only as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the legislature *sine die*, and if any such bill is neither signed nor returned by the Governor within that time, it shall become law in like manner as if the Governor had signed it.

The Governor has forty-five days, after the adjournment of the legislature *sine die*, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill shall become law on the forty-fifth day unless the Governor by proclamation shall have given ten days' notice to the legislature that the Governor plans to return such bill with the Governor's objections on that day. The legislature may convene on or before the forty-fifth day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. In case the legislature shall fail to so convene, such bill shall not become law. Any such bill may be amended to meet the Governor's objections and, if so amended and passed, only one reading being required in each house for such passage, it shall be presented again to the Governor, but shall become law only if the Governor shall sign it within ten days after presentation.

Certificate Reserve Fund

Pursuant to the Trust Agreement, the Trustee shall establish, maintain and hold in trust a "Certificate Reserve Fund," into which the Trustee shall deposit an amount equal to the "Certificate Reserve Fund Requirement," which is defined as an amount equal to the lesser of (i) greatest amount of principal and interest payable on any maturity date for any of the Certificates in any Fiscal Year, (ii) 125% of average amount of principal and interest payable on any maturity date for any of the Certificates in any Fiscal Year or (ii) 10% of the initial proceeds of the Certificates; provided in no event shall such amount exceed 10% of the original proceeds with respect to the Certificates; provided in no event shall such amount allocable to the Certificates exceed 10% of the original proceeds with respect to the Certificates; provided further, however, that all or a part of such Certificate Reserve Fund Requirements may be provided by a surety bond, insurance policy or letter of credit meeting the requirements described below. The initial deposit into the Certificate Reserve Fund will be made from proceeds of the Certificates.

Moneys held in the Certificate Reserve Fund may be disbursed and applied only as hereinafter authorized. The Trustee shall apply the moneys on deposit in the Certificate Reserve Fund solely for the payment of Base Rental Payments due and payable by the Lessee if and when moneys of the Lessee are not otherwise available to make such Base Rental Payments. Pursuant to the Facility Lease, the Lessee agrees that if at any time the balance in the Certificate Reserve Fund shall be reduced below the

Certificate Reserve Fund Requirement, the Lessee shall pay as Additional Rental pursuant to the terms of the Facility Lease the amount necessary to increase the balance in the Certificate Reserve Fund to the required Certificate Reserve Fund Requirement. At the termination of the Facility Lease in accordance with its terms (other than a termination pursuant to the provisions of Facility Lease that allow for termination in the event of a failure by the Legislature to appropriate Rental Payments), any balance remaining in the Certificate Reserve Fund shall be transferred to such other fund or account of the Lessee, or otherwise used by the Lessee for any other lawful purposes, as the Lessee may direct.

The Lessee may satisfy the Certificate Reserve Fund Requirement at any time by the deposit with the Trustee for the credit of the Certificate Reserve Fund of a surety bond, an insurance policy or letter of credit or any combination thereof, as described in Appendix A under "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - THE TRUST AGREEMENT – Certificate Reserve Fund." If the Lessee replaces a cash-funded Certificate Reserve Fund, in whole or in part, with a surety bond, insurance policy or letter of credit meeting the requirements of either (i) or (ii) above, amounts on deposit in the Certificate Reserve Fund shall, upon written request of the Lessee to the Trustee, be transferred to the Lessee, subject to the receipt by the Lessee and Trustee of an Opinion of Counsel that such transfer will not cause the interest represented by the Certificates to be included in gross income for purposes of federal income taxation.

Additional Certificates

Pursuant to the Trust Agreement, the Department and the Trustee may, by Supplemental Trust Agreement, provide for the issuance of Additional Certificates representing undivided fractional interests in the Lease Payments for the purpose of (a) paying the costs of additions or modifications to a Project, or rebuilding or replacement of a Project following a casualty or loss, or the acquisition and construction of an additional or substitute Project, including interest coming due with respect to such Additional Certificates during any estimated construction period and an additional period not to exceed twelve months thereafter, or (b) refunding or prepaying any Certificates then Outstanding (on a current or advance basis), including in each case the payment of costs and expenses of and incident to the authorization and sale of any such Additional Certificates and refunding or prepayment of the prior Certificates, including any prepayment premium. Any such Additional Certificates, if issued, will be secured by the Trust Agreement and payable from Base Rental Payments on an equal and ratable basis with the Certificates.

The issuance of Additional Certificates shall be subject to the condition, among others, that the Facility Lease will be amended so that the Lease Payments thereunder shall, together with the Lease Payments under the other Lease or Leases, equal the principal and interest represented by all Certificates to be Outstanding upon the issuance of the Additional Certificates. Reference is made to Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – THE TRUST AGREEMENT – Execution and Delivery of Additional Certificates" for a discussion of additional conditions to the issuance of Additional Certificates

Insurance

Pursuant to the Facility Lease, the Lessee is required to procure and maintain or cause to be procured and maintained, throughout the term of the Facility Lease, such insurance for the Facility as the Lessee deems advisable or necessary to protect its interests and the interests of the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with buildings owned by the Lessee. The Facility Lease further provides that any such insurance may be maintained in the form of self-insurance or under a master insurance policy or policies of the Lessee.

The Facility is currently included in the statewide blanket real and personal property insurance policy of the State. The policy provides “all risk” coverage of physical loss to State properties, subject to applicable deductibles, including coverage of losses from windstorm ($200 million per occurrence), flood ($200 million per occurrence and annual aggregate), earthquake ($200 million per occurrence and annual aggregate), terrorism ($50 million per occurrence), and boiler and machinery ($200 million per occurrence). The Facility Lease does not require, however, that the Department continue to maintain the types of insurance and in the coverage amounts described in this paragraph or that the Department maintain any rental interruption insurance on the Facility.

CERTAIN RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Certificates. The following discussion of possible risks is not meant to be an exhaustive list of the risks associated with the purchase of the Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Certificates. There can be no assurance that other risk factors will not become material in the future.

Limited Obligation; Right to Terminate Facility Lease

The purchase of the Certificates offered hereby is without recourse to the Lessor, and the purchasers must assume the entire risk that the Lessee will meet its obligations under the Facility Lease and that funds will be appropriated by the State legislature for payments due thereunder. The Lessee has an unconditional obligation to make the Rental Payments specified in the Facility Lease for each fiscal year for which the Facility Lease is in force, but only to the extent to which the State legislature appropriates funds therefor.

The Rental Payments do not constitute an obligation for which the State is obligated to appropriate funds or to levy any form of taxation or for which the State has levied any form of taxation. The Certificates do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the constitution or any statute of the State.

The State is not required to appropriate funds for Rental Payments. All obligations of the Lessee under the Facility Lease are limited to funds appropriated or otherwise made available from time to time by the State legislature to pay amounts due under the Facility Lease for the fiscal year in which such payments are due. If the State legislature fails to appropriate funds for Rental Payments, and no other moneys of the Lessee are available for such purpose, the Lessor may terminate the Facility Lease without penalty. Such failure to appropriate and termination does not constitute an event of default under the Facility Lease. If the Facility Lease is terminated the Trustee has the right to repossess and relet the Facility. See APPENDIX A - “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - FACILITY LEASE - Nonappropriation.”

Repossession and Re-Letting of Premises

If the Facility Lease is terminated due to the failure of the State Legislature to appropriate funds for Rental Payments thereunder, or by the Trustee if an event of default occurs thereunder, the Trustee has the right to repossess and re-let the Premises. The rental payments realized from such re-letting would be used, in lieu of Base Rental Payments under the Facility Lease, to pay the principal and interest components of the Certificates. However, no assurance can be given that such rental payments will be sufficient to offset the reduction of Base Rental Payments available for such principal and interest payments due to the termination of the Facility Lease.

The sufficiency of rental payments that can be realized by the Trustee upon termination of the Facility Lease would be subject to a wide range of factors, including prevailing conditions in the real estate markets and the economy in general, that may affect the potential market for the Premises or the amount that can be realized upon re-letting the same. The nature and effects of such factors cannot be predicted.

In addition, the Trustee is not obligated to re-let the Premises in a manner so as to preserve the tax-exempt nature of interest represented by the Certificates in the event of a default under the Facility Lease or termination due to failure of the State Legislature to appropriate funds for the Base Rental Payments thereunder. In the event the Trustee re-lets the Premises to private persons or to the federal government, the interest represented by the could be included in gross income for federal income tax purposes and be subject to State of Hawaii taxation.

Sovereign Immunity

Under the doctrine of sovereign immunity, a state of the union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state of the union (including the State) cannot be sued by citizens of another state of the union or by citizens or subjects of any foreign state. A state may waive its immunity and consent to a suit against itself. However, such waiver and consent may subsequently be withdrawn by the state. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that, in the event the Lessee fails to make timely payment of Base Rental Payments from appropriated funds, a suit could be brought against State officials to enforce such payment.

Alternative Office Space

There currently exists other office space in the Honolulu area owned by private entities which is available for use by the Department, and it can be anticipated that additional office space will become available during the term of the Facility Lease. Such alternative office space could, under certain circumstances, be deemed by the Department to be more suitable or desirable or cost effective than the Facility.

The State is not required to appropriate Rental Payments and the State legislature, for the reasons described above or other reasons, could choose to move Department employees to other office space owned by the State or by private entities and could decide not to appropriate the Base Rental Payments. In such an event, the Trustee has the right to repossess and relet the Facility.

Remedies; Enforceability Risk

In the event of default or termination by the Lessee under the Facility Lease, the remedies provided in the Facility Lease may be limited by or rendered unenforceable due to the application of principles of equity or State and federal laws relating to bankruptcy, moratorium, reorganization and creditors' rights generally. Moreover, due to the essential governmental nature of the Facility, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto.

The enforcement of any remedies provided in the Facility Lease could prove both expensive and time consuming. The Facility Lease provides a procedure by which the Trustee may take possession of the Facility and lease or sell it if the Lessee elects to terminate the Facility Lease or if there is a default by the Lessee. The Facility may not be easily recoverable and, even if recovered, could be of little value to others. Further, the Trustee may be unable to relet or sell the Facility at a rental or purchase price that will provide sufficient funds for timely payment of all principal and interest due with respect to the Certificates.

In addition, the enforceability of the rights and remedies of the Owners of the Certificates, and the obligations of the Lessee under the Facility Lease, may become subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose.

No opinion has been rendered with respect to the applicability of the registration requirements of the Securities Act of 1933, as amended, to any Certificate subsequent to termination of the Facility Lease due to an event of default. If the Facility Lease is terminated following a default, no assurance can be given that the Certificates may be transferred by their owner without compliance with the registration provisions of the Securities Act of 1933, as amended, or that an exemption from such provisions will be available.

No Acceleration Upon Default

In the event of a default or termination of the Facility Lease, there is no remedy of acceleration of the Rental Payments due over the term of the Facility Lease. The Lessee will only be liable for Rental Payments for the then-current fiscal year to the extent of funds already appropriated. The Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's Rental Payments. See APPENDIX A - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - FACILITY LEASE - Default by Facility Lease Lessee."

THE DEPARTMENT OF HAWAIIAN HOME LANDS

Introduction

The Department is one of the State's principal executive departments, headed by an executive board known as the Hawaiian Homes Commission (the "Commission"). The Commission was established pursuant to the Hawaiian Homes Commission Act of 1920 (the "HHCA"), passed by the United States Congress and signed into law by President Warren G. Harding on July 9, 1921. The purpose of the HHCA was to rehabilitate native Hawaiians by placing them on lands set aside as Hawaiian home lands. The term "native Hawaiian" is defined in the HHCA as "any descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian Islands previous to 1778."

The HHCA was originally implemented and administered by the Territorial government of Hawaii through the Commission. At the time of statehood in 1959, the State of Hawaii, pursuant to the Admission Act (Pub. L. No. 86-3, 73 Stat. 4) (the "Admission Act"), entered into a compact with the United States to assume the management and disposition of the Hawaiian home lands and to adopt the HHCA as a provision of the State Constitution. The Admission Act requires that, with certain exceptions, amendment to or repeal of the HHCA be made only with the consent of the United States.

The Department, which operates throughout the State, is headquartered in Kapolei, on the Island of Oahu. The Department's headquarters are situated on a 9.2-acre site and consist of a 45,602-square foot, two-story office building, and an adjoining 2,720-square foot conference facility. The Department conducts administrative and operating functions in the main office building, and hosts community meetings and other official functions in the conference facility. The conference facility is also used by the

Commission for its regular meetings. Construction of the office building and conference facility commenced in 2007 and was completed in 2008. Financing for such construction was originally provided through the issuance of the Prior Certificates.

Hawaiian Home Lands and Available Lands

Upon the State of Hawaii's admission into the Union, the United States granted to the State title to certain public lands including lands defined as "available lands" by Section 203 of the HHCA to be held in trust. Pursuant to Section 204 of the HHCA, these "available lands" assumed the status of "Hawaiian home lands" under the Department's control to be used and disposed of in accordance with the provisions of the HHCA.

The following table shows the distribution and uses of documented acreage of Hawaiian home lands:

Distribution and Use of Hawaiian Home Lands
(As of June 30, 2016)

	Hawaii	Kauai	Maui	Molokai	Lanai	Oahu	Total Acreage
Homesteads	29,885	906	2,645	11,005	14	1,111	45,566
General Leases	739	98	2	1,764	0	311	2,914
Licenses	1,094	73	60	352	0	366	1,945
Permits	19,077	698	6,349	610	25	1,793	28,553
Others	66,682	18,790	22,740	12,038	11	3,914	124,175
Totals:	117,477	20,565	31,796	25,769	50	7,495	203,152

Source: State of Hawaii; Department of Hawaiian Home Lands

Organization of the Department

Members of the Commission, which serves as the governing body of the Department, are appointed by the Governor and confirmed by the State Senate. At least four of the nine members of the Commission must be ethnic Hawaiians having not less than one-fourth part of the blood of the races that inhabited the Hawaiian Islands previous to 1778. The Chair of the Commission serves as the full-time administrator of the Department. Towards fulfilling the objectives of the HHCA, the Commission establishes policies regarding the homestead and general lease programs, the management of land under the HHCA, and other administrative issues. Policies and programs approved by the Commission are carried out by the Department.

The Department has 128 employees working in its administrative offices and three operating divisions: the Homestead Services Division, the Land Development Division, and the Land Management Division.

Administration of the homestead lease program is vested in the Homestead Services Division. Homestead leases run for 99 years and are classified as residential, agricultural and pastoral. At present the Homestead Services Division has approved and offered approximately 9,855 leases on 45,566 acres. About 84% of these leases are residential leases.

In addition to leases, the Homestead Services Division offers direct loans to lessees for construction, repair, and replacement of residences and for the development and maintenance of farms and ranches. It also provides advisory services to lessees on a broad range of programs.

The Land Development Division is responsible for undertaking infrastructure development for homestead lands and developing lands for a variety of uses. As of May 1, 2017, there were 9,859 outstanding homestead leases. Approximately 1,500 lots or units are projected to be completed from Fiscal Year 2018 to Fiscal Year 2023.

The Land Management Division undertakes archeological, environmental and topographical-mapping studies to protect properly those lands not slated for development and better manage the Department's land inventory system. Since 1965, the Land Management Division has offered general, non-homestead leases to serve a variety of purposes, including leases for commercial and industrial purposes. These general leases are offered at competitive market rates through a public auction. Though few in number, general leases make up a substantial share of total rental income. As of June 30, 2016, there were approximately 2,914 acres of Hawaiian home lands under general leases. Additionally, the Land Management Division also leases land to other State agencies, including the Department of Land and Natural Resources, for the establishment of environmental preservation reserves. Land has also been leased to public utilities.

In addition to long term leases, income is also generated through the issuance of licenses and permits for temporary uses of lands by community, government, and military agencies. As of June 30, 2016, approximately 1,945 acres of land were being utilized under licenses, approximately 28,553 acres under permits, and approximately 124,175 acres for other uses.

Members of the Commission

Jobie Masagatani – Chairman, Oahu. Ms. Masagatani joined Hawaiian Home Lands after working at the Office of Hawaiian Affairs (OHA) where she was Special Assistant to the Chief Executive Officer. Prior to serving at OHA, she owned a small consulting practice, and was also an assistant to the President and CEO of The Queen's Health Systems, where her area of focus was Native Hawaiian health. Her term expires December 31, 2018.

Kāhele Richardson – Oahu. Mr. Richardson is an attorney and entrepreneur. His term expires June 30, 2018.

Michael P. Kahikina – Oahu. Mr. Kahikina is the executive director of Kahikolu ʻOhana Hale ʻO Waiʻanae and a former state representative representing the Leeward Coast. His term expires June 30, 2019.

Wren Wescoatt III – Oahu. Mr. Wescoatt is Senior Director of Development in Hawai'i for SunEdison (formerly First Wind). Previously, he founded College Connections Hawaiʻi, a statewide non-profit organization providing educational services including a Native Hawaiian Scholars Program and SAT preparation classes for rural high schools with high percentage Hawaiian populations. His term expires June 30, 2019.

Doreen Nāpua Canto – Maui. Ms. Canto is employed by Palekana Permits. Previously, she was a Health Unit Assistant at Kula Hospital. She is president-elect of the Maui Native Hawaiian Chamber of Commerce, serves as a commissioner for the County of Maui Department of Fire and Public Safety, and is a member of the ʻAhahui Ka'ahumanu Society. Her term expires June 30, 2019.

Gene Ross Davis – Molokaʻi. Mr. Davis is a self-employed livestock inspection contractor and formerly served as a State of Hawaiʻi Livestock Inspector. His term expires June 30, 2020.

Kathleen Puamaeʻole "Pua" Chin – Kauaʻi. Ms. Chin serves as Kauaʻi Island Utility Cooperative (KIUC) Executive Administrator and previously served as Administrative Assistant to the KIUC Board of Directors. Ms. Chin's term expired on June 30, 2017, but she continues to serve on the Commission until her replacement is appointed and confirmed.

Wallace A. Ishibashi, Jr. – East Hawaiʻi. Mr. Ishibashi is UH Hilo's cultural monitor for the Office of Mauna Kea Management as well as time as a business agent, contract and benefits negotiator, workers compensation specialist, and youth basketball and baseball coach. He is also currently the chair of the Hawaii County Windward Planning Commission and a member of the Big Island Community Coalition, an organization that works to reduce the high cost of electricity through alternative energy. Mr. Ishibashi's term expired on June 30, 2017, but he continues to serve on the Commission until his replacement is appointed and confirmed.

David B. Ka'apu – West Hawaiʻi. Mr. Ka'apu is a practicing attorney at law in Kailua-Kona. Mr. Ka'apu's term expired on June 30, 2017, but he continues to serve on the Commission until his replacement is appointed and confirmed.

Management Personnel

The following are the senior executives responsible for the management of the Department.

William J. Ailā, Jr., Deputy to the Chair. Mr. Aila graduated from the University of Hawaii with a Bachelor of Science degree in General Tropical Agriculture and currently serves as the Deputy Director of the Department. From 2010 thru 2014, Mr. Aila served as the Chairman of the Department of Land and Natural Resources and the Chairman of the Board of Land and Natural Resources. Prior to that he managed Waianae Small Boat Harbor for 24 years.

Dean T. Oshiro, Acting Homestead Services Administrator. Mr. Oshiro graduated from Pacific University in Forest Grove, Oregon in 1987 with a Bachelor's degree in Business Administration with a concentration in Finance. Mr. Oshiro was hired as the Loan Services Branch Manager in 2005 and currently serves as the Acting Administrator for the Homestead Services Division.

Norman L. Sakamoto, Acting HHL Land Development Administrator. Mr. Sakamoto earned his Bachelor of Science degree in Civil Engineering from the University of Hawaii at Manoa. He also received a Master of Science degree in Civil Engineering from the University of Illinois- Champaign-Urbana Campus. He is a registered professional Civil Engineer in the states of Hawaii and California. He is also a licensed General Contractor. Mr. Sakamoto has served at the Department for the last six years. Prior to that, he served as a Senator in the Hawaii State Legislature for fourteen years.

Peter K. Albinio, Jr., Acting HHL Land Management Administrator. Mr. Albinio graduated from the University of Hawaii at Manoa with a Bachelor of Arts degree in Sociology. He also holds a real estate license in the State of Hawaii. Mr. Albinio started as a Land Agent in the Land Development Division in 2004 and now serves as the Acting Land Management Division Administrator.

Rodney K.M. Lau, Administrative Services Officer. Mr. Lau graduated from Eastern Washington University with a Bachelor of Science degree in Professional Accounting. He is a licensed certified public accountant in Hawaii and a member of the American Institute of Certified Public Accountants (AICPA). He has held the Administrative Services Officer position since 1992.

Pearl C. Teruya, Acting Fiscal Management Officer. Ms. Teruya earned a Bachelor's degree in Business Administration in Accounting from the University of Hawaii at Manoa. She has been the Accounting Staff Supervisor for the past 10 years and has been the Acting Fiscal Management Officer since July 1, 2016.

Paula Aila, HHL Information & Community Relations Officer. Ms. Aila received a Bachelor's degree in Communications from the University of Hawaii. She has extensive background in Executive Management and Leadership positions in the areas of Marketing, Operations, Sales, Customer Loyalty and more in industries like Telecommunications, Publishing, Health, Insurance and Financial services.

Kaleo L. Manuel, Acting Planning Program Manager. Mr. Manuel holds various degrees from the University of Hawaiʻi at Manoa: a Bachelor of Arts degree in Hawaiian Studies (2006), a Master's degree in Urban and Regional Planning (2009), and a Graduate Certificate in Historic Preservation (2009). As the Acting Planning Program Manager for the Planning Office, he oversees the development, implementation, and evaluation of the Department Planning System with a staff of planners and specialists. Prior to that, Mr. Manuel was a cultural and natural resource planner for the Department and worked on planning projects and process relating to land use, water resources, and environmental compliance and policy.

THE STATE OF HAWAII

Certain general information concerning the State is contained in Appendix B to this Official Statement, including economic conditions that may affect the financial condition of the State. Selected financial information concerning the State of Hawaii, including information about the State's outstanding indebtedness and its revenue projections, is contained in Part I of Appendix C to this Official Statement. Part II of Appendix C contains the General Purpose Financial Statements and related General Fund schedules excerpted from the Comprehensive Annual Financial Report of the State of Hawaii for the State's fiscal year ended June 30, 2016. Appendix D to this Official Statement contains certain provisions of the State Constitution regarding indebtedness of the State. The information in such Appendices has been furnished by the State and other sources considered reliable. There can be no assurance that the information is indicative of the current financial position or future financial performance of the State.

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, execution or delivery of the Certificates or in any other manner affecting the validity of the Facility Lease or the Certificates or the proceedings or authority pursuant to which the Certificates are to be sold, executed and delivered.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the Department ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the State of Hawaii under the Facility Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Special Counsel is of the further opinion that the portion of each Base Rental Payment designated as and constituting interest paid by the State of Hawaii under the Facility Lease and received by the registered owners of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel is of the opinion that the Certificates and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. A complete copy of the proposed form of opinion of Special Counsel relating to the Certificates is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest with respect to the Certificates which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Beneficial Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

The Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest with respect to obligations such as the Certificates. The Department has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest with respect to the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest with respect to the Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of interest with respect to, the Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest with respect to the Certificates is excluded from gross income for federal income tax purposes and that the Certificates and the income therefrom are exempt from taxation by the State of Hawaii or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of the Certificates or the accrual or receipt of amounts treated as interest may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest with respect to the Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel is expected to express no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the Department, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Department has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the Certificates ends with the execution and delivery of the Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the Department or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the Department and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of Certificates is difficult, obtaining an independent review of IRS positions with which the Department legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the Department or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, execution, delivery and sale of the Certificates are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the Department. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix E hereto. Certain legal matters will be passed upon for the State by the Attorney General and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP.

RATING

Moody's Investors Service has assigned the rating of "Aa2" to the Certificates. This rating reflects only the view of Moody's Investors Service and any desired explanation of the significance of the rating should be obtained from Moody's Investors Service at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by Stifel, Nicolaus & Company, Incorporated, as Underwriter, pursuant to a certificate purchase contract among the Underwriter, the Department, and the Trustee, pursuant to which the Trustee has agreed to sell, and the Underwriter has agreed to purchase, the Certificates at an aggregate purchase price of $17,669,533.09, reflecting an underwriting discount of $69,190.86 and an original issue premium of $2,613,723.95. The certificate purchase contract provides that the Underwriter's obligation to purchase the Certificates is predicated on the satisfaction of certain terms and conditions set forth therein, including the approval of certain legal matters by counsel. The Underwriter will be obligated to purchase all of the Certificates if any are purchased.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Certificates may be offered and sold to certain dealers (including dealers depositing the Certificates into investment trusts) at prices lower than the public offering prices appearing on the cover hereof and the public offering prices may be changed from time to time.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project" or similar words.

The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. The Department does not plan to issue any updates or revisions to those forward-looking statements if and when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur, unless such updates or revisions are made in the course of fulfilling its continuing disclosure obligation.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Department will undertake, pursuant to a Continuing Disclosure Certificate to be delivered with respect to the Certificates (the "Continuing Disclosure Certificate") constituting a written agreement for the benefit of the holders of the Certificates, to provide to the Municipal Securities Rulemaking Board, on an annual basis, certain financial and operating data concerning the Department, financial statements, notice of certain events, and certain other notices, all as described in the Continuing Disclosure Certificate. The undertaking is an obligation of the Department that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Certificates are third-party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriter to purchase the Certificates. The form of the Continuing Disclosure Certificate is attached as Appendix F to this Official Statement.

During the last five years, the Department has failed to report, or failed to report on a timely basis, certain updated tabular data regarding the classification and geographic distribution of the Department's general leases and notice of a rating downgrade of the insurance company insuring the Department's outstanding Certificates of Participation, 2006 Series A. The Department has made corrective filings regarding these matters and has developed policies and procedures to enhance compliance with its continuing disclosure undertakings, including the one referenced in the preceding paragraph.

A failure by the Department to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Certificates, although any Beneficial Owner of the Certificates may bring action to compel the Department to comply with its obligations under the Continuing Disclosure Certificate. Any such failure must be reported in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Certificates in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Certificates and their market price.

MISCELLANEOUS

As far as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Certificates. The Department of Hawaiian Home Lands has prepared this Official Statement and has duly authorized the delivery hereof.

The execution and delivery of this Official Statement has been duly authorized by the Department.

DEPARTMENT OF HAWAIIAN HOME LANDS

By: /s/ Jobie Masagatani
Jobie Masagatani, Chairman,
Hawaiian Homes Commission

purchase the Certificates. The form of the Continuing Disclosure Certificate is attached as Appendix F to this Official Statement.

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DEPARTMENT OF HAWAIIAN HOME LANDS

By: ______________________

Jobie Masagatani, Chairman,
Hawaiian Homes Commission

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

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APPENDIX A

SUMMARY OF LEGAL DOCUMENTS

The following summary discussion of selected features of the Ground Lease, the Facility Lease, the Assignment Agreement and the Trust Agreement, are made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary discussion does not purport to be a complete statement of said provisions, and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the office of the Trustee in Los Angeles, California.

CERTAIN DEFINITIONS

The following are definitions of certain of the terms used in this Appendix A. Unless the context otherwise requires, the terms defined in this Appendix A will have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.

"Additional Certificates" means additional series of certificates of participation executed and delivered under the Trust Agreement.

"Additional Rental" means all amounts payable to the Trustee from Lessee as additional rental payments pursuant to the Lease.

"Authorized Official" shall have the meaning set forth in the definition of Written Direction of Authorized Official under the Trust Agreement.

"Available Moneys" means funds appropriated or otherwise made available, from time to time, by the State legislature to pay amounts due under the Facility Lease for the Fiscal Year in which such payments are due, together with any amounts available therefor held in the funds and accounts established pursuant to the Trust Agreement.

"Base Rental" means the base rental payments with interest components and principal components payable by the Lessee under and pursuant to the Facility Lease.

"Certificate of the Lessee" means a certificate signed by the Comptroller of the State of Hawaii, or a deputy of such officer, that includes the statements provided in the Trust Agreement to the extent required.

"Certificate Payment Date" means, with respect to any Certificate, the November 1 designated therein, which is the date on which the Owner thereof is entitled to receive the amount of principal represented thereby.

"Certificate Reserve Fund" means the fund by that name established under the Trust Agreement as described under "Certificate Reserve Fund" herein.

"Certificate Reserve Fund Requirement" means an amount equal to the lesser of (i) greatest amount of principal and interest payable on any maturity date for any of the Certificates in any Fiscal Year, (ii) 125% of average amount of principal and interest payable on any maturity date for any of the Certificates in any Fiscal Year, or (ii) 10% of the initial proceeds of the Certificates; provided in no event shall such amount exceed 10% of the original proceeds with respect to the Certificates; provided further, however, that all or a part of such Certificate Reserve Fund Requirements may be provided by a surety bond, insurance policy or letter of credit meeting the requirements hereof.

"Certificates" means the certificates of participation executed and delivered by the Trustee pursuant to the Trust Agreement. "2017 Series A Certificates" means the Certificates of Participation (Kapolei Office Facility) 2017 Series A, executed and delivered by the Trustee pursuant to the Trust Agreement.

"Code" means the Internal Revenue Code of 1986, as it may from time to time be amended, and any successor statute.

"Event of Default" has the meaning given to such term in the Facility Lease.

"Expiry Date" means November 1, 2031, or such other date as determined pursuant to the Facility Lease.

"Facility" means, collectively, the Site and the Improvements.

"Facility Lease" means that certain Facility Lease Agreement with respect to the Facility, between the Facility Lease Lessor and the Facility Lease Lessee, dated as of December 1, 2006, as amended by that certain First Amendment to Facility Lease Agreement, dated as of August 1, 2017, as it may from time to time be supplemented, modified or further amended pursuant to the provisions thereof and of the Trust Agreement.

"Facility Lease Lessee" means the State of Hawaii, by its Department of Budget and Finance on behalf of its Department of Hawaiian Home Lands.

"Facility Lease Lessor" means The Bank of New York Mellon Trust Company, N.A., in its capacity as Lessor under the Facility Lease.

"Fiscal Year" means the fiscal year of the Lessee, which at the date of the Facility Lease is the period from July 1 to and including the following June 30.

"Ground Lease" means that Ground Lease, dated as of December 1, 2006, as amended by that certain First Amendment to Ground Lease, dated as of August 1, 2017, by and between the Lessee and the Lessor, as originally executed or as it may from time to time be amended or supplemented as provided therein.

"Ground Lease Lessee" means Wells Fargo Bank National Association in its capacity as Lessee under the Ground Lease.

"Ground Lease Lessor" means the State of Hawaii, by its Department of Hawaiian Home Lands.

"Improvements" means the office building containing approximately 48,322 square feet, and related improvements, located on the Site.

"Interest Payment Date" means, with respect to the Certificates, each May 1 and November 1, beginning November 1, 2017, and ending November 1, 2031.

"Legislature" means the Legislature of the State of Hawaii.

"Net Proceeds" means the amount remaining from the gross proceeds of any insurance claim or condemnation award made in connection with the Facility, after deducting all expenses (including reasonable attorneys' fees) incurred in the collection of such claim or award.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal securities, appointed and paid by the Lessee or Lessor and satisfactory to and approved by the Trustee (who shall be under no liability by reason of such approval).

"Outstanding," when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 9.02 of the Trust Agreement) all Certificates except—

(1) Certificates cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(3) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" means any person or entity who shall be the registered owner of any Outstanding Certificate.

"Permitted Encumbrances" means (1) liens for general ad valorem taxes, special taxes and assessments, if any, not then delinquent, or which the Lessor and Lessee may, pursuant to the Facility Lease, permit to remain unpaid; (2) casements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease or a short form hereof; (3) the Ground Lease and the Facility Lease, as such may be amended from time to time; (4) the Trust Agreement, as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (6) subleases, concessions and other encumbrances permitted thereunder; and (7) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which do not materially impair the value or the Lessee's beneficial use of the Facility or which the Lessor and the Lessee consent to in writing.

"Permitted Investments" means any investment authorized pursuant to Section 36-21, Hawaii Revised Statues, as such may be amended from time to time, including, without limitation, any mutual fund or other investment so authorized and meeting the foregoing requirements which is managed or maintained by the Trustee; provided that to the extent that the Certificates are insured, the term "Permitted Investments" shall include any investments permitted by the certificate insurance policy applicable to such Certificates.

"Purchase Price" means, as of any date of calculation, the amount set forth in Exhibit A to the Facility Lease, which Facility Lease Lessee may pay as of such date to Facility Lease Lessor in order to purchase the Facility or any part or item thereof.

"Rental Payments" means the aggregate of the Base Rental and the Additional Rental payable by Lessee pursuant to the provisions of the Facility Lease.

"Site" means that real property set forth in Exhibit B to the Facility Lease.

"State" means the State of Hawaii.

"Tax Certificate" means a certificate relating to Section 148(f) of the Internal Revenue Code of 1986, executed by the Lessee on the date of execution and delivery of the Certificates, and any successor certificate or amendment to the Tax Certificate.

"Trust Agreement" means the Amended and Restated Trust Agreement by and among the Trustee, the Facility Lease Lessor, and the Lessee, dated as of August 1, 2017, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at the address set forth in the Trust Agreement, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

"Written Direction of Authorized Official" means an instrument signed by (i) the Director of Finance of the State of Hawaii, or a deputy of such officer, or by any person who is specifically authorized by the Director of Finance to sign or execute such a document on its behalf; or (ii) the Chair of the Hawaiian Homes Commission, or any person who is specifically authorized by the Hawaiian Homes Commission to sign or execute such a document.

"Written Request of DHHL" means an instrument in writing signed by the Hawaiian Homes Commission Chair, or deputy of such officer, or by any person who is specifically authorized by the Hawaiian Homes Commission Chair to sign or execute such a document on its behalf.

GROUND LEASE

Use of Facility Reletting of Facility by Ground Lease Lessee

Ground Lease Lessee shall use the Site solely for the purpose of causing construction of the Improvements thereon. In order to effect the construction of the Improvements, Lessee shall, pursuant to the Facility Lease, sublease the Site to the State of Hawaii by its Department of Budget and Finance acting on behalf of its Department of Hawaiian Home Lands for the purpose of financing the cost and causing the construction of the Facility by DHHL.

In the event that the State of Hawaii shall be in default under Facility Lease or the Facility Lease is terminated, Ground Lease Lessee shall have the right to sublease the Facility, subject to the following terms and conditions:

(i) the permitted use of the Facility under such sublease shall be limited to governmental offices and other public facilities, including sundry shops and blind vendor concessions not to exceed five percent (5%) of the gross leaseable area of any office buildings constructed on the Site, and for no other purpose without the prior written consent of the State (which consent shall not be unreasonably withheld);

(ii) the sublessee shall agree to indemnify and hold harmless the State against any and all claims, actions, suits, judgments, damages and liabilities arising out of the sublessee's use of the Facility;

(iii) the sublease shall be a "net-net-net" lease, and shall contain provisions regarding maintenance and taxes which are substantially the same as the provisions contained in the Facility Lease, and provisions requiring insurance covering such hazards and in such amounts as is commercially reasonable for similar buildings;

(iv) the sublease shall contain covenants of the sublessee regarding hazardous materials which are substantially the same as the covenants contained in the Facility Lease;

(v) the sublease shall provide that Ground Lease Lessee shall have the right to terminate the sublease following a material breach by the sublessee of any of the terms and provisions required pursuant to clauses (i), (ii), (iii), (iv) or (v) above; and

(vi) following a material breach by the sublessee of any of the terms and provisions of the sublease required pursuant to clauses (i) through (vi) above, the sublease shall be subject to termination at the written direction of the State; and

(viii) the Series 2006 A Certificate Insurer shall have consented to such sublease; provided, however that such consent shall not be unreasonably withheld.

Owner in Fee

The Ground Lease Lessor covenants that it is the owner in fee of the Site, as described in Exhibit A to the Ground Lease. The Ground Lease Lessor further covenants and agrees that if for any reason this covenant proves to be incorrect, the Ground Lease Lessor will either institute eminent domain proceedings to condemn the property or institute a quiet title action to clarify the Ground Lease Lessor's title, and will diligently pursue such action to completion.

Assignments and Subleases

The Ground Lease Lessee will not assign its rights under the Ground Lease or sublet the Site, except pursuant to the Trust Agreement, Assignment Agreement and the Facility Lease, unless (i) the Ground Lease Lessee has obtained the written consent of the Ground Lease Lessor, or (ii) the State of Hawaii is in default under the Facility Lease or the Facility Lease has been terminated pursuant to its provisions, and any such assignment or sublease shall be subject to the terms and conditions of the Ground Lease.

Following the assignment of the Ground Lease to the Trustee pursuant to the Assignment Agreement, the Ground Lease Lessee will have no rights, title or interest in, or obligation under the Ground Lease.

FACILITY LEASE

Rental Payments

Facility Lease Lessee agrees to pay to Facility Lease Lessor, its successor or assigns, without deduction or offset of any kind, as rental for the use of the Facility, the following amounts at the following times:

Each installment of Base Rental payable under the Facility Lease and any Purchase Price payable thereunder shall be paid in lawful money of the United States of America to or upon the order of Facility Lease Lessor at the corporate trust office of the Trustee in Los Angeles, California, or such other place as the Trustee shall designate.

Rental Payments to Be Unconditional

The obligations of the Facility Lease Lessee to make the Rental Payments required under the Facility Lease and any other payments required under the Facility Lease and to perform and observe the other covenants and agreements contained in the Facility Lease shall be absolute and unconditional, subject to the Facility Lease Lessor's right to terminate the Facility Lease pursuant to the nonappropriation provision of the Facility Lease. Notwithstanding any dispute between or among the Facility Lease Lessee, the Facility Lease Lessor, the Trustee or any other person, the Facility Lease Lessee shall make all Rental

Payments and any other payments required under the Facility Lease when due without deduction or offset of any kind and shall not withhold any such payments pending final resolution of such dispute nor shall the Facility Lease Lessee assert any right of set-off or counterclaim against its obligation to make such payments required under the Facility Lease. In the event of a determination that the Facility Lease Lessee was not liable for said Rental Payments or any portion thereof, said Rental Payments or excess of payments, as the case may be, shall, at the option of the Facility Lease Lessee, be credited against subsequent Rental Payments due under the Facility Lease or be refunded at the time of such determination. The Facility Lease Lessee's obligations to make such Rental Payments shall not be abated through accident or unforeseen circumstances (including any delay in completion of the construction of the Project) or by reason of any defect in or damage to or loss or destruction of the Facility from whatever cause.

Nonappropriation

In the event sufficient Available Moneys shall not be appropriated by the Legislature for the payment of the Rental Payments required to be paid in the next succeeding Fiscal Year to continue the leasing of the Facility (and no other moneys of the Facility Lease Lessee are available to pay rental payments), the Facility Lease Lessor may terminate the Facility Lease, without penalty, as to all of the Facility at the end of the then-current Fiscal Year, and the Facility Lease Lessee shall not be obligated to make payment of the Rental Payments provided for in the Facility Lease or any other amounts due from the Facility Lease Lessee under the Facility Lease beyond the then-current Fiscal Year. Such termination shall not be considered or treated as a default under the Facility Lease or any other document. If the Facility Lease is terminated as described in this paragraph, the Facility Lease Lessee agrees to surrender to the Trustee, as assignee of the Facility Lease Lessor, and for the benefit of the Certificate Owners, the Facility, in good order and condition and in a state of repair that is consistent with prudent use and conscientious maintenance, except for reasonable wear and tear, and to cease use of the Facility. The Trustee may then lease the Facility to another tenant and shall apply such rental revenues (not costs of the Trustee) to payment of the Certificates.

Upon termination of the Facility Lease, the Facility Lease Lessee may, at the end of the then-current Fiscal Year, remove any fixture, structure or sign added by the Facility Lease Lessee, which may be removed without damaging the Facility.

Maintenance of Facility by Facility Lease Lessee

During such time as the Facility Lease Lessee is in possession of the Facility, Facility Lease Lessee will, at Facility Lease Lessee's own cost and expense, maintain, preserve and keep the Facility and every part and parcel thereof in good repair, working order and condition and Facility Lease Lessee will from time to time make or cause to be made all necessary and proper repairs, replacements, if any, and renewals.

Other Taxes

A conveyance tax, if any, imposed with respect to the Facility Lease pursuant to Chapter 247, Hawaii Revised Statutes, and any rules and regulations promulgated thereto, shall be payable by Facility Lease Lessee. Facility Lease Lessee shall pay such conveyance tax at the time of execution of the Facility Lease, or provide evidence to Facility Lease Lessor that no such conveyance tax need be paid with respect to the Facility Lease.

Insurance

Facility Lease Lessee shall procure or cause to be procured and maintain or cause to be maintained for the Facility throughout the Facility Lease Term insurance relating to the Facility which it shall deem advisable or necessary to protect its interests and the interests of the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with buildings owned by the Facility Lease Lessee; provided, that any such insurance may be maintained in the form of self-insurance or under a master insurance policy or policies of the Facility Lease Lessee. All policies of insurance required to be maintained in the Facility Lease shall provide that the Trustee be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Default and Remedies; General

If Facility Lease Lessee defaults in the performance or observance of any agreement or covenant contained in the Facility Lease (an "Event of Default"), then (i) in the case of a default in the timely payment of Base Rental or Additional Rental under the Facility Lease, immediately, or (ii) in the case of any other default under the Facility Lease uncured following 60 days' notice thereof from Facility Lease Lessor or such additional time as is reasonably necessary in the discretion of Facility Lease Lessor, it shall be lawful for Facility Lease Lessor to exercise any and all remedies available in law or pursuant to the Facility Lease. Notwithstanding any other provision in the Facility Lease, the termination of the Facility Lease by Facility Lease Lessor pursuant to the nonappropriation provision of the Facility Lease shall not constitute a default under the Facility Lease.

Default by Facility Lease Lessee

Subject to the limitations in the Facility Lease, if Facility Lease Lessee defaults in the performance or observance of any agreement or covenant contained in the Facility Lease, Facility Lease Lessor may exercise any and all rights of recovery of possession of the Facility, and also, at its option, with or without such possession, may terminate the Facility Lease; provided, however, that no termination shall be effected either by operation of law or acts of the parties hereto except upon express written notice from Facility Lease Lessor to Facility Lease Lessee terminating the Facility Lease, as provided below. In the event of such default, Facility Lease Lessor may at any time thereafter, with or without notice and demand, and without limiting any other rights or remedies Facility Lease Lessor may have:

(l) Terminate the Facility Lease in the manner hereinafter provided on account of default by Facility Lease Lessee, notwithstanding any retaking of possession or reletting of the Improvements or re-entry or re-letting of the Facility as hereinafter provided for in subparagraph (2) hereof, and retake possession of the Improvements and to re-enter the Site and remove all persons in possession thereof and all personal property wheresoever situated upon the Site or the Improvements and place such property in storage in any warehouse or other suitable place in the State. In the event of such termination, Facility Lease Lessee agrees to surrender immediately possession of the Improvements and of the Site, without let or hindrance, and to pay Facility Lease Lessor all damages recoverable at law that Facility Lease Lessor may incur by reason of default by Facility Lease Lessee, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Improvements and re-entry upon the Facility and removal or storage of such property by Facility Lease Lessor or its duly authorized agents in accordance with the provisions contained in the Facility Lease; provided, however, the obligation of the Facility Lease Lessee to pay Base Rental Payments shall cease upon such termination of the Facility Lease. Neither notice to pay rent or to deliver up possession of the Improvements or the Site given pursuant to law nor any entry or re-entry by Facility Lease Lessor nor any proceeding in unlawful detainer, or otherwise, brought by Facility Lease Lessor for the purpose of effecting such re-entry or obtaining possession of the Improvements or the Site nor the appointment of a receiver upon initiative of Facility Lease Lessor to protect Facility Lease Lessor's interest under the Facility Lease shall of itself operate to terminate the Facility Lease, and no termination of the Facility Lease on account of default by Facility Lease Lessee shall be or become effective by operation of law or acts of the parties hereto, unless and until Facility Lease Lessor shall have given written notice to Facility Lease Lessee of the election on the part of Facility Lease Lessor to terminate the Facility Lease.

(2) Without terminating the Facility Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision hereof to be kept or performed by Facility Lease Lessee, and/or (ii) to exercise any and all rights to take possession of the Improvements and of entry and re-entry upon the Site. In the event Facility Lease Lessor does not elect to terminate the Facility Lease in the manner provided for in subparagraph (1) hereof, Facility Lease Lessee shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by Facility Lease Lessee unless terminated pursuant to the nonappropriation provision of the Facility Lease and, if the Facility is not re-let, to pay the full amount of the rent to the end of the term of the Facility Lease or, in the event that the Facility is relet, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Facility Lease (without acceleration), notwithstanding the fact that Facility Lease Lessor may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Facility Lease and notwithstanding any entry or re-entry by Facility Lease Lessor or suit in unlawful detainer, or otherwise, brought by Facility Lease Lessor for the purpose of effecting such entry or re-entry or obtaining possession of the Facility; provided, however, the obligation of Facility Lease Lessee to pay rent shall in all circumstances be limited to Available Moneys.

(3) Should Facility Lease Lessor elect to retake possession of the Facility as provided in the Facility Lease, Facility Lease Lessee irrevocably appoints Facility Lease Lessor as the agent and attorney-in-fact of Facility Lease Lessee to re-let the Facility, or any item or part thereof, from time to time, either in Facility Lease Lessor's name or otherwise, upon such terms and conditions and for such use and period as Facility Lease Lessor may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated on the Site or the Improvements and to place such personal property in storage in any warehouse or other suitable place in the State, for the account of, and at the expense of, Facility Lease Lessee.

(4) Facility Lease Lessee agrees that the terms of the Facility Lease constitute full and sufficient notice of the right of Facility Lease Lessor to attempt to re-let the Facility and to do all other acts to maintain or preserve the Facility as Facility Lease Lessor deems necessary or desirable in the event of such retaking or re-entry without effecting a surrender of the Facility Lease, and further agrees that no acts of Facility Lease Lessor in attempting such re-letting shall constitute a surrender or termination of the Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting.

If (1) Facility Lease Lessee's interest in the Facility Lease or any part thereof be assigned or transferred without the written consent of Facility Lease Lessor, either voluntarily or by operation of law or otherwise, or if (2) any proceeding under the United States Bankruptcy Code or any federal or state bankruptcy, insolvency, or similar law or any law providing for the appointment of a receiver, liquidator, trustee or similar official of Facility Lease Lessee or of all or substantially all of its assets, is instituted by or with the consent of Facility Lease Lessee, or is instituted without its consent and is not permanently stayed or dismissed within sixty days, or if Facility Lease Lessee offers to Facility Lease Lessee's creditors to effect a composition or extension of time to pay Facility Lease Lessee's debts or asks, seeks or prays for a reorganization or to effect a plan of reorganization, or for a readjustment of Facility Lease Lessee's debts, or if Facility Lease Lessee shall make a general or any assignment for the benefit of Facility Lease Lessee's creditors, or if (3) Facility Lease Lessee shall abandon or vacate any part of the Facility (other than pursuant to a termination of the Facility Lease pursuant to nonappropriation), then Facility Lease Lessee shall be deemed to be in default under the Facility Lease.

Default by Facility Lease Lessor

Facility Lease Lessor shall in no event be in default in the performance of any of its obligations under the Facility Lease or imposed by any statute or rule of law unless and until Facility Lease Lessor shall have failed to perform such obligations within 30 days or such additional time as is reasonably required to correct any such default after notice by Facility Lease Lessee to Facility Lease Lessor properly specifying wherein Facility Lease Lessor has failed to perform any such obligation. In the event of default by Facility Lease Lessor, Facility Lease Lessee shall be entitled to pursue any remedy provided by law, provided that Facility Lease Lessee shall not terminate the Facility Lease.

THE ASSIGNMENT AGREEMENT

Pursuant to the Assignment Agreement, Wells Fargo Bank National Association as Facility Lease Lessor under the Facility Lease and as Ground Lease Lessee under the Ground Lease unconditionally and irrevocably grants, transfers and assigns and conveys to the Trustee for the benefit of the owners of the Certificates without recourse all of its rights, title and interest as Ground Lease Lessee under the Ground Lease and as Facility Lease Lessor under the Facility Lease, including without limitation the following: (i) all of Facility Lease Lessor's rights to receive the Rental Payments, payable under and pursuant to the Facility Lease, (ii) all of Facility Lease Lessor's rights, if any, to receive any other rents, profits, products, benefits and proceeds from the Facility, (iii) all of Facility Lease Lessor's rights and powers to take any actions under or with respect to the Ground Lease, the Trust Agreement, or the Facility Lease (including, without limitation, any rights, if any, to grant or withhold consents or approvals, require performance or other action, negotiate and/or compromise claims, assert or waive rights and/or benefits, and terminate, cancel, modify, or amend the Ground Lease, the Trust Agreement, and/or Facility Lease), (iv) any of its right of access to the Facility provided in the Ground Lease or the Facility Lease, and (v) any and all of its other rights and remedies in the Ground Lease as Ground Lease Lessee thereunder and in the Facility Lease as Facility Lease Lessor thereunder.

THE TRUST AGREEMENT

The Trust Agreement, among other things, provides for the execution and delivery of the Certificates and sets forth the terms thereof, provides for the creation of certain of the funds described below, includes certain covenants of the Facility Lease Lessee and the Facility Lease Lessor, defines events of default and remedies therefor, and sets forth the rights and responsibilities of the Trustee.

Certain provisions of the Trust Agreement setting forth the terms of the Certificates, the prepayment provisions thereof and the use of the proceeds of the Certificates are set forth elsewhere in this Official Statement. See "THE CERTIFICATES."

The Trustee

The Trustee will receive all of the Certificate proceeds and Rental Payments under the Facility Lease, execute and deliver the Certificates and act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawals from funds, and upon the Written Direction of Authorized Official, will invest amounts held under the Trust Agreement in Permitted Investments.

Pledge of Base Rental Payments; Base Rental Payment Fund

The Base Rental Payments received by the Trustee are irrevocably pledged under the Trust Agreement to and for the punctual payment of interest and principal represented by the Certificates, and the Base Rental Payments will not be used for any other purpose while any Certificates remain Outstanding. All Base Rental Payments will be paid directly by the Facility Lease Lessee to the Trustee.

The Trustee shall deposit the Base Rental Payments contained in the Lease Payment Fund at the times and in the manner hereinafter provided in the following respective funds, each of which the Trustee hereby agrees to establish and maintain so long as any Certificates are Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses hereinafter authorized.

(a) Interest Fund. The Trustee, on May 1 and November 1 of each year (commencing on November 1, 2017), shall deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as interest components coming due on each such May 1 and November 1, respectively. Moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest represented by the Certificates when due and payable.

(b) Principal Fund. The Trustee, on or before November 1 of each year (commencing on November 1, 2017) shall deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such November 1 date. Moneys in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal represented by the Certificates when due and payable.

(c) Sinking Account. The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Certificates, if any (the "Sinking Account"), inserting therein the Certificate Payment Date (if more than one such account is established) designation of such Certificates. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the prepayment (or payment at the Certificate Payment Date, as the case may be) of Term Certificates for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such prepayment, the Trustee shall apply moneys in such Sinking Account to the purchase of Term Certificates of such Certificate Payment Date at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as may be directed in writing by the Lessee, except that the purchase price (excluding accrued interest) shall not exceed the prepayment price that would be payable for such Term Certificates upon prepayment by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment Date, the Trustee has purchased Term Certificates of such Certificate Payment Date with moneys in such Sinking Account, or, during said period and prior to giving said notice of prepayment, the Lessee has deposited Term Certificates of such payment date with the Trustee, or Term Certificates of such payment date were at any time purchased or prepaid by the Trustee from the Prepayment Fund and allocable to said Mandatory Sinking Account Payment, such Certificates so purchased or deposited or prepaid shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Certificates, then as instructed by the Lessee and if not so instructed pro rata to the remaining Mandatory Sinking Account Payments required for such Certificates in proportion to the amount of such Mandatory Sinking Account Payments. All Certificates purchased or deposited pursuant to this subsection shall be cancelled and delivered by the Trustee to or upon the Written Request of DHHL. Any amounts remaining in a Sinking Account when all of the Term Certificates for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Prepayment Fund.

(d) Prepayment Fund. The Trustee, on the prepayment date specified in the Written Request of DHHL filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Moneys in the Prepayment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal represented by the Certificates to be prepaid.

Certificate Reserve Fund

Pursuant to the Trust Agreement, the Trustee shall establish, maintain and hold in trust a "Certificate Reserve Fund." Moneys held in the Certificate Reserve Fund may be disbursed and applied only as hereinafter authorized. The Trustee shall apply the moneys on deposit in the Certificate Reserve Fund solely for the payment of Base Rental Payments due and payable by the Lessee if and when moneys of the Lessee are not otherwise available to make such Base Rental Payments. Pursuant to the Facility Lease, the Lessee agrees that if at any time the balance in the Certificate Reserve Fund shall be reduced below the Certificate Reserve Fund Requirement, the Lessee shall pay as Additional Rental pursuant to the terms of the Facility Lease the amount necessary to increase the balance in the Certificate Reserve Fund to the required Certificate Reserve Fund Requirement. At the termination of the Facility Lease in accordance with its terms (other than pursuant to a termination for nonappropriation), any balance remaining in the Certificate Reserve Fund shall be transferred to such other fund or account of the Lessee, or otherwise used by the Lessee for any other lawful purposes, as the Lessee may direct.

The Lessee may satisfy the Certificate Reserve Fund Requirement at any time by the deposit with the Trustee for the credit of the Certificate Reserve Fund of a surety bond, an insurance policy or letter of credit as described below, or any combination thereof.

A surety bond or insurance policy issued to the Trustee, on behalf of the Owners, by a company licensed to issue an insurance policy guaranteeing the timely payment of principal and interest represented by the Certificates (a "Municipal Bond Insurer") may be deposited in the Certificate Reserve Fund to meet the Certificate Reserve Fund Requirement if the claims paying ability of such Municipal Bond Insurer shall be rated at the time of deposit at least in the second highest category (disregarding rating subcategories) by Moody's Investors Service or Standard & Poor's Ratings Services.

A letter of credit may be deposited in the Certificate Reserve Fund to meet the Certificate Reserve Fund Requirement, provided that any such letter of credit must be issued or confirmed by a state or national bank or a foreign bank with an agency or branch located in the United States which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category (disregarding rating subcategories) by Moody's Investors Service or Standard & Poor's Ratings Services at the time of deposit. Unless the Certificates have been fully paid, the Trustee shall draw the full amount of any such letter of credit on the third business day preceding the date such letter of credit (taking into account any extension, renewal or replacement thereof) would otherwise expire, and shall deposit moneys realized pursuant to such draw in the Certificate Reserve Fund.

If the Lessee replaces a cash-funded Certificate Reserve Fund, in whole or in part, with a surety bond, insurance policy or letter of credit meeting the requirements of either (i) or (ii) above, amounts on deposit in the Certificate Reserve Fund shall, upon written request of the Lessee to the Trustee, be transferred to the Lessee, subject to the receipt by the Lessee and Trustee of an Opinion of Counsel that such transfer will not cause the interest represented by the Certificates to be included in gross income for purposes of federal income taxation.

Rebate Fund

The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Trust Agreement designated as the "Rebate Fund." There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate as indicated in a Written Direction of Authorized Official. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America as indicated in a Written Direction of Authorized Official. Any other provision of the Trust Agreement notwithstanding, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed by the Trust Agreement and by the Tax Certificate.

Investments

Any moneys held by the Trustee in the Base Rental Payment Fund, the Certificate Reserve Fund or the Expense Fund shall be invested by the Trustee upon the Written Direction of B&F only in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement under the Trust Agreement. All moneys held by the Trustee in the Facility Lease Fund established pursuant to the Facility Lease shall be invested by the Trustee upon the Written Direction of Authorized Official only in Permitted Investments, which will mature on or before the Interest Payment Dates when such funds will be needed to make all or part of such payments. All moneys held by the Trustee in the Rebate Fund shall be invested by the Trustee in accordance with the Tax Certificate and the Written Direction of B&F. In computing the amount in any fund or account (including the Facility Lease Fund established pursuant to the Facility Lease), Permitted Investments shall be valued at par or, if purchased at other than par, at their amortized value.

Execution and Delivery of Additional Certificates

In addition to the Certificates, the Facility Lease Lessee and the Trustee may by Supplemental Trust Agreement provide for the execution and delivery of Additional Certificates representing a fractional undivided interest in Base Rental Payments, and the Trustee may execute and deliver to or upon the Written Request of DHHL, such Additional Certificates, in such principal amount as shall equal the additional principal component of the Base Rental Payments, but only upon compliance by the Facility Lease Lessee with the provisions of the Trust Agreement, and subject to the following specific conditions, which are hereby made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) The Facility Lease Lessee shall not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Facility Lease.

(b) The Supplemental Trust Agreement shall require that the proceeds of the sale of such Additional Certificates shall be applied (i) to pay the costs of additions or modifications to the Improvements, or rebuilding or replacement of the Improvements following a casualty loss, or (ii) for the refunding or prepayment of any Certificates then Outstanding resulting in debt service savings, including the payment of costs and expenses of and incident to the authorization and sale of such Additional Certificates and refunding or prepayment of the Certificates, including any prepayment premium. The Supplemental Trust Agreement may also provide that a portion of such proceeds shall be applied to the payment of the interest components due or to become due with respect to said Additional Certificates during the estimated period of any construction and for a period not to exceed twelve months thereafter.

(c) The Additional Certificates shall be payable as to principal on May 1 of each year in which principal components are due and shall be payable as to interest on May 1 or November 1 as specified in such Supplemental Trust Agreement or as provided in the Trust Agreement.

(d) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement.

(e) The Facility Lease shall have been amended so that the Base Rental Payments payable by the Facility Lease Lessee thereunder shall equal the principal and interest represented by such Additional Certificates and all other Certificates to be Outstanding after such Additional Certificates are executed and delivered, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates.

(f) The Supplemental Trust Agreement shall provide for Certificate Payment Dates and for mandatory prepayments of Certificates in amounts sufficient to provide for payment of the Certificates from principal and interest components of Base Rental.

(g) Said Supplemental Trust Agreement shall provide, if necessary, that from such proceeds or other sources an amount shall be deposited in the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement.

Compliance with or Amendment of Facility Lease

The Facility Lease Lessee will not alter, amend or modify the Facility Lease without the prior written consent of the Trustee, which consent of the Trustee will be given only (i) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power therein reserved to the Facility Lease Lessee, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or to resolve questions arising thereunder, as the parties thereto may deem necessary or desirable and which do not materially adversely affect the interests of the Owners, or (iii) to provide for the execution and delivery of Additional Certificates, or (iv) for any other purpose that does not adversely affect the interests of the Owners of Certificates, or (v) if the Trustee first obtains the written consents of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding to such alterations, amendments or modifications; provided, however, that no such alteration, amendment or modification will extend the date for the making of any Base Rental Payment, extend a Certificate Payment Date or reduce the rate of interest represented by any Certificate or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of any Certificate so affected, nor will any such alteration, amendment or modification reduce the percentage of Owners whose consent is required for the execution of any alteration, amendment or supplement.

Action on Default

If an Event of Default occurs, then such Event of Default will constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates at the time Outstanding will be entitled, upon notice in writing to the Facility Lease Lessee, to exercise the remedies provided to the Facility Lease Lessor in the Facility Lease and to the Trustee in the Assignment Agreement.

Other Remedies of the Trustee

The Trustee shall have the right:

(i) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Facility Lease Lessee or any officer or employee thereof, and to compel the Facility Lease Lessee or any such officer or employee to perform or carry out their duties under law and the agreements and covenants required to be performed thereby contained in the Trust Agreement;

(ii) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(iii) by suit in equity upon the happening of any default under the Trust Agreement to require the Facility Lease Lessee and any officers and employees to cause an accounting of Available Moneys.

No Liability by the Facility Lease Lessor to the Owners

The Facility Lease Lessor shall not have any obligation or liability to the Owners with respect to the payment when due of the Rental Payments by the Facility Lease Lessee, or with respect to the performance by the Ground Lease Lessor of the other agreements and covenants required to be performed by it contained in the Ground Lease, the Facility Lease or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Ground Lease, the Facility Lease or the Trust Agreement.

No Liability by the Facility Lease Lessee to the Owners

Except for the payment when due of the Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement, the Facility Lease Lessee shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee in its capacity as Lessor to the Owners

The Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the Facility Lease Lessee, or with respect to the performance by the Facility Lease Lessee of other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement.

Amendment or Supplement

The Trust Agreement and the rights and obligations of the Facility Lease Lessee and the Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment thereof or supplement thereto which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of disqualified Certificates, are filed with the Trustee. No such amendment or supplement will (1) extend the fixed Certificate Payment Date of any Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment thereof or supplement thereto, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the provisions of the Trust Agreement concerning amendments and supplements without the prior written consent of the Owners of all Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the Facility Lease Lessee and the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment or supplement thereto which will become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Facility Lease Lessee to be observed or performed in the Trust Agreement, other agreements, conditions, covenants and terms thereafter to be observed or performed by the Facility Lease Lessee, or to surrender any right or power reserved to or conferred on the Facility Lease Lessee, and which in either case will not materially adversely affect the interests of the Owners; or

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in or in regard to questions arising under the Trust Agreement which the Facility Lease Lessee may deem desirable or necessary and not inconsistent with the Trust Agreement, and which will not materially adversely affect the interests of the Owners; or

(c) to modify, amend or supplement the Trust Agreement or any agreement supplemental thereto in such manner as to permit the qualification of the Trust Agreement or supplement thereto either under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Certificates for sale under the securities laws of the United States of America or of any of the states of the United States of America; or

(d) to execute and deliver Additional Certificates; or

(e) to make any change that does not adversely affect the interests of the Owners of Certificates.

Discharge of Certificates and Trust Agreement

If the Trustee will pay or cause to be paid or there is otherwise paid to the Owners of all Outstanding Certificates the interest and principal represented thereby at the times and in the manner stipulated in the Trust Agreement and therein, then such Owners will cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the Facility Lease Lessee and the Trustee to such Owners under the Trust Agreement will thereupon cease, terminate and become void and will be discharged and satisfied.

Any Outstanding Certificates will be deemed to have been paid within the meaning of and with the effect expressed in the above paragraph if there is on deposit with the Trustee moneys or certain federal securities in an amount sufficient (together with the increment, earnings and interest on such securities) to pay the interest and principal represented by such Certificates payable on their Interest Payment Dates or on any dates of prepayment prior thereto, except that the Owners thereof will be entitled to the principal and interest represented by such Certificates, and the Facility Lease Lessee will remain liable for such Base Rental Payments, but only out of such moneys or securities deposited with the Trustee for such payment.

Removal and Resignation of the Trustee

The Facility Lease Lessee, or the Owners of a majority in aggregate principal amount represented by the Certificates at the time Outstanding, may by an instrument in writing remove the Trustee and any successor thereto and may appoint a successor Trustee, but any successor Trustee under the Trust Agreement shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least $75,000,000 and subject to supervision or examination by federal or state authorities.

The Trustee may at any time resign by giving 30 days' prior written notice of such resignation to the Facility Lease Lessee and by giving notice by publication to the Owners, which notice to the Owners will be mailed, first class postage prepaid. Upon receiving such notice of resignation, the Facility Lease Lessee will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the Facility Lease Lessee does not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

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APPENDIX B

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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APPENDIX B

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, 1,211,537 in 2000, and 1,360,301 in 2010, making the State the 40th most populous state in the Union as of 2010. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2010 U.S. Census, about 70.1 percent of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from Asia as well as from Europe and the mainland United States. Based on the 2010 U.S. Census, approximately 38.6 percent of the State's population is of Asian descent and about 24.7 percent of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 10.0 percent of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

State Government

The Constitution of the State provides for three separate branches of government: the legislative branch, the executive branch and the judicial branch. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his or her inability to exercise and discharge the powers and duties of his or her office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six-year program and financial plan, the State budget, and financial management programs of the State.

No Voter Initiative and Referendum

The Hawaii State Constitution and Hawaii state law do not authorize either State-wide voter initiatives (that is, the electoral process by which a percentage of voters can propose legislation and compel a vote on it to enact such a measure) or State-wide referendum actions (that is, the process of referring a state legislative act or an important public issue to the public for their final approval by public vote). The issuance of bonds is not subject to approval by public vote.

The Counties and Their Relationship to the State

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi county, Kalawao). Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. There are no independent or separate cities or other municipalities, school districts or townships. The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

DEBT STRUCTURE

Types of Bonds Authorized by the Constitution

The Constitution of the State empowers the Legislature to authorize the issuance of four types of bonds (defined by the Constitution as bonds, notes and other instruments of indebtedness): general obligation bonds (defined by the Constitution as all bonds for the payment of the principal and interest for which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, including reimbursable general obligation bonds hereinafter defined); bonds issued under special improvement statutes; revenue bonds (defined by the Constitution as all bonds payable from revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law); and special purpose revenue bonds (defined by the Constitution as all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law, including a loan program to a state property insurance program providing hurricane coverage to the general public). Under the Constitution, special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist, manufacturing, processing or industrial enterprises, certain not for profit private schools, utilities serving the general public, health care facilities provided to the general public by not for profit corporations, early childhood education and care facilities provided to the general public by not for profit corporations, agricultural enterprises serving important agricultural lands, or low and moderate income government housing programs. All bonds of the State other than special purpose revenue bonds must be authorized by a majority vote of the members to which each house of the Legislature is entitled. Special purpose revenue bonds of the State must be authorized by two-thirds vote of the members to which each house of the Legislature is entitled.

Outstanding Indebtedness and Debt Limit

The Constitution provides that determinations of the total outstanding indebtedness of the State and the exclusions therefrom shall be made annually and certified by law or as prescribed by law. General obligation bonds may be issued by the State, provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds in the current or any future fiscal year, whichever is higher, to exceed a sum equal to 18.5% of the average of the General Fund revenues of the State in the three fiscal years immediately preceding such issuance. For the purposes of such determination, General Fund revenues of the State do not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded in computing the total indebtedness of the State.

In order to carry out the provisions contained in the Constitution, the Legislature enacted Part IV of Chapter 39, HRS ("Part IV"), to require the Director of Finance to prepare statements of the total outstanding indebtedness of the State and the exclusions therefrom and of the debt limit of the State evidencing the power of the State to issue general obligation bonds and, prior to the issuance of any general obligation bonds, to find that the issuance of such bonds will not cause the debt limit of the State to be exceeded. Part IV provides that such statements shall be prepared as of July 1 of each year and submitted to the Legislature no later than December 1 of such year. The July 1, 2016 statement is the most recent such statement prepared and submitted to the Legislature. See "INFORMATION ABOUT INDEBTEDNESS" in Part I of Appendix C for a tabular summary of the statement of total outstanding indebtedness of the State and exclusions therefrom as of July 1, 2016, including general obligation bonded indebtedness, revenue bonded indebtedness, special assessment bonded indebtedness and special purpose revenue bonded indebtedness, and the permitted exclusions from the general obligation bonded indebtedness.

The summary statement of debt limit of the State evidencing the power of the State to incur indebtedness sets forth the General Fund revenues of the State, exclusive of federal grants, for the fiscal years ended June 30, 2014, 2015 and 2016 and the net General Fund revenues after required exclusions, the average of the said three fiscal years, and the limit of total principal and interest which may be payable in any fiscal year. See "SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII" in Part I of Appendix C.

The greatest amount of principal and interest payable in any fiscal year on the outstanding general obligation indebtedness as of April 1, 2017 and on the State's General Obligation Bonds of 2017, Series FK–FP, giving effect to the issuance of such Bonds, after exclusions therefrom permitted by the Constitution, is $739,852,052 in the fiscal year ending June 30, 2020. A summary of debt service on all general obligation bonded indebtedness of the State (including the General Obligation Bonds of 2017, Series FK–FP) is set forth under "SUMMARY OF DEBT SERVICE" in Part I of Appendix C; however, the debt service excluded in that table includes reimbursements that are made as required, regardless of whether such reimbursements may be excluded under the Constitution, as described below under "Exclusions."

As calculated from the State Comptroller's Bond Fund report as of March 31, 2017, the amount of authorized but unissued general obligation bonds (including the Series FK Bonds, the Series FO Bonds and the Series FP Bonds) is $2,847,573,574. Such amount does not include general obligation refunding bonds such as the Series FL Bonds, the Series FM Bonds and the Series FN Bonds. These authorized but unissued general obligation bonds are scheduled to be issued prior to June 30, 2019.

Until recently, the State relied upon the requirements in the Constitution as the principal guide for issuing debt. See APPENDIX D — "EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII" for a description of the relevant provisions in the Constitution. In 2015, the Legislature passed Act 149, SLH 2015, which required the Director of Finance to develop and submit a formal debt management policy to the Legislature before the regular session of 2017 convened, and to submit a debt affordability study before the regular session of each odd-numbered year convenes to provide the Legislature with information on the affordability of the future debt planned for the State. The debt management policy and debt affordability study were completed and submitted to the Legislature in December 2016.

Exclusions

The Constitution contains nine general provisions excluding certain types of bonds (including certain general obligation bonds) when determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision. Six of these exclusions are described below. As stated above, the limitation on indebtedness of the State under the Constitution applies only to the power to issue general obligation bonds, and the limitation is measured by the debt service on general obligation bonds against the three year average of General Fund revenues. The three exclusions relating to revenue bonds, special purpose revenue bonds, and bonds issued under special improvement statutes for which the only security is the properties benefited or assessments thereon are chiefly of concern to counties when computing the funded debt of counties. Accordingly, those provisions will not be discussed in this Official Statement. However, the complete provisions of Sections 12 and 13 of Article VII of the Constitution relating to the incurring of indebtedness by the State and its political subdivisions are set forth in Appendix D.

One of the nine exclusionary provisions excludes bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then current fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.

Another of the exclusionary provisions excludes reimbursable general obligation bonds (defined in the Constitution as general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the General Fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the General Fund is required by law to be made from the revenues of the political subdivision) issued for a public undertaking, improvement or system, but only to the extent that reimbursements to the General Fund are made from the net revenues, or net user tax receipts, or combination of both, derived from the particular undertaking, improvement or system or payments or return on security under a loan program or a loan thereunder for the immediately preceding fiscal year, with the result that the amount of reimbursable general obligation debt excluded will vary from year to year. A "user tax" is defined by the Constitution as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system, provided that mortgage recording taxes shall constitute taxes of a State property insurance program. Thus, for example, the aviation fuel tax is a user tax insofar as the airports system of the State is concerned, since the tax is substantially derived from the sale of a good (aviation fuel) in the utilization of the functions of the airports, but the aviation fuel tax would not be a user tax so far as schools or a stadium is concerned, since the tax is not derived from the consumption or use or sale of goods in using schools or a stadium.

Two other exclusionary provisions exclude (a) reimbursable general obligation bonds of the State issued for any political subdivision, but only for so long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law, and (b) general obligation bonds issued for assessable public improvements to the extent reimbursements to the General Fund for principal and interest on such bonds are in fact made from assessment collections available therefor.

One other exclusionary provision excludes bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% of the principal amount of outstanding general obligation bonds not otherwise excluded by the exclusionary provisions of the Constitution and subject to the condition that the State shall establish a reserve in an amount in a reasonable proportion to outstanding loans guaranteed by the State. This exclusion is intended to permit the exclusion of such items as general obligation guarantees of loans under State loan programs to the extent the principal amount of such items does not exceed 7% of the outstanding principal amount of general obligation bonds not otherwise excluded. At such time as the principal amount of such items exceeds 7% of the outstanding principal amount of general obligation bonds not otherwise excluded, the potential debt service on all such items in excess of 7% of the outstanding principal amount of general obligation bonds not otherwise excluded would be included in determining the power of the State to incur indebtedness.

A final exclusionary provision excludes bonds issued by or on behalf of the State or a political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

Other Constitutional and Statutory Provisions

General obligation bonds of the State must be authorized pursuant to the Constitution by a majority vote of the members to which each house of the Legislature is entitled. The Legislature from time to time enacts laws specifying the amount of such bonds (without fixing any particular details of such bonds) that may be issued and defining the purposes for which the bonds are to be issued.

The Constitution requires that general obligation bonds of the State with a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest, the first installment of principal to mature not later than five years from the date of the issue of such series and the last installment to mature not later than twenty-five years from the date of such issue, except that the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue.

Part I of Chapter 39, HRS, as amended, is the general law for the issuance of general obligation bonds of the State. Such part sets forth limitations on general obligation bonds, such as interest rates and maturity dates, and also sets forth the provisions for the sale and form of such bonds. Such part provides that the Director of Finance, with the approval of the Governor, may issue from time to time general obligation bonds of the State in accordance with acts of the Legislature authorizing the issuance of such bonds and defining the purposes for which such bonds are to be issued.

The Governor determines when the projects authorized by the acts authorizing bonds shall commence. General obligation bonds are sold from time to time pursuant to the authorization of such acts and Part I of Chapter 39, HRS, as amended, in order to finance the projects. The Governor then allots the proceeds of the bonds so issued to the purposes specified in the acts authorizing bonds.

Section 11 of Article VII of the Constitution provides that all appropriations for which the source is general obligation bond funds or the General Fund must be for specified periods which may not exceed three years, except for appropriations from the State Educational Facilities Improvement Special Fund. Any appropriation or any portion of an appropriation which is unencumbered at the close of the fiscal period for which the appropriation is made will lapse, provided that no appropriation or portion thereof for which the source is general obligation bond funds shall lapse if the Legislature determines that such appropriation is necessary to qualify for federal aid financing and reimbursement. A general obligation bond authorization, to the extent such authorization is dependent on a specific appropriation, must be reduced in an amount equal to the amount of appropriation lapsed by operation of law or Section 11 of Article VII of the Constitution.

Set forth in Appendix D are the provisions of Sections 11, 12 and 13 of Article VII of the Constitution applicable to the incurring of indebtedness by the State and its political subdivisions.

Financing Agreements (Including Leases)

HRS Chapter 37D provides for financing agreements (including leases and installment sale agreements) for the improvement, use or acquisition of real or personal property which is or will be owned or operated by the State or any State agency and specifies that any such financing agreement shall not be an obligation for which the full faith and credit of the State or any State agency is pledged, and that no moneys other than amounts appropriated by the Legislature or otherwise held in trust for such purposes shall be required to be applied to the payment thereof. The Legislature is not required to appropriate moneys for such purpose, and financing agreements do not constitute "bonds" within the meaning of Sections 12 or 13 of Article VII of the Constitution including but not limited to for debt limitation purposes. Chapter 37D does provide that the Governor's Executive Budget shall include requests to the Legislature for appropriation of moneys to pay amounts due each fiscal period under financing agreements. See "SUMMARY OF DEBT SERVICE—Certificates of Participation and Lease Purchase Agreements."

Reimbursement to State General Fund for Debt Service

As indicated above, all general obligation bonds of the State are payable as to principal and interest from the General Fund of the State. Acts of the Legislature authorizing the issuance of general obligation bonds for certain purposes frequently (but not always) require that the General Fund be reimbursed for the payment from such fund of the debt service on such bonds, such reimbursement to be made from any income or revenues or user taxes derived from the carrying out of such purposes. Such income or revenues or user taxes are not pledged to the payment of such bonds. There are now outstanding general obligation bonds (including general obligation refunding bonds) issued for highway, harbor and airport facilities, for land development, for economic development projects, for university revenue projects, and for State parking facilities, where the General Fund of the State is required to be reimbursed for all debt service. Reimbursement is made from the income or revenues or user taxes derived from or with respect to such highways, harbor and airport facilities, land development, economic development projects, university projects, parking facilities and housing programs. Of the bonds referred to in this paragraph: (a) reimbursement to the General Fund of general obligation bonds issued for highways is made exclusively from the tax on motor fuel and does not include any revenues such as toll revenue; and (b) reimbursement to the General

Fund of general obligation bonds issued for airports is made from the aviation fuel tax as well as from airports system revenues. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Funds" for a description of such taxes. Reimbursement to the General Fund of all the other general obligation bonds referred to in this paragraph is made from non-tax revenues, such as from wharfage and dockage charges, pier rentals and other charges for harbor facilities; from land sales or rentals; and from dormitory and dining hall revenues and income from other ancillary facilities.

Some of the bonds referred to in the immediately preceding paragraph do not constitute "reimbursable general obligation bonds" excludable from the debt limit because they are not issued for the type of public undertaking, improvement or system to which the constitutional provisions for such exclusion pertain. See "DEBT STRUCTURE— Exclusions." See "GENERAL OBLIGATION BONDS OUTSTANDING" in Part I of Appendix C for a tabular summary of reimbursable and non-reimbursable general obligation bonds.

TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL

Introduction

The State receives its revenues from taxes, fees and other sources. The Department of Taxation, headed by the Director of Taxation, is charged with the responsibility of administering and enforcing the tax revenue laws and the collection of most taxes and other payments payable thereunder. All tax revenues of the State are credited to one or the other of the two operating funds maintained by the State, designated respectively as the General Fund and Special Funds. The revenues and expenditures for the last five fiscal years of the General Fund are set forth in Part I of Appendix C.

The State Constitution does not prohibit or limit the power of taxation, and reserves all taxing power to the State, except to the extent delegated by the Legislature to the political subdivisions of the State and except all the functions, powers and duties related to real property taxation, which is exercised exclusively by the counties. The State cannot predict the impact, if any, of proposed changes in the federal individual and corporate income tax laws on the tax revenues of the State.

The State Constitution requires the establishment of a tax review commission to be appointed as provided by law every five years. The purpose of such commission is to submit to the Legislature an evaluation of the State's tax structure and to recommend revenue and tax policy, after which such commission is dissolved. The State Constitution does not require action by the Legislature with respect to the recommendations as submitted. The Legislature has the option of accepting or rejecting all or portions of the commission's findings. The fifth tax review commission convened on July 26, 2005, and issued its report in final form on December 1, 2006, in which it concluded that the Hawaii tax system is "basically sound." The sixth tax review commission convened on July 15, 2011 and issued its report on November 28, 2012. After reviewing Hawaii's tax structure, including how the structure fared during the Great Recession of 2008-2010 and how adequate the structure will be to meet future needs, the commission expressed concern about a possible budget gap and, as a result, one of its recommendations was the establishment of a separate commission to review and make recommendations on both revenues and expenditures. Although the Legislature did not take action on this recommendation, the Legislature did pass legislation addressing several of the commission's concerns; e.g., increasing the food/excise tax credit, modernizing the tax computer system, and funding the unfunded liabilities in other post-employment benefits (see "EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Health Benefits"). The seventh tax review commission convened on June 27, 2016 and will issue its report to the 2018 Legislature.

General Fund

The General Fund is used to account for resources not specifically set aside for special purposes. Any activity not financed through another fund is financed through the General Fund. The appropriations acts adopted by the Legislature provide the basic framework in which the resources and obligations of the General Fund are accounted. The operating appropriations and the related General Fund accounting process complement each other as basic control functions in the general administration of the government.

The State Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each of the two years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The State Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. General Fund balances exceeded 5% of General Fund revenues for fiscal years 2006, 2007 and 2008; as a result: (1) the 2008 Legislature passed Act 58, SLH 2008, to provide for a tax credit in the aggregate amount of approximately $1 million and (2) the 2009 Legislature passed Act 84, SLH 2009, to provide for a tax credit in the aggregate amount of approximately $1.1 million. In November 2010, Section 6 of Article VII of the State Constitution was amended to add another option to dispose of excess revenues. In addition to providing for a tax refund or tax credit, the Legislature may make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of an emergency, economic downturn or unforeseen reduction in revenues, as provided by law. Act 138, SLH 2010, provided for the deposit of general funds into the Emergency and Budget Reserve Fund ("EBRF") whenever State General Fund revenues for each of two successive fiscal years exceed revenues for each of the preceding fiscal years by 5%; however, no such transfer shall be made whenever the balance of the EBRF is equal to or more than 10% of General Fund revenues for the preceding fiscal year. The State Constitution also provides, in conjunction with Section 328L-3, HRS, that the Director of Finance is required to transfer 5% of the General Fund fiscal year-end balance into the EBRF whenever General Fund revenues for each of two successive fiscal years exceed revenues for the respective preceding fiscal years by 5%.

Subsequent to the tax credit provided by the 2009 Legislature, no tax refund or tax credit or deposit into the EBRF has been required. Nevertheless, the Legislature enacted Act 267, SLH 2013, appropriating $50 million of General Fund revenues to be deposited into the EBRF in fiscal year 2014. In fiscal years 2013 and 2014, the General Fund balance exceeded 5% of General Fund revenues for those years, but fiscal year 2014 General Fund revenues did not exceed 5% of fiscal year 2013 General Fund revenues; therefore, the 2015 Legislature was required to provide for a tax refund or tax credit but was not required to make a deposit into the EBRF. However, the 2015 Legislature found it preferable to address possible emergencies and contingencies that may occur in the future should revenues slow down and, instead of providing for a tax refund or tax credit, enacted Act 202, SLH 2015, to appropriate $10 million of general funds for deposit into the EBRF in fiscal year 2015. Because the measure was signed into law after the specified appropriation period, the $10 million could not be deposited into the EBRF in fiscal year 2015. The 2016 Legislature enacted Act 64, SLH 2016, to re-appropriate $1 million of general funds for deposit into the EBRF in fiscal year 2016 to comply with Article VII, Section 6 of the Hawaii State Constitution for the deposit that did not occur in fiscal year 2015.

In fiscal years 2014 and 2015, the general fund balance exceeded 5% of general fund revenues for both years. In addition, fiscal year 2015 general fund revenues exceeded 5% of fiscal year 2014 general fund revenues; therefore, the 2016 Legislature was required to provide a deposit into the EBRF. Accordingly, the 2016 Legislature enacted Act 104, SLH 2016, to appropriate $150 million in general funds for deposit into the EBRF in fiscal year 2017. In fiscal years 2015 and 2016, the General Fund balance exceeded 5% of General Fund revenues for both years, fiscal year 2016 General Fund revenues exceeded 5% of fiscal year 2015 General Fund revenues, and the EBRF ending fund balance was less than 10% of fiscal year 2015 general fund revenues. Therefore, the Director of Finance transferred 5% of fiscal year 2016 General Fund ending balance or approximately $51.4 million to the EBRF in fiscal year 2017. (See "Emergency and Budget Revenue Fund; Tobacco Settlement; Hurricane Relief Fund" in this Appendix B.)

As part of the annual financial planning and executive budgeting process, the Department of Budget and Finance prepares a General Fund financial plan that includes projections of General Fund revenues and expenditures for each fiscal year and revises such projections from time to time during the fiscal year. See "REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—General Fund Financial Plan" in Part I of Appendix C for further information.

Taxes and Other Amounts Deposited in General Fund

The proceeds of the taxes described below are deposited to the General Fund. See "REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—Actual Collections and Distributions" in Part I of Appendix C.

Individual and corporate income taxes, general excise and use taxes, public service company taxes, estate and certain transfer taxes, a franchise tax on financial corporations, liquor and tobacco taxes, transient accommodations taxes, insurance premium taxes and other taxes are deposited entirely or in part to the General Fund. For fiscal year 2016, these taxes represented approximately 90% of all tax revenues of the State, and approximately 87% of all General Fund revenues (as reported by the Department of Accounting and General Services ("DAGS")). The information contained in this Official Statement for fiscal year 2016, as reported by DAGS or otherwise, is unaudited.

The following table provides the General Fund tax revenues for fiscal year 2016 as reported by DAGS. (Please note that the tax revenue numbers are reported by DAGS on a cash basis and may differ from the tax revenue numbers reported by the Department of Taxation because of accounting system reclassifications and collection timing issues):

General Fund Taxes

Description	Fiscal Year 2016 ($ thousands)	% of Total Taxes
General Excise Tax	3,206,764	46.66%
Individual Net Income	2,115,810	30.78%
Transient Accommodations Tax	233,781	3.40%
Public Service Companies	152,760	2.22%
Premiums of Insurance Companies	152,622	2.22%
Corporation Net Income	93,478	1.36%
Tobacco Tax	83,685	1.22%
Liquor Tax	50,590	0.74%
Inheritance	49,613	0.72%
Conveyance Tax	26,422	0.38%
Environmental Response Tax	15,359	0.22%
Franchise (Banks and Other Financial Corporations)	12,691	0.18%
Rental Motor Vehicle Surcharge Tax	1	0.00%
Total	6,193,577	90.12%

Note: Totals reflect rounding.

General Excise and Use Tax. The general excise tax is a tax imposed on businesses for the privilege of doing business in Hawaii, and is assessed at various percentage rates on the gross income businesses derive from activity in the State. Businesses or consumers also may need to pay the use tax on the value of tangible personal property, services, and contracting that are brought into Hawaii from anywhere outside Hawaii. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. The general excise tax rate varies depending on the business activity; it is 0.15% on insurance commissions, 0.5% on certain activities such as wholesaling, and 4% on most activities at the consumer level. For fiscal year 2016, the general excise tax comprised approximately 47% of all tax revenues (as reported by DAGS). Effective January 1, 2007, the general excise and use tax was amended to provide the City and County of Honolulu a surcharge for the purpose of funding a mass transit system, thereby increasing the general excise and use tax rate for transactions attributable to the county, the proceeds of which accrue to the county. The surcharge of 1/2 of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes through 2022. Act 240, SLH 2015, provides that the City and County of Honolulu, by ordinance, may extend the surcharge through 2027. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the State for the costs of assessment, collection and disposition of the surcharge. As part of considerations to extend the county surcharge, certain proposals have been made to reduce the State's portion of the county surcharge. No action on extending the surcharge was taken during the 2017 regular legislative session. A special session may be convened to consider extending the county surcharge. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS;

FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL — Budget System; Legislative Procedure."

Income Taxes. Net taxable income (gross income less exclusions and deductions) for both individuals and corporations is subject to a State income tax. Although there are differences, Hawaii income tax law generally follows the federal Internal Revenue Code in computing the net taxable income. The individual income tax rates for married individuals, including qualifying surviving spouses, and unmarried individuals, including qualifying heads of households, range from 1.4% to 8.25% of net taxable income. New top rates of 9%, 10% and 11% were added by Act 60, SLH 2009. The new top rates were in effect for taxable years beginning after December 31, 2008 and were repealed on December 31, 2015, after which the top rate of the individual income tax reverted to its old rate of 8.25%. The income tax rates for estates and trusts range from 1.4% to 8.25%. Corporate income tax rates range from 4.4% to 6.4%. For fiscal year 2016, individual income taxes comprised approximately 31% of all taxes (as reported by DAGS).

On May 2, 2017, the Legislature approved House Bill No. 209, H.D. 1, S.D. 1, C.D. 1 ("H.B. 209") which establishes a nonrefundable earned income tax credit for the period after December 31, 2017 through December 31, 2022 and reestablishes new top income tax rates of 9%, 10% and 11% after December 31, 2017.

Transient Accommodations Tax. The transient accommodations tax ("TAT") is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units. The TAT rate is 9.25%. Act 93, SLH 2015, increased the previously lower TAT rates on time share vacation rentals from 7.25% to 8.25% beginning January 1, 2016 and to the current 9.25% rate beginning January 1, 2017. Act 121, SLH 2015, prioritized the distribution of TAT revenues to the following order, with the excess revenues to be deposited into the General Fund: 1) $1.5 million to the Turtle Bay conservation easement special fund beginning July 1, 2015, 2) $26.5 million to the convention center enterprise special fund, 3) $82.0 million to the tourism special fund and 4) $103.0 million to the Counties for each fiscal year 2015 and fiscal year 2016. Act 117, SLH 2015, provides that $3 million shall be allocated to the special land and development fund, beginning July 1, 2016. Act 233, SLH 2016, extends the allocation of $103 million to the Counties to fiscal year 2017 and $93.0 million for each fiscal year thereafter. For fiscal year 2016, the General Fund portion of the TAT comprised approximately 3% of all taxes (as reported by DAGS). Certain proposals have been made to increase the TAT rate, and to fund the capital costs of a locally preferred alternative for a mass transit project for the City and County of Honolulu from a portion of the increased revenues. No action to increase the TAT rate was taken during the 2017 regular legislative session. A special session may be convened to consider increasing the TAT rate to fund the City and County of Honolulu's mass transit project. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL — Budget System; Legislative Procedure."

Other Taxes. The General Fund also receives revenues from several other taxes. The public service company tax is a tax on the gross income from the public utility business of public utilities in lieu of the general excise tax. The tax rate on the gross income of public service companies ranges from 1/2% (for sales for resale) to 8.2%. For a public utility, only the first 4% is a realization of the State, and any excess over 4% is distributed to counties that: (1) provide by ordinance for a real property tax exemption for real property used by the public utility in its public utility business and owned by the public utility, or leased by the public utility under a lease requiring the public utility to pay the taxes on the property, and (2) have not denied the exemption to the public utility. For a carrier of passengers by land between points on a scheduled route, the gross income is taxed at 5.35%, all of which is realized by the State. The estate tax is a tax on the transfer of a taxable estate and is based on the federal taxable estate, but has its own tax rate schedule, with tax rates varying from 10.0% to 15.7%. The generation skipping tax is also based on the federal taxable transfer, but has its own tax rate (currently 2.25%). The banks and financial corporations tax is a franchise tax (in lieu of net income and general excise taxes) on banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, or subsidiaries not subject to the taxes discussed above. The tax is assessed on net income for the preceding year from all sources at a rate of 7.92%. Insurance premiums tax is a tax on insurance companies (underwriters) based on premiums written in the State in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax rates range between 0.8775% and 4.68% depending on the nature of the policy. There is also an excise tax on those who sell or use tobacco products and a gallonage tax imposed on those who sell or use liquor.

Non-tax Revenues. Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. From fiscal years 2004 to 2008, fiscal year 2010 and fiscal years 2012 to 2016 non-tax revenues have averaged approximately 12% of General Fund revenues. In fiscal year 2009, however, non-tax revenues were approximately 16% of total General Fund revenues, primarily as a result of one-time revenue sources such as: (1) the transfer of $81 million from special funds that was authorized by Act 79, SLH 2009; and (2) the transfer of $104 million resulting from debt service savings and a delay in payments for retirement and health insurance premiums. In fiscal year 2011, non-tax revenues were again approximately 16% of total General Fund revenues, primarily as a result of one-time sources such as: (1) the transfer of $111 million from the Hurricane Reserve Trust Fund that was authorized by Act 62, SLH 2011, and (2) the transfer of $63 million from non-general funds that was authorized by Act 192, SLH 2010 and Act 124, SLH 2011.

Special Funds

Special Funds are used to account for revenues designated for particular purposes. Unlike the General Fund, Special Funds have legislative or other restrictions imposed upon their use. Special Funds are not a source of payment for the State's general obligation bonds. Special Funds are used primarily and extensively with regard to highway construction and maintenance, harbor and airport operations, hospital operations, housing and homestead programs, certain programs in the area of public education and the University of Hawaii, business regulation, consumer protection, environmental management and tourism and other economic development. The types of revenues credited to the various Special Funds are user tax receipts (fuel taxes), revenues from public undertakings, improvements or systems (airports, harbors and university revenue producing undertakings, among others), and various business, occupation and non-business licenses, fees and permits.

The following table provides the special fund tax revenues for fiscal year 2016 as reported by DAGS. (Please note that the tax revenue numbers reported by DAGS may differ from the tax revenue numbers reported by the Department of Taxation because of accounting system reclassifications and collection timing issues.):

Special Fund Taxes

Description	Fiscal Year 2016 ($ thousands)	% of Total Taxes
Unemployment Insurance Tax	195,101	2.84%
Transient Accommodations Tax	108,500	1.58%
Liquid Fuel – Highways	88,018	1.28%
State Motor Vehicle Weight Tax	79,440	1.16%
Rental Motor Vehicle Surcharge Tax	54,872	0.80%
State Vehicle Registration Fee	50,610	0.74%
Tobacco Tax	41,206	0.60%
Conveyance Tax	39,668	0.58%
Environmental Response Tax	11,800	0.17%
Liquid Fuel –Aviation	2,807	0.04%
Premiums of Insurance Companies	2,068	0.03%
Franchise (Banks and Other Financial Corporations)	2,000	0.03%
Liquid Fuel – Small Boats	1,684	0.02%
Employment and Training Fund Assessment	1,237	0.02%
Total	679,012	9.88%

Note: Totals reflect rounding.

Fuel taxes, motor vehicle taxes, rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge taxes and unemployment insurance taxes are deposited into Special Funds. In addition, portions of the tobacco taxes, transient accommodations taxes, environmental response, energy, and food security taxes, and conveyance taxes are deposited into Special Funds (and portions of these taxes are deposited into the General Fund). In fiscal year 2016, taxes deposited into Special Funds were approximately 10% of the total tax revenues of the State (as reported by DAGS). Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways. The State has a vehicle weight tax that varies from $0.0175 per pound to $0.0225 per pound, depending on the net weight of the vehicle; vehicles over ten thousand pounds net weight are taxed at a flat rate of $300.00. The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi contribution schedule system. There is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%. There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle surcharge tax for each tour vehicle in the over 25 passenger seat category and for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. Act 104, SLH 2011, raised the rental motor vehicle surcharge from $3.00 per day to $7.50 per day and deposited $4.50 to the General Fund, effective from July 1, 2011 to June 30, 2012. After June 30, 2012, the tax reverted to the previous rate of $3.00 per day. Act 226, SLH 2008, established a rental motor vehicle customer facility charge of $1.00 per day on motor vehicles rented from airport locations to pay for the development of airport rental car facilities. Act 204, SLH 2010, increased the rental motor vehicle customer facility charge to $4.50 per day in fiscal year 2011, but collection of the charge was suspended in fiscal year 2012 during the period when the rental motor vehicle surcharge was $7.50 per day. The rental motor vehicle customer facility charge has been restored to $4.50 per day effective July 1, 2012. Act 110, SLH 2014 established a car-sharing vehicle surcharge of 25 cents per half hour (up to a maximum of $3 per day) on motor vehicles rented by a car-sharing organization, effective January 1, 2015.

The tobacco tax currently assesses $0.16 for each cigarette or little cigar, 70% of the wholesale price of tobacco products, and 50% of the wholesale price of each large cigar. The environmental response, energy, and food security tax is currently set at $1.05 per barrel of petroleum product for the period from July 1, 2010. Act 185, SLH 2015, also imposed the environmental response, energy, and food security tax on fossil fuel. The tax is $0.19 on each 1,000,000 BTUs of fossil fuel, effective July 1, 2015. The conveyance tax is imposed on the amount paid in the sale, lease, sublease, assignment, transfer, or conveyance of realty or any interest therein. The tax rate ranges from $0.10 per $100 to $1.25 per $100, depending on the value of the property, the type of improvements on the property and whether the purchaser is eligible for a homeowner's exemption for the property.

Federal Grants

State departments, agencies, and institutions annually receive both competitive and formula driven federal grants. Federal grants are not a source of payment for the State's general obligation bonds. Over the past five years, approximately 57% of the federal grants were awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 25% of such federal grants were used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 6% of all federal grants, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, accounted for about 5% of such federal receipts. Other programs accounted for the balance of such receipts. In past years, federal funds generally accounted for approximately 15% to 21% of the total State budget for each year. With the receipt of federal stimulus funds in fiscal years 2010 to 2013, the portion of the State budget made up by federal funds increased to 23% in fiscal year 2010 and 20% in fiscal year 2011 and has been approximately 18% to 20% of the State budget through fiscal year 2015 (the last year of federal stimulus fund appropriations). The State is unable to predict whether federal grant funding received by the State's departments, agencies, and institutions in the current or any future fiscal year will be similar to historical levels.

In July 2013, the Office of Federal Award Management ("OFAM") was established in the Department of Budget and Finance. The purpose of OFAM is to: (1) develop and implement a Federal Award Accountability System ("FAAS") to structure and document the State's federal award process and provide a consistent and uniform set of policies and procedures for State recipients of federal funds; (2) develop and implement policies and procedures to be able to produce quarterly financial reports on federal awards directly from the State's accounting system; (3) provide information on the use of federal funds by State entities on a public website; and (4) prepare for the implementation of a new State financial accounting and management system that will include a federal awards management system. The following table shows the amount of federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

Fiscal Year Ended June 30	Grant Amount (in millions)
2006	$1,877.4
2007	2,009.8
2008	1,999.0
2009	2,294.2
2010	2,845.0*
2011	3,114.4*
2012	2,573.3*
2013	2,449.6*
2014	2,665.6*
2015	2,751.2*
2016	2,988.8

* Includes $367.7 million in fiscal year 2010, $506.7 million in fiscal year 2011, $158.0 million in fiscal year 2012, $62.9 million in fiscal year 2013, $35.3 million in fiscal year 2014 and $15.4 million in fiscal year 2015 from federal stimulus funds (note: amounts for federal stimulus funds do not include the University of Hawaii).

Source: State of Hawaii—Department of Accounting and General Services' FAMIS report MBP455, Comparison of Receipts by Department (includes federal grants deposited to the General Fund and Special Funds).

Budget System; Legislative Procedure

Pursuant to Act 185, the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the State was adopted. The purpose of this act was to integrate the planning, programming and budgeting processes to improve decisions on the allocation of resources. The act established a comprehensive system for State programs and their related costs over a timeframe of six years. The operating and capital improvement requirements are evaluated together to insure compatibility and mutual support. Systematic evaluations and analyses are conducted to ascertain the attainment of program objectives and alternative means or methods of improving current State services.

The Legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days. At least 30 days before the Legislature convenes in regular session in an odd numbered year, the Governor submits to the Legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch, the legislative branch, and the Office of Hawaiian Affairs are submitted by their respective leaders to the Legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, has been transmitted to the Governor.

In each regular session in an even numbered year, the Governor may submit to the Legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill. In such session to which the Governor submits to the Legislature a supplemental appropriations bill, no other appropriations bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the supplemental appropriations bill has been transmitted to the Governor.

To become law, a bill must pass three readings in each house on separate days. Each bill passed by the Legislature shall be certified by the presiding officers and clerks of both houses and thereupon be presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the Legislature. Except for items appropriated to be expended by the judicial and legislative branches, the Governor may veto any specific item or items in any bill that appropriates money for specific purposes by striking out or reducing the same; but the Governor shall veto other bills only as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the Legislature sine die, and if any such bill is neither signed nor returned by the Governor within that time, it becomes law in like manner as if the Governor had signed it.

The Governor has forty-five days, after the adjournment of the Legislature sine die, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill becomes law on the forty-fifth day unless the Governor by proclamation has given ten days' notice to the Legislature that the Governor plans to return such bill with the Governor's objections on that day. The Legislature may convene on or before the forty-fifth day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. In case the Legislature fails to so convene, such bill shall not become law. Any such bill may be amended to meet the Governor's objections and, if so amended and passed, only one reading being required in each house for such passage, it must be presented again to the Governor, but becomes law only if the Governor signs it within ten days after presentation.

On August 5, 2016 the Governor issued Administrative Directive No. 16-03 which provides that the State shall endeavor, for each year of a six-year planning period as described above, to retain an unassigned General Fund carryover balance equal to 5.0% of the preceding year's General Fund revenues and an EBRF balance equal to 10.0% of the preceding year's General Fund revenues. Such amounts are intended to be available to the State during times of unforeseen reduction in revenues or increases in required expenditures. The State's reserve balances are currently below these desired levels but the State remains committed to strengthening its reserves as its fiscal situation allows.

Emergency and Budget Reserve Fund; Tobacco Settlement; Hurricane Relief Fund

Emergency and Budget Reserve Fund. HRS Chapter 328L, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve Fund ("EBRF"), a special fund for emergency and "rainy day" purposes. Deposits to the EBRF include appropriations made by the Legislature and a portion of the tobacco settlement moneys. In addition, Act 138, SLH 2010, provided that whenever State General Fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, the Director of Finance is required to deposit 5% of the State General Fund balance at the end of the fiscal year into the EBRF; however, no such transfer shall be made whenever the balance of EBRF is equal to or more than 10% of General Fund revenues for the preceding fiscal year. The State Constitution (Article VII, Section 6) also requires that the General Fund balance at the close of each of two successive fiscal years must exceed 5% of General Fund revenues for each of the two fiscal years before a deposit into an emergency fund is required. In fiscal years 2014 and 2015, the General Fund balance exceeded 5% of general fund revenues for both years. In addition, fiscal year 2015 General Fund revenues exceeded 5% of fiscal year 2014 General Fund revenues; therefore, the 2016 legislature was required to provide an appropriation for deposit into the EBRF. Accordingly, the 2016 Legislature enacted Act 104, SLH 2016, to appropriate $150 million in general funds to be deposited in the EBRF in fiscal year 2017. In fiscal years 2015 and 2016, the General Fund balance exceeded 5% of General Fund revenues for both years and fiscal year 2016 General Fund revenues exceeded 5% of fiscal year 2015 General Fund revenues, and the EBRF ending fund balance was less than 10% of fiscal year 2015 general fund revenues.

Therefore, the Director of Finance transferred 5% of fiscal year 2016 General Fund ending balance or approximately $51.4 million to the EBRF in fiscal year 2017.

Pursuant to Act 138, SLH 2010, all interest earned from moneys in the EBRF is credited to the EBRF; previously, the interest had been credited to the General Fund. Appropriations from the EBRF require a two thirds majority vote of each house of the Legislature. The table below provides EBRF balances as of the end of each fiscal year from 2006 through 2016. See "General Fund" in this Appendix B.

Emergency and Budget Reserve Fund Balances
(Fiscal Years Ended June 30, 2006-2016)

Fiscal Year	$ (Millions)
2006	53.5
2007	61.5
2008	74.0
2009	60.4
2010	62.5
2011	9.7(1)
2012	24.2(2)
2013	24.2(3)
2014	83.2(4)
2015	90.2(5)
2016	100.9(6)

Source: Department of Accounting and General Services.

(1) In fiscal year 2011, the fund balance decreased because a total of $59.6 million was transferred out of the EBRF pursuant to Act 191, SLH 2010 (as amended by Act 25, SLH 2011) and Act 30, SLH 2011, to maintain levels of programs determined to be essential to education, public health and public welfare, and to cover a shortfall in public welfare programs.
(2) In fiscal year 2012, the fund balance increased because a total of $15.7 million of unspent funds was returned to the EBRF while $1.1 million was transferred out of the fund pursuant to Act 191, SLH 2010. Pursuant to Act 124, SLH 2011, no tobacco settlement moneys were deposited into the EBRF in fiscal year 2012.
(3) In fiscal year 2013, the fund balance did not change. Pursuant to Act 124, SLH 2011, no tobacco settlement moneys were deposited into the EBRF in fiscal year 2013.
(4) In fiscal year 2014, the fund balance increased because $50 million of general funds was appropriated to the EBRF by Act 267, SLH 2013, and $7.5 million was deposited into the EBRF from tobacco settlement moneys.
(5) In fiscal year 2015, the fund balance increased because $6.7 million from tobacco settlement moneys was deposited into the EBRF.
(6) In fiscal year 2016, the fund balance increased because $1 million of general funds was appropriated to the EBRF by Act 64, SLH 2016, and $6.9 million from tobacco settlement moneys was deposited into the EBRF.

It is noted that Act 202, SLH 2015, appropriated $10 million in general funds for deposit into the EBRF in fiscal year 2015 pursuant to Article VII, Section 6, of the Hawaii State Constitution, which requires the legislature to provide a tax refund or tax credit to state taxpayers or make a deposit into a reserve fund when certain conditions are met. However, Act 202 was signed into law after the specified appropriation period. Consequently, the $10 million appropriation was deemed invalid and could not be deposited into the EBRF. To remedy the situation, Act 64, SLH 2016, appropriated $1 million of general funds which was deposited into the EBRF in fiscal year 2016.

Tobacco Settlement. PricewaterhouseCoopers LLP, independent auditor for the Tobacco Master Settlement Agreement, in a September 1999 report, estimated that the State will receive annual proceeds from the tobacco settlement ranging from $63 million in 2017 to $48 million a year thereafter, and the payment value is based on the annual tobacco sales. The annual MSA payments are in perpetuity; therefore, over the next 25 years, the payments would total about $1.2 billion. Actual moneys received have been less than the maximum projected as shown below. The amount of future annual proceeds is subject to adjustments and offsets.

Of the tobacco settlement moneys received by the State each fiscal year, $350,000 is deposited in the Tobacco Enforcement Special Fund and a special fund assessment is deducted. In fiscal year 2015, the balance was distributed as follows: 15% to the EBRF, 25% to the Department of Health, 6.5% to the Hawaii tobacco prevention and control trust fund, 26% to the University of Hawaii, and 27.5% to the State General Fund. Pursuant to Act 118, SLH 2015, distribution of the balance in fiscal year 2016 is: 15% to the EBRF, 12.5% to the Hawaii tobacco prevention and control trust fund, 26% to the University of Hawaii, and 46.5% to the State General Fund. Act 118 also appropriated general funds in fiscal year 2016 to various health and human services programs formerly supported by tobacco settlement funds.

The following table shows annual proceeds from the tobacco settlement for fiscal years 2006 through 2016.

Tobacco Settlement Proceeds (Fiscal Years Ended June 30, 2006-2016)

Fiscal Year	$ (Millions)
2006	34.9
2007	36.6
2008	56.1
2009	60.0
2010	50.9
2011	47.7
2012	48.2
2013	48.6
2014	52.7
2015	47.2
2016	49.3

Source: Department of Health.

Hawaii Hurricane Relief Fund. The Hawaii Hurricane Relief Fund ("HHRF") was established pursuant to Act 339, SLH 1993, (codified as Chapter 431P, HRS) to provide hurricane insurance coverage for Hawaii property owners should the private market prove unreliable. It was created to address the problem of private insurers leaving the hurricane insurance market following Hurricane Iniki in September 1992. As of January 1, 1999, the HHRF provided hurricane coverage for approximately 155,000 policyholders statewide. The HHRF ceased operations in 2002 when private insurers returned fully to the market. No policies have been issued since that time.

The HHRF's operations are funded by policyholder premiums, assessments on licensed Hawaii property and casualty insurers, a special mortgage recording fee, and a surcharge on premiums on policies issued by licensed property and casualty insurers (as necessary). As a component of the HHRF funding, the Director of Finance was authorized to issue revenue bonds and reimbursable general obligation bonds to assist the HHRF in carrying out its plan of operation. However, no revenue or reimbursable general obligation bonds were issued.

Upon ceasing operations, the HHRF's reserves, amounting to $186.7 million, were kept in the HHRF to provide working capital if reactivation of operations becomes necessary. Reactivation may be needed if a major hurricane were to strike the Hawaiian Islands in the future, and private insurers, after settling claims for that event, were to leave the hurricane insurance market again.

Section 431P 16(i), HRS, provides that upon dissolution of the HHRF, net moneys in the HHRF, after payments to any federal disaster insurance program enacted to provide insurance or reinsurance for hurricane risks are completed, revert to the General Fund. Act 179, SLH 2002, designated that interest earned from the principal of moneys in the HHRF shall be deposited into the General Fund each year that the HHRF remains in existence.

Although not formally established as a budget reserve, the HHRF has been used as a de facto budget reserve. Appropriations from the HHRF require a majority vote by the Legislature. Act 143, SLH 2010, appropriated $67.0 million from the HHRF (of which $12.4 million was not required and was subsequently returned to the HHRF) to restore public school instructional days for school year 2010-11 that were reduced as part of a cost cutting, collective bargaining agreement that furloughed public school teachers for 21 days of which 17 were instructional days. Act 62, SLH 2011, authorized the Governor to transfer in two steps the remaining balance of the

HHRF to the General Fund (at that point $120.3 million) in fiscal year 2011 to maintain program levels determined to be essential for education, public health, and public welfare. In total, $111.0 million was transferred pursuant to Act 62. Act 62 also provided a statutory mechanism to repay the HHRF in fiscal years 2014 (50 percent) and 2015 (50 percent) through designation of general excise tax revenues to be deposited into the HHRF. Act 266, SLH 2013, further accelerated the recapitalization of the HHRF by appropriating $50 million of general funds in fiscal year 2014 to the HHRF. The total amount that was deposited to the HHRF in fiscal year 2014 was $105.5 million and, as a result, the balance of the HHRF as of June 30, 2014 was $126.6 million. For fiscal year 2015, the required $55.5 million deposit from general excise taxes was completed in two increments: $25 million on September 24, 2014 and $30.5 million on September 26, 2014. As a result, the HHRF balance at the end of the fiscal year was $182.4 million. For fiscal year 2016, the HHRF ending balance was $186.9 million, due to a gain in market value of the investment portfolio.

The following table provides HHRF balances as of the end of each fiscal year from 2006 through 2016:

Hawaii Hurricane Relief Fund Balances
(Fiscal Years Ended June 30, 2006-2016)

Fiscal Year	$ (Millions)
2006	180.2
2007	181.7
2008	184.5
2009	188.0
2010	188.2
2011	21.1
2012	21.1
2013	20.8
2014	126.6
2015	182.4
2016	186.9

Expenditure Control

Expenditure Ceiling. The State Constitution provides that, notwithstanding any other provision to the contrary, the Legislature shall establish a General Fund expenditure ceiling which shall limit the rate of growth of General Fund appropriations, excluding federal funds received by the General Fund, to the estimated rate of growth of the State's economy as provided by law and that no appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the General Fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the ceiling amount. Appropriations for recent fiscal years, except fiscal year 2007, have not exceeded the expenditure ceiling and appropriations for fiscal year 2017 also did not exceed the expenditure ceiling.

The State Constitution provides that no public money shall be expended except as appropriated by law. It also requires that provision for the control of the rate of expenditures of appropriated State moneys, and for the reduction of such expenditures under prescribed conditions, shall be made by law and that General Fund expenditures for any fiscal year shall not exceed the State's current General Fund revenues and unencumbered cash balances, except when the Governor publicly declares the public health, safety or welfare is threatened, as provided by law.

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, moneys can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of the Executive Branch of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by Chapter 37, HRS. The Director of Finance and the Governor may modify or withhold planned expenditures if such expenditures would be in excess of authorized levels of service or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. Unencumbered allotment balances at the end of each quarter shall revert to the related appropriation account, except for the Department of Education and the UH. Requests to amend allotments must be approved by the Director of Finance. If federal funds allocable to a particular item are greater than had been estimated, general funds are reduced proportionately as allowable, except for the Department of Education. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably, except for 5% of appropriations to the Department of Education, which by statutory authority may be retained up to one year into the next fiscal biennium. The Office of the Governor approves consultant contracts above $100,000 as to justification and need. Department heads have been delegated authority to review and approve certain consultant contracts such as medical services. In order to realize savings from bulk acquisition, central purchasing is used for certain office and medical supplies, equipment, and motor vehicles. The Department of Accounting and General Services performs pre-audits on each financial transaction of $10,000 or more before any payment can be made, except for the UH and the Department of Education, which have statutory authority to pre-audit their own payments. Financial audits of individual programs and organizations are conducted on a periodic basis by the Department of Accounting and General Services. Internal audits are done on a continuous basis by each department. Management audits are accomplished on an as needed basis by the Department of Budget and Finance. In addition, the State Auditor performs financial and management audits on a selective basis.

Capital Improvement Expenditures. Annual capital improvement implementation plans are also prepared to control and monitor allotments and expenditures. Prior to the initiation of a project, it is reviewed for compliance with legislative intent and other economic considerations, and as to its justification. The Governor must approve the release of funds before any action can be taken. Competitive bidding is enforced to ensure that the lowest possible costs are obtained. Change orders during construction must be substantiated and approved by the expending agency. The need for additional capital improvement funds for each project must be approved by the Governor and must be funded from available balances of other capital improvement project appropriations. An assessment of the quality of construction material being used is performed on a continuous basis. Individual guarantees and warranties are inventoried and monitored as to the adequacy of stipulated performances. Additional reviews and assessments are conducted to identify and resolve any environmental concerns and to preserve historical and archaeological sites, and coastal areas.

State Educational Facilities Improvement Special Fund

The State has established a State Educational Facilities Improvement Special Fund ("SEFISF"). The amounts in the SEFISF are to be used solely for capital improvements and facilities under the jurisdiction of the State Department of Education, except public libraries. The fund provides a consistent source of funding for these projects and is capitalized by annual appropriations of at least $45 million in general obligation bonds or by annual transfers of at least $45 million from the General Excise Tax if no general obligation bond appropriations are authorized. Over the years, capital improvement projects for public school facilities have generally been funded by moneys in the SEFISF that are subsequently fully capitalized through the issuance of general obligation bonds. In light of this arrangement, Act 157, SLH 2013, limits expenditures from the SEFISF to projects authorized prior to

July 1, 2016 and repeals the SEFISF as of July 1, 2023, to allow the Department of Education's capital improvement projects to be funded directly with general obligation bonds.

Act 134, SLH 2013 as amended by Act 122, SLH 2014, appropriated $53.0 million for fiscal year 2014 and $353.0 million for fiscal year 2015 of general obligation bond funds to be transferred to the SEFISF. Act 119, SLH 2015, appropriated $38.1 million for fiscal year 2016 of general obligation bond funds to be transferred to the SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

Article XIII of the State Constitution grants public employees the right to organize for the purpose of collective bargaining as provided by law. HRS Chapter 89 provides for 14 recognized bargaining units for all public employees throughout the State including State and county employees. Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. In the case of bargaining units for nonsupervisory blue collar positions, supervisory blue collar positions, nonsupervisory white collar positions, supervisory white collar positions, registered professional nurses, institutional health and correctional workers, professional and scientific employees, and State law enforcement officers and state and county ocean safety and water safety officers, the Governor of the State shall have six votes, and the mayors of each of the counties, the Chief Justice of the State Judiciary and the Hawaii Health Systems Corporation Board shall each have one vote. In the case of bargaining units for police officers and fire fighters, the Governor shall have four votes and the mayors shall each have one vote. In the case of bargaining units for teachers and educational officers, the Governor shall have three votes, the State Board of Education shall have two votes and the state superintendent of education shall have one vote. In the case of bargaining units for University of Hawaii ("UH") faculty and UH administrative, professional and technical staff, the Governor shall have three votes, the UH Board of Regents shall have two votes and the UH president shall have one vote. Decisions by the employer representatives shall be on the basis of simple majority, except when a bargaining unit includes county employees from more than one county. In such case, the simple majority shall include at least one county.

By statute, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding, and, if mutually agreeable to the parties, final and binding arbitration. Although the statute characterizes arbitration as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies. If final and binding arbitration is not agreed upon, either party may take other lawful action to end the dispute, which, in the case of blue collar workers, public school teachers and university professors, could include an employee strike. In the case of the remaining ten bargaining units, including fire fighters and police officers, a strike is prohibited by law, and negotiation impasses are subject to mandatory final and binding arbitration, subject to appropriation of cost items, as described above. Certain employees are not party to a formal labor contract, including elected and appointed officials and certain contractual hires.

The status of negotiations and awards for wages and health benefits for the period from July 1, 2017 to June 30, 2019 is as follows:

> Unit 1 (blue collar workers): The United Public Workers ("UPW") and the employer have agreed to extend the June 30, 2017 expiration date of their existing collective bargaining contract for the purpose of providing for increased health benefit contributions comparable to settled units. A date has not yet been set for the resumption of wage negotiations.
>
> Unit 2 (blue collar supervisors): An arbitration award was issued April 27, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017, 1.2% on January 1, 2018, 2.25% on July 1, 2018 and 1.2% on January 1, 2019. The award also provides for continuation of step movement adjustments for eligible employees.

Unit 3 (white collar workers): An arbitration award was issued April 27, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017, 1.5% on January 1, 2018, 2.25% on July 1, 2018, and 1.25% on January 1, 2019. The award also calls for the deletion of the lowest step on the salary schedule effective January 1, 2019.

Unit 4 (white collar supervisors): An arbitration award was issued April 27, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017, 1.5% on January 1, 2018, 2.25% on July 1, 2018, and 1.25% on January 1, 2019. The award also calls for the deletion of the lowest step on the salary schedule effective January 1, 2019.

Unit 5 (teachers): The Hawaii State Teachers Association ratified a new agreement on April 27, 2017. The agreement provides for the continuation of an additional 21 hours of paid professional development time for the first two years of the four-year agreement and across the board wage adjustments of 3.5% at the beginning of the second quarter of the 2018-2019 and 2020-2021 school years. The award also provides for one step movement on the salary schedule at the beginning of the second quarter of the 2017-2018 and 2019-2020 school years or a $1,500 lump sum payment for teachers on the maximum step of the salary schedule.

Unit 6 (educational officers): The Hawaii Government Employees Association ("HGEA") and the employer reached a new agreement that was ratified by the membership on April 28-29, 2017. The agreement provides for across the board wage adjustments of 1.8% on July 1 of each year of the four-year agreement, beginning July 1, 2017. The agreement also provides for a one step movement on the salary schedule wage adjustment on January 1 of each year of the four-year agreement or a 1.4% lump payment for educational officers on the maximum step of the salary schedule.

Unit 7 (faculty of the University of Hawaii): University of Hawaii Professional Assembly and the employer reached a tentative agreement on May 10, 2017. The four-year agreement has been ratified by the union but remains subject to legislative approval.

Unit 8 (University of Hawaii administrative, professional and technical staff): An arbitration award was issued April 27, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017, 1.2% on January 1, 2018, 2.25% on July 1, 2018 and 1.2% on January 1, 2019.

Unit 9 (registered professional nurses): An arbitration award was issued April 27, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017, 2.25% on July 1, 2018 and 1.2% on January 1, 2019. The award also provides for continuation of step movement adjustments for eligible employees.

Unit 10 (institutional health and correctional workers): UPW and the employer exchanged initial proposals in June 2016. The Hawaii Labor Relations Board declared an impasse in negotiations November 1, 2016, based on a filing by the UPW. UPW and the employer have agreed to extend the June 30, 2017 expiration date of their existing collective bargaining contract for the purpose of providing for increased health benefit contributions comparable to settled units. An arbitration hearing date has not yet been scheduled.

Unit 11 (firefighters): An arbitration award was issued April 17, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017 and 2.25% on July 1, 2018. The award also provides for continuation of step movement adjustments for eligible employees.

Unit 13 (professional and scientific employees): An arbitration award was issued April 27, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017, and 2.25% on July 1, 2018. The award also provides for continuation of step movement adjustments for eligible employees.

Unit 14 (State law enforcement officers and State and county ocean safety and water safety officers): HGEA and the employer exchanged initial proposals in June 2016. The Hawaii Labor Relations Board declared an impasse in negotiations November 1, 2016. An arbitration hearing date has not yet been scheduled. HGEA and the employer have agreed to extend the June 30, 2017 expiration date of their existing collective bargaining contract for the purpose of providing for increased health benefit contributions comparable to settled units.

State Employees' Health Benefits

Act 88, SLH 2001, Relating to Public Employees Health Benefits (partially codified as HRS Chapter 87A), established the Hawaii Employer-Union Health Benefits Trust Fund ("Trust Fund"). The Trust Fund provides health and other benefit plans for public employees, retirees and their dependents. The employers participating in the Trust Fund include the State and each of the counties. Public employer contributions to the Trust Fund for the health and other benefit plans of public employees and their dependents are determined under HRS Chapter 89C, or by way of applicable public sector collective bargaining agreements. Except for reimbursement of medical insurance coverage under Medicare, public employer contributions to fund the health and other benefit plans of retirees are not to exceed certain monthly contribution levels specified in HRS Chapter 87A.

Act 245, SLH 2005 (partially codified as HRS Chapter 87D), temporarily authorized employee organizations to establish voluntary employees beneficiary association ("VEBA") trusts to provide health benefits to state and county employees in their bargaining units outside of the Trust Fund. Each VEBA trust was to provide health benefits to State and county employees who retired after establishment of the VEBA trust ("future retirees") and was to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("existing retirees") a one-time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees were to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees were to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 was to allow the temporary establishment of a VEBA trust pilot program so as to enable a thorough analysis of the costs and benefits of VEBA trusts against the Trust Fund to determine what actual savings could be realized by the State through the VEBA trust mechanism. The Hawaii State Teachers Association ("HSTA") implemented a VEBA trust for its active employees on March 1, 2006 and for retirees on January 1, 2007. Act 245 was amended by Act 294, SLH 2007 to extend the repeal date to July 1, 2009 for any VEBA implemented in March 2006. Act 5, First Special Session 2008, amended Act 245, SLH 2005, to extend the sunset date to July 1, 2010. Act 106, SLH 2010, amended Act 245, SLH 2005, to provide a final extension of the sunset date to December 31, 2010, to allow for a smoother transition from the HSTA VEBA trust to the Trust Fund. In September 2010, two participants in the HSTA VEBA trust and the trustees of the HSTA VEBA trust ("plaintiffs") filed a purported class action lawsuit seeking, in part, to enjoin the transition from the HSTA VEBA trust to the Trust Fund. See *Gail Kono, et al. v. Neil Abercrombie, et al*, Civil No. 10 1 1966 09, First Circuit Court, State of Hawaii. On December 7, 2010, the First Circuit Court ("circuit court") denied the plaintiffs' motion for a temporary injunction to enjoin the transition of active employees and retirees from the HSTA VEBA trust to the Trust Fund. However, the circuit court ruled that the Trust Fund was required to provide the active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their HSTA VEBA trust health benefits plans. The circuit court also ruled that approximately $3.96 million in surplus funds that the HSTA VEBA trust returned to the State's General Fund should be paid by the State to the Trust Fund and used to ensure that active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund can maintain their same standard of coverage benefits as ordered by the circuit court. Based on these rulings, the active employees and retirees in the HSTA VEBA trust were transitioned to the Trust Fund, effective January 1, 2011. A final judgment was entered on the circuit court's rulings and both the State and plaintiffs filed appeals. On April 24, 2013, the Intermediate Court of Appeals (the "ICA") issued a memorandum opinion vacating the final judgment and several related orders. The ICA said the circuit court lacked authority to render the final judgment in the absence of an appropriate pending motion from either party. When the final judgment was entered, the ICA said there was no pending dispositive motion on which the circuit court could terminate the litigation. The ICA remanded the case to the circuit court for further proceedings. The ICA left standing the order that requires the Trust Fund to provide active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their former HSTA VEBA trust health benefits plans and that required the State to pay the surplus funds returned by the HSTA VEBA trust to the Trust Fund. The State intends to continue to vigorously defend against Plaintiffs' claim in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the years ended June 30, 2013, 2014, 2015 and 2016.

Other Post Employment Benefits

The Governmental Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans (*i.e.*, "OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 was implemented by the employers for fiscal year ending June 30, 2008 and for the County of Kauai for fiscal year ending June 30, 2009. The GASB has also issued Statement No. 74 ("GASB 74"), Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Statement No. 75 ("GASB 75"), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions that are effective for fiscal years beginning July 1, 2016 and 2017, respectively. GASB 74 replaces GASB 43 and GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans ("GASB 57"), and GASB 75 replaces GASB 45 and GASB 57. The Trust Fund and the State are currently evaluating the impact GASB 74 and GASB 75 will have on their financial statements.

In 2013, the State enacted measures to significantly reduce the State's unfunded actuarial accrued liability for unfunded Other Post Employment Benefit ("OPEB"). As described below, the State is taking measures to prefund OPEB liabilities.

On July 9, 2012, Act 304, SLH 2012 was signed into law and provided for the establishment of "a separate trust fund for the purpose of receiving employer contributions that will prefund other post-employment health and other benefit plan costs for retirees and their beneficiaries." Effective June 30, 2013, the Board approved the Plan and Trust Agreement for Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits ("OPEB Trust") establishing the irrevocable trust whose assets are legally protected from creditors and can only be used for the benefit of participants' other post employment benefits. The OPEB Trust is set up as an agent multiple-employer plan. Funds are pooled together but employer contributions; related investment income, investment expenses and gains/losses; and distributions are recorded separately by employer.

The State has received the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") July 1, 2015 Actuarial Valuation Study (the "Trust Fund Report") of the Trust Fund's OPEB liabilities. The Trust Fund Report was prepared by the State's professional actuarial advisors, Gabriel Roeder Smith & Company. The Trust Fund Report quantifies the Actuarial Accrued Liabilities ("AAL") of the respective employers under GASB 45 and develops Annual Required Contributions ("ARC") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year beginning July 1, 2016.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with prefunding of the ARC and a discount rate of 7%. The Trust Fund Report states that the State's unfunded AAL as of July 1, 2015 is $9,065.9 million. The corresponding ARC for the fiscal years ending June 30, 2017 and 2018 are $744.2 million and $770.3 million, respectively, of which 75% is an expense of the General Fund and 25% is to be paid from non-general funds of the State. The Trust Fund Report estimates the "pay as you go" funding amount for fiscal years ending June 30, 2017 and 2018 are $360.6 million and $399.0 million, respectively.

In the past, the State funded its OPEB costs on a "pay as you go" basis; however, the State began the process of pre-funding its OPEB costs with contributions in the amount of $100 million for fiscal year ending June 30, 2014. The State has met its pre-funding OPEB contribution in accordance with Act 268, SLH 2013 for the fiscal years ending June 30, 2015, 2016 and 2017 with actual contributions of $117.4 million (versus the $83.0 million Act 268, SLH 2013 required contribution), $249.8 million (versus the $163.6 million Act 268, SLH 2013 required contribution) and $333.0 million (versus the $230.2 million Act 268, SLH 2013 required contribution), respectively. The market value of the State's OPEB assets amounted to $480.63 million as of June 30, 2016. The State's budget for the upcoming fiscal biennium includes a pre-funding contribution of $297.1 million for the fiscal year ending June 30, 2018 and $375.2 million for the fiscal year ending June 30, 2019.

In addition, the State commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Trust Fund Report. Act 268, SLH 2013, establishes a task force to examine the unfunded liability of the EUTF, requires the EUTF to establish a separate trust fund for public employer contributions with separate accounts for each public employer (which was accomplished as described above) and requires the annual public employer contribution to be equal to the amount determined by an actuary commencing with the fiscal year 2018-2019. There is a schedule to phase in the annual required contribution as follows:

Hawaii EUTF Contributions
Fiscal Years 2014 - 2019

Fiscal Year	ARC	Benefit Payment*	UAAL Prefunding Balance	Act 268 Prefunding Requirement %	Act 268 Prefunding Requirement $	Total Prefunding Contribution**
2014	$692,622,000	$281,584,000	$411,038,000	N/A	N/A	$100,000,000
2015	717,689,000	302,738,000	414,951,000	20%	$82,990,000	117,400,000
2016	742,808,000	333,770,000	409,038,000	40%	163,615,000	249,827,434
2017	744,248,000	360,606,000	383,642,000	60%	230,185,000	333,049,894
2018	770,297,000	398,968,000	371,329,000	80%	297,063,000	297,063,000
2019*	811,313,000	436,139,000	375,174,000	100%	375,174,000	375,174,000

*Gabriel Roeder Smith & Company projections
**Fiscal years 2014, 2015, 2016 and 2017 are actual, and 2018 and 2019 are projected and included in the State's General Fund Financial Plan.

If the State public employer contributions into the fund are less than the amount of the annual required contribution commencing with the fiscal year 2018-2019, general excise tax revenues will be used to supplement State public employer contribution amounts. If the county public employer contributions into the fund are less than the amount of the annual required contribution commencing with the fiscal year 2018-2019, transient accommodations tax revenues apportioned to the counties will be used to supplement county public employer contribution amounts.

State Employees' Retirement System

This section contains certain information relating to the Employees' Retirement System of the State of Hawaii (the "System" or "ERS"). The information contained in this section is primarily derived from information produced by the System, its independent accountant and its actuary. The State has not independently verified the information provided by the System, its independent accountant and its actuary, and makes no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the System and most recent valuation report of the System may be obtained by contacting the System. The comprehensive annual financial reports of the System are also available on the State's website at http://portal.ehawaii.gov/, and other information about the System are available on the System's website at http://ers.ehawaii.gov/. Such documents and other information are not incorporated herein by reference.

The System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the System's Board of Trustees, the System's benefit structure or the actuarial method used by the System) will reflect the actual results experienced by the System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the System), one or more or which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. See "—General Information" and "—Actuarial Valuation" herein for more information on the actuarial assumptions used by the System.

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 91st Annual Actuarial Valuation for the Year Ended June 30, 2016 (the "2016 Valuation Report"), which is the most recent valuation report of the System. The information presented in the

2016 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in December 2016 effective with the June 30, 2016 valuation. As described more fully under "—General Information" below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. This is the fourth valuation with new members under the new tier of benefits and member contribution rates. However, the liability for this group of employees represents just a small fraction of the total liabilities of the system. Included in the 2016 Valuation Report are projections showing the long term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012. In June 2012, the Governmental Accounting Standards Board ("GASB") voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), was effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), was effective for fiscal years beginning after June 15, 2014. GASB 68 requires governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

The State implemented GASB 68 beginning with the fiscal year ending June 30, 2015. Like most public employers, the State reflected pension liabilities directly on its Statement of Net Position, which resulted in a reduction in the State's reported net position. As allowed under GASB 68 the State is reporting its GASB 68 disclosure items one year in arrears (June 30, 2015 information is reported as of June 30, 2016). The amount of the ERS net pension liability (as of June 30, 2015) allocated to the State is $6.1 billion or 70% (of the $8.7 billion net pension liability for all participating employers).

General Information

The System began operation on January 1, 1926. The System is a cost sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System's plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost sharing plan, the System does not allocate its liabilities among participating employers. However, based on the new GASB 68 financial reporting requirements for employers, the State's share of the System, based on employer contributions, is approximately 70%, with the remaining 30% share as the responsibility of the four counties. Although the State's employer contributions are recorded as expenses of the General Fund, approximately 29.0% are reimbursed from various non general funds of the State.

The statutory provisions of HRS Chapter 88 govern the operation of the System. Responsibility for the general administration of the System is vested in a Board of Trustees, with certain areas of administrative control being vested in the Department of Budget and Finance. The Board of Trustees consists of eight members: the Director of Finance of the State, ex officio; four members of the System (two general employees, one teacher, and one retiree) who are elected by the members and retirees of the System; and three citizens of the State (one of whom shall be an officer of a bank authorized to do business in the State, or a person of similar experience) who are appointed by the Governor and may not be employees of the State or any county. All contributions, benefits and eligibility requirements are established by statute, under HRS Chapter 88, and may only be amended by legislative action.

Prior to 1984, the System consisted of only a contributory plan. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan provides for reduced benefits and covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The minimum service required for retirement eligibility is five years of credited service under the contributory plan and ten years of credited service under the noncontributory plan. Both the contributory and noncontributory plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (the "AFC"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971 or the three highest paid years of service, excluding the vacation payment (whichever is higher). The AFC for members hired after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new defined benefit contributory plan (the "Hybrid Plan") was established pursuant to Act 179, SLH 2004. Members in the Hybrid Plan are eligible for retirement with full benefits at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the Hybrid Plan. Most new employees hired from July 1, 2006 were required to join the Hybrid Plan.

In December 2010, the System's actuary completed an Actuarial Experience Study for the five year period ended June 30, 2010 (the "2010 Experience Study"). In fiscal year 2011, based in part on the results of the Experience Study, the Legislature acted to limit the growth of the State's pension liabilities by passing Act 163, SLH 2011. This Act, effective July 1, 2012, enacts certain changes to the funding of the System and the benefit structure for new members in all plans. Funding changes include increasing the statutorily required employer contribution rates (see "—Funding Status" below). Benefit changes for new members include increasing the age and service requirements for retirement eligibility, reducing the retirement benefit multiplier and reducing the interest rate credited to employee contributions to 2%. The change in the interest rate credited to employee contributions to 2% is for new members in the Hybrid Plan and Contributory Plan hired on or after July 1, 2011. All other benefit changes are effective for new members hired on or after July 1, 2012. Act 163, SLH 2011, also reduced the investment yield rate assumption for fiscal year 2011 from 8% to 7.75% and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the System, in December 2016 the Board of Trustees adopted the assumption recommendations set forth in the 2016 Experience Study. The Board also set the investment yield rate assumption of 7.00%. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012 and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

In fiscal year 2011, the Legislature acted to improve and protect the System's funded status by placing a moratorium on the enhancement of benefits. Act 29, SLH 2011, provides that there shall be no benefit enhancement for any group of members until the actuarial value of the System's assets is 100 percent of the System's actuarial accrued liability.

The demographic data for each annual June 30 valuation is collected as of the March 31st preceding the valuation date. As of March 31, 2016, the contributory plan covered 6,070 active employees or 9.0% of all active members of the System, the noncontributory plan covered approximately 15,062 active employees or 22.4%, and the Hybrid Plan covered 46,245 active members or 68.6%. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

As of March 31, 2016, the System's membership comprised approximately 67,377 active employees, 7,741 inactive vested members and 45,506 pensioners and beneficiaries. The following table shows the number of active members, inactive vested members and retirees and beneficiaries of the System as of March 31, 2014, 2015 and 2016:

Category	March 31, 2014	March 31, 2015	March 31, 2016
Active	67,206	67,310	67,377
Inactive, vested	8,105	7,413	7,741
Retirees and beneficiaries	43,087	44,283	45,506
Total	**118,398**	**119,006**	**120,624**

Funded Status

Since the adoption of GASB 67 in fiscal year 2014 by the ERS and GASB 68 in fiscal year 2015 by all of its participating employers, including the State, the System's actuary has prepared two separate annual actuarial valuation reports, one of which provides the disclosures required by GASB 67 and 68 that are incorporated into the financial statements of the ERS and its participating employers. In addition, the actuary has provided an annual valuation report based on the provisions of Chapter 88 of the Hawaii Revised Statutes, as amended, and the actuarial assumptions adopted by the ERS Board of Trustees. This report determines whether current employer contribution rates are adequate to ensure that the UAAL can be funded over a period not exceeding 30 years, describes the financial condition of ERS and analyzes changes in ERS's condition. The information presented in this section is derived from the 2016 Valuation Report, presenting the actuarial condition of the ERS as of June 30, 2016.

Based on the 2016 Valuation Report, the System's funded status has decreased compared to the prior year. The decrease can be primarily attributed to the new actuarial assumptions adopted by the Board in December 2016. Without the change in assumptions, the funded status would have still decreased due to investment and liability experience losses, but the decrease would have been much smaller. The unfunded actuarial accrued liability (the "UAAL") as of June 30, 2016 was $12.44 billion. The State estimates its share of the UAAL is 50% as an expense of the General Fund, 20% is to be paid from non-general funds of the State, and the remaining 30% of the UAAL to be funded by the four counties. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 25.0% for police and fire employees and 17.0% for all other employees, the contribution rates established in statute (see "-Funding Policy" below), and the new benefit tier for employees hired after June 30, 2012 the actuary has determined that the remaining amortization period is 66 years. Because this period is not within 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System are not currently being realized. Section 88-122(e)(1) of the Hawaii Revised Statutes provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See "-Funding Policy" below for information on increases in the employer contribution rates and benefits changes.

Funding Policy

Prior to fiscal year 2006, the System was funded on an actuarial reserve basis. Actuarial valuations were prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In earlier years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, SLH 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. For those two valuations, the investment earnings in excess of a 10% actuarial return was to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122, HRS, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund was comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement was determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation was paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the fiscal year ended June 30, 2001. The actuarial cost method used to calculate employer contributions was changed in 1997 by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions were determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation (15.75% for their police officers and firefighters and 13.75% for other employees) effective July 1, 2005. Pursuant to Act 256, SLH 2007, employer contributions beginning July 1, 2008 increased to 19.70% for police officers and firefighters and 15.00% for all others employees. As of June 30, 2010, the System's actuary determined that the remaining period required to amortize the UAAL was 41.3 years, which was greater than the maximum of 30 years specified by HRS Section 88-122(e)(1). As a result, and pursuant to the recommendations of the 2010 Experience Study, the Board of Trustees requested an increase in the statutory employer contribution rates to bring the funding period down to 30 years. In response, the Legislature enacted Act 163, SLH 2011, pursuant to which, effective July 1, 2012, employer contribution requirements were gradually increased, as follows:

Employer Contribution effective starting	Police Officers and Firefighters (% of total payroll)	Other Employees (% of total payroll)
July 1, 2012	22.0	15.5
July 1, 2013	23.0	16.0
July 1, 2014	24.0	16.5
July 1, 2015	25.0	17.0

Act 17, SLH 2017, which became effective July 1, 2017, was adopted to bring the System's funding period within 30 years by increasing employer contribution requirements as follows:

Employer Contribution effective starting	Police Officers and Firefighters (% of total payroll)	Other Employees (% of total payroll)
July 1, 2017	28.0	18.0
July 1, 2018	31.0	19.0
July 1, 2019	36.0	22.0
July 1, 2020	41.0	24.0

The Legislature also included $34.6 million in fiscal year 2017-2018 and $70.7 million in fiscal year 2018-2019 in the Executive Budget Bill (H.B. 100, H.D. 1, S.D. 1, C.D. 1) ("H.B. 100"), which was approved by the Legislature on May 2, 2017 to fund the contribution increases required by S.B. 936.

Under the contributory plan, police officers, firefighters, and corrections officers are required to contribute 12.2% of their salary to the plan and most other covered employees are required to contribute 7.8% of their salary. Under the Hybrid Plan, covered employees are generally required to contribute 6.0% of their salary to the plan, with sewer workers in specified classifications, water safety officers and emergency medical technicians required to contribute 9.75% of their salary. Effective July 1, 2012, contribution rates for newly hired employees covered under the contributory and Hybrid Plan increased by 2% pursuant to Act 163, SLH 2011, such that the corresponding contribution rates for new employees as discussed in this paragraph will be 14.2%, 9.8%, 8.0% and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

Actuarial Methods

The System's actuary uses the entry age normal cost method. The most recent valuation was performed for the year ended June 30, 2016.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. For the June 30, 2016 valuation, this determination was made using an open group projection to reflect both the increasing member contribution rates and the changes in benefits for members hired after June 30, 2012.

Because of this amortization procedure, any change in the unfunded actuarial accrued liability due to (i) actuarial gains and losses, (ii) changes in actuarial assumptions or (iii) amendments, affects the funding period.

On an aggregate basis with regards to the contributory, the Hybrid, and the noncontributory plans, the total normal cost for benefits provided by the System for the fiscal year beginning July 1, 2016 was 13.98% of payroll, which was 9.68% of payroll less than the total contributions required by law (17.91% from employers plus 5.75% in the aggregate from employees). Since only 8.23% of the employers' 17.91% contribution is required to meet the normal cost (5.75% comes from the employee contribution), it is intended that the remaining 9.68% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that pay for new entrants increases by 3.50% per year. Due to the changes enacted in 2011 (increases in the employer contribution rates and new benefits and contribution rates for members hired after June 30, 2012), the percentage of payroll available to amortize the unfunded actuarial liabilities is expected to increase each year for the foreseeable future.

The following table shows the valuation results as of June 30, 2016 plus a 30-year open group projection of ERS' assets and liabilities. The projection assumes no actuarial gains or losses in the actuarial liabilities or the actuarial value of assets. In addition, the projection reflects the changes made to the benefits and member contribution rates of employees hired after June 30, 2012, but does not take into account the increased employer contributions required by S.B. 936.

Projection Results Based on June 30, 2016 Actuarial Valuation

Valuation as of June 30,	Employer Contribution Rate for Fiscal Year Following Valuation Date	Compensation (in Millions)	Employer Contributions (in Millions)	Actuarial Accrued Liability (AAL, in Millions)	Actuarial Value of Assets (AVA, in Millions)	Unfunded Actuarial Accrued Liability (UAAL, in Millions)	Funded Ratio
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2016	17.91%	$ 4,258.9	$ 763	$ 27,439	$ 14,997	$ 12,443	54.7%
2017	17.91%	4,348.5	779	28,504	15,626	12,878	54.8%
2018	17.91%	4,449.4	797	29,643	16,318	13,325	55.0%
2019	17.91%	4,557.6	816	30,785	17,002	13,783	55.2%
2020	17.90%	4,672.8	837	31,929	17,676	14,252	55.4%
2021	17.90%	4,793.9	858	33,074	18,341	14,733	55.5%
2022	17.90%	4,920.0	881	34,220	18,995	15,224	55.5%
2023	17.90%	5,052.4	904	35,365	19,639	15,726	55.5%
2024	17.89%	5,190.1	929	36,510	20,271	16,239	55.5%
2025	17.89%	5,333.8	954	37,651	20,889	16,763	55.5%
2026	17.88%	5,484.6	981	38,788	21,492	17,296	55.4%
2027	17.88%	5,642.6	1,009	39,921	22,081	17,840	55.3%
2028	17.87%	5,807.9	1,038	41,051	22,658	18,393	55.2%
2029	17.87%	5,981.2	1,069	42,179	23,223	18,956	55.1%
2030	17.87%	6,162.1	1,101	43,307	23,779	19,528	54.9%
2031	17.86%	6,351.0	1,134	44,436	24,328	20,108	54.7%
2032	17.86%	6,547.3	1,169	45,565	24,869	20,696	54.6%
2033	17.86%	6,750.8	1,205	46,694	25,404	21,290	54.4%
2034	17.85%	6,963.1	1,243	47,827	25,935	21,891	54.2%
2035	17.85%	7,184.2	1,282	48,964	26,466	22,498	54.1%
2036	17.85%	7,414.0	1,323	50,108	26,999	23,109	53.9%
2037	17.85%	7,653.7	1,366	51,261	27,538	23,723	53.7%
2038	17.85%	7,904.3	1,411	52,429	28,088	24,340	53.6%
2039	17.85%	8,165.8	1,458	53,614	28,656	24,959	53.4%
2040	17.85%	8,438.4	1,506	54,823	29,246	25,577	53.3%
2041	17.85%	8,722.4	1,557	56,060	29,866	26,194	53.3%
2042	17.86%	9,017.3	1,610	57,331	30,523	26,808	53.2%
2043	17.86%	9,324.0	1,665	58,642	31,225	27,417	53.2%
2044	17.86%	9,643.1	1,722	59,998	31,977	28,021	53.3%
2045	17.86%	9,974.2	1,781	61,406	32,790	28,616	53.4%

Projection assumes all assumptions exactly met, including a 7.00% annual return on the current actuarial value of assets.
Source: 2016 Valuation Report.

Actuarial Valuation

The actuarial value of assets is equal to the market value, adjusted for a four-year phase-in of actual investment return in excess of or below expected investment return. The actual return is calculated net of investment expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds. The actuarial value of assets has been based on a four—year smoothed valuation that recognizes the excess or shortfall of investment income over or under the actuarial investment yield rate assumption. The actuarial asset valuation method is intended to smooth out year to year fluctuations in the market return. The excess or shortfall in the actual return during the year, compared to the investment yield rate assumption, is spread over this valuation and the next three valuations.

The System's actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. Prior to fiscal year 2012, HRS Section 88-122(b) provided for the Board of Trustees to adopt the assumptions to be used by the System, except the investment yield rate, which was set by the Legislature. Act 163, SLH 2011, set the investment yield rate at 7.75% for fiscal year 2011 but also amended HRS Section 88-122(b) to allow the Board of Trustees to establish, for subsequent fiscal years, all assumptions to be used by the System, including the investment yield rate assumption. The Board of Trustees periodically evaluates and revises the assumptions used by the System for actuarial valuations, including by commissioning experience studies to evaluate the actuarial assumptions to be used by the System. The current assumptions were adopted by the System's Board of Trustees based on the recommendations of the System's actuary in the most recent experience study, the 2016 Experience Study. These assumptions, funding changes and benefit structure are reflected in the 2016 Valuation Report. The impact of the new actuarial assumptions was an increase in the unfunded liabilities of the System of approximately $2.9 billion.

The actual investment returns of the System for fiscal years 2007 through 2016 shown below are market returns, net of investment and administrative expenses.

Fiscal Year	Percentage
2007	17.81%
2008	-3.51%
2009	-17.54%
2010	11.96%
2011	21.25%
2012	-0.14%
2013	12.57%
2014	17.77%
2015	4.23%
2016	-0.78%

Source: Report on Investment Activity for the ERS prepared by Callan Associates, Inc. (2006), Pension Consulting Alliance, Inc. (2007), The Northern Trust Company (2008 to 2013, and The Bank of New York Mellon (2014 to 2016), and reported in the ERS CAFRs.

Through March 31, 2017, the actual investment return (market return) of the System for the first nine months of fiscal year 2017 was 10.3%, gross of investment and administrative expenses.

The 2016 Valuation Report found that, as the percentage of employees hired on and after July 1, 2012, increases and the new funding policies impact the System, the UAAL will be fully amortized over a 66-year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2023. The combination of the higher contribution policies and new benefit structure for future employees is expected to enable the System to absorb the prior adverse experience over the 66-year term.

The following table shows the System's funding progress for the ten most recent actuarial valuation dates.

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in millions)

June	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b)-(a)	Funded Ratio (a)/(b)	Payroll (c)	UAAL as a Percentage of Payroll ((b)-(a))/(c)
2007	10,589.8	15,696.5	5,106.8	67.5%	3,507.0	145.6%
2008	11,381.0	16,549.1	5,168.1	68.8%	3,782.1	136.6%
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011*	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%
2012	12,242.5	20,683.4	8,440.9	59.2%	3,890.0	217.0%
2013	12,748.8	21,243.7	8,494.9	60.0%	3,906.7	217.4%
2014	13,641.8	22,220.1	8,578.3	61.4%	3,991.6	214.9%
2015**	14,463.7	23,238.4	8,774.7	62.2%	4,171.4	210.4%
2016***	14,998.7	27,439.2	12,440.5	54.7%	4,258.9	292.1%

Source: The 2016 Valuation Report.
*Figures reflect assumption changes effective June 30, 2011.
**Reflects change in investment return assumption effective June 30, 2015.
***Reflects assumption changes effective June 30, 2016.

The following table shows the System's projected funding progress through the Fiscal Year ending June 30, 2045. The projection assumes no actuarial gains or losses in the actuarial liabilities or the actuarial value of assets. In addition, the projection reflects the changes made to the benefits and member contribution rates of employees hired after June 30, 2012, but does not take into account the increased employer contributions required by Act 17, SLH 2017. As discussed under the heading "—*Funded Status*" above, due to certain changes in actuarial assumptions in the 2016 Valuation Report, the actuary has determined that the System will not be fully funded until 2082, which exceeds the maximum period under State law.

PROJECTED FUNDING PROGRESS*
(Dollar amounts in millions)

Fiscal Year (ending June 30)	Employer Contributions	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio
2016	$ 763	$27,439	$14,997	$12,443	54.7%
2017	779	28,504	15,626	12,878	54.8
2018	797	29,643	16,318	13,325	55.0
2019	816	30,785	17,002	13,783	55.2
2020	837	31,929	17,676	14,252	55.4
2021	858	33,074	18,341	14,733	55.5
2022	881	34,220	18,995	15,224	55.5
2023	904	35,365	19,639	15,726	55.5
2024	929	36,510	20,271	16,239	55.5
2025	954	37,651	20,889	16,763	55.5
2026	981	38,788	21,492	17,296	55.4
2027	1,009	39,921	22,081	17,840	55.3
2028	1,038	41,051	22,658	18,393	55.2
2029	1,069	42,179	23,223	18,956	55.1
2030	1,101	43,307	23,779	19,528	54.9
2031	1,134	44,436	24,328	20,108	54.7
2032	1,169	45,565	24,869	20,696	54.6
2033	1,205	46,694	25,404	21,290	54.4
2034	1,243	47,827	25,935	21,891	54.2
2035	1,282	48,964	26,466	22,498	54.1
2036	1,323	50,108	26,999	23,109	53.9
2037	1,366	51,261	27,538	23,723	53.7
2038	1,411	52,429	28,088	24,340	53.6
2039	1,458	53,614	28,656	24,959	53.4
2040	1,506	54,823	29,246	25,577	53.3
2041	1,557	56,060	29,866	26,194	53.3
2042	1,610	57,331	30,523	26,808	53.2
2043	1,665	58,642	31,225	27,417	53.2
2044	1,722	59,998	31,977	28,021	53.3
2045	1,781	61,406	32,790	28,616	53.4

Source: 2016 Valuation Report

* *Assumes all actuarial assumptions exactly met, including a 7.00% annual return on the current actuarial value of assets. No assurance can be given that any of such assumptions will reflect the actual results experienced by the System. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the System, and variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's actuarial accrued liability, actuarial value of assets or funded ratio.*

The total assets of the System on a market value basis amounted to approximately $12.4 billion as of June 30, 2013, $14.2 billion as of June 30, 2014, $14.5 billion as of June 30, 2015 and $14.1 billion as of June 30, 2016. Actuarial certification of assets as of June 30, 2013 was $12.7 billion, as of June 30, 2014 was $13.6 billion, as of June 30, 2015 was $14.5 billion, and as of June 30, 2016 was $15.0 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix C hereto).

The following table shows a comparison of the actuarial value of assets ("AVA") to the market values, the ratio of the AVA to market value and the funded ratio based on AVA compared to funded ratio based on market value assets:

Fiscal Year (ending June 30)	Actuarial Value of Assets (in millions)	Market Value of Assets (in millions)	Market Value as Percentage of AVA	Funded Ratio (AVA)	Funded Ratio (Market Value)
2007	10,589.8	11,434.3	108.0%	67.5%	72.8%
2008	11,381.0	10,846.8	95.3%	68.8%	65.5%
2009	11,400.1	8,818.0	77.4%	64.6%	50.0%
2010	11,345.6	9,821.6	86.6%	61.4%	53.2%
2011	11,942.8	11,642.3	97.5%	59.4%	57.9%
2012	12,242.5	11,285.9	92.2%	59.2%	54.6%
2013	12,748.8	12,357.8	96.9%	60.0%	58.2%
2014	13,641.8	14,203.0	104.1%	61.4%	63.9%
2015	14,463.7	14,505.5	100.3%	62.2%	62.4%
2016	14,998.7	14,070.0	93.8%	54.7%	51.3%

Source: The 2007-2016 Valuation Reports.

As of June 30, 2016, the UAAL of the System was $12.44 billon. Since the System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. However, under GASB 68 a portion of the Net Pension Liability is allocated to each participating employer including the State. The amount of the ERS net pension liability that was allocated to the State is $6.1 billion (as of June 30, 2015), of which the State estimates that the General Fund portion is 71%. The following table shows the normal cost (which means the annual cost of providing retirement benefits for services performed by today's members) as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for fiscal years 2015 and 2016:

NORMAL COST

	June 30,					
	2015			2016		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	20.39%	10.53%	11.66%	25.72%	12.46%	13.98%
Employee contribution rate	12.35%	4.77%	5.64%	12.40%	4.89%	5.75%
Effective employer normal cost rate	8.04%	5.76%	6.02%	13.32%	7.57%	8.23%

Source: The 2016 Valuation Report.

The following table shows the actual contributions that has been contributed as of the last 10 valuation dates. Employer contribution rates are set prospectively by the statute.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in thousands)

June 30,	Actual Contribution
2007	454,494
2008	488,770
2009	578,635
2010	547,613
2011	534,858
2012	548,353
2013	581,447
2014	653,128
2015	717,793
2016	756,558

Source: The 2014-2016 Valuation Reports.

Asset Allocation

The following table shows the target and actual asset allocation of the System as of June 30, 2016:

ASSET ALLOCATION
(as of June 30, 2016)

	Actual Allocation		Target Allocation		
Asset Type	**Amount ($mm)**	**Percentage**	**Amount ($mm)**	**Percentage**	**Allocation Difference**
Domestic Equity	$4,486.3	32.0%	$4,594.7	32.8%	-0.8%
Non-US Equity	3,138.5	22.4%	3,640.3	26.0%	-3.6%
Fixed Income	2,909.4	20.8%	2,800.3	20.0%	0.8%
Real Estate	779.8	5.6%	779.8	5.6%	0.0%
Private Equity	805.7	5.8%	805.7	5.8%	0.0%
Real Return	680.4	4.9%	680.4	4.9%	0.0%
Covered Calls	988.5	7.1%	700.1	5.0%	2.1%
Other	212.5	1.5%	0.0	0.0%	1.5%
Total*	**$14,001.3**	**100.0%**	**$14,001.3**	**100.0%**	

Source: Valuations provided by BNY Mellon - 2016; values unaudited (totals may not sum due to rounding).

* Totals reflect rounding.

The above table represents the historical asset class policy as of June 30, 2016. In August 2014, the Board of Trustees of the System approved the adoption of a change in its asset allocation policy from the current asset-class policy to a new risk-based asset allocation framework within the categories of Broad Growth, Principal Protection, Real Estate, Real Return and Other. The new policy became effective as of October 1, 2014.

ASSET ALLOCATION
(as of June 30, 2016)

Asset Type	Actual Allocation Amount ($mm)	Actual Allocation Percentage	Target Allocation Amount ($mm)	Target Allocation Percentage*	Allocation Difference
Broad Growth	$10,545.0	75.3%	$10,641.0	76.0%	-0.7%
Principal Protection	1,783.5	12.7%	1,680.2	12.0%	0.7%
Real Estate	779.8	5.6%	980.1	7.0%	-1.4%
Real Return	680.4	4.9%	700.1	5.0%	-0.1%
Other	212.5	1.5%	0.0	0.0%	1.5%
Total	**$14,001.3**	**100.0%**	**$14,001.3**	**100.0%**	

Source: Valuations provided by BNY Mellon – 2016; values unaudited.

* Target Percentages are the October 2014 Risk-Based Policy Targets. Numbers subject to changes and rounding errors.

See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix C for summary of the actuarial certification, employer contribution rate and unfunded accrued liabilities information about the System, including employees of the State and each of its counties.

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" from Table 1 through Table 10 has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism (DBEDT) *Second Quarter 2017 Quarterly Statistical and Economic Report* (QSER) or from other materials prepared by DBEDT, some of which may be found at http://dbedt.hawaii.gov/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." The following descriptions of the various components of the State's economy and DBEDT's outlook for the economy are below under "State of the Economy" and there is a brief description in the "Outlook for the Economy" section below explaining the impact of these components on the State's fiscal position.

State of the Economy

Hawaii's major economic indicators were mostly positive in the first quarter of 2017. Visitor arrivals, visitor expenditures, State general fund tax revenues, wage and salary jobs, personal income (through the third quarter), private building authorizations, government contracts awarded and State CIP expenditures all increased in the quarter compared to the first quarter of 2016.

In the first quarter of 2017, the total number of visitors arriving by air to Hawaii increased 50,593, or 2.3 percent. Due to longer lengths of stay, the daily visitor census increased 3.8 percent in the quarter. Since visitors spent more on a daily basis in the first quarter of 2017, total visitors by air spending increased 10.3 percent in the quarter. Historical data shows that after 17 quarters of positive growth from the third quarter of 2009 to the third quarter of 2013, Hawaii's tourism sector experienced one quarter of negative growth in the fourth quarter of 2013. Since the first quarter of 2014, however, Hawaii's tourism sector returned to positive growth compared with the same quarter in the previous year.

In the first quarter of 2017, the construction sector lost 600 jobs, the government contracts awarded increased $38.7 million, or 22.1 percent, the permit value for private construction increased $361.9 million, or 66.3 percent, and the State CIP expenditures increased $4.1 million, or 1.6 percent, compared with the same quarter of 2016. According to the most recent excise tax base data available, current construction put-in-place increased $119.2 million, or 5.7 percent, in the fourth quarter of 2016 compared with that quarter in 2015.

In the first quarter of 2017, State general fund tax revenues were up $71.9 million, or 4.8 percent, over the same period of 2016. State general excise tax revenue increased $13.6 million, or 1.7 percent, in the first quarter of 2017 compared to first quarter 2016. In 2016, State general fund tax revenues increased $216.8 million, or 3.6 percent, and state general excise tax revenue increased $64.2 million, or 2.0 percent, compared to 2015.

Labor market conditions were positive. Since the fourth quarter of 2010, Hawaii's jobs increased for the 26th consecutive quarter. In the first quarter of 2017, Hawaii's non-agricultural wage and salary jobs averaged 649,600 jobs, an increase of 5,600 jobs, or 0.9 percent, from the same quarter of 2016.

The job increase in the first quarter of 2017 was due to job increases in both the private sector and government sector. In this quarter, the private sector added about 4,800 non-agricultural jobs compared to the first quarter of 2016. Jobs increased the most in Food Services and Drinking Places, adding 2,600 jobs, or 4.0 percent. This was followed by Retail Trade, adding 1,000 jobs, or 1.4 percent, Information, adding 700 jobs, or 8.3 percent, and Accommodation, adding 500 jobs, or 1.3 percent, in the quarter. For the private sector, jobs lost the most in Natural Resources, Mining and Construction, lost 600 jobs, or 1.6 percent; followed by Manufacturing, lost 400 jobs, or 2.8 percent, and Wholesale Trade, lost 200 jobs, or 1.1 percent, and Health Care and Social Assistance lost 200 jobs, or 0.3 percent, in the quarter. The three levels of government added 800 jobs, or 0.6 percent, in the quarter. The Federal Government added 200 jobs, or 0.6 percent; the State Government added 600 jobs, or 0.8 percent, while the Local Government jobs remained about the same.

The U.S. Bureau of Economic Analysis (BEA) estimates of quarterly GDP show in the fourth quarter of 2016 total annualized nominal GDP increased $3,239 million, or 4.0 percent, from the fourth quarter of 2015. In 2016, total annualized nominal GDP increased $3,317 million, or 4.1 percent, from the previous year. In the fourth quarter of 2016, total annualized real GDP (in chained 2009 dollar) increased $1,491 million, or 2.1 percent, from the same quarter of 2015. In 2016, total annualized real GDP increased $1,538 million, or 2.1 percent, from the previous year.

In the fourth quarter of 2016, total non-farm private sector annualized earnings increased $1,726.1 million, or 4.9 percent, from the fourth quarter of 2015. In dollar terms, the largest increase occurred in health care and social assistance; followed by accommodation and food services, construction, administrative and waste management services, and retail trade. During the fourth quarter of 2016, total government earnings increased $396.5 million, or 2.6 percent, from the same quarter of 2015. Earnings from the federal government increased $114.0 million, or 1.3 percent. Earnings from the state and local governments increased $282.5 million, or 4.2 percent, in the quarter.

In the second half of 2016, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.5 percent from the same period in 2015. This is the same as the 1.5 percent increase for the U.S. average CPI-U and is higher than the 2015 Honolulu CPI-U increase of 1.0 percent from the previous year. In the second half of 2016, the Honolulu CPI-U increased the most in Apparel (4.5 percent), followed by Housing (3.0 percent), Medical Care (2.2 percent), Recreation (1.6 percent), Food and Beverages (0.5 percent), Other Goods and Services (0.5 percent), and Education and Communication (0.1 percent). The price of Transportation decreased 1.7 percent compared to the second half of 2015.

Outlook for the Economy

Hawaii's economy is expected to continue positive growth for 2017 and 2018. This outlook is based on the most recent developments in the national and global economies, the performance of Hawaii's tourism industry, labor market conditions, and the growth of personal income and tax revenues.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the May 2017 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 2.1 percent in 2017, 0.2 of a percentage point below the growth rate projected in the January 2017 forecast. For 2018, the consensus forecast predicts an overall 2.4 percent growth in U.S. real GDP.

According to the May 2017 Blue Chip Economic Consensus Forecast, real GDP growth for Japan is now expected to increase 1.3 percent in 2017; 0.3 of a percentage point higher than the growth rate projected in the January 2017 forecast. For 2018, the consensus forecast now expects an overall 0.9 percent growth rate for Japanese real GDP.

For the local economy, DBEDT expects that visitor expenditures will grow at a higher rate than projected in the previous forecast for 2017. For GDP growth, the current forecast in 2017 was slightly higher than the previous forecast.

Overall, Hawaii's economy, as measured by real GDP, is projected to show a 1.9 percent increase in 2017, 0.1 of a percentage point above the growth rate forecasted last quarter. The real GDP growth forecast in 2018 is 1.7 percent, same as the previous forecast.

Hawaii's unemployment rate is projected to be 2.9 percent in 2017, 0.5 of a percentage point below the previous forecast. The unemployment rate in 2018 is projected to be 3.1 percent, 0.4 of a percentage point below the previous forecast.

Visitor arrivals are expected to increase 2.0 percent in 2017, 0.5 of a percentage point above the previous forecast. The forecast for visitor days in 2017 increased 0.8 of a percentage point to 2.2 percent. The forecast for visitor expenditure growth in 2017 was revised upward to 5.1 percent, from 2.9 percent growth projected in the previous forecast. For 2018, the growth rate of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.5 percent, 1.4 percent, and 1.9 percent, respectively.

The projection for the non-agricultural wage and salary job growth rate for 2017 is 1.0 percent, 0.2 of a percentage point below the previous forecast. In 2018, jobs are projected to increase 0.9 percent, 0.2 of a percentage point below the previous forecast.

The Honolulu Consumer Price Index (CPI) is now expected to increase 2.5 percent in 2017, 0.1 of a percentage point above the previous forecast. In 2018, the CPI is projected to increase 2.3 percent, 0.2 of a percentage point below the previous forecast.

Personal income in current dollars is now expected to increase 4.7 percent in 2017, the same as the previous forecast. Real personal income is now projected to grow 2.4 percent in 2017, also the same as the previous forecast. In 2018, current-dollar personal income and real personal income are expected to increase 4.7 and 2.3 percent, respectively.

Beyond 2018, the economy is expected to continue its expansion path, with job growth projected to be 1.0 percent in 2019 and 0.8 percent in 2020. Visitor arrivals are expected to increase 1.6 percent in 2019 and 1.5 percent in 2020. Visitor expenditures are expected to increase 3.7 percent in 2019 and 3.6 percent in 2020. Real personal income is projected to increase 2.5 percent in 2019 and 2.6 percent in 2020. Hawaii's real GDP growth is expected to increase 1.6 percent in 2019 and 2020. The unemployment rate is expected to increase to 3.2 percent in 2019 and 3.4 percent in 2020.

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INFORMATION ON EMPLOYMENT, WAGES AND SALARIES, TAX REVENUES AND TAX BASE

Table 1
SELECTED ECONOMIC ACTIVITIES: STATE

	1st QUARTER			YEAR-TO-DATE		
SERIES	2016	2017	% CHANGE YEAR AGO	2016	2017	% CHANGE YEAR AGO
Civilian labor force, NSA (persons) [1]	680,750	695,650	2.2	680,750	695,650	2.2
Civilian employed, NSA	660,000	676,400	2.5	660,000	676,400	2.5
Civilian unemployed, NSA	20,750	19,250	-7.2	20,750	19,250	-7.2
Unemployment rate, NSA (%) [1 2]	3.0	2.8	-0.2	3.0	2.8	-0.2
Total wage and salary jobs, NSA	650,000	(NA)	(NA)	650,000	(NA)	(NA)
Total non-agric. wage & salary jobs	644,000	649,600	0.9	644,000	649,600	0.9
Nat. Resources, Mining, Constr.	37,600	37,000	-1.6	37,600	37,000	-1.6
Manufacturing	14,100	13,700	-2.8	14,100	13,700	-2.8
Wholesale Trade	17,700	17,500	-1.1	17,700	17,500	-1.1
Retail Trade	70,500	71,500	1.4	70,500	71,500	1.4
Transp., Warehousing, Util.	31,100	31,500	1.3	31,100	31,500	1.3
Information	8,400	9,100	8.3	8,400	9,100	8.3
Financial Activities	28,200	28,100	-0.4	28,200	28,100	-0.4
Professional & Business Services	83,100	83,400	0.4	83,100	83,400	0.4
Educational Services	15,200	15,600	2.6	15,200	15,600	2.6
Health Care & Social Assistance	67,800	67,600	-0.3	67,800	67,600	-0.3
Arts, Entertainment & Recreation	11,700	12,000	2.6	11,700	12,000	2.6
Accommodation	40,000	40,500	1.3	40,000	40,500	1.3
Food Services & Drinking Places	64,900	67,500	4.0	64,900	67,500	4.0
Other Services	27,000	27,200	0.7	27,000	27,200	0.7
Government	126,600	127,400	0.6	126,600	127,400	0.6
Federal	32,900	33,100	0.6	32,900	33,100	0.6
State	75,000	75,600	0.8	75,000	75,600	0.8
Local	18,800	18,800	0.0	18,800	18,800	0.0
Agriculture wage and salary jobs	6,000	(NA)	(NA)	6,000	(NA)	(NA)
State general fund revenues ($1,000)	1,504,155	1,576,072	4.8	1,504,155	1,576,072	4.8
General excise and use tax revenues	818,316	831,893	1.7	818,316	831,893	1.7
Income-individual	495,998	556,298	12.2	495,998	556,298	12.2
Declaration estimated taxes	124,311	171,295	37.8	124,311	171,295	37.8
Payment with returns	22,260	24,786	11.3	22,260	24,786	11.3
Withholding tax on wages	469,338	525,726	12.0	469,338	525,726	12.0
Refunds ('-' indicates relative to State)	-119,911	-165,511	38.0	-119,911	-165,511	38.0
Transient accommodations tax	123,793	139,611	12.8	123,793	139,611	12.8
Honolulu County Surcharge [3]	67,744	(NA)	(NA)	67,744	(NA)	(NA)
Private Building Permits ($1,000)	545,567	907,437	66.3	545,567	907,437	66.3
Residential	223,066	505,908	126.8	223,066	505,908	126.8
Commercial & industrial	30,183	91,507	203.2	30,183	91,507	203.2
Additions & alterations	292,319	310,022	6.1	292,319	310,022	6.1
Visitor Days - by air	20,603,582	21,155,927	2.7	20,603,582	21,155,927	2.7
Domestic visitor days - by air	14,433,420	14,648,285	1.5	14,433,420	14,648,285	1.5
International visitor days - by air	6,170,161	6,507,643	5.5	6,170,161	6,507,643	5.5
Visitor arrivals by air - by air	2,173,346	2,223,939	2.3	2,173,346	2,223,939	2.3
Domestic flight visitors - by air	1,427,864	1,451,142	1.6	1,427,864	1,451,142	1.6
International flight visitors - by air	745,482	772,797	3.7	745,482	772,797	3.7
Visitor expend. - arrivals by air ($1,000)	3,958,841	4,367,913	10.3	3,958,841	4,367,913	10.3
Hotel occupancy rates (%) [2]	80.8	81.2	0.4	80.8	81.2	0.4

[1] Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.
[2] Change represents absolute change in rates rather than percentage change in rates.
[3] 0.5% added to the general excise tax to pay for O‘ahu‘s mass transit system and took effect January 1, 2007.
Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.
Source: DBEDT, Hawaii State Department of Labor & Industrial Relations, and Hawaii State Department of Taxation.

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII 2015 TO 2020

Economic Indicators	2015	2016	2017	2018	2019	2020
	(Actual)		(Forecast)			
Total population (thousands)	1,425	1,429	1,436	1,447	1,459	1,470
Visitor arrivals (thousands) [1]	8,680	8,941	9,124	9,264	9,408	9,551
Visitor days (thousands) [1]	78,620	80,383	82,181	83,292	84,613	85,928
Visitor expenditures (million dollars) [1]	15,111	15,748	16,550	16,859	17,476	18,106
Honolulu CPI-U (1982-84=100)	260.2	265.3	271.9	278.2	284.6	291.1
Personal income (million dollars)	69,129	72,215	75,609	79,163	82,963	86,945
Real personal income (millions of 2009$) [2]	53,830	55,284	56,610	57,912	59,360	60,904
Non-agricultural wage & salary jobs (thousands)	638.6	647.6	654.1	660.0	666.6	671.9
Civilian unemployment rate [3]	3.6	3.0	2.9	3.1	3.2	3.4
Gross domestic product (million dollars)	80,599	83,917	87,022	90,416	93,942	97,606
Real gross domestic product (millions of 2009$)	71,714	73,252	74,644	75,913	77,127	78,361
Gross domestic product deflator (2009=100)	112.4	114.6	116.6	119.1	121.8	124.6
Annual Percentage Change						
Total population	0.6	0.2	0.5	0.8	0.8	0.8
Visitor arrivals [1]	4.3	3.0	2.0	1.5	1.6	1.5
Visitor days [1]	3.5	2.2	2.2	1.4	1.6	1.6
Visitor expenditures [1]	0.9	4.2	5.1	1.9	3.7	3.6
Honolulu CPI-U	1.0	2.0	2.5	2.3	2.3	2.3
Personal income	4.8	4.5	4.7	4.7	4.8	4.8
Real personal income [2]	3.8	2.7	2.4	2.3	2.5	2.6
Non-agricultural wage & salary jobs	1.8	1.4	1.0	0.9	1.0	0.8
Civilian unemployment rate [3]	-0.8	-0.6	-0.1	0.2	0.1	0.2
Gross domestic product	4.9	4.1	3.7	3.9	3.9	3.9
Real gross domestic product	2.3	2.1	1.9	1.7	1.6	1.6
Gross domestic product deflator (2009=100)	2.5	1.9	1.8	2.2	2.3	2.3

[1] Visitors who came to Hawaii by air or by cruise ship. Expenditures includes supplementary expenditures. 2016 supplementary expenditure was estimated by DBEDT.
[2] Using personal income deflator developed by the U.S. Bureau of Economic Analysis and estimated by DBEDT.
[3] Absolute change from previous year.
Source: Hawaii State Department of Business, Economic Development & Tourism, May 12, 2017.

Labor Force and Jobs

Hawaii's labor market conditions continued to improve in the first quarter of 2017. Since the civilian labor force increased less than the civilian employment, the civilian unemployment rate decreased 0.2 of a percentage point in the quarter. For the 26th consecutive quarter-over-quarter, civilian non-agricultural wage and salary jobs increased.

In the first quarter of 2017, the civilian labor force averaged 695,650 people, an increase of 14,900 people, or 2.2 percent, from the same quarter of 2016. In 2016, the civilian labor force increased 10,500 people, or 1.6 percent, from the previous year.

Civilian employment totaled 676,400 people in the first quarter of 2017, an increase of 16,400 people, or 2.5 percent, compared to the same quarter of 2016. This is the 18th quarter-over-quarter increase. In 2016, average civilian employment increased 13,950 people, or 2.1 percent, from the previous year.

In the first quarter of 2017, the number of civilian unemployed averaged 19,250, a decrease of 1,500 people, or 7.2 percent, from the same quarter of 2016. In 2016, the number of unemployed decreased 3,450 people, or 14.3 percent, from the previous year.

The unemployment rate (not seasonally adjusted) decreased from 3.0 percent in the first quarter of 2016 to 2.8 percent in the first quarter of 2017. In 2016, the unemployment rate decreased 0.6 of a percentage point from the previous year.

In the first quarter of 2017, Hawaii's non-agricultural wage and salary jobs averaged 649,600 jobs, an increase of 5,600 jobs, or 0.9 percent, from the same quarter of 2016. This is the 26th consecutive quarter-over-quarter increase in non-agricultural wage and salary jobs after ten consecutive quarter-over-quarter decreases in jobs since the second quarter of 2008. In 2016, average non-agricultural wage and salary jobs increased 1.4 percent, or 9,000 jobs, from the previous year.

The job increase in the first quarter of 2017 was due to job increases in both the private sector and government sector. In this quarter, the private sector added about 4,800 non-agricultural jobs compared to the first quarter of 2016. Jobs increased the most in Food Services and Drinking Places, adding 2,600 jobs, or 4.0 percent. This was followed by Retail Trade, adding 1,000 jobs, or 1.4 percent, Information, adding 700 jobs, or 8.3 percent, and Accommodation, adding 500 jobs, or 1.3 percent, in the quarter.

For the private sector, in the first quarter of 2017, jobs lost the most in Natural Resources, Mining and Construction, lost 600 jobs, or 1.6 percent, followed by Manufacturing, lost 400 jobs, or 2.8 percent, Wholesale Trade, lost 200 jobs, or 1.1 percent, and Health Care and Social Assistance lost 200 jobs, or 0.3 percent, in the quarter.

The three levels of government added 800 jobs, or 0.6 percent, in the first quarter of 2017 compared to the same quarter of 2016. The Federal Government added 200 jobs, or 0.6 percent, the State Government added 600 jobs, or 0.8 percent, while the Local Government jobs remained about the same, compared to the first quarter of 2016.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, increased 1.7 percent in the first quarter of 2017 compared to the same quarter of 2016. In 2016, the initial liable claims for unemployment decreased 1.6 percent from the previous year.

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Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(NUMBER OF PERSONS)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
2005	626,900	2.6	608,950	3.2	2.9
2006	638,250	1.8	621,550	2.1	2.6
2007	638,400	0.0	620,550	-0.2	2.8
2008	639,700	0.2	612,100	-1.4	4.3
2009	631,700	-1.3	586,500	-4.2	7.2
2010	647,250	2.5	602,300	2.7	6.9
2011	660,250	2.0	615,300	2.2	6.8
2012[1]	647,200	-2.0	608,300	-1.1	6.0
2013[1]	649,550	0.4	618,000	1.6	4.9
2014[1]	666,100	2.5	637,000	3.1	4.4
2015[1]	674,900	1.3	650,750	2.2	3.6
2016[1]	685,400	1.6	664,700	2.1	3.0
2016 Q1[1]	680,750	1.4	660,000	2.3	3.0
2017 Q1[2]	695,650	2.2	676,400	2.5	2.8

[1] 2012-2016 benchmarked by Hawaii State Department of Labor & Industrial Relations in March 2017 and reflect revised population controls and model reestimation.

[2] 2017 data are preliminary.

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

The U.S. Bureau of Economic Analysis (BEA) estimates of quarterly GDP show in the fourth quarter of 2016 total annualized nominal GDP increased $3,239 million, or 4.0 percent, from the fourth quarter of 2015. In 2016, total annualized nominal GDP increased $3,317 million, or 4.1 percent, from the previous year. In the fourth quarter of 2016, total annualized real GDP (in chained 2009 dollar) increased $1,491 million, or 2.1 percent, from the fourth quarter of 2015. In 2016, total annualized real GDP increased $1,538 million, or 2.1 percent from the previous year.

Hawaii's total personal income increased during the fourth quarter of 2016 over the same quarter of 2015; all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wages and salaries, followed by personal current transfer receipts, dividends, interest, and rent, supplements to wages and salaries, and proprietors' income.

In the fourth quarter of 2016, total nominal annualized personal income (i.e. not adjusted for inflation) increased $3,062.9 million, or 4.4 percent, over that of 2015. In 2016, total annualized personal income was $72,215.0 million, an increase of 4.5 percent from the previous year.

In the fourth quarter of 2016, wages and salaries increased $1,495.1 million, or 4.2 percent, over that of 2015. This was the 26th consecutive quarterly year-over-year increase since the third quarter of 2010. In 2016, wages and salaries increased 4.9 percent from the previous year.

Supplements to wages and salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased $401.8 million, or 3.9 percent, in the fourth quarter of 2016 from the same quarter of 2015. In 2016, supplements to wages and salaries increased 4.5 percent from the previous year.

Proprietors' income increased $221.1 million, or 4.3 percent, in the fourth quarter of 2016 over that of 2015. In 2016, proprietors' income was up 5.4 percent from the previous year.

Dividends, interest, and rent increased $491.4 million, or 3.4 percent, in the fourth quarter of 2016 from the same quarter of 2015. In 2016, income in this category was up 2.5 percent from the previous year.

The annualized personal current transfer receipts grew by $669.6 million, or 6.1 percent, in the fourth quarter of 2016 from the same quarter of 2015. In 2016, personal current transfer receipts increased 5.3 percent from the previous year.

Contributions to government social insurance, which is subtracted from total personal income, increased $216.0 million, or 3.8 percent, in the fourth quarter of 2016 compared to the fourth quarter of 2015. In 2016, contributions to government social insurance increased 4.4 percent from the previous year.

In the fourth quarter of 2016, total non-farm private sector annualized earnings increased $1,726.1 million, or 4.9 percent, from the fourth quarter of 2015. In dollar terms, the largest increase occurred in health care and social assistance, followed by accommodation and food services, construction, administrative and waste management services, and retail trade. During the fourth quarter of 2016, total government earnings increased $396.5 million, or 2.6 percent, from the same quarter of 2015. Earnings from the federal government increased $114.0 million, or 1.3 percent. Earnings from the state and local governments increased $282.5 million, or 4.2 percent, in the quarter.

In the second half of 2016, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.5 percent from the same period in 2015. This is the same as the 1.5 percent increase for the U.S. average CPI-U and is higher than the 2015 Honolulu CPI-U increase of 1.0 percent from the previous year. In the second half of 2016, the Honolulu CPI-U increased the most in Apparel (4.5 percent), followed by Housing (3.0 percent), Medical Care (2.2 percent), Recreation (1.6 percent), Food and Beverages (0.5 percent), Other Goods and Services (0.5 percent), and Education and Communication (0.1 percent). The price of Transportation decreased 1.7 percent compared to the second half of 2015.

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Table 4
PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(In thousands of dollars at seasonally adjusted annual rates and percent)

								Percentage change		
								Fourth Quarter 2016 from		*Ann Aver*
Series	*Fourth Quarter 2015*	*First Quarter 2016*	*Second Quarter 2016*	*Third Quarter 2016*	*Fourth Quarter 2016*	*AnnAver 2015*	*AnnAver 2016*	*Fourth Quarter 2015*	*Third Quarter 2016*	*2016 from 2015*
PERSONAL INCOME	70,227,212	71,147,112	71,829,971	72,592,729	73,290,105	69,129,101	72,214,979	4.4	1.0	4.5
Earnings By Place of Work	50,656,148	51,248,491	51,735,128	52,345,438	52,774,060	49,621,545	52,025,779	4.2	0.8	4.8
Wages and salaries	35,332,896	35,648,057	36,053,771	36,538,390	36,827,968	34,578,403	36,267,047	4.2	0.8	4.9
Supplements to wages and salaries	10,227,288	10,447,524	10,494,382	10,563,007	10,629,066	10,083,554	10,533,495	3.9	0.6	4.5
Emp'er contrib. for emp'ee pension & ins. funds	7,391,056	7,591,100	7,615,234	7,652,024	7,705,314	7,294,712	7,640,918	4.3	0.7	4.7
Employer contributions for gov't social ins.	2,836,232	2,856,424	2,879,148	2,910,983	2,923,752	2,788,842	2,892,577	3.1	0.4	3.7
Proprietors' income	5,095,964	5,152,910	5,186,975	5,244,041	5,317,026	4,959,588	5,225,238	4.3	1.4	5.4
Farm proprietors' income	-7,352	-5,056	-7,716	-7,600	-19,648	-10,956	-10,005	1/	1/	1/
Nonfarm proprietors' income	5,103,316	5,157,966	5,194,691	5,251,641	5,336,674	4,970,544	5,235,243	4.6	1.6	5.3
Dividends, interest, and rent	14,347,912	14,453,375	14,581,504	14,668,433	14,839,277	14,284,393	14,635,647	3.4	1.2	2.5
plus: Personal current transfer receipts	10,968,152	11,270,092	11,382,664	11,509,343	11,637,724	10,871,717	11,449,956	6.1	1.1	5.3
Social Security benefits	3,836,188	3,858,544	3,895,000	3,921,413	3,950,181	3,790,203	3,906,285	3.0	0.7	3.1
Medicare benefits	2,234,692	2,270,764	2,303,555	2,328,374	2,347,803	2,191,778	2,312,624	5.1	0.8	5.5
Medicaid	2,100,428	2,201,787	2,240,212	2,284,844	2,337,372	2,068,994	2,266,054	11.3	2.3	9.5
State unempl. ins. comp.	117,508	109,521	116,489	128,300	139,505	136,466	123,454	18.7	8.7	-9.5
All other personal current transfer receipts	2,679,336	2,829,476	2,827,408	2,846,412	2,862,863	2,684,276	2,841,540	6.8	0.6	5.9
Less: Contributions for gov't social insurance	5,745,000	5,824,846	5,869,325	5,930,485	5,960,956	5,648,554	5,896,403	3.8	0.5	4.4
Personal contributions for gov't social ins.	2,908,768	2,968,422	2,990,177	3,019,502	3,037,204	2,859,712	3,003,826	4.4	0.6	5.0
Employer contributions for gov't social ins.	2,836,232	2,856,424	2,879,148	2,910,983	2,923,752	2,788,842	2,892,577	3.1	0.4	3.7
Earnings By Industry	50,656,148	51,248,491	51,735,128	52,345,438	52,774,060	49,621,545	52,025,779	4.2	0.8	4.8
Farm Earnings	289,308	293,327	292,601	294,646	284,566	283,436	291,285	-1.6	-3.4	2.8
Nonfarm Earnings	50,366,840	50,955,164	51,442,527	52,050,792	52,489,494	49,338,109	51,734,494	4.2	0.8	4.9
Private earnings	35,058,856	35,187,968	35,783,401	36,414,581	36,784,991	34,027,266	36,042,735	4.9	1.0	5.9
Forestry, fishing, & related activities	74,888	75,927	76,759	76,198	81,161	75,068	77,511	8.4	6.5	3.3
Mining	37,492	38,263	33,750	32,683	32,792	39,430	34,372	-12.5	0.3	-12.8
Utilities	567,048	526,032	568,846	523,631	527,440	555,498	536,487	-7.0	0.7	-3.4
Construction	4,068,080	4,148,782	4,180,680	4,262,425	4,281,378	3,771,525	4,218,316	5.2	0.4	11.8
Manufacturing	916,240	922,020	929,803	938,234	943,745	890,944	933,451	3.0	0.6	4.8
Durable goods	304,648	316,229	314,404	313,199	310,323	294,295	313,539	1.9	-0.9	6.5
Nondurable goods	611,592	605,791	615,399	625,035	633,422	596,649	619,912	3.6	1.3	3.9
Wholesale trade	1,362,844	1,347,590	1,389,305	1,382,220	1,391,607	1,340,566	1,377,681	2.1	0.7	2.8
Retail trade	3,077,944	3,081,158	3,123,616	3,183,262	3,206,698	3,022,083	3,148,684	4.2	0.7	4.2
Transportation and warehousing	2,042,932	2,140,204	2,090,805	2,123,288	2,144,575	1,955,610	2,124,718	5.0	1.0	8.6

Series	Fourth Quarter 2015	First Quarter 2016	Second Quarter 2016	Third Quarter 2016	Fourth Quarter 2016	AnnAver 2015	AnnAver 2016	Percentage change: Fourth Quarter 2016 from: Fourth Quarter 2015	Percentage change: Fourth Quarter 2016 from: Third Quarter 2016	Percentage change: Ann Aver: 2016 from 2015
Information	762,076	719,868	728,111	760,063	768,758	740,217	744,200	0.9	1.1	0.5
Finance and insurance	1,470,392	1,469,940	1,525,435	1,547,521	1,558,559	1,442,799	1,525,364	6.0	0.7	5.7
Real estate and rental and leasing	1,564,436	1,608,420	1,634,622	1,648,754	1,676,205	1,539,024	1,642,000	7.1	1.7	6.7
Prof., scientific, & technical services	2,850,764	2,800,212	2,867,614	2,879,938	2,899,348	2,790,697	2,861,778	1.7	0.7	2.5
Management of companies and enterprises	891,060	898,480	980,535	994,868	997,770	904,071	967,913	12.0	0.3	7.1
Admin. & waste management services	2,389,168	2,362,091	2,396,468	2,479,610	2,535,383	2,323,385	2,443,388	6.1	2.2	5.2
Educational services	766,380	769,317	771,068	784,606	788,455	759,228	778,362	2.9	0.5	2.5
Health care and social assistance	5,035,332	5,049,874	5,149,374	5,323,839	5,361,641	4,878,911	5,221,182	6.5	0.7	7.0
Arts, entertainment, and recreation	568,076	566,627	562,396	565,410	581,468	563,900	568,975	2.4	2.8	0.9
Accommodation and food services	4,602,772	4,621,978	4,719,322	4,822,099	4,903,112	4,459,282	4,766,628	6.5	1.7	6.9
Other services, except public admin.	2,010,932	2,041,185	2,054,892	2,085,932	2,104,896	1,975,028	2,071,726	4.7	0.9	4.9
Government and government enterprises	15,307,984	15,767,196	15,659,126	15,636,211	15,704,503	15,310,843	15,691,759	2.6	0.4	2.5
Federal	8,567,296	8,664,570	8,664,867	8,705,960	8,681,293	8,542,500	8,679,173	1.3	-0.3	1.6
Federal, civilian	3,587,724	3,633,005	3,666,328	3,730,419	3,752,300	3,554,137	3,695,513	4.6	0.6	4.0
Military	4,979,572	5,031,565	4,998,539	4,975,541	4,928,993	4,988,363	4,983,660	-1.0	-0.9	-0.1
State and local	6,740,688	7,102,626	6,994,259	6,930,251	7,023,210	6,768,343	7,012,587	4.2	1.3	3.6

[1] Percentage change involving negative values not meaningful.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, March 28, 2017.

Table 5
PERSONAL INCOME
(In millions of dollars at seasonally adjusted annual rates and percent)

YEAR	ANNUAL AVERAGE	CHANGE
2005	$47,221	7.4%
2006	$50,618	7.2%
2007	$53,207	5.1%
2008	$56,050	5.3%
2009	$55,853	-0.4%
2010	$56,909	1.9%
2011	$59,072	3.8%
2012	$61,836	4.7%
2013	$62,784	1.5%
2014	$65,993	5.1%
2015	$69,129	4.8%
2016	$72,215	4.5%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, March 28, 2017.

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Table 6
HONOLULU AND U.S. CONSUMER PRICE INDEX,
ALL URBAN CONSUMERS (CPI-U)
(1982-84=100. Data are not seasonally adjusted)

		Honolulu								
Period	*U.S.*	*All Items*	*Food & Beverages*	*Housing*	*Apparel*	*Transpor-tation*	*Medical Care*	*Recreation* [1]	*Educ. & Comm.* [1]	*Other Goods & Services*
2007	207.342	219.504	204.942	238.428	104.145	205.027	2/	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	317.955	105.290	117.118	365.441
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.599	105.239	122.843	395.186
2010	218.056	234.869	224.774	251.968	116.423	214.411	320.153	107.484	128.483	415.526
2011	224.939	243.622	232.656	260.606	118.394	229.223	324.180	110.473	132.248	433.536
2012	229.594	249.474	242.786	265.473	121.481	231.275	334.441	113.961	137.276	440.428
2013	232.957	253.924	250.922	269.885	119.011	233.133	345.184	116.818	139.423	447.178
2014	236.736	257.589	256.023	273.499	111.141	236.373	351.763	119.586	143.488	457.958
2015	237.017	260.165	267.041	276.047	108.893	216.756	378.876	121.840	147.869	478.634
2016	240.007	265.283	272.051	283.565	111.736	211.645	400.408	124.872	149.785	484.820
2013H1	232.366	253.202	250.337	269.213	119.349	232.743	343.253	116.347	138.251	446.226
H2	233.548	254.646	251.508	270.557	118.673	233.523	347.116	117.289	140.594	448.131
2014H1	236.384	255.989	252.895	271.656	112.261	237.614	348.133	119.313	141.981	450.011
H2	237.088	259.190	259.151	275.343	110.021	235.132	355.393	119.860	144.995	465.906
2015H1	236.265	257.848	263.610	274.380	109.941	217.288	364.754	120.419	146.406	473.733
H2	237.769	262.482	270.472	277.714	107.845	216.223	392.998	123.261	149.332	483.535
2016H1	238.778	264.038	272.390	281.079	110.769	210.717	399.192	124.456	150.105	483.778
H2	241.237	266.528	271.712	286.052	112.703	212.573	401.624	125.288	149.465	485.863
Percentage Change from the Same Period in Previous Year										
2007	2.8	4.8	5.5	7.2	-0.2	1.4	(NA)	1.5	0.0	4.6
2008	3.8	4.3	5.7	4.3	1.1	4.4	(NA)	2.6	2.8	5.2
2009	-0.4	0.5	3.6	0.4	7.2	-6.4	1.1	0.0	4.9	8.1
2010	1.6	2.1	0.2	0.9	3.2	7.0	-0.4	2.1	4.6	5.1
2011	3.2	3.7	3.5	3.4	1.7	6.9	1.3	2.8	2.9	4.3
2012	2.1	2.4	4.4	1.9	2.6	0.9	3.2	3.2	3.8	1.6
2013	1.5	1.8	3.4	1.7	-2.0	0.8	3.2	2.5	1.6	1.5
2014	1.6	1.4	2.0	1.3	-6.6	1.4	1.9	2.4	2.9	2.4
2015	0.1	1.0	4.3	0.9	-2.0	-8.3	7.7	1.9	3.1	4.5
2016	1.3	2.0	1.9	2.7	2.6	-2.4	5.7	2.5	1.3	1.3
2013H1	1.5	1.8	3.9	2.0	-2.3	-0.2	2.8	2.6	1.8	1.4
H2	1.4	1.7	2.9	1.3	-1.7	1.8	3.6	2.4	1.3	1.7
2014H1	1.7	1.1	1.0	0.9	-5.9	2.1	1.4	2.5	2.7	0.8
H2	1.5	1.8	3.0	1.8	-7.3	0.7	2.4	2.2	3.1	4.0
2015H1	-0.1	0.7	4.2	1.0	-2.1	-8.6	4.8	0.9	3.1	5.3
H2	0.3	1.3	4.4	0.9	-2.0	-8.0	10.6	2.8	3.0	3.8
2016H1	1.1	2.4	3.3	2.4	0.8	-3.0	9.4	3.4	2.5	2.1
H2	1.5	1.5	0.5	3.0	4.5	-1.7	2.2	1.6	0.1	0.5

Data on U.S. CPI are released monthly and Honolulu CPI twice a year in February and August for the half (H) year previous through August 2015. Beginning with the 2nd half and annual average for 2015 data were released in January and will be in January and July henceforth.
NA = Not available.
[1] New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
[2] No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> accessed January 18, 2017, and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed January 18, 2017.

Tourism

Visitor arrivals continue to be strong with both domestic and international visitor arrivals increasing in the first quarter of 2017. Due to longer lengths of stay, the daily visitor census increased more than the increase of visitor arrivals in the quarter. Since visitors spent more on a daily basis during the first quarter of 2017, total visitor spending increased more than the growth of the average total daily visitor census in the quarter. With the exception of the fourth quarter of 2013, visitor arrivals have increased since the third quarter of 2009.

The total number of visitor arrivals by air increased 50,593, or 2.3 percent, in the first quarter of 2017, compared to the same quarter of 2016. The total average daily census was up 8,653, or 3.8 percent, in the quarter. In 2016, total visitor arrivals by air increased 269,580, or 3.1 percent, while the average daily census increased 4,255, or 2.0 percent, from the previous year.

In the first quarter of 2017, total visitor arrivals on domestic flights increased 23,278, or 1.6 percent, compared to the same quarter of 2016. In 2016, domestic arrivals were up 182,302, or 3.2 percent, from the previous year.

Arrivals on international flights increased 27,315, or 3.7 percent, in the first quarter of 2017 compared to the first quarter of 2016. In 2016, international arrivals were up 87,278, or 3.1 percent, from the previous year.

In terms of major market areas, from the first quarter of 2016 to the same period of 2017, arrivals from the U.S. West increased 14,441, or 1.7 percent, arrivals from the U.S. East increased 25,819, or 5.2 percent, and arrivals from Japan increased 26,168, or 7.3 percent. In 2016, arrivals from the U.S. West were up 150,728, or 4.3 percent, arrivals from the U.S. East were up 66,157, or 3.7 percent, and Japanese arrivals were up 6,093, or 0.4 percent, from the previous year.

In the first quarter of 2017, the length of stay per visitor also increased. Due to the longer length of stay, the average total daily visitor census increased more than the growth of visitor arrivals in the quarter. The total average daily visitor census was up 3.8 percent, or 8,653 visitors per day, in the first quarter of 2017, over the same quarter of 2016. The domestic average daily census increased 2.6 percent, or 4,150 visitors per day, while the international average daily census increased 6.6 percent, or 4,503 visitors per day. In 2016, the domestic average daily census increased 1,787, or 1.1 percent, and the international average daily census increased 2,468, or 4.3 percent, from the previous year.

Nominal visitor expenditures by air totaled $4,367.9 million in the first quarter of 2017, up 10.3 percent, or $409.1 million, from the same quarter of 2016. In 2016, visitor expenditures increased $632.1 million, or 4.2 percent, compared with the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, decreased 1.6 percent, or 49,146 seats, in the first quarter of 2017, domestic seats decreased 2.3 percent, or 46,227 seats, international seats decreased 0.3 percent, or 2,919 seats, compared to the same quarter of 2016. In 2016, the number of total available seats increased 0.7 percent, or 82,693 seats, from the previous year.

In the first quarter of 2017, the statewide hotel occupancy rate averaged 81.2 percent, 0.4 of a percentage point higher than the same quarter of 2016. In 2016, the statewide hotel occupancy rate averaged 79.2 percent, 0.5 of a percentage point higher than the previous year.

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Table 7
VISITOR ARRIVALS BY AIR AND AVERAGE DAILY CENSUS

	2012	2013	2014	2015	2016	First Quarter 2016	First Quarter 2017 [1]
Total Arrivals							
Total	7,867,143	8,003,474	8,196,342	8,563,018	8,832,598	2,173,346	2,223,939
Domestic	5,403,025	5,405,300	5,486,059	5,782,140	5,964,442	1,427,864	1,451,142
International	2,464,118	2,598,174	2,710,283	2,780,878	2,868,156	745,482	772,797
Average Daily Census							
Total	201,267	202,876	206,217	213,934	218,189	226,413	235,066
Domestic	148,887	149,213	151,076	156,026	157,814	158,609	162,759
International	52,380	53,663	55,141	57,908	60,376	67,804	72,307

[1] 2017 data are preliminary.

Source: Hawaii State Department of Business, Economic Development & Tourism and Hawaii Tourism Authority.

Table 8

HOTEL OCCUPANCY RATE

Year	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*Annual Average*
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012	80.3	73.8	78.9	74.5	76.9
2013	82.0	74.2	77.8	72.3	76.5
2014	80.8	74.0	78.7	74.7	77.0
2015	80.0	77.7	79.4	77.8	78.7
2016 [1]	80.8	77.6	80.6	77.8	79.2
2017 [1]	81.2	NA	NA	Year-to-Date	81.2

The 2nd, 3rd, and 4th quarter averages are computed by Hawaii State Department of Business, Economic Development & Tourism from Hospitality Advisors LLC monthly averages. The 1st quarter and annual are as released or revised by source.
[1] Source revises each month of previous year when current year is released.
Source: Hawaii State Department of Business, Economic Development & Tourism and Hospitality Advisors LLC.

Construction and Real Estate

The indicators of Hawaii's construction industry were mostly positive in the first quarter of 2017. The private building authorizations, government contracts awarded, and State CIP expenditures all increased, but construction jobs decreased.

Construction has been one of the steady contributors to job growth in Hawaii over the past few years. However, in the first quarter of 2017, the construction sector lost 600 jobs, or 1.6 percent, compared with the same quarter of 2016. In 2016, the construction sector added 2,800 jobs, or 8.0 percent, from the previous year. Before the recession, specifically the period 2002 through 2007, construction job growth averaged 8.0 percent per year. In the fourth quarter of 2007, the average number of construction jobs reached a peak of 40,000 jobs. The strength of the construction job market in the past few years was a sharp contrast to the recession period. From the second quarter of 2008 until the second quarter of 2011, quarter-over-quarter construction job growth was negative in all quarters.

In the first quarter of 2017, private building authorizations in the state increased $361.9 million, or 66.3 percent, compared with the first quarter of 2016. In 2016, private building authorizations in the state decreased $723.0 million, or 18.2 percent, compared with the previous year.

In the first quarter of 2017, private building authorizations in Honolulu increased $286.4 million, or 83.9 percent, compared with the first quarter of 2016. In 2016, private building authorizations in Honolulu decreased $295.5 million, or 12.1 percent, compared with the previous year.

In the first quarter of 2017, private building authorizations in Hawaii County increased $32.8 million, or 36.4 percent, compared with the first quarter of 2016. In 2016, private building authorizations in Hawaii County decreased $113.4 million, or 16.5 percent, compared with the previous year.

In the first quarter of 2017, private building authorizations in Maui County increased $35.3 million, or 38.3 percent, compared with the first quarter of 2016. In 2016, private building authorizations in Maui County decreased $346.8 million, or 47.4 percent, compared with the previous year.

In the first quarter of 2017, private building authorizations (residential only) in Kauai increased $7.3 million, or 33.6 percent, compared with the first quarter of 2016. In 2016, private building authorizations in Kauai increased $32.8 million, or 31.0 percent, compared with the previous year.

Government contracts awarded increased $38.7 million, or 22.1 percent, in the first quarter of 2017 compared with the same quarter of 2016. In 2016, government contracts awarded increased $118.7 million, or 7.6 percent, compared with the previous year. State government CIP expenditures increased $4.1 million, or 1.6 percent, in the first quarter of 2017. In 2016, CIP expenditures decreased $105.1 million, or 8.3 percent, compared with the previous year.

The Honolulu Construction Cost Index increased 1.1 percent in the first quarter of 2017 compared to the same quarter of 2016 for Single Family Residence and 0.8 percent for High-Rise Building. In 2016 compared to 2015 the index for Single Family Residence increased 1.8 percent and 1.4 percent for High-Rise Building.

In the first quarter of 2017, Honolulu's median price for single family resales was $750,000, an increase of $25,100, or 3.5 percent, from the same quarter of 2016. The median price for condominium units was $390,000, up $10,000 or 2.6 percent from the same quarter of the previous year. In the first quarter of 2017, the number of single-family unit resales was up 1.0 percent and the number of condominium unit resales was up 7.1 percent compared with the first quarter of 2016. In 2016, the number of single-family unit resales was up 6.5 percent and condominium unit resales was up 8.4 percent compared with the previous year.

In the first quarter of 2017, in Maui County single-family unit resales decreased 4.6 percent and condominium unit resales increased 17.2 percent compared to the same quarter of 2016.

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Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED (In millions of dollars)

Year	Contracting Tax Base	Private Building Authorization [1] Total Private Authorizations	Residential [1]	Commercial & Industrial [2]	Additions & Alterations	Government Contracts Awarded
In Millions of Dollars						
2007	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009	6,641.7	1,998.9	799.2	284.8	914.9	778.6
2010	5,589.8	1,980.3	779.0	377.5	823.8	1,057.6
2011	5,837.4	1,858.8	687.9	285.9	884.9	430.7
2012	7,006.1	2,643.8	837.2	271.1	1,535.5	772.9
2013	7,330.0	2,720.5	1,025.0	296.5	1,399.0	1,194.2
2014	7,024.0	3,315.1	985.9	498.5	1,830.6	1,096.6
2015	8,112.2	3,963.6	1,651.3	702.9	1,609.4	1,554.6
2016	8,288.2	3,240.6	1,448.0	211.0	1,581.7	1,673.3
2014 1 Qtr.	1,732.3	758.4	150.6	94.9	512.9	155.7
2 Qtr.	1,766.6	806.5	305.6	80.7	420.2	291.3
3 Qtr.	1,666.4	789.6	230.4	73.8	485.4	394.9
4 Qtr.	1,858.7	960.6	299.3	249.2	412.1	254.7
2015 1 Qtr.	1,801.4	1,297.6	482.5	383.6	431.5	225.0
2 Qtr.	1,995.3	840.4	412.7	113.9	313.7	680.8
3 Qtr.	2,212.3	892.2	338.3	111.0	442.9	487.1
4 Qtr.	2,103.3	933.4	417.8	94.4	421.2	161.7
2016 1 Qtr.	1,745.4	545.6	223.1	30.2	292.3	175.0
2 Qtr.	2,123.9	960.2	429.6	75.6	455.0	328.9
3 Qtr.	2,196.4	889.4	429.2	39.3	420.9	913.1
4 Qtr.	2,222.5	845.6	366.1	65.9	413.5	256.3
2017 1 Qtr.	(NA)	907.4	505.9	91.5	310.0	213.8
Percentage Change from the Same Period in Previous Year						
2007	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008	-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009	-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
2010	-15.8	-0.9	-2.5	32.5	-10.0	35.8
2011	4.4	-6.1	-11.7	-24.3	7.4	-59.3
2012	20.0	42.2	21.7	-5.2	73.5	79.4
2013	4.6	2.9	22.4	9.4	-8.9	54.5
2014	-4.2	21.9	-3.8	68.1	30.8	-8.2
2015	15.5	19.6	67.5	41.0	-12.1	41.8
2016	2.2	-18.2	-12.3	-70.0	-1.7	7.6
2014 1 Qtr.	-6.2	20.6	-47.9	102.3	75.0	-31.9
2 Qtr.	-8.7	12.9	58.1	-44.6	12.0	-21.5
3 Qtr.	-9.7	14.7	-27.4	168.5	41.3	-18.0
4 Qtr.	9.2	39.4	32.9	225.8	6.4	125.2
2015 1 Qtr.	4.0	71.1	220.3	304.3	-15.9	44.5
2 Qtr.	12.9	4.2	35.1	41.2	-25.3	133.7
3 Qtr.	32.8	13.0	46.8	50.3	-8.8	23.4
4 Qtr.	13.2	-2.8	39.6	-62.1	2.2	-36.5
2016 1 Qtr.	-3.1	-58.0	-53.8	-92.1	-32.3	-22.2
2 Qtr.	6.4	14.3	4.1	-33.7	45.0	-51.7
3 Qtr.	-0.7	-0.3	26.9	-64.6	-5.0	87.5
4 Qtr.	5.7	-9.4	-12.4	-30.1	-1.8	58.5
2017 1 Qtr.	(NA)	66.3	126.8	203.2	6.1	22.1

[1] Kauai data available for residential only.
[2] Includes hotels.
Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; *Building Industry*.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	State	City & County of Honolulu	Hawaii County	Kauai County [1]	Maui County
In Thousands of Dollars					
2007	3,585,447	1,676,232	912,529	268,915	727,772
2008	2,906,578	1,481,272	704,317	277,149	443,840
2009	1,998,908	1,247,196	309,165	218,111	224,437
2010	1,980,296	1,357,314	360,328	68,047	194,607
2011	1,858,763	1,272,923	282,638	59,520	243,683
2012	2,643,840	1,769,454	427,394	79,998	366,994
2013	2,720,519	1,866,352	443,739	85,413	325,014
2014	3,315,078	2,072,202	697,063	102,195	443,617
2015	3,963,607	2,436,954	689,454	105,707	731,491
2016	3,240,649	2,141,467	576,015	138,481	384,686
2014 1 Qtr.	758,392	474,522	99,031	15,514	169,325
2 Qtr.	806,458	468,094	233,543	27,598	77,222
3 Qtr.	789,623	543,927	138,863	26,516	80,318
4 Qtr.	960,605	585,659	225,626	32,567	116,753
2015 1 Qtr.	1,297,604	711,333	138,610	18,758	428,904
2 Qtr.	840,376	465,408	214,771	34,383	125,814
3 Qtr.	892,195	588,188	167,353	29,136	107,517
4 Qtr.	933,431	672,024	168,720	23,430	69,256
2016 1 Qtr.	545,567	341,486	90,105	21,856	92,120
2 Qtr.	960,150	607,763	216,414	42,409	93,564
3 Qtr.	889,375	629,829	144,063	39,914	75,569
4 Qtr.	845,557	562,389	125,433	34,302	123,433
2017 1 Qtr.	907,437	627,931	122,886	29,191	127,429
Percentage Change From The Same Period in Previous Year					
2007	-4.9	3.1	-1.5	12.4	-25.7
2008	-18.9	-11.6	-22.8	3.1	-39.0
2009	-31.2	-15.8	-56.1	-21.3	-49.4
2010	-0.9	8.8	16.5	-68.8	-13.3
2011	-6.1	-6.2	-21.6	-12.5	25.2
2012	42.2	39.0	51.2	34.4	50.6
2013	2.9	5.5	3.8	6.8	-11.4
2014	21.9	11.0	57.1	19.6	36.5
2015	19.6	17.6	-1.1	3.4	64.9
2016	-18.2	-12.1	-16.5	31.0	-47.4
2014 1 Qtr.	20.6	-0.6	16.2	2.2	230.4
2 Qtr.	12.9	8.4	103.1	38.5	-47.6
3 Qtr.	14.7	10.4	21.7	8.9	40.5
4 Qtr.	39.4	26.1	74.3	25.4	68.9
2015 1 Qtr.	71.1	49.9	40.0	20.9	153.3
2 Qtr.	4.2	-0.6	-8.0	24.6	62.9
3 Qtr.	13.0	8.1	20.5	9.9	33.9
4 Qtr.	-2.8	14.7	-25.2	-28.1	-40.7
2016 1 Qtr.	-58.0	-52.0	-35.0	16.5	-78.5
2 Qtr.	14.3	30.6	0.8	23.3	-25.6
3 Qtr.	-0.3	7.1	-13.9	37.0	-29.7
4 Qtr.	-9.4	-16.3	-25.7	46.4	78.2
2017 1 Qtr.	66.3	83.9	36.4	33.6	38.3

[1] Kauai County data consist of residential data only.

Source: County building departments and U.S. Census Bureau.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy. According to the most recent U.S. Bureau and Economic Analysis ("BEA") data, the total compensation of employees ("COE") of federal government employees in Hawaii was about $8.5 billion in 2015, up 2.6 percent from the previous year. The total COE of combined military and civilian federal employees in Hawaii accounted for about 19.1 percent of Hawaii's total COE in 2015. Between 2005 and 2015, the annual average compounded growth rate for COE was 3.8 percent for both Federal civilian and military personnel in Hawaii. The military personnel accounted for 58.4 percent of the total Federal COE in 2015. The federal government accounted for about 12.4 percent of State GDP in Hawaii in 2014, a majority of which is defense related.

The most recent BEA data also shows that the earnings of federal government employees in the third quarter of 2016 increased 1.8 percent over the same period of 2015. In the first three quarters of 2016, the earnings of federal government employees increased 1.7 percent from the same period of the previous year.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit, but, on the other hand, may increase to reflect the growing importance of the Asia Pacific Region. The federal budget sequestration has not had a material adverse effect on the State.

In addition, the new presidential administration and leaders in the 115th United States Congress have introduced legislation, instituted executive orders and proposed significant changes affecting various aspects of the Patient Protection and Affordable Care Act, Medicaid, trade and immigration policy and the federal tax structure, in addition to other actions. Some of these changes, in their current or proposed form, may have a significant impact on the economy and budget of the State. The State cannot predict the impact of any such currently proposed or related future changes on the revenues of the State.

Transportation

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low cost transportation, both interstate and intrastate.

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter island cargo shipments for the fiscal years, 2012, 2013, 2014, 2015 and 2016 amounted to 19.0 million short tons, 19.8 million short tons, 20.4 million short tons, 20.9 million short tons and 21.3 million short tons, respectively.

The Statewide Commercial Harbors System, (Harbors System), is comprised of ten commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The Harbors System is an Enterprise Fund of the State and is self-sustaining, thus, it is authorized to impose and to collect rates and charges for the use of the facilities and properties of the Harbors System enabling it to pay its operating expenses and to pay its bond debt service. The State manages, maintains and operates the Harbors System to provide for the efficient movement of cargo and passengers. Harbors System facilities are located on the seven islands at the State's four (4) major counties indicated as follows: (1) Honolulu Harbor and Kalaeloa Barbers Point Harbor, of the City and County of Honolulu on the island of Oahu, comprising the Oahu Harbor District; (2) Hilo Harbor and Kawaihae Harbor, of the County of Hawaii, on the island of Hawaii, comprising the Hawaii Harbor District; (3) Nawiliwili Harbor and Port Allen Harbor, of the County of Kauai, on the island of Kauai, comprising the Kauai Harbor District; and (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, all located in the County of Maui, comprising the Maui Harbor District.

The State uses nine harbors, with the exception of Hana Harbor, to facilitate the movement of goods from and between the U.S. mainland, foreign and inter island ports. The U.S. military moves most of its cargo through the State's Harbors System.

The Harbors System is a hub and spoke system; Honolulu Harbor serves as the hub of this Harbors System and the spokes, are the neighbor islands. Honolulu Harbor serves as the major distribution point for incoming overseas cargo that is shipped to the neighbor islands and is the primary consolidation center for the export of the State's products to overseas ports. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 10.0 million short tons in fiscal year 2012, 10.9 million short tons in fiscal year 2013, 11.2 million short tons in fiscal year 2014, 11.2 million short tons in fiscal year 2015 and 11.4 million short tons in fiscal year 2016.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan ("HMP") to allow the Harbors System to undertake harbor infrastructure improvements at Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation ("ATDC") as the entity responsible for the management and implementation of the HMP under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance these Harbors System improvements. The cost of the HMP is estimated to be $618 million. ATDC's failure to obtain legislative approval for operating funds for fiscal year 2011 effectively terminated its operations on June 30, 2010. The Harbors Division assumed management and implementation responsibilities of the HMP. Act 152, SLH 2011 placed the ATDC under the Department for administrative purposes and repealed references to the HMP. The Deputy Director Harbors currently serves as the Acting Chief Executive Officer for the ATDC.

Air Transportation. The statewide airports system consists of 15 airports; 11 serving both commercial and general aviation, and four small airports for general aviation only, all located on six islands within the State of Hawaii. The principal airport which provides facilities for overseas flights (*i.e.*, other than inter island flights within the State) is Honolulu International Airport ("HNL") on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. With 42 gates for overseas and interisland flights with loading bridges and an additional 12 gates in the commuter terminal, HNL is the most important airport in the State airports system.

Kahului Airport on the island of Maui, Hilo International Airport (formerly General Lyman Field) at Hilo and Kona International Airport at Keahole (both on the island of Hawaii), and Lihue Airport on the island of Kauai also service direct flights to and from the continental United States.

In fiscal year 2016, total passenger counts increased from 33,608,998 to 34,430,722 due to higher overseas traffic. Aircraft operations declined from 1,024,807 in fiscal year 2015 to 971,143 in fiscal year 2016, primarily due to lower general aviation activity. Total airline and concession revenues have grown over the past eight (8) years, to $353 million in fiscal year 2016 (or $87 million since fiscal year 2009) mainly due to increases from signatory airlines, rental car, and parking revenues.

Capital Improvement Projects to modernize the State's airport facilities continue to move forward. The projects are funded by cash, revenue bonds, federal grants, passenger facility fees, and rental car facility collections. The upward trend in domestic and international travel to Hawaii and limited resources (staffing and status quo budget) continue to challenge the State in maintaining and upgrading its facilities. The Airports Division is seeking improvements to the State's contractual and procurement process in order to deliver projects on a timely basis. Improving the overall contractual and procurement process will also enable the Airports Division to timely utilize Federal Aviation Administration (FAA) grants, thus prevent jeopardizing the availability of future grant funding. The Airports Division continues to adapt to airline industry standards and additional FAA and U. S. Customs and Border Protection requirements. Airline related Capital Improvement Projects are reviewed by its staff and concurred by Signatory Airline Carriers.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,337.44 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 954.11 linear miles of roadways. The most important component of the State Highway System is the 54.86 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The City and County of Honolulu is proceeding with plans for a new 20 mile fixed guideway mass transit system to provide rail service along Oahu's east-west corridor between Kapolei and downtown Honolulu (terminating at Ala Moana Shopping Center). Construction of the project has been funded with the City and County of Honolulu surcharge of 1/2 of 1% imposed upon Oahu activities subject to the 4% General Excise and Use Taxes and federal moneys. Certain proposals have been made to extend the county surcharge and/or to increase the transient accommodations tax and to allocate a portion of the increased revenues to provide additional funding for construction of the fixed guideway mass transit system. No action to extend the county surcharge or to increase the TAT rate was taken during the 2017 regular legislative session. A special session may be convened to address the transit system funding or for other purposes. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL — Budget System; Legislative Procedure." Construction and operation of this system is the sole responsibility of the City and County of Honolulu.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2016.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2007	911,607	47	2,260	193,650	26,978	32,698	1,167,240
2008	903,518	57	2,213	193,332	28,447	33,076	1,160,643
2009	895,770	63	2,143	190,935	28,879	32,138	1,149,928
2010	898,452	64	2,103	190,025	29,436	31,601	1,151,681
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370
2012	1,033,975	91	2,621	203,323	38,223	32,053	1,310,286
2013	1,089,709	98	2,669	207,496	41,180	30,189	1,371,341
2014	1,042,818	105	2,565	200,934	37,771	28,252	1,312,445
2015	1,001,879	108	2,465	196,240	32,831	27,820	1,261,343
2016	1,000,684	119	2,377	121,684	30,689	28,826	1,184,379

Source: Summary of Registered Vehicles, Various Years, Department of Information Technology, City & County of Honolulu.

Education

Unlike many other states, the State operates a statewide public school system for elementary, intermediate, and high schools. In addition, the State operates a statewide public system for colleges and universities. In the 2016-2017 school year, system enrollment decreased from a total of 180,409 in the 2015-2016 school year to a total of 179,902 in 290 K-12 public schools (includes 34 charter schools). The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation.

The University of Hawaii was established in 1907 on the model of the American system of land grant universities created initially by the Morrill Act of 1862. In the 1960s and 1970s, the University was developed into a system of accessible and affordable campuses. These institutions currently include:

(i) a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law, and a medical school and a cancer research center in Kakaako in downtown Honolulu;

(ii) a comprehensive, primarily baccalaureate institution at Hilo, offering professional programs based on a liberal arts foundation and selected graduate degrees; a College of Pharmacy with a four year curriculum leading to a Doctor of Pharmacy degree, seated its inaugural class in the fall of 2007;

(iii) a baccalaureate institution at West Oahu, for which a new permanent campus was opened in August 2012, offering degrees in the liberal arts and professional studies; and

(iv) a system of seven open door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2016, 53,418 students attended the University of Hawaii System, 18,056 of them on the Manoa campus. For the fall of 2017, it is projected that 52,415 will attend the University of Hawaii System, 17,659 of them on the Manoa campus.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other State efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low income families. Included are the management of low rent public housing units, the administration of the Section 8 tenant based housing assistance program and other federal and State programs intended to provide very low to low income residents with safe, decent and sanitary housing.

The State housing programs previously were carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). On July 1, 2006, pursuant to Act 196, SLH 2005, as amended by Act 180, SLH 2006, the HCDCH was bifurcated into the Hawaii Public Housing Authority (the "HPHA") and the Hawaii Housing Finance and Development Corporation (the "HHFDC"). The assets, obligations and functions of the HCDCH were transferred to the HHFDC and to the HPHA, as provided by such Acts. The HHFDC performs the function of housing finance and development. The HHFDC is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HHFDC and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State. The HPHA performs the function of developing and maintaining public housing.

Cybersecurity

The Office of Enterprise Technology Services ("ETS") within the Hawaii State Department of Accounting and General Services provides governance for executive branch information technology projects and supports the management and operation of computer and telecommunication services to State agencies, including programs in fulfillment of statutorily mandated cybersecurity duties outlined under Hawaii Revised Statutes. ETS is led by the Chief Information Officer of the State, with the advice of an eleven-member steering committee appointed by the Governor, Chief Justice, Senate President and Speaker of the House of Representatives. The Chief Information Security Officer reports to the Chief Information Officer and is responsible for establishing cybersecurity standards for the State executive branch and ensuring that system operations stay current with best practices.

Information technology systems, including those operated or utilized by the State, may be vulnerable to breaches, hacker attacks, computer viruses, physical or electronic break-ins or similar actions which can result in the unintended release and distribution of private or confidential data or other information. The State has taken, and continues to take, measures to protect its information technology systems from the threat of such "cyberattacks", but there can be no assurance that the State or any department thereof or any of their vendors will not experience a breach. If such a breach occurs, the financial consequences could have an economic impact on the State, or on its ability to efficiently perform routine functions, or on the ability of the State or one or more of its component units to deliver services.

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APPENDIX C

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

(COMMENCES ON PAGE C-1)

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE

STATE OF HAWAII AS OF JUNE 30, 2016 AND

INDEPENDENT AUDITORS’ REPORT

(commences on page C-21)

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APPENDIX C

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

The statistical information presented by this Part I of Appendix C is the most current such information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INFORMATION ABOUT INDEBTEDNESS

The following tables set forth the State's total indebtedness as of July 1, 2016, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit. See "DEBT STRUCTURE— Outstanding Indebtedness and Debt Limit" in Appendix B.

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII
GENERAL OBLIGATION BOND INDEBTEDNESS

General obligation bonds outstanding		$6,321,725,000
Less excludable reimbursable general obligation bonds[1]		
Highways	$ 1,970,112	
Harbors	27,399,720	
University of Hawaii	194,796	
Parking facilities	17,072	
Hawaiian Home Lands	15,820	
Land and Natural Resources	35,000,000	
Subtotal excludable reimbursable general obligation bonds	$ 64,597,520	
Less all general obligation bonds maturing in the current year	$430,830,940	$ 495,428,460
Net general obligation bonds outstanding		$5,826,296,540

Footnotes on following page.

REVENUE BOND INDEBTEDNESS[2]

As of July 1, 2016

Revenue bonds outstanding:		
Airports:		
Airports system	$1,049,670,142	
Airports special facility	21,725,000	$1,071,395,142
Housing:		
Single family mortgage purchase	52,855,657	
Multifamily	242,969,512	295,825,169
Harbors:		
Revenue		313,420,000
Highway:		
Revenue		407,890,000
University of Hawaii:		
Revenue		562,620,000
Hawaiian Home Lands		37,490,000
Hawaii Health Systems Corporation (Maui Regional Health Care System)		18,617,994
Department of Business, Economic Development and Tourism		136,183,990
Total revenue bonds outstanding		$2,843,442,295

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS[3]

As of July 1, 2016

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$805,270,000
Utilities serving the general public	462,000,000
Industrial enterprises	7,312,500
Not for profit secondary schools, colleges and university serving the general Public	114,530,000
Total special purpose revenue bonds outstanding	$1,389,112,500

1 See "DEBT STRUCTURE—Exclusions" and "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix B for exclusions and sources of reimbursement.

2 All revenue indebtedness is payable solely from the revenues derived from rates, rentals, fees and charges except for the revenue bonds issued for the airports system, which are payable from both the revenues of the airports system derived from rates, rentals, fees and charges and from the aviation fuel tax, and except for a portion of the revenue bonds issued for the University of Hawaii, which is payable from both the revenues of the University derived from tuition, fees and charges and from tobacco settlement funds.

3 All special purpose revenue indebtedness is payable solely from receipts derived from payments by special purpose entities or persons under contract or from any security for such contract or special purpose revenue bonds.

Since July 1, 2016, the State has issued additional general obligation bonds, and has redeemed and retired other general obligation bonds. As of March 1, 2017, and not taking into account the issuance of the State's General Obligation Bonds of 2017, Series FK–FP, the State had a total of $6,392,025,000 of general obligation bonds outstanding.

The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2016. The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2016, after exclusions permitted by the Constitution, is $686,083,683 in the fiscal year ending June 30, 2019, which is within the July 1, 2016 debt limit of $1,216,923,690.

SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII

NET GENERAL FUND REVENUES FOR THE STATE OF HAWAII FOR THE PRECEDING THREE FISCAL YEARS	2013-2014	2014-2015	2015-2016
Total General Fund revenues exclusive of grants from the federal government	$6,096,208,295	$6,576,706,486	$7,081,914,912
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	7,618,992	7,379,294	5,933,726
Net General Fund revenues	$6,088,589,303	$6,569,327,192	$7,075,981,186
Sum of net General Fund revenues for preceding three fiscal years	$19,733,897,681		
Average of preceding three fiscal years	$6,577,965,894		
18.5% of average net General Fund revenues of the three preceding years ended June 30, 2014, 2015 and 2016	$1,216,923,690		

NOTE: This Summary Statement is based on the July 1, 2016 statement of indebtedness. See “DEBT STRUCTURE — Outstanding Indebtedness and Debt Limit” in Appendix B.

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GENERAL OBLIGATION BONDS OUTSTANDING
AS OF JULY 1, 2016

Reimbursable General Obligation Bonds[1]	**Principal Amount**	**Balance**	**% of Total**
From State Special Funds for			
Highways	$1,970,112		
Commercial Harbors	$27,399,720		
Small Boat Harbors [2]	$1,572,178		
Hawaiian Home Lands	$15,820		
University of Hawaii	$194,796		
Parking Facilities	$17,072		
Waiahole Water System [2]	$5,921,764		
Convention Center [2]	$192,450,289		
Land and Natural Resources	$35,000,000		
Total for Special Funds	$264,541,751		
Total Reimbursable General Obligation Bonds		$264,541,751	4.18%
Non Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$6,057,183,249		
Total Non-reimbursable General Obligation Bonds		$6,057,183,249	95.82%
Total General Obligation Bonds Issued and Outstanding...		$6,321,725,000	100.00%

1 See “DEBT STRUCTURE - Reimbursement to State General Fund for Debt Service” in Appendix B concerning sources of reimbursement, including taxes. The figures in this table should not be taken as an indication that in all instances the reimbursement to the General Fund will in fact be made or that such reimbursement will be made in whole.

2 Not excludable for debt limit purposes.

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The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii as of March 1, 2017, including bonds proposed to be refunded with proceeds of the State's General Obligation Bonds of 2017, Series FL, FM, and FN (the "Refunded Bonds"), as well as debt service payable on the State's General Obligation Bonds of 2017, Series FK – FP, as of the expected date of delivery thereof.

SUMMARY OF DEBT SERVICE[1]
As of March 1, 2017

							Debt Service on Series FK, FL, FM, FN, FO, FP[4]			
Fiscal Year Ending June 30	Total Remaining Principal Amount[2]	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund[3]	Net Debt Service Payable	Total Principal Payable for New Bonds	Total Interest Payable for New Bonds	Prior Bonds[5]	Total Debt Service[6]
2017	$6,392,025,000	$107,785,000.00	$ 93,546,196.03	$ 201,331,196.03	$ 28,282,516.00	$ 173,048,680.03	$ 4,200,000.00	$ 4,083.33	$ 5,330,843.75	$ 171,921,919.61
2018	6,284,240,000	411,435,000.00	278,829,526.00	690,264,526.00	32,500,513.01	657,764,012.99	1,200,000.00	33,964,173.89	12,189,737.50	680,738,449.38
2019	5,872,805,000	451,430,000.00	261,685,381.42	713,115,381.42	32,952,189.72	680,163,191.70	0.00	37,294,027.00	12,677,487.50	704,779,731.20
2020	5,421,375,000	440,570,000.00	240,011,213.83	680,581,213.83	32,949,099.89	647,632,113.94	40,580,000.00	37,294,027.00	12,691,237.50	712,814,903.44
2021	4,980,805,000	396,080,000.00	220,230,855.08	616,310,855.08	32,951,919.50	583,358,935.58	41,775,000.00	36,097,284.50	12,702,487.50	648,528,732.58
2022	4,584,725,000	411,440,000.00	201,901,178.23	613,341,178.23	32,948,564.45	580,392,613.78	39,725,000.00	34,434,979.50	28,457,487.50	626,095,105.78
2023	4,173,285,000	411,955,000.00	183,038,244.53	594,993,244.53	32,951,182.13	562,042,062.40	41,450,000.00	32,713,714.50	28,438,037.50	607,767,739.40
2024	3,761,330,000	417,430,000.00	163,696,512.75	581,126,512.75	32,948,886.67	548,177,626.08	43,420,000.00	30,745,569.50	28,442,262.50	593,900,933.08
2025	3,343,900,000	397,420,000.00	144,279,469.95	541,699,469.95	32,954,851.80	508,744,618.15	45,515,000.00	28,645,754.50	28,459,187.50	554,446,185.15
2026	2,946,480,000	393,390,000.00	125,525,114.08	518,915,114.08	32,956,381.97	485,958,732.11	47,790,000.00	26,376,437.00	28,440,937.50	531,684,231.61
2027	2,553,090,000	361,060,000.00	107,383,902.38	468,443,902.38	30,677,139.48	437,766,762.90	50,175,000.00	23,983,999.50	28,441,437.50	483,484,324.90
2028	2,192,030,000	350,320,000.00	90,490,440.87	440,810,440.87	3,898,978.24	436,911,462.63	52,685,000.00	21,478,929.50	28,449,343.75	482,626,048.38
2029	1,841,710,000	333,520,000.00	74,316,503.26	407,836,503.26	2,958,624.60	404,877,878.66	55,325,000.00	18,833,729.50	28,440,250.00	450,596,358.16
2030	1,508,190,000	301,885,000.00	59,062,283.04	360,947,283.04	2,963,813.41	357,983,469.63	58,015,000.00	16,144,914.50	28,454,125.00	403,689,259.13
2031	1,206,305,000	269,605,000.00	44,691,191.52	314,296,191.52	2,960,893.13	311,335,298.39	60,550,000.00	13,606,352.00	28,459,825.00	357,031,825.39
2032	936,700,000	281,560,000.00	32,656,564.64	314,216,564.64	2,963,364.33	311,253,200.31	63,255,000.00	10,902,142.00	28,450,825.00	356,959,517.31
2033	655,140,000	219,725,000.00	22,105,807.64	241,830,807.64	2,962,231.88	238,868,575.76	38,290,000.00	8,769,907.00	0.00	285,928,482.76
2034	435,415,000	187,185,000.00	13,725,576.27	200,910,576.27	2,865,933.61	198,044,642.66	39,935,000.00	7,123,892.00	0.00	245,103,534.66
2035	248,230,000	133,785,000.00	7,312,218.01	141,097,218.01	2,751,704.96	138,345,513.05	41,925,000.00	5,133,071.00	0.00	185,403,584.05
2036	114,445,000	84,770,000.00	3,253,015.00	88,023,015.00	2,533,575.00	85,489,440.00	43,600,000.00	3,456,887.00	0.00	132,546,327.00
2037	29,675,000	29,675,000.00	593,500.00	30,268,500.00	0.00	30,268,500.00	45,345,000.00	1,713,470.00	0.00	77,326,970.00
	TOTAL	$6,392,025,000.00	$2,368,334,694.53	$8,760,359,694.53	$381,932,363.78	$8,378,427,330.75	$854,755,000.00	$428,717,344.72	$368,525,512.50	$9,293,374,162.97

1 Totals reflect rounding.

2 Remaining principal amount, as of commencement of fiscal year, of all general obligation bonded indebtedness of the State that was outstanding as of March 1, 2017.

3 These figures show debt service on outstanding general obligation bonds of the State issued for certain activities, undertakings, improvements and systems of the State where the payment of such debt service from the General Fund is required by statute to be reimbursed to the General Fund from the respective income, revenues or user taxes pertaining to the particular activity, undertaking, improvement or system and regardless of whether excludable under the provisions of the Constitution when determining the power of the State to incur indebtedness. Consequently, the amount of reimbursement to the General Fund in the table above is greater than the excludable reimbursement under the Constitution. For example, of the $28,282,516 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2017, only $1,479,922 is an excludable reimbursement for purposes of the debt limit calculation under the Constitution. See "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix B for the sources of reimbursement, including taxes.

4 As of the expected date of delivery thereof.

5 Reflects debt service payable on the Refunded Bonds.

6 Approximate. Reflects bond debt service on all outstanding general obligation bonded indebtedness of the State of Hawaii as of March 1, 2017, plus debt service on the General Obligation Bonds of 2017, Series FK – FP, as of their expected date of delivery, taking into account the refunding of the Refunded Bonds.

BONDED DEBT PER CAPITA
(Amounts in thousands except "Debt Per Capita")

Fiscal Year	Population[1]	General Obligation Bonded Debt[2&3]	Less Debt Service Moneys Available[2]	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
2012	1,392	5,475,348	64	5,475,284	3,933
2013	1,404	5,534,921	63	5,534,858	3,942
2014	1,420	5,784,139	35	5,784,104	4,073
2015	1,432	5,963,928	35	5,963,893	4,165
2016	1,429	6,294,325	35	6,294,290	4,405

1 Source: State of Hawaii, Department of Business, Economic Development and Tourism - Census Data.
2 Source: State of Hawaii, Department of Accounting and General Services, Accounting Division.
3 Excludes Enterprise Funds and Component Unit - University of Hawaii general obligation bonds.

Certificates of Participation and Lease Purchase Agreements

Certificates of Participation. In November 1998, the State executed a Lease Agreement (the "Kapolei Lease") related to the issuance of $54,850,000 in certificates of participation, the proceeds of which were used to purchase a state office building in Kapolei (the "Kapolei COPs"); in December 2000, the State executed a second Lease Purchase Agreement (the "Capitol District Lease") for the issuance of $23,140,000 in certificates of participation, the proceeds of which were used to purchase the No. 1 Capitol District State Office Building in Honolulu (the "Capitol District COPs"). Certificates of participation in the aggregate principal amount of $41,120,000 were issued in November 2009 for the purpose of refunding all Kapolei Certificates and Capitol District Certificates, and such certificates of participation are payable from the lease payments owed by the State under the Kapolei Lease and the Capitol District Lease.

In December 2006, the State executed a Facility Lease Agreement related to the issuance of $24,500,000 of Certificates of Participation (the "Hawaiian Homeland COPs"), the proceeds of which were used to construct a headquarters office and conference center building for the Department of Hawaiian Homelands in Kapolei. Each building is located on the island of Oahu. The Kapolei COPs, Capital District COPs and Hawaiian Homeland COPs (collectively, the "COPs") are secured by rental payments payable from lawfully available funds of the State, including the State's General Fund. The rental payments do not constitute an obligation for which the State has levied any form of taxation. The COPs do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

In December 2013, the Department of Transportation entered into a lease agreement (the "DOT Lease Agreement") in respect of the issuance of $167,740,000 certificates of participation related to an energy savings contract (the "DOT Energy Savings Contract") for the Airports System in fiscal year 2014. The DOT Lease Agreement was amended in April 2016 upon the issuance of $8,056,521 in additional certificates of participation, and amended again in March 2017 upon the issuance of $51,473,427 additional certificates of participation, in each case related to the design and installation of additional equipment pursuant to the DOT Energy Savings Contract. Rental payments under COPs issued by the Department of Transportation are secured by Airports System Revenues, subject to annual appropriation by the Legislature, and do not constitute an obligation payable from the State's General Fund revenues.

Lease Purchase Agreements. The State, by and through various departments, agencies and divisions of the State, from time to time enters into lease purchase agreements relating to equipment. Certain of these lease purchase agreement transactions are described below. In September 2009, April 2011 and September 2013, the State, by the Department of Accounting and General Services and the Department of Public Safety, entered into Equipment Lease Purchase Agreements (the "Equipment Leases") with an aggregate principal component of $54,723,668. The State directly placed the Equipment Leases with the respective lessors. The principal components of the Equipment Leases amortize over periods that may not exceed 20 years, with the final payment coming due in September 2033. The State is using the Equipment Lease proceeds to acquire certain energy savings capital improvements pursuant to corresponding energy savings contracts for numerous State-owned buildings and structures. The lease payments under the Equipment Leases are payable from lawfully available funds of the State, including the State's General Fund, but do not constitute an obligation for which the State has levied any form of taxation. The obligations of the State under the Equipment Leases do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

In July 2015 and September 2015, the State, acting through the Department of Transportation Highways Division and Harbors Division, entered into Equipment Lease Purchase Agreements (the "DOT Equipment Leases") with an aggregate principal component of $86,531,655. The principal components of the DOT Equipment Leases amortize over periods that may not exceed 20 years, with the final payments coming due in 2032. The State is using the DOT Equipment Lease proceeds to acquire certain energy savings capital improvements pursuant to corresponding energy savings contracts at facilities and property of the Department of Transportation Highways Division and Harbors Division. The lease payments under the DOT Equipment Leases are payable solely from revenues of the Department of Transportation Highways Division and Harbors Division, as applicable, and do not constitute an obligation for which the State has levied any form of taxation. The obligations of the State under the DOT Equipment Leases do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

No Obligations Subject to Mandatory Purchase or Acceleration

The State currently has no outstanding variable rate obligations subject to purchase by the State upon an event of default and no direct bank loans or other obligations subject to acceleration upon an event of default which are, in either case, secured or otherwise supported by the General Fund. The State could in the future incur such obligations under certain circumstances, and such obligations may under certain circumstances be subject to payment in full prior to the payment of the State's general obligation bonds.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

The objectives of the investment policies of the State's cash management program are: (a) Safety: To safeguard State funds and require full collateralization of State deposits; (b) Liquidity: To ensure the availability of funds to meet State expenditures by the timely forecasting of cash requirements and the selection of securities that can be promptly converted into cash with a minimum risk of principal; and (c) Yield: To maximize interest earnings on State investments of funds in excess of immediate needs.

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities authorized in Section 36-21, HRS. The securities in which State funds may currently be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds for which the full faith and credit of the United States are pledged for the payment of principal and interest; (b) certain U.S. Government Sponsored Enterprises (GSE); (c) time certificates of deposit in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured financial institutions; (f) commercial paper with at least an A1/P1 rating; (g) bankers' acceptances with at least an A1/131 rating; (h) money market mutual funds that are rated AAA or its equivalent by a nationally recognized rating agency or whose portfolio consists of securities that are rated as first tier securities by a nationally recognized statistical rating organization; and (i) securities of a mutual fund whose portfolio is limited to securities issued or guaranteed by the full faith and credit of the United States. Section 36-21, HRS, prohibits the State from investing in securities which require the State to make any swap, counter or other payments other than the original purchase price plus accrued interest.

In the investment of State funds, it is the policy of the State to give due regard to depositories doing business within the State of Hawaii. This policy takes into account the beneficial effects to the State of using local depositories. Deposits are allocated among local financial institutions based upon the yield offered on investments and their ability to fully collateralize such investments.

As of March 31, 2017, 33% of the State's investment portfolio and cash in banks consisted of time certificates with banks, 52% consisted of U.S. Federal Agency and Government Sponsored Entity Securities, 6% consisted of U.S. Treasury securities, and 9% consisted of cash in bank accounts.

Safety of Public Funds

All State funds deposited with financial institutions are deemed, under State law, to be deposited in the State Treasury. Except for that portion of any deposit which is insured by an agency of the federal government, e.g., the Federal Deposit Insurance Corporation ("FDIC"), all deposits of State funds must be collateralized by the depository with securities deposited with the Director of Finance, which has market value equivalent to the lesser of the market value of the collateral based on reputable pricing sources or its par value. Margins have been established for each type of security pledged, as provided in Section 38-3, HRS.

With respect to the types of securities pledged as collateral, Section 38-3, HRS, requires such securities to be evidences of indebtedness of the State or its counties or agencies thereof, of certain county improvement districts or frontage improvement, of the United States or certain agencies thereof, State warrants or warrant notes, direct obligations of other states or cities or counties in the continental United States and other assets of the depository eligible to secure advances from the Federal Reserve Banks. The State will not accept, as collateral, derivative products or other securities that move inversely to the general level of interest rates.

The collateral pledged by depositories is monitored by the Director of Finance on a computerized system, which determines the adequacy of the amount of collateral pledged by depositories on a daily basis.

Investment Yield

Cash positions of State moneys in depositories are reviewed at the beginning of each work day. A determination is made as to the amount of moneys needed to meet payment of State obligations, e.g., payroll, debt service, vendor and contract payments. Any amounts in excess of those requirements are then committed to investment to maximize interest income to the State. Interest earned on moneys in the State Treasury which are requested to be invested by a special fund agency are credited to the special fund agency and is determined by cash flow requirements of the particular program and the general direction of interest rates. All investments of the State are made by the Director of Finance. The maximum length or term of an investment is five years from the date of investment pursuant to Section 36-21, HRS.

For the fiscal year ended June 30, 2016, $9.9 million was credited to the General Fund as investment earnings from the Treasury Investment Pool. As of March 31, 2017, nine months into the current fiscal year, $11.4 million was credited to the General Fund. The total accrued investment interest represents an average return on investment for the General Fund of 0.89%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2012 to 2016. Following thereafter is the statement of revenues and expenditures of the General Fund for each such fiscal year including the statement of revenues and expenditures for each such fiscal year. See also the schedules relating to the General Fund accompanying the General Purpose Financial Statements from the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, in Part II of Appendix C.

The data set forth in the balance sheets and other financial statements have been prepared by the Comptroller of the State. The General Fund is presented and reported using the modified accrual basis of accounting. Under such basis, revenues are recorded when collected in cash except for (a) revenues susceptible to accrual, *i.e.*, measurable and available, and (b) revenues received prior to the period of benefit. Revenues for which receivables have been recorded (and other noncash assets generally) are fully reserved until such time as they are converted to cash.

Expenditures are recorded at the time vouchers for payments are filed with the Comptroller. At the end of a fiscal year, existing liabilities for which payment is due are vouchered and recorded as expenditures as of the end of the fiscal year. Other liabilities for which payment is not due, and obligations in the form of open purchase orders, are recorded as encumbrances at the end of a fiscal year and are not recorded as expenditures until the encumbrances are subsequently liquidated.

General fixed assets purchased or constructed are recorded initially as expenditures and are subsequently reflected at cost in the government-wide statement of Net Position. Depreciation is recorded in the government-wide statement of activities (accrual basis) but not in the governmental funds (modified accrual basis).

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BALANCE SHEET OF THE GENERAL FUND
OF THE STATE OF HAWAII
AS OF JUNE 30

(Amounts In Thousands)

	2012	2013	2014	2015	2016
ASSETS:					
Cash	$ 238,623	$ 76,050	$ 114,395	$ 203,687	$ 234,070
Due from other funds	133,005	120,748	213,063	327,382	189,016
Due from Component Units	29,300	23,800	21,800	35,200	12,400
Receivables:					
Taxes	441,549	461,846	463,187	524,236	419,220
Notes	2,187	1,440	1,470	1,433	1,380
Other	14,047	8,763	8,125	8,025	7,925
Total receivables	457,783	472,049	472,782	533,694	428,525
Investments	286,913	1,102,679	842,394	920,042	1,357,484
Other Assets	15,060	932	18,778	16,051	9,371
TOTAL ASSETS	$ 1,160,684	$ 1,796,258	$ 1,683,212	$ 2,036,056	$ 2,230,866
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Vouchers payable	$ 115,379	$ 105,252	$ 101,042	$ 162,667	$ 146,259
Other accrued liabilities	213,900	250,459	231,422	243,289	286,573
Due to other funds	64	63	35	35	35
Due to Component Units	1,563	1,601	1,514	1,546	2,635
Unearned revenue	22,340	13,610	13,536	39,224	-
Total liabilities	353,246	370,985	347,549	446,761	435,502
FUND BALANCES:					
Assigned	236,779	271,020	256,483	205,242	394,581
Unassigned	570,659	1,154,253	1,079,180	1,384,053	1,400,783
Total fund balances*	807,438	1,425,273	1,335,663	1,589,295	1,795,364
TOTAL LIABILITIES AND FUND BALANCES	$ 1,160,684	$ 1,796,258	$ 1,683,212	$ 2,036,056	$ 2,230,866

* Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. All revenues deposited into the General Fund are not constrained for specific purposes and are the general obligations of the State and are unassigned. Encumbrance balances at fiscal year-end are classified as assigned.

REVENUES AND EXPENDITURES OF THE GENERAL FUND
OF THE STATE OF HAWAII
(for the fiscal years shown)
(Amounts in Thousands)

	2011-2012	% of Total	2012-2013	% of Total	2013-2014	% of Total	2014-2015	% of Total	2015-2016	% of Total
REVENUES:										
General excise tax......................	$ 2,774,636	52.32	$ 2,991,792	51.73	$ 2,816,346	50.12	$ 3,021,418	50.36	$ 3,192,469	49.87
Income tax-corporation..............	81,179	1.53	95,060	1.64	85,940	1.53	64,953	1.08	60,528	0.95
Income tax-individual................	1,552,233	29.27	1,709,349	29.55	1,755,023	31.23	1,982,374	33.04	2,097,351	32.76
Service companies tax	150,528	2.84	163,930	2.83	166,179	2.96	163,481	2.72	152,760	2.39
Liquor licenses and taxes...........	48,854	0.92	48,961	0.85	48,305	0.86	50,281	0.84	50,590	0.79
Tobacco licenses and taxes.........	102,853	1.94	94,180	1.63	77,659	1.38	82,829	1.38	83,685	1.31
Insurance premiums tax	117,617	2.22	131,906	2.28	137,179	2.44	145,672	2.43	152,622	2.38
Rental motor/tour vehicle surcharge tax	61,430	1.16	4,519	0.08	1	-	1	-	1	-
Inheritance and estate tax...........	14,124	0.27	14,886	0.26	14,789	0.26	12,071	0.20	49,613	0.77
Franchise tax.	5,229	0.10	20,673	0.36	36,983	0.66	17,930	0.30	12,691	0.20
Environmental response tax........	15,776	0.30	15,537	0.27	17,356	0.31	14,833	0.25	15,359	0.24
Transient accommodations tax* .	137,529	2.59	185,377	3.20	188,721	3.36	202,345	3.37	233,082	3.64
Conveyance tax..........................	17,899	0.34	21,148	0.37	27,592	0.49	11,635	0.19	27,033	0.42
Total Taxes	5,079,887	95.80	5,497,318	95.05	5,372,073	95.60	5,769,823	96.16	6,127,784	95.72
Charges for current services and other revenues	223,724	4.20	286,686	4.95	247,072	4.40	230,381	3.84	274,101	4.28
TOTAL REVENUES	$ 5,303,611	100.00	$ 5,784,004	100.00	$ 5,619,145	100.00	$ 6,000,204	100.00	$ 6,401,885	100.00
EXPENDITURES:										
General government....................	$ 369,664	7.99	$ 322,464	6.95	$ 425,549	8.43	$ 440,602	8.37	$ 505,656	9.03
Public safety...............................	316,863	6.85	291,855	6.29	377,408	7.48	343,368	6.52	345,453	6.17
Conservation of natural resources	26,290	0.57	28,260	0.61	34,132	0.68	42,706	0.81	50,402	0.90
Health..	484,543	10.48	521,592	11.24	559,981	11.09	587,358	11.15	614,456	10.97
Welfare.......................................	1,019,919	22.05	1,102,912	23.77	992,675	19.67	1,092,243	20.74	1,100,399	19.64
Education										
Higher	535,457	11.58	518,486	11.17	563,764	11.17	600,015	11.39	656,700	11.72
Lower and others	1,782,369	38.54	1,746,939	37.65	1,965,499	38.94	2,047,653	38.88	2,191,107	39.12
Culture-recreation	39,144	0.85	38,979	0.84	43,567	0.86	43,770	0.83	49,864	0.89
Urban redevelopment and housing.......................................	108	-	294	-	10,005	0.20	11,764	0.22	11,962	0.21
Economic development & assistance	24,141	0.52	25,876	0.56	32,992	0.65	28,889	0.55	43,690	0.78
Other	26,250	0.57	42,621	0.92	42,013	0.83	28,082	0.54	31,927	0.57
TOTAL EXPENDITURES	$ 4,624,748	100.00	$ 4,640,278	100.00	$ 5,047,585	100.00	$ 5,266,450	100.00	$ 5,601,616	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	$ 53,497	-	$ 77,451	-	$ 65,648	-	$ 138,955	-	$ 214,284	-
Transfers out	(591,053)	-	(696,818)	-	(818,488)	-	(750,264)	-	(776,011)	-
Other	109,085	-	93,476	-	91,670	-	131,187	-	70,727	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (428,471)	-	$ (525,891)	-	$ (661,170)	-	$ (480,122)	-	$ (491,000)	-
SPECIAL ITEM:										
Loan forgiveness.........................	$ -	-	$ -	-	$ -	-	$ -	-	$ (103,200)	-
TOTAL SPECIAL ITEM	$ -	-	$ -	-	$ -	-	$ -	-	$ (103,200)	-

* Pursuant to Chapter 237D, HRS, a 9.25 percent Transient Accommodations Tax ("TAT") is assessed and distributed to various counties and special funds of the State, with excess revenues deposited into the State general fund. The counties and their respective allocations are: city and county of Honolulu 44.1 percent, Maui county 22.8 percent, Hawaii County 18.6 percent, and Kauai county 14.5 percent, with provisions as stated in section 237D-6.5(b)(3), HRS.

Act 171, SLH 2012 changed the maximum amount deposited into the tourism special fund to $71 million beginning on July 1, 2012 and ending on June 30, 2015 provided that $2 million shall be expended for the development and implementation of initiatives to take advantage of expanded visa programs and increased travel opportunities for international visitors to Hawaii. Act 243, SLH 2012 amended the provision that revenues in excess of $33 million deposited to the convention center enterprise fund in any calendar year be deposited to the State general fund, to be for any fiscal year. Act 161, SLH 2013, effective July 1, 2013, amended the TAT revenue distribution from a percentage of revenues collected to annual amounts of $33 million to the convention center enterprise special fund, $82 million to the tourism special fund and $93 million to the counties, and made permanent the TAT rate of 9.25 percent. Act 81, SLH 2014, allocated $3 million TAT revenues collected to the Turtle Bay conservation easement special fund and decreased the convention center enterprise special fund annual allocation from $33 million to $26.5 million. Act 174, SLH 2014, increased the ceiling distribution allocated to the counties from $93 million to $103 million for fiscal years 2014-2015 and 2015-2016, with distributions of $93 million for each fiscal year thereafter. Act 117, SLH 2015, allocated $3 million TAT revenues collected to the special land and development fund to finance beach restoration and conservation and other activities, to take effect July 1, 2016. Act 121, SLH 2015, beginning July 1, 2015, amended the TAT revenue distribution to the Turtle Bay conservation easement special fund from $3 million to $1.5 million annually for the reimbursement to the State general fund of debt service on reimbursable general obligation bonds. Act 223, SLH 2016, increased the ceiling distribution allocation to the counties from $93 million to $103 million for fiscal year 2016-2017.

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

The State Constitution requires that there be established by law a Council on Revenues (the "Council") to prepare revenue estimates of the State government and to report such estimates to the Governor and the Legislature. The revenue estimates serve as the basis for the Governor's budget preparation and the Legislature's appropriation of funds and enactment of revenue measures. If the Council's latest revenue estimates are not used by the Governor or the Legislature for budget preparation or appropriations, respectively, then the party not using the latest estimates must publicly state the reasons for using a differing revenue estimate. Act 278, SLH 1980, provided for the establishment of such a council consisting of seven members, with three members appointed by the Governor and two members each appointed by the President of the Senate and the Speaker of the House. The Council regularly reports its estimates and revisions each June 1, September 10, January 10, and March 15. The Council also revises its estimates when it determines that such revisions are necessary or upon request of the Governor or the Legislature. The Council's estimates are used by the Department of Budget and Finance in formulating the State Multi Year Program and Financial Plan, the Executive Budget, and the Executive Supplemental Budget for submission to the Legislature.

The following is a summary of the Council's actions since September 2015.

In September 2015, the Council raised its growth rate for fiscal year 2016 from 2.7% to 6.0% partly because the Department of Taxation was able to catch up with refund processing by the end of fiscal year 2015 and the shift of refund payments from fiscal year 2015 to fiscal year 2016 was not expected to occur. Additional revenues were also expected as a result of the Hawaii Supreme Court's decision for the online travel companies' case ($39 million) and the increase in the general fund allocation of conveyance taxes ($20 million). The Council continued to expect steady, but moderate growth in visitor arrivals and spending, in Hawaii's total personal income and in construction, but expressed concerns and uncertainty about the future. The Council changed its growth rate for fiscal year 2017 from 6.4% to 5.5% and kept its growth rates for fiscal years 2018 and 2019 at 5.5% and 5.0%, respectively. The growth rates for fiscal years 2020 and 2021 were reduced from 5.0% to 4.5% for both years and the 4.5% growth rate was carried to fiscal year 2022. The Council's projections take into account all of the tax law changes enacted during the 2015 regular legislative session plus changes from preceding sessions.

In January 2016, the Council raised its growth rate for fiscal year 2016 from 6.0% to 6.7% and maintained its September 2015 forecasts for fiscal years 2017 through 2021. The Council revised its projections partly because payment (of about $29 million) for the online travel companies had been received with the remaining $10 million expected sometime later this fiscal year.

In March 2016, the Council maintained its January 2016 forecasts for fiscal years 2016 and 2019 through 2021. However, the Council lowered its growth forecast for fiscal years 2017 and 2018 from 5.5% to 5.0% in each year. The Council's revised projections were in part reflective of their concerns about possible renewed global economic uncertainty, historical patterns of economic cycles, geopolitical events, and other possible causes of a new recession.

In May 2016, the Council lowered its growth rate for fiscal year 2016 from 6.7% to 6.1% and maintained its March 2016 forecasts for fiscal year 2017 through fiscal year 2021. The Council revised its fiscal year 2016 projection partly based on actual collections to date; however, they believed that Hawaii's economy continued to be strong.

In July 2016, the Department of Taxation issued a news release announcing that for the just ended fiscal year 2016, preliminary cumulative general fund tax collections were up by 8% over the same period in fiscal year 2015.

In September 2016, the Council raised its growth rate for fiscal year 2017 from 5% to 5.5%, maintained its fiscal year 2018 forecast at 5%, lowered its forecast for fiscal year 2019 from 5.0% to 4.4% and lowered its forecast for fiscal years 2020 through 2022 from 4.5% to 4.4%.

In January 2017, the Council lowered its growth rate for fiscal year 2017 from 5.5% to 3.0% primarily based on actual collections to such date. Despite the possibility of a downturn during the six year forecast period, the Council maintained its September 2016 forecasts for fiscal year 2018 through fiscal year 2023 citing modest reductions it had already made at an earlier meeting.

In March 2017, the Council again lowered its forecast for fiscal year 2017, from 3.0% to 2.5%, due in part to actual collections during the first eight months of the fiscal year being lower than forecast, and lowered its growth forecasts for fiscal years 2018 (from 5.0% to 4.0%) and 2019 (from 4.4% to 4.0%), while raising from 4.4% to 4.5% its growth forecasts for fiscal years 2020 through 2023.

Preliminary data released in May 2017 for collections through and including April 2017 indicated that, for the first ten months of the current fiscal year, cumulative General Fund tax deposits had increased by 2.2% compared with the same period in fiscal year 2016. The General Fund Financial Plan and estimated tax revenues set forth below assume a growth rate for total General Fund revenues of 2.5% for fiscal year 2017, and the same growth rates through fiscal year 2023, as established by the Council's March 2017 forecast and report. The Council's next meeting is scheduled for August 2017, at which time the Council may revise its current projections for fiscal year 2017 and beyond, which may or may not have a significant impact on the General Fund Financial Plan. See also "General Fund Financial Plan" in this Appendix.

The management of the State has prepared the prospective financial information set forth below to present projections of certain tax collections and expenditures. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the State's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the projected course of action and the projected future financial performance of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the State's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for fiscal year 2016 and estimates for fiscal years 2017 through 2023. The budgetary General Fund resources, expenditures and balances below and under "General Fund Tax Revenues" and "Actual Collections and Distributions" are presented on a cash-basis. The State's normal practice is to utilize this cash-basis methodology for budgetary and financial planning purposes. In contrast, the State's audited financial statements are prepared on a modified accrual basis. Consequently, the cash basis information presented under this caption and the next two captions titled "General Fund Tax Revenues" and "Actual Collections and Distributions" is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

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MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 2016 -2023[1]
(in millions of dollars)

	Actual FY 16	Prelim Act. FY 17	Estimated FY 18	Estimated FY 19	Estimated FY 20	Estimated FY 21	Estimated FY 22	Estimated FY 23
REVENUES:								
Executive Branch:								
Tax Revenues [2,3]	6,193.6	6,349.2	6,603.2	6,867.3	7,176.3	7,499.3	7,836.7	8,189.4
Nontax Revenues [2,3]	853.3	933.9	714.7	732.0	744.6	759.2	774.2	791.4
Judicial Branch Revenues [2,3]	35.1	36.0	36.5	37.2	37.8	38.3	38.9	39.5
Other Revenues [4]	-	(6.0)	(24.5)	4.7	(4.4)	16.6	16.5	23.7
TOTAL REVENUES	7,081.9	7,313.1	7,329.9	7,641.1	7,954.3	8,313.4	8,666.4	9,044.0
EXPENDITURES								
Executive Branch:								
Operating [5]	6,571.0	7,036.6	7,248.4	7,421.6	7,699.9	7,895.3	8,081.7	8,245.5
CIP	-	14.3	10.5	10.8	13.0	13.0	13.0	13.0
Specific Appropriations/CB [6]	259.9	451.3	98.9	203.0	233.5	272.1	286.3	286.3
Other expenditures/adjustments	-	23.4	16.5	44.5	66.1	82.0	83.3	83.3
Sub-total – Exec Branch	6,830.9	7,525.6	7,374.2	7,679.9	8,012.5	8,262.6	8,464.3	8,628.1
Legislative Branch	38.6	41.4	41.1	41.1	41.1	41.1	41.1	41.1
Judicial Branch	158.2	163.0	163.8	163.9	167.0	167.0	167.0	167.0
OHA	3.2	3.0	3.0	3.0	3.5	3.5	3.5	3.5
Counties	0.4	-	-	-	-	-	-	-
Lapses	(149.1)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	6,882.2	7,652.9	7,502.1	7,807.9	8,144.1	8,394.2	8,595.9	8,759.7
REV. OVER (UNDER) EXPEND.	199.7	(339.8)	(172.2)	(166.8)	(189.8)	(80.8)	70.5	284.3
CARRY OVER BALANCE (DEFICIT)								
Beginning	828.1	1,027.8	688.0	515.8	349.1	159.3	78.5	149.0
Ending	1,027.8	688.0	515.8	349.1	159.3	78.5	149.0	433.2
EBRF (add'l $1mm FY 2016, $201.4mm FY 2017)	100.9	310.7	317.2	323.8	330.4	337.0	343.6	350.1
EBRF Fund Balance as % of Prior Yr. Revenues	1.53%	4.39%	4.34%	4.42%	4.32%	4.24%	4.13%	4.04%

Sources: Department of Accounting and General Services; Department of Budget and Finance, information available through June 22, 2017.

Note: *Reflects Act 119, SLH 2015, as amended by Act 124, SLH 2016. Due to rounding, details may not add to totals.*

1 *Unaudited. The State's cash-basis statements are not directly comparable with the State's audited financial statements, which are modified accrual basis.*

2 *Reflects actual FY 2016 revenue collections as reported by the Department of Accounting and General Services.*

3 *Reflects FY 2017-2023 Council on Revenues' May 2017 projections.*

4 *Incorporates various bills passed by the 2017 Legislature that will impact general fund revenues. Projections for fiscal years 2018-2023 were provided by the Department of Taxation.*

5 *Executive Branch's FY 2018-2019 expenditures reflect Act 49, SLH 2017, as authorized by the 2017 Legislature. FY 2020-2023 expenditures include the FY 2017-2019 Executive Budget as amended by the Governor's Budget Messages #1-4 and the Department of Budget and Finance's recommended adjustments.*

6 *Reflects specific appropriations from 2012-2017 and estimated out year costs.*

The preceding General Fund financial plan is based on actual cash-basis general fund tax revenues for the fiscal year ended June 30, 2016, as reported by the Department of Accounting and General Services. The estimated tax revenues are based on the forecast for general fund revenues from the Council on Revenues' May 30, 2017 report, that also incorporates revenue decreases due to: an increase in the food/excise tax credit for certain taxpayers; an increase in the allocation of the transient accommodations tax to the counties for fiscal years 2015 through 2017; an increase in the motion picture, digital media and film production tax credit and extension of the credit to January 1, 2019; and an amendment to the low-income housing tax credit for certain buildings. The Council's projections also include revenue increases due to: the continuation of the transient accommodations tax rate of 9.25%; the extension of the current rate for the environmental response tax as well as the allocation of a portion of the tax to the general fund; and changes in the allocation of the conveyance tax and the tobacco tax. For purposes of developing the State budget, debt service on Build America Bonds is budgeted based upon expected gross debt service without taking into account the expected amount of federal interest subsidy payments on such bonds, and subsidy payments are recognized as non-tax revenues. The financial plan also includes various revenue bills that will impact general fund revenues which were passed by the 2017 Legislature during the 2017 regular legislative session. The estimates for fiscal years 2018-2023 are based on Department of Taxation projections.

With respect to Executive Branch expenditures, the figures reflect appropriations made pursuant to Act 119, SLH 2015, as amended by Act 124, SLH 2016 and as amended by the 2017 Legislature. In addition, the financial plan includes specific appropriations and additional funds to reach the 80% contribution level for OPEB prefunding in fiscal year 2018, new costs for new collective bargaining agreements effective July 1, 2017, and a set aside based on similar terms as the settled units for unsettled units, separation benefits for Hawaii Health Systems Corporation's Maui Region employees, and a phasing-in of increases to pension and OPEB expenses tied to increased life expectancy rates. Those increases in expenditures are offset by decreases for reduced planned bond issuances for FYs 2018-2020, a lower interest rate on bonds issued, various budget adjustments recommended by the Department of Budget and Finance, and reductions of $50 million per year starting in fiscal year 2018 (exact adjustments will be determined at a later date). The budgets for fiscal year 2017 for the Judicial Branch and the Office of Hawaiian Affairs reflect appropriations made pursuant to Acts 138 and 170, SLH 2015, respectively, and as amended by the 2017 Legislature for fiscal years 2018 and 2019. The General Fund financial plan does not include assumptions relating to certain Governor's initiatives that were part of his original budget submittal including, but not limited to, initiatives relating to increased reserves, affordable housing, public schools, infrastructure improvements and quality of health and environment.

In the General Fund financial plan, fiscal year revenues are recognized based upon receipt while fiscal year expenditures are recognized when appropriations are expended or encumbered in that year. At the end of the fiscal year, encumbrances, although they may subsequently lapse, are considered to be expended. Additionally, the Department of Education, by law, is allowed to retain up to 5% of its appropriations up to one year into the next fiscal biennium. For example, $44.9 million was carried over from fiscal year 2016 to fiscal year 2017 by the Department of Education, but in the financial plan, was considered to be expended in fiscal year 2016.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2016, and represent approximately 87% of the total General Fund revenues (as reported by DAGS). Set forth below are the actual, cash-basis General Fund tax revenues for the fiscal year ended June 30, 2016, and estimated tax revenues for the fiscal years ending June 30, 2017 and June 30, 2018 as reported by the Department of Taxation. The estimated tax revenues are based on the forecast for total General Fund revenues from the Council on Revenues' March 13, 2017 report, and the line item projections are prepared by the Department of Taxation to be consistent with the Council's forecast.

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GENERAL FUND TAX REVENUES
(Thousands of Dollars)

	Actual* 2015-2016	Estimated 2016-2017	Estimated 2017-2018
General Excise and Use Tax	$3,206,154	$3,330,214	$3,459,629
Income Tax—Individual	2,116,392	2,106,865	2,196,838
Income Tax—Corporation	93,036	95,000	83,305
Public Service Company Tax	152,760	157,635	162,955
Tax on Insurance Premiums	153,173	156,876	161,967
Tobacco Tax & Licenses	83,685	85,650	87,493
Liquor Tax & Permits	50,590	51,044	51,505
Tax on Banks & Other Financial Corp.	12,691	22,217	25,550
Inheritance and Estate Tax	49,613	50,476	51,405
Conveyance Tax	26,415	27,290	28,741
Transient Accommodation Tax	233,781	249,741	277,595
Miscellaneous Taxes	16,067	16,207	16,201
TOTAL	$6,194,356	$6,349,215	$6,603,184
GROWTH RATE	8.01%	2.50%	4.00%

Note: Details may not add to totals due to rounding.
* Unaudited. The State’s cash basis statements are not directly comparable with the State’s audited financial statements, which are accrual basis.
Sources: Actual collections are from Tax Research and Planning reports. Estimates are from the Council on Revenues’ report of March 15, 2017, and line item projections prepared by the Department of Taxation. (Please note that the tax revenue numbers reported by the Department of Taxation may differ from the tax revenue numbers reported by the Department of Accounting and General Services because of accounting system reclassifications and collection timing issues.)

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for fiscal years 2015 and 2016 as reported by the State Director of Taxation. The collections from all sources for fiscal year 2016 amounted to $7.2 billion. This represents a 5.1% increase from the previous fiscal year.

	Fiscal Year Ended June 30	
	2015-2016	**2014-2015**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial Corporations [1]	$14,691	$19,930
Conveyances [1]	66,083	78,702
Employment Security Contributions	128,577	167,248
Fuel	198,136	193,082
General Excise License and Registration Fees	610	577
General Excise and Use [2]	3,206,154	3,048,207
Honolulu County Surcharge [3]	259,248	248,518
Income—Corporations:		
Declaration of Estimated Taxes	160,563	155,279
Payment with Returns	39,459	-5,016
Refunds	-106,986	-97,944
Income—Individuals [1]:		
Declaration of Estimated Taxes	558,669	498,418
Payment with Returns	199,026	181,142
Withholding tax on Wages	1,809,855	1,728,510
Refunds	-450,690	-419,876
Inheritance and Estate	49,613	12,071
Insurance Premiums	153,173	145,679
Liquor and Permits	50,590	50,281
Motor Vehicle Tax/Fees, Etc. [4]	187,704	180,755
Public Service Companies	152,760	163,481
Tobacco and Licenses [1]	125,093	129,851
Transient Accommodations Fees/Time Share Occupation Fees	13	12
Transient Accommodations Tax/Time Share Occupation Tax [1]	446,781	420,970
All Other [5]	83	165
TOTAL	$7,249,205	$6,900,042

Note: Details may not add to totals due to rounding.

[1] Gross collection — does not reflect allocation to Special Funds.
[2] May also contain some revenue from the Honolulu County Surcharge.
[3] Taxpayers with businesses located outside of Oahu, but with business activities on Oahu, may be subject to Honolulu County Surcharge tax.
[4] Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Vehicle Registration Fees and Rental Vehicle Surcharge Tax.
[5] Includes fuel retail dealer permits, penalties and interest on fuel tax, and permitted transfers.

	Fiscal Year Ended June 30	
	2015-2016	2014-2015
State Tax Collections—Distribution	(Thousands of Dollars)	
State General Fund	$6,194,356	$5,735,141
State Highway Fund	275,721	267,576
State Airport Fund	2,807	4,453
Boating Special Fund	1,684	1,627
Environmental Fund	1,288	1,236
Cigarette Stamp Administrative Fund	225	234
Cigarette Stamp Enforcement Fund	1,738	1,805
Compliance Resolution Fund	2,000	2,000
Election Campaign Fund	180	162
Employment Security Fund	128,577	167,248
Rental Housing Fund	33,057	39,511
Natural Area Reserve Fund	0	19,755
Convention Center Enterprise Fund	26,500	33,000
Land Conservation Fund	6,611	7,902
Tourism Special Fund	82,000	82,000
School Minor Repairs and Maintenance Fund	72	69
Public Libraries Fund	66	66
Domestic Violence/Child Abuse Neglect Funds	149	145
Cancer Research Fund	14,445	14,995
Trauma System Fund	7,400	11,243
Emergency Medical Service Fund	8,800	9,373
Community Health Centers Fund	8,800	9,373
Energy Security Fund	3,864	3,708
Energy Systems Development Fund	2,576	2,472
Agricultural Development & Food Security Fund	3,864	3,708
Hawaii Hurricane Relief Fund	0	55,500
Turtle Bay Conservation Easement Fund	1,500	0
Subtotal	$6,808,280	$6,474,302
Honolulu County Surcharge	$259,248	$248,518
Distributions to Counties*:		
Fuel Tax	$78,677	$74,223
Transient Accommodations Tax	103,000	103,000
Counties Total	$181,677	$177,223
TOTAL	$7,249,205	$6,900,042

Note: Details may not add to totals due to rounding.

*Refers to distributions received by the Counties from the specified taxes.

Source: State Department of Taxation, Tax Research and Planning Office.

STATE EMPLOYEES' RETIREMENT SYSTEM

A description of the Employees' Retirement System of the State of Hawaii for employees of the State and the counties is provided under "EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix B. The following statistical information addresses the entire System, including both State and county employees. The System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Employer Contribution Rate

The schedule which follows shows the statutory total employer contribution rate for all employees based on the last ten annual actuarial valuations.

Actuarial Valuation as of June 30	Total Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3
2011	15.52	25.0
2012	16.11	30.0
2013	16.76	28.0
2014	17.28	26.0
2015	17.89	26.0
2016	17.91	66.0

* Reflects Act 181, SLH 2004, which amended HRS Sections 88-105,88-122,88-123, 88-124, 88-125 & 88-126, and Act 163, SLH 2011.

The funding period decreased in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008 pursuant to Act 256, SLH 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in fiscal years 2009 and 2010 were from the recognition of the actuarial asset loss from the significant decline in the financial markets during fiscal year 2009. The decrease in the funding period in 2011 is a reflection of Act 163, SLH 2011, which was enacted to raise the employer contribution rates over the next several years and to provide for smaller benefits for employees hired after June 30, 2012, to bring the funding period in line with the 30 year statutory requirement. The increase in the funding period in 2012 reflects the final recognition of the investment losses from fiscal year 2009. It also reflects the significant changes due to Act 163 and ERS' open group projection policy which assumes that the number of active members will remain constant and there will be no actuarial gains or losses on liabilities or investments. The decrease in the funding period in 2014 was due to investment gains from positive experience versus the actuarial assumptions. The funding period in 2015 remained unchanged due to the offsetting impact from experience gains and the liability increase as a result of the lowering of the investment return assumption to 7.65% by the Board of Trustees effective with the June 30, 2015 valuation. The funding period increased in 2016 due to a combination of factors. The system experienced a loss on the actuarial value of assets due to lower than expected investment performance. The system also experienced liability losses due to higher than expected salary increases during fiscal year 2016. Both of these events increased the funding period of the system. However, the adoption of the new actuarial assumptions by the Board of Trustees in December 2016 (including the decision to lower the investment return assumption to 7.00%) by far had the most impact on the increase in the funding period.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2015 and 2016 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2015 and 2016
(Includes all counties)

ASSETS	2015	2016
Total current assets	$14,463,670,277	$14,998,749,060
Present value of future employee contributions	1,932,961,666	2,200,959,950
Present value of future employer normal cost contributions ..	1,868,722,677	2,777,611,039
Unfunded actuarial accrued liability	8,774,725,109	12,440,484,569
Present value of future employer Early Incentive Retirement Program contribution..	N/A	N/A
TOTAL ASSETS	$27,040,079,729	$32,417,804,618
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	12,321,791,648	14,228,204,532
Present value of future benefits to active employees and inactive members	14,718,288,081	18,189,600,086
TOTAL LIABILITIES	$27,040,079,729	$32,417,804,618

Source: Gabriel, Roeder, Smith & Company+

As of June 30, 2016, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $12.440 billion. The System's funded ratios — assets divided by the actuarial accrued liability — decreased during fiscal year 2016 as shown below:

FUNDED RATIOS

June 30, 2015	June 30, 2016
62.2%	54.7%

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PART II
GENERAL PURPOSE FINANCIAL STATEMENTS
OF THE STATE OF HAWAII AS OF JUNE 30, 2016
AND INDEPENDENT AUDITORS' REPORT

Following is the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016 ("CAFR"). For ease of reference, Part II of Appendix C retains the CAFR's pagination as shown on the Table of Contents of the CAFR.

The full CAFR has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system and may be obtained from its website, http://emma.msrb.org, or upon request to the State of Hawaii Department of Budget and Finance, 250 South Hotel Street, Honolulu, Hawaii 96813, Attention: Financial Administration Division.

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STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

RODERICK K. BECKER
COMPTROLLER

HAWAII

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2016

RODERICK K. BECKER
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

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PART III: STATISTICAL SECTION (UNAUDITED)

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PART I: INTRODUCTORY SECTION

State of Hawaii
Principal Officials for Finance-Related Functions
June 30, 2016

Roderick K. Becker
Comptroller

Audrey Hidano
Deputy Comptroller

Governor	**David Y. Ige**
Director of Finance	**Wesley K. Machida**
Director of Taxation	**Maria E. Zielinski**
Comptroller	**Roderick K. Becker**
Deputy Comptroller	**Audrey Hidano**

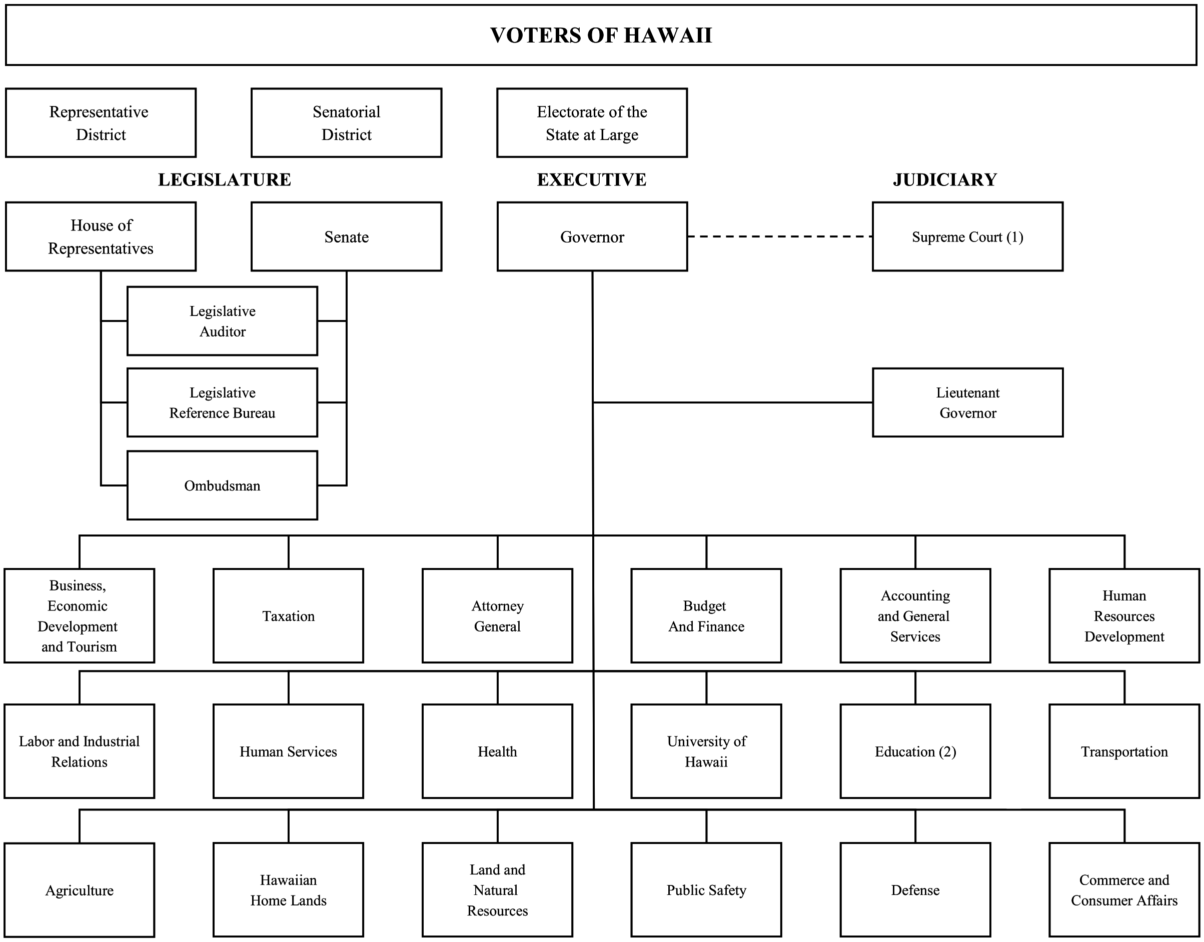
Notes:

The Director of Finance is also department head of the Department of Budget and Finance.

The Comptroller is also department head of the Department of Accounting and General Services.

An organizational chart including those and other departments and agencies of the State of Hawaii government is presented on the following page.

State of Hawaii
Organizational Chart
June 30, 2016



(1) The Governor's appointment of justices of the Supreme Court confirmed by the Senate.

(2) The Board of Education is appointed by the Governor.

DAVID Y. IGE
GOVERNOR

RODERICK K. BECKER
Comptroller

AUDREY HIDANO
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

December 30, 2016

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Eighth State
Legislature of the State of Hawaii

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is our privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (the State) for the fiscal year ended June 30, 2016. The State's Department of Accounting and General Services has prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. We believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

THE REPORTING ENTITY AND ITS SERVICES

With Hawaii's highly centralized state government, the State provides a full range of services as mandated by statute. These services include, but are not limited to, education (lower and higher), welfare, transportation (highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

This report includes the various funds comprising the State, including all entities that are accountable to the State. The Employees' Retirement System of the State of Hawaii, which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs, which exists for the betterment of the conditions of native Hawaiians, are not included in the State's basic financial statements because those agencies, based on their fiscal independence and/or separate legal entity status, are not accountable to the State.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the State operates.

State of the Economy

Overview
During the third quarter of 2016 Hawaii's economic indicators for the tourism industry, tax revenues, the construction industry, and unemployment were mostly positive. Visitor arrivals and expenditures, wage and salary jobs, personal income, government contracts awarded, and private building permits all increased, with State general fund tax revenues and construction in progress expenditures decreasing.

Labor
Since the fourth quarter of 2010, Hawaii's jobs increased for the 24th consecutive quarter. During the first nine months of 2016, Hawaii's total civilian employment averaged 664,450 persons, an increase of 13,200 persons or 2.0% over the same period in 2015. The number of wage and salary jobs was up 13,700 to 653,700 for an increase of 2.1%. Job increases were most notable in health care and social assistance (2,700), food services and drinking places (2,700), accommodation (900), and professional and business services (800). A few sectors experienced declines including state government (800) and wholesale trade (300). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 3.3% for the first nine months of 2016, compared to 3.8% for the same period in 2015.

Taxes
Although the State General Fund tax revenues decreased in the third quarter of 2016 compared to the same quarter of 2015, the State General Fund tax revenues increased $142.7 million, or 3.1%, during the first nine months of 2016 compared to the same period in 2015. Among its components, net individual income tax collections increased $44.3 million or 2.9%, general excise and use tax (GET) collections increased $34.6 million or 1.5%, and transient accommodations tax (TAT) collections were up $46.1 million or 13.6%. Net corporate income tax revenues decreased $15.0 million or 22.2%.

Personal Income
Total nominal personal income, not adjusted for inflation, increased $6.2 billion, or 4.5% in the first half of 2016 compared to the same period in 2015. Among its components, the fastest growth was seen in wages and salaries which increased $3.4 billion or 5.0%, personal current transfer receipts which increased $1.0 billion or 4.8%, and dividends, interest, and rent which increased $0.7 billion or 2.5%. Contributions for government social insurance, which are subtracted from personal income, increased by 4.5%.

Prices
Honolulu's consumer price index (CPI) increased 2.4% for the first half of 2016 compared to the same period in 2015, higher than the 1.1% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in medical care (9.4%), recreation (3.4%), food and beverages (3.3%), and education and communication (2.5%). Prices also increased for housing (2.4%), other goods and services (2.1%) and apparel (0.8%). The price decreased for transportation (3.0%).

Recent Developments in Hawaii's Major Industries

Visitor Industry
In the first nine months of 2016, total visitor arrivals by air increased 189,000 or 2.9% compared to the same period of 2015. Domestic arrivals (visitors on flights originating inside of the U.S.)

increased 3.1% while international arrivals increased 2.7%. Total visitor days (visitor arrivals multiplied by average length of stay) increased 1.8% in the first nine months of 2016 compared to the same period of 2015 and total visitor spending increased $411.0 million or 3.7% over the same period. Statewide hotel occupancy rate averaged 79.3% in the first half of 2016, 0.5% higher than the average rate during the same period of 2015.

Construction

Hawaii's construction industry has been one of the steady contributors to job growth over the past few years. In the first nine months of 2016, the construction sector added 5,600 jobs or 16.5% from the same period of 2015. Before the recession, specifically the period from 2002 to 2007, construction job growth averaged 8.0% per year. The strength of the current construction job market is a sharp contrast to the recession period. From the second quarter of 2008 until the second quarter of 2011, construction job growth was negative.

Outlook for Hawaii's Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth for the rest of 2016 and into 2017. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. The November 2016 Blue Chip Economic Consensus Forecasts expects real GDP growth in 2017 to increase 2.2% for the U.S. and 0.8% for Japan.

For 2017, the growth rate of visitor arrivals, visitor days and visitor expenditures are expected to be 1.8%, 2.0% and 4.0%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 1.2% in 2017. Real Personal Income is expected to increase 2.6% in 2017 with real GDP projected to increase 1.9% in 2017.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.6% in 2017. The State GDP deflator is forecast to grow 1.8% in 2017.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and maintaining the State's accounting system, consideration is given to the effectiveness of internal control, which is designed to accomplish certain objectives of management, including:

1. Transactions are executed in accordance with management's general and specific authorization.

2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and to maintain accountability for assets.

3. Access to assets is permitted only in accordance with management's authorization.

Internal controls are designed to provide reasonable, but not absolute, assurance that the above objectives were accomplished. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. We believe that the State's internal controls are effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2015 (Act 119, SLH 2015), and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State

Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. Of the 14 collective bargaining units, 13 include State employees. All 13 units have collective bargaining agreements in effect through June 30, 2017.

INDEPENDENT AUDIT

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2016. The independent auditors' report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

We extend our appreciation to the staff of the various State agencies whose dedicated time and effort made the preparation of this report possible. Their combined efforts have produced a report that we believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,

RODERICK K. BECKER
Comptroller, State of Hawaii

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Hawaii

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

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PART II: FINANCIAL SECTION

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

The Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii (the State) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements (pages 30–113) as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund and the Drinking Water Treatment Revolving Loan Fund, which are nonmajor enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, an agency of the State; and the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units, which represent the following percentages of total assets and revenues and additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Business-Type Activities	91%	80%
Aggregate Discretely Presented Component Units	27%	39%
Fiduciary Funds	79%	7%

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Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Employer-Union Health Benefits Trust Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 14–27), budgetary comparison information (pages 116–119 and 130–136), Schedule of the Proportionate Share of the Net Pension Liability (page 120), Schedule of Contributions (page 121), and Schedules of Funding Progress (page 122) be presented to supplement the basic financial statements. Such information, 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 audit 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.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements (pages 126–129 and 137–141), introductory section (pages 1–8) and statistical section (pages 144–177) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of the State of Hawaii's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Hawaii's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
December 30, 2016

As management of the State of Hawaii (the State), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3–7 of this report.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2016 by $1.4 billion (net position). Unrestricted net position, which may be used to meet the State's ongoing obligations to citizens and creditors, was a negative $6.1 billion, a decrease of $252.0 million from the previous year. Net position of governmental activities and business-type activities increased by $235.3 million and increased by $239.2 million, respectively. The combined increase to the State was $474.5 million from the prior fiscal year.

Fund Highlights

At June 30, 2016, the State's Governmental Funds reported combined ending fund balances of $3.1 billion, an increase of $574.2 million from the prior fiscal year. Of this amount, $1.8 billion, or 58.5%, of total fund balances was in the General Fund, and the remaining $1.3 billion represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net fund position of $4.2 billion at June 30, 2016, an increase of $239.2 million during the fiscal year.

Liabilities

The State's liabilities increased during the current year to $19.6 billion, an increase of $1.0 billion. During fiscal 2016, the State issued General Obligation Refunding bonds in the amount of $721.4 million to advance refund $859.5 million of previously issued outstanding General Obligation bonds for financing capital projects. In addition, the State issued $725.0 million in General Obligation bonds and $169.7 million in taxable General Obligation bonds.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting By Employers For Postemployment Benefits Other Than Pensions*, the State's liability for postemployment benefits other than pension increased to $3.9 billion, an increase of $157.6 million for the fiscal year ended June 30, 2016.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: (1) Government-Wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains supplementary information required by GASB and other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The statement of net position presents information on all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows 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 State is improving or deteriorating.

The statement of activities presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division (Airports), Department of Transportation – Harbors Division (Harbors), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The Government-Wide financial statements include not only the State itself (known as the Primary Government), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The Government-Wide financial statements can be found on pages 30–32 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide financial statements. However, unlike the Government-Wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-Wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the Government-Wide financial statements.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures and changes in fund balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which is considered to be a major fund. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. Budgetary comparison schedules are provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedules for the General Fund and Med-Quest Special Revenue Fund are located in the required supplementary information and the budgetary comparison statements for each of the other Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 34–37 of this report.

Proprietary Funds
Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the Government-Wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 38–42 of this report.

Fiduciary Funds
Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on pages 43–44 of this report.

Notes to Basic Financial Statements
The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 52–113 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents a section of required supplementary information other than management's discussion and analysis, which contains budget-to-actual schedules for the State's General and Med-Quest Special Revenue Funds as well as accompanying notes. This section also includes a Schedule of the Proportionate Share of the Net Pension Liability, Schedule of Contributions to the pension plan, and Schedules of Funding Progress for the other postemployment benefit plan.

The combining financial statements referred to earlier are presented in the supplementary information immediately following the required supplemental information other than management's discussion and analysis. These combining statements provide details about the nonmajor Governmental, Proprietary and Fiduciary Funds. The total columns of these combining financial statements carry to the applicable fund financial statements.

The statistical section containing information regarding financial trends, revenue capacity and debt capacity, as well as demographic, economic and operating information follows immediately after the combining schedules.

Government-Wide Financial Analysis

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net position is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $1.4 billion as of June 30, 2016, and net position increased $474.5 million, or 53.4% from the June 30, 2015 balances as previously reported. The net position of the governmental activities increased by $235.3 million, or 7.6%, and business-type activities had an increase of $239.2 million, or 6.0%. The following table was derived from the Government-Wide Statement of Net Position:

Summary Schedule of Net Position
June 30, 2016 and 2015
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	$ 4,666,608	$ 4,218,887	$ 3,234,751	$ 2,923,501	$ 7,901,359	$ 7,142,388
Capital assets, net	9,346,839	9,176,892	3,170,276	2,989,332	12,517,115	12,166,224
Total assets	$ 14,013,447	$ 13,395,779	$ 6,405,027	$ 5,912,833	$ 20,418,474	$ 19,308,612
Deferred outflows of resources						
Deferred loss on refunding	$ 186,753	$ 97,768	$ 6,471	$ 7,839	$ 193,224	$ 105,607
Deferred outflows on net pension liability	602,822	485,333	23,390	19,023	626,212	504,356
Total deferred outflows of resources	$ 789,575	$ 583,101	$ 29,861	$ 26,862	$ 819,436	$ 609,963
Liabilities						
Long-term liabilities	$ 16,018,736	$ 15,144,447	$ 1,955,834	$ 1,720,396	$ 17,974,570	$ 16,864,843
Other liabilities	1,370,901	1,483,387	234,170	207,592	1,605,071	1,690,979
Total liabilities	$ 17,389,637	$ 16,627,834	$ 2,190,004	$ 1,927,988	$ 19,579,641	$ 18,555,822
Deferred inflows of resources						
Deferred inflows on net pension liability	$ 285,466	$ 458,463	$ 9,423	$ 15,446	$ 294,889	$ 473,909
Total deferred inflows of resources	$ 285,466	$ 458,463	$ 9,423	$ 15,446	$ 294,889	$ 473,909
Net position						
Net investment in capital assets	$ 2,727,055	$ 2,826,649	$ 1,871,554	$ 1,773,613	$ 4,598,609	$ 4,600,262
Restricted	1,591,701	1,445,824	1,305,799	1,227,441	2,897,500	2,673,265
Unrestricted	(7,190,837)	(7,379,890)	1,058,108	995,207	(6,132,729)	(6,384,683)
Total net position	$ (2,872,081)	$ (3,107,417)	$ 4,235,461	$ 3,996,261	$ 1,363,380	$ 888,844

Analysis of Net Position

By far, the largest portion of the State's net position ($4.6 billion or 337.3%) reflects its investment in capital assets (e.g., land, infrastructure, buildings and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position ($2.9 billion or 212.5%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $6.1 billion or negative 449.8% represents unrestricted net position.

At June 30, 2016, the State is able to report positive balances in two categories of net position for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net position for governmental activities is primarily attributed to the State's other postemployment benefit liability of $3.7 billion and net pension liability of $4.2 billion.

Changes in Net Position

The State's net position increased by $474.5 million, or 53.4%, during the fiscal year ended June 30, 2016. Approximately 57.3% of the State's total revenues came from taxes, while 28.2% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 14.1% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, general government, public safety, and highways.

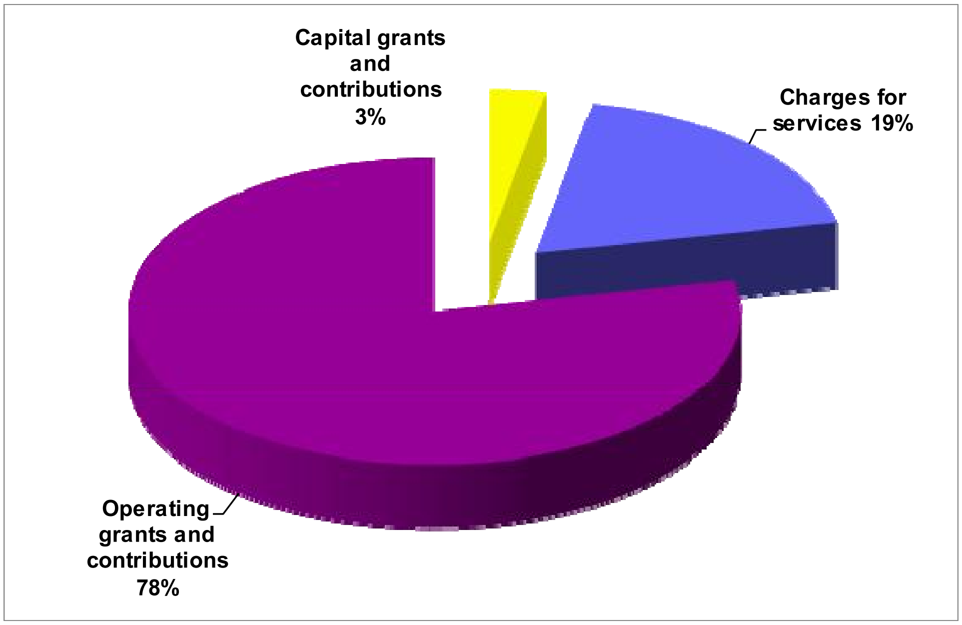
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net position changed during the fiscal year:

Summary Schedule of Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015
(Amounts in thousands)

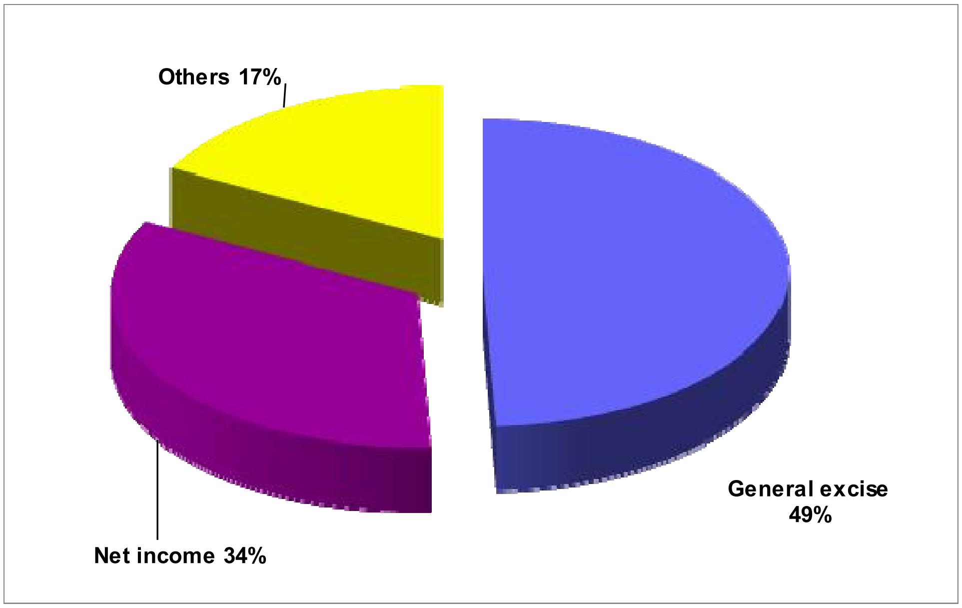
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	$ 717,850	$ 699,561	$ 865,036	$ 912,716	$ 1,582,886	$ 1,612,277
Operating grants and contributions	2,986,842	2,809,460	-	-	2,986,842	2,809,460
Capital grants and contributions	113,006	139,977	80,173	72,140	193,179	212,117
General revenues						
Taxes	6,453,501	6,134,818	-	-	6,453,501	6,134,818
Investment income and other	22,564	16,024	21,276	17,567	43,840	33,591
Total revenues	10,293,763	9,799,840	966,485	1,002,423	11,260,248	10,802,263
Expenses						
General government	688,394	595,278	-	-	688,394	595,278
Public safety	485,985	504,343	-	-	485,985	504,343
Highways	399,997	426,142	-	-	399,997	426,142
Conservation of natural resources	107,740	89,176	-	-	107,740	89,176
Health	878,610	871,563	-	-	878,610	871,563
Welfare	3,343,392	3,196,602	-	-	3,343,392	3,196,602
Lower education	2,840,782	2,729,789	-	-	2,840,782	2,729,789
Higher education	673,217	761,837	-	-	673,217	761,837
Other education	23,379	21,664	-	-	23,379	21,664
Culture and recreation	106,511	84,265	-	-	106,511	84,265
Urban redevelopment and housing	122,981	115,653	-	-	122,981	115,653
Economic development and assistance	163,935	179,485	-	-	163,935	179,485
Interest expense	210,204	247,059	-	-	210,204	247,059
Airports	-	-	377,393	350,041	377,393	350,041
Harbors	-	-	93,088	87,031	93,088	87,031
Unemployment compensation	-	-	144,481	186,893	144,481	186,893
Nonmajor proprietary fund	-	-	112,323	112,209	112,323	112,209
Total expenses	10,045,127	9,822,856	727,285	736,174	10,772,412	10,559,030
Special item – loan forgiveness	(13,300)	-	-	-	(13,300)	-
Change in net position	235,336	(23,016)	239,200	266,249	474,536	243,233
Net position						
Beginning of year	(3,107,417)	(3,084,401)	3,996,261	3,730,012	888,844	645,611
End of year	$ (2,872,081)	$ (3,107,417)	$ 4,235,461	$ 3,996,261	$ 1,363,380	$ 888,844

The following charts depict revenues of the governmental activities for the fiscal year:

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2016



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2016



Analysis of Changes in Net Position

The State's net position increased by $474.5 million during the current fiscal year. This is explained in the governmental and business-type activities discussion, and is primarily due to increase in net position of governmental activities of $235.3 million, Unemployment Compensation Fund of $54.2 million, Airports of $115.9 million, Harbors of $38.8 million, and Nonmajor Proprietary Funds of $30.4 million.

Governmental Activities

Governmental activities increased the State's net position by $235.3 million. The elements of this increase are reflected below:

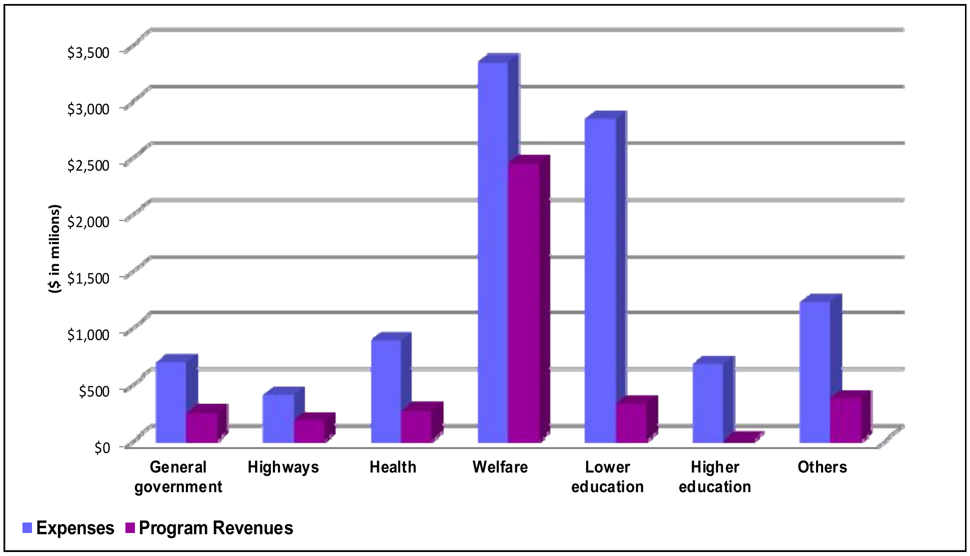
	Governmental Activities (Amounts in thousands)	
	2016	**2015**
General revenues		
Taxes	$ 6,453,501	$ 6,134,818
Interest and investment income and other	22,564	16,024
Total general revenues	6,476,065	6,150,842
Expenses, net of program revenues		
General government	443,718	310,796
Public safety	359,648	395,423
Highways	223,112	266,363
Conservation of natural resources	21,354	(1,459)
Health	616,792	618,597
Welfare	897,185	903,414
Lower education	2,521,925	2,423,324
Higher education	673,217	761,837
Other education	23,379	21,664
Culture and recreation	90,503	70,274
Urban redevelopment and housing	81,951	67,994
Economic development and assistance	64,441	88,572
Interest expense	210,204	247,059
Total governmental activities expenses, net of program revenues	6,227,429	6,173,858
Special item – loan forgiveness	(13,300)	-
Increase (decrease) in governmental activities net position	$ 235,336	$ (23,016)

Tax revenues increased by $318.7 million, or 5.2%, from the previous fiscal year. The increase was primarily due to increase in general excise taxes of $171.1 million, corporate and individual net income taxes of $87.9 million, and transient accommodations taxes of $30.7 million due to growth in the State economy.

Lower education net expenses increased $98.6 million or 4.1%. This change is primarily due to the decrease in revenues for the school based budgeting and instructional support programs.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

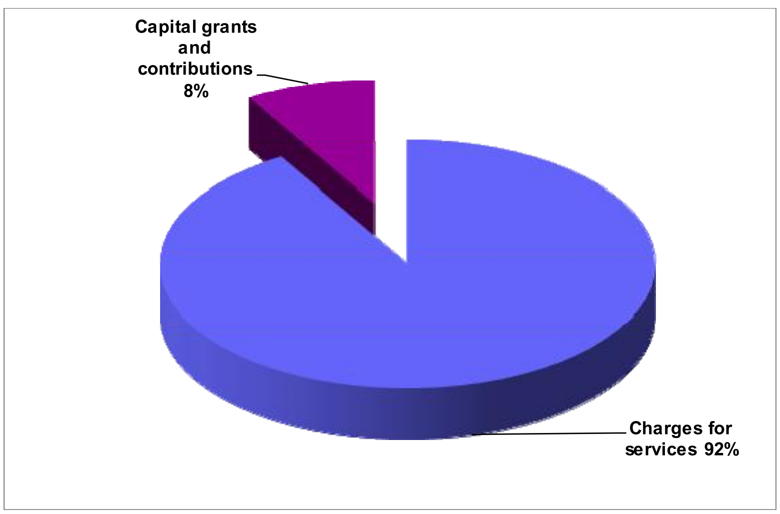
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2016



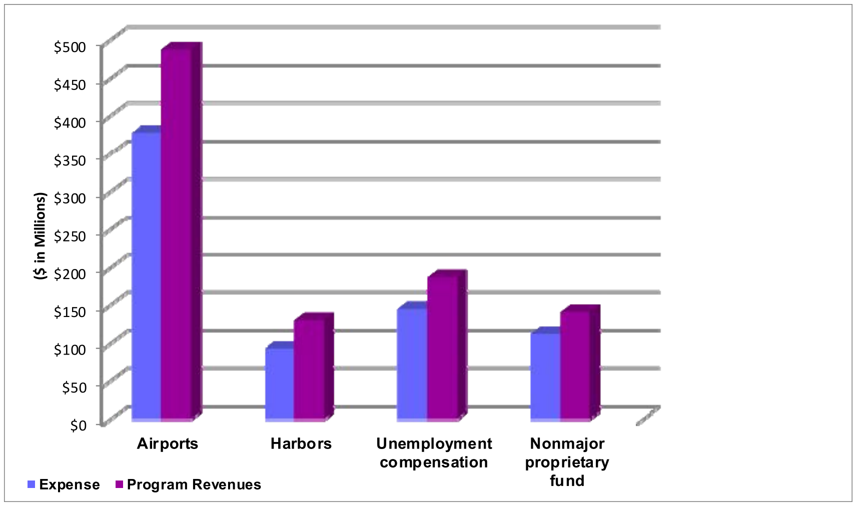
Business-Type Activities

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2016



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2016



Business-type activities increased the State's net position by $239.2 million in fiscal 2016, compared to an increase of $266.2 million in fiscal 2015. Key elements of this increase are as follows:

- Airport's net position increased $115.9 million compared to an increase of $127.5 million in the prior fiscal year. Charges for current services increased by $24.8 million primarily due to the increase in landing fees and aeronautical revenues from an increase in passenger traffic. Operating and capital grants and contributions decreased $10.4 million mainly due to the decrease in federal capital grants.

- Harbor's net position increased $38.8 million in fiscal 2016 compared to an increase of $37.9 million in fiscal 2015. Charges for current services increased by $6.9 million, while expenses increased $6.1 million.

- The Unemployment Compensation Fund's net position increased $54.2 million compared to an increase of $62.7 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $42.4 million offset by a decrease in unemployment tax revenues of $52.2 million.

- The Nonmajor Proprietary Fund's net position increased $30.4 million in fiscal 2016 compared to an increase of $38.1 million in fiscal 2015.

- Key elements of the State's business-type activities for the fiscal years ended June 30, 2016 and 2015 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating and Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Airports	$ 459,269	$ 434,489	$ 27,887	$ 38,239	$ 487,156	$ 472,728	$ 377,393	$ 350,041	$ 109,763	$ 122,687
Harbors	130,126	123,209	-	284	130,126	123,493	93,088	87,031	37,038	36,462
Unemployment compensation	187,215	239,375	-	-	187,215	239,375	144,481	186,893	42,734	52,482
Nonmajor proprietary funds	88,426	115,643	52,286	33,617	140,712	149,260	112,323	112,209	28,389	37,051
Total	$ 865,036	$ 912,716	$ 80,173	$ 72,140	$ 945,209	$ 984,856	$ 727,285	$ 736,174	$ 217,924	$ 248,682

Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. The fund balance classifications comprise a hierarchy based primarily on the extent the State is bound to honor constraints on the specific purpose for which amounts can be spent.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of $3.1 billion. Of this amount, $15.6 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $401.3 million has been committed to specific purposes. An additional $1.6 billion has been assigned to specific purposes by management. The unassigned fund balance was $1.1 billion at fiscal year end. This amount includes an unrestricted fund deficit of $316.4 million in the Capital Projects Fund, which indicates that the fund spent or committed more than what was expendable.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was $1.8 billion compared to $1.6 billion in fiscal 2015. This increase is mainly attributed to the increase in tax revenues. The fund balance of the State's Capital Projects Fund increased $222.2 million during the fiscal year. The Capital Projects Fund deficit is the result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is $569.4 million and is reflected on the balance sheet as Due to Component Units. The fund balance of the Med-Quest Special Revenue Fund increased $3.9 million and other Nonmajor Governmental Funds increased $142.0 million.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net position of $115.9 million, Harbors had an increase in net position of $38.8 million, the Unemployment Compensation Fund had an increase in net position of $54.2 million, and the Nonmajor Proprietary Funds had an increase in net position of $30.4 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $45.5 million, or 0.6%, more than the final budget. The positive variance was attributed to higher tax revenues of $88.6 million and offset by unfavorable non-tax revenues of $43.1 million. Corporate income taxes, individual income taxes and inheritance and estate taxes collected was $10.8 million, $30.3 million and $37.4 million, respectively more than what was projected. The unfavorable variance in other revenues was mainly comprised of less than anticipated reimbursements to the General Fund by the Medquest program which totaled $34.4 million.

The difference between the final budget and actual expenditures on a budgetary basis was $297.8 million. The large positive variance in general government of $98.1 million was mostly due to $54.3 million savings in health premiums and retirement payments due to lower than projected employee growth and enrollment in the State's health plans.

Also contributing to the positive variance was $18.5 million of appropriations made to the State Legislature that can be carried over to the next fiscal year. As in previous years, the positive variance in lower education resulted when the Department of Education carried over $46.1 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations. Spending restrictions of $21.7 million imposed on all executive branch departments resulted in positive variances across all functions of government.

Capital Asset and Debt Administration

The State's capital assets for its governmental and business-type activities as of June 30, 2016, amounted to $12.5 billion (net of accumulated depreciation of $11.4 billion), an increase of $350.9 million from fiscal 2015. The increase is due to an increase in governmental activities assets of $613.5 million and in business-type assets of $307.5 million offset by increases in governmental activities and business-type activities accumulated depreciation of $443.5 million and $126.6 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2016, included the following:

- $270.7 million for various capital improvement projects and repairs and maintenance of public school facilities throughout the State.
- $405.1 million for consolidated car rental facilities and related improvements at airports, statewide.
- $286.5 million for a new commuter terminal and concourse and other related improvements at the Honolulu International Airport.
- $84.2 million for an international arrivals building and terminal expansion at the Kona International Airport at Keahole.
- $33.0 million for the Elliot Street support facilities at the Honolulu International Airport.
- $158.7 million for various capital improvement projects at airports, statewide.
- $85.5 million for various highway improvement projects throughout the State.
- $56.0 million for design and development of a new payroll and time and leave system and for the tax modernization system.
- $250.0 million for the construction of a new container terminal facility and other related improvements, Honolulu Harbor, Oahu.
- $90.0 million for construction of the Kona Judiciary complex.
- $35.0 million for the acquisition of a conservation easement and other related property interest in Turtle Bay, Oahu.
- $38.5 million for development and equipment for a replacement eligibility system for the public assistance programs.

Additional information on the State's capital assets can be found in Note 3 to the basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $9.0 billion. Of this amount, $7.0 billion comprises debt backed by the full faith and credit of the State and $2.0 billion is revenue bonded debt that is payable from and secured solely by the specified revenue sources (i.e., revenue bonds). A breakdown of the State's total bonded debt is shown below:

Long-Term Debt
June 30, 2016 and 2015
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	$ 6,953,431	$ 6,503,281	$ 27,400	$ 29,332	$ 6,980,831	$ 6,532,613
Revenue bonds	615,120	666,202	1,429,980	1,218,943	2,045,100	1,885,145
Total	$ 7,568,551	$ 7,169,483	$ 1,457,380	$ 1,248,275	$ 9,025,931	$ 8,417,758

The State's total long-term debt increased by $608.2 million, or 7.2%, during the current fiscal year. The increase resulted from declining principal balances in revenue bonds of the State's business-type activities, and partially offset by issuances of GO bonds (see Notes 4 and 5 to the basic financial statements).

As of June 30, 2016, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2016 was $504.3 million.

Additional information on the State's long-term debt can be found in Notes 4, 5 and 6 to the basic financial statements.

Other Postemployment Benefits (OPEB)

The latest actuarial valuation studies were completed as of July 1, 2015 for the Employer-Union Health Benefits Trust Fund (EUTF) and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $9.1 billion. The State's combined annual OPEB cost for fiscal 2016 was $815.1 million and its OPEB contributions were $550.9 million, resulting in an increase in the net OPEB obligation of $264.2 million. The total net OPEB obligation balance at fiscal year-end increased to $5.0 billion.

In July 2013, Act 268 was signed into law, which established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability. The law also requires the State beginning in fiscal 2015 to pay additional amounts towards reducing the unfunded liability until fiscal 2019 when 100% of the annual required contribution must be paid. Commencing fiscal year 2019, general excise tax revenues will be used to fund any difference between the annual required contribution and the payment made by the State. In June 2015 and 2016, the state made additional payments in the amount of $117 million and $250 million, respectively.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for November 2016 was 3.0% while the seasonally adjusted national unemployment rate was 4.6%. One year ago, the State's seasonally adjusted unemployment rate stood at 3.2% while the seasonally adjusted national unemployment rate was 5.0%.

The Council of Revenues in September 2016 revised the State's General Fund tax revenue growth rate for fiscal year 2017 from 5.0% to 5.5%.

Cumulative general fund tax revenues for the first five months of fiscal 2017 was $2.5 billion, an increase of $16.7 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 0.9%.

The State is optimistic about the recovery of Hawaii's economy but remains cautious about its sustainability in the face of numerous uncertainties. Therefore, the Governor has imposed a 5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch for fiscal year 2017.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website: *http://www.hawaii.gov*.

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BASIC FINANCIAL STATEMENTS

State of Hawaii
Statement of Net Position
June 30, 2016
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 690,407	$ 1,524,700	$ 2,215,107	$ 636,196
Receivables				
Taxes	461,437	43,800	505,237	-
Accounts and accrued interest, net	-	37,684	37,684	193,006
Notes, loans, mortgages and contributions, net	78,372	486,477	564,849	604,372
Federal government	57,569	4,856	62,425	1,047
Premiums	-	32,353	32,353	-
Drug rebate	39,950	-	39,950	-
Other, net	35,638	18,121	53,759	22,344
Total receivables	672,966	623,291	1,296,257	820,769
Internal balances	1,617	(1,617)	-	-
Due from component units	250,640	-	250,640	-
Due from primary government	-	-	-	579,613
Investments	2,970,380	36,214	3,006,594	992,841
Inventories				
Materials and supplies	-	206	206	27,131
Developments in progress and dwelling units	-	-	-	10,486
Total inventories	-	206	206	37,617
Restricted assets	-	1,037,034	1,037,034	149,848
Other assets				
Prepaid expenses	4,531	5,338	9,869	24,849
Other	76,067	9,585	85,652	19,892
Total other assets	80,598	14,923	95,521	44,741
Capital assets				
Land and land improvements	2,308,273	2,013,419	4,321,692	524,187
Infrastructure	9,576,842	-	9,576,842	262,598
Construction in progress	1,080,107	880,554	1,960,661	271,448
Buildings, improvements and equipment	5,201,187	2,739,578	7,940,765	4,664,156
Intangible assets – software	155,615	-	155,615	-
Accumulated depreciation and amortization	(8,975,185)	(2,463,275)	(11,438,460)	(2,532,391)
Total capital assets, net	9,346,839	3,170,276	12,517,115	3,189,998
Total assets	14,013,447	6,405,027	20,418,474	6,451,623
Deferred outflows of resources				
Deferred loss on refunding	186,753	6,471	193,224	11,809
Deferred outflows on net pension liability	602,822	23,390	626,212	251,166
Total deferred outflows of resources	$ 789,575	$ 29,861	$ 819,436	$ 262,975

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Statement of Net Position
June 30, 2016
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Liabilities				
Vouchers and contracts payable	$ 319,551	$ 53,476	$ 373,027	$ 149,246
Other accrued liabilities	387,283	135,834	523,117	111,504
Due to component units	579,613	-	579,613	-
Due to primary government	-	-	-	250,640
Unearned revenue	-	1,429	1,429	47,363
Premiums payable	-	43,431	43,431	-
Other	84,454	-	84,454	14,889
Long-term liabilities				
Due within one year				
Payable from restricted assts – revenue bonds payable, net	-	52,428	52,428	-
General obligation (GO) bonds payable	520,326	2,023	522,349	-
Notes, mortgages and installment contracts payable	-	-	-	1,857
Accrued vacation and retirement benefits payable	78,877	4,557	83,434	48,868
Revenue bonds payable, net	49,729	-	49,729	47,460
Reserve for losses and loss adjustment costs	31,595	1,664	33,259	10,004
Capital lease obligations	5,855	-	5,855	6,629
Lease revenue certificates of participation	-	4,745	4,745	-
Due more than one year				
Prepaid airport use charge fund	-	10,350	10,350	-
GO bonds payable	6,433,105	25,377	6,458,482	-
Notes, mortgages and installment contracts payable	-	-	-	55,186
Accrued vacation and retirement benefits payable	143,850	9,877	153,727	66,577
Revenue bonds payable, net	565,391	1,377,552	1,942,943	829,646
Reserve for losses and loss adjustment costs	134,970	3,187	138,157	21,558
Capital lease obligations	143,622	-	143,622	9,276
Lease revenue certificates of participation	-	175,240	175,240	-
Unearned revenue	-	-	-	21,334
Estimated future costs of land sold	-	-	-	35,040
Loan payable	-	34,910	34,910	-
Net pension liability	4,168,754	145,493	4,314,247	1,807,102
Other postemployment benefit liability	3,742,327	108,431	3,850,758	1,121,663
Other	335	-	335	51,835
Total liabilities	17,389,637	2,190,004	19,579,641	4,707,677
Deferred inflows of resources				
Deferred inflows on net pension liability	285,466	9,423	294,889	156,533
Total deferred inflows of resources	285,466	9,423	294,889	156,533
Net position				
Net investment in capital assets	2,727,055	1,871,554	4,598,609	2,354,490
Restricted for				
Capital maintenance projects	262,142	-	262,142	-
Health and welfare	178,715	-	178,715	-
Natural resources	134,166	-	134,166	-
Native Hawaiian programs	334,127	-	334,127	-
Education	176,877	-	176,877	-
Regulatory and economic development	281,979	-	281,979	-
Administrative support	190,856	-	190,856	-
Other purposes	32,804	-	32,804	-
Bond requirements and other	35	1,305,799	1,305,834	1,085,273
Unrestricted	(7,190,837)	1,058,108	(6,132,729)	(1,589,375)
Total net position	$ (2,872,081)	$ 4,235,461	$ 1,363,380	$ 1,850,388

State of Hawaii
Statement of Activities
Year Ended June 30, 2016
(Amounts in thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Position			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary government								
Governmental activities								
General government	$ 688,394	$ 209,598	$ 35,078	$ -	$ (443,718)	$ -	$ (443,718)	
Public safety	485,985	77,186	49,151	-	(359,648)	-	(359,648)	
Highways	399,997	13,213	50,666	113,006	(223,112)	-	(223,112)	
Conservation of natural resources	107,740	59,609	26,777	-	(21,354)	-	(21,354)	
Health	878,610	136,429	125,389	-	(616,792)	-	(616,792)	
Welfare	3,343,392	88,688	2,357,519	-	(897,185)	-	(897,185)	
Lower education	2,840,782	50,985	267,872	-	(2,521,925)	-	(2,521,925)	
Higher education	673,217	-	-	-	(673,217)	-	(673,217)	
Other education	23,379	-	-	-	(23,379)	-	(23,379)	
Culture and recreation	106,511	8,513	7,495	-	(90,503)	-	(90,503)	
Urban redevelopment and housing	122,981	23,014	18,016	-	(81,951)	-	(81,951)	
Economic development and assistance	163,935	50,615	48,879	-	(64,441)	-	(64,441)	
Interest expense	210,204	-	-	-	(210,204)	-	(210,204)	
Total governmental activities	10,045,127	717,850	2,986,842	113,006	(6,227,429)	-	(6,227,429)	
Business-type activities								
Airports	377,393	459,269	-	27,887	-	109,763	109,763	
Harbors	93,088	130,126	-	-	-	37,038	37,038	
Unemployment compensation	144,481	187,215	-	-	-	42,734	42,734	
Nonmajor proprietary funds	112,323	88,426	-	52,286	-	28,389	28,389	
Total business-type activities	727,285	865,036	-	80,173	-	217,924	217,924	
Total primary government	$ 10,772,412	$ 1,582,886	$ 2,986,842	$ 193,179	(6,227,429)	217,924	(6,009,505)	
Component units								
University of Hawaii	$ 1,660,553	$ 409,304	$ 451,669	$ -				$ (799,580)
Hawaii Housing Finance and Development Corporation	37,084	69,443	5,808	-				38,167
Hawaii Public Housing Authority	132,648	20,592	86,898	9,669				(15,489)
Hawaii Health Systems Corporation	782,277	642,884	2,680	25,041				(111,672)
Hawaii Tourism Authority	102,254	12,710	-	-				(89,544)
Hawaii Community Development Authority	7,770	8,800	-	-				1,030
Hawaii Hurricane Relief Fund	6	-	-	-				(6)
Total component units	$ 2,722,592	$ 1,163,733	$ 547,055	$ 34,710				(977,094)
General revenues								
Taxes								
General excise tax					3,192,469	-	3,192,469	-
Net income tax – corporations and individuals					2,160,872	-	2,160,872	-
Public service companies tax					152,760	-	152,760	-
Transient accommodations tax					233,082	-	233,082	108,500
Tobacco and liquor tax					161,239	-	161,239	-
Liquid fuel tax					89,702	-	89,702	-
Tax on premiums of insurance companies					154,690	-	154,690	-
Vehicle weight and registration tax					130,051	-	130,051	-
Rental motor/tour vehicle surcharge tax					54,873	-	54,873	-
Franchise tax					14,691	-	14,691	-
Other tax					109,072	-	109,072	-
Interest and investment income					22,564	21,276	43,840	12,062
Payments from the primary government, net					-	-	-	842,885
Gifts and subsidies					-	-	-	32,382
Other					-	-	-	(16,645)
Total general revenues					6,476,065	21,276	6,497,341	979,184
Special item – loan forgiveness					(13,300)	-	(13,300)	13,300
Change in net position					235,336	239,200	474,536	15,390
Net position								
Beginning of year					(3,107,417)	3,996,261	888,844	1,834,998
End of year					$ (2,872,081)	$ 4,235,461	$ 1,363,380	$ 1,850,388

The accompanying notes are an integral part of the basic financial statements.

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State of Hawaii
Governmental Funds
Balance Sheet
June 30, 2016
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 234,070	$ 31,787	$ 10,515	$ 414,035	$ 690,407
Receivables					
Taxes	419,220	-	-	-	419,220
Notes and loans, net of allowance for doubtful accounts of $41,119	1,380	-	-	76,992	78,372
Federal government	-	-	55,415	2,154	57,569
Drug rebate	-	-	39,950	-	39,950
Medical assistance	-	-	713	-	713
Other	7,925	-	-	-	7,925
Due from other funds	189,016	-	-	35	189,051
Due from proprietary funds	20	1,597	-	-	1,617
Due from component units	12,400	-	-	-	12,400
Investments	1,357,484	310,077	64,588	1,238,231	2,970,380
Other assets	9,351	-	-	60,286	69,637
Total assets	$ 2,230,866	$ 343,461	$ 171,181	$ 1,791,733	$ 4,537,241
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	$ 146,259	$ 90,522	$ 4,793	$ 77,977	$ 319,551
Other accrued liabilities	286,573	-	58,339	40,751	385,663
Due to other funds	35	-	103,429	85,587	189,051
Due to component units	2,635	569,363	-	-	571,998
Payable from restricted assets					
Matured bonds and interest payable	-	-	-	335	335
Total liabilities	435,502	659,885	166,561	204,650	1,466,598
Fund balances					
Restricted	-	-	-	15,557	15,557
Committed	-	-	-	401,313	401,313
Assigned	394,581	-	4,620	1,194,460	1,593,661
Unassigned	1,400,783	(316,424)	-	(24,247)	1,060,112
Total fund balances	1,795,364	(316,424)	4,620	1,587,083	3,070,643
Total liabilities and fund balances	$ 2,230,866	$ 343,461	$ 171,181	$ 1,791,733	$ 4,537,241

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016
(Amounts in thousands)

Total fund balance – Governmental funds	$	3,070,643
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of		
Land and land improvements		2,308,273
Infrastructure		9,576,842
Construction in progress		1,080,107
Buildings, improvements and equipment		5,201,187
Intangible assets – software		155,615
Accumulated depreciation and amortization		(8,975,185)
		9,346,839
Accrued interest and other payables are not recognized in governmental funds.		(84,453)
Other assets and liabilities are not available to pay or be used for current-period expenditures and are not recognized in governmental funds, such as unearned revenue and settlement receivables.		316,797
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of		
General obligation bonds payable		(6,953,431)
Accrued vacation payable		(222,727)
Revenue bonds payable		(615,120)
Reserve for losses and loss adjustment costs		(166,565)
Other postemployment benefit liability		(3,742,327)
Net pension liability		(4,168,754)
Long-term transactions with component units		(7,615)
Capital lease obligations		(149,477)
		(16,026,016)
Deferred outflows of resources are for future periods and are not reported in the funds. Those deferred outflows consist of		
Deferred loss on refunding		186,753
Deferred outflows on net pension liability		602,822
		789,575
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of deferred inflows on the net pension liability.		(285,466)
Net position of governmental activities	$	(2,872,081)

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2016
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes					
General excise tax	$ 3,192,469	$ -	$ -	$ -	$ 3,192,469
Net income tax – corporations and individuals	2,157,879	-	-	-	2,157,879
Public service companies tax	152,760	-	-	-	152,760
Transient accommodations tax	233,082	-	-	-	233,082
Tobacco and liquor tax	134,275	-	-	26,964	161,239
Liquid fuel tax	-	-	-	89,702	89,702
Tax on premiums of insurance companies	152,622	-	-	2,068	154,690
Vehicle weight and registration tax	-	-	-	130,051	130,051
Rental motor/vehicle surcharge tax	1	-	-	54,872	54,873
Franchise tax	12,691	-	-	2,000	14,691
Other	92,005	-	-	17,067	109,072
Total taxes	6,127,784	-	-	322,724	6,450,508
Interest and investment income	10,407	-	-	12,157	22,564
Charges for current services	152,820	-	-	278,361	431,181
Intergovernmental	16,852	-	1,603,370	1,375,546	2,995,768
Rentals	557	-	-	31,814	32,371
Fines, forfeitures and penalties	22,528	-	-	13,210	35,738
Licenses and fees	989	-	-	44,749	45,738
Revenues from private sources	4,665	-	58,564	63,221	126,450
Other	65,283	-	47,827	56,423	169,533
Total revenues	6,401,885	-	1,709,761	2,198,205	10,309,851
Expenditures					
Current					
General government	505,656	96,256	-	71,324	673,236
Public safety	345,453	13,611	-	119,983	479,047
Highways	-	134,893	-	254,851	389,744
Conservation of natural resources	50,402	34,155	-	97,006	181,563
Health	614,456	59,056	-	203,308	876,820
Welfare	1,100,399	22,683	1,522,191	704,141	3,349,414
Lower education	2,184,067	272,641	-	371,305	2,828,013
Higher education	656,700	16,517	-	-	673,217
Other education	7,040	-	-	16,339	23,379
Culture and recreation	49,864	10,147	-	41,340	101,351
Urban redevelopment and housing	11,962	3,258	-	39,226	54,446
Economic development and assistance	43,690	31,699	-	84,094	159,483
Housing	18,334	40,047	-	-	58,381
Other	13,593	28	-	6,572	20,193
Debt service	-	-	-	760,112	760,112
Total expenditures	5,601,616	734,991	1,522,191	2,769,601	10,628,399
Excess (deficiency) of revenues over (under) expenditures	800,269	(734,991)	187,570	(571,396)	(318,548)
Other financing sources (uses)					
Issuance of GO and refunding GO bonds – par	-	775,000	-	841,115	1,616,115
Issuance of GO and refunding GO bonds – premium	70,727	-	-	148,835	219,562
Other financing sources – other	-	-	-	60,286	60,286
Payment to refunded bond escrow agent	-	-	-	(989,950)	(989,950)
Transfers in	214,284	129,932	3,816	928,247	1,276,279
Transfers out	(776,011)	(37,623)	(187,527)	(275,118)	(1,276,279)
Total other financing sources (uses)	(491,000)	867,309	(183,711)	713,415	906,013
Special item – loan forgiveness	(103,200)	89,900	-	-	(13,300)
Net change in fund balances	206,069	222,218	3,859	142,019	574,165
Fund balances					
Beginning of year	1,589,295	(538,642)	761	1,445,064	2,496,478
End of year	$ 1,795,364	$ (316,424)	$ 4,620	$ 1,587,083	$ 3,070,643

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2016
(Amounts in thousands)

Total net change in fund balances – Governmental funds	$ 574,165
Amounts reported for governmental activities in the statement of activities are different because	
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are	
Capital outlay, net of disposals	644,246
Depreciation expense	(474,299)
Excess of capital outlay over depreciation expense	169,947
Debt proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, this is the amount of proceeds received from general obligation and revenue bonds issued.	(1,835,677)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of	
Bond principal retirement	1,330,580
Capital lease additions, net	(53,302)
Total long-term debt repayment	1,277,278
Because some revenues will not be collected for several months after the State's fiscal year end, they are not considered available revenues and are deferred in the governmental funds.	2,993
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	
Change in postemployment liability	(144,576)
Change in accrued vacation payable	(2,854)
Change in reserve for losses and loss adjustment costs	(16,389)
Change in accrued interest on bonds payable	2,956
Change in accrued interest on capital leases	(1,379)
Amortization of bond premium and deferred amount on refunding	176,566
Net pension activity	32,306
Total	46,630
Change in net position of governmental activities	$ 235,336

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Proprietary Funds
Statement of Fund Net Position
June 30, 2016
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Assets					
Current assets					
Cash and cash equivalents	$ 558,290	$ 235,716	$ 504,757	$ 225,937	$ 1,524,700
Investments	-	-	-	36,214	36,214
Restricted assets – cash and short-term investments	86,900	34,590	-	-	121,490
Receivables					
Taxes	157	-	43,643	-	43,800
Accounts and accrued interest, net of allowance for doubtful accounts of $6,257	25,673	11,215	-	796	37,684
Promissory note receivable, net of allowance for doubtful accounts of $3,778	-	-	-	38,115	38,115
Federal government	4,741	-	-	115	4,856
Premiums	-	-	-	32,353	32,353
Other	3,699	614	-	13,808	18,121
Materials and supplies inventory	206	-	-	-	206
Prepaid expenses and other assets	-	60	-	5,278	5,338
Total current assets	679,666	282,195	548,400	352,616	1,862,877
Noncurrent assets					
Capital assets					
Land and land improvements	1,455,502	557,917	-	-	2,013,419
Construction in progress	779,943	100,611	-	-	880,554
Buildings and improvements	1,941,396	470,845	-	-	2,412,241
Equipment	293,487	20,865	-	12,985	327,337
	4,470,328	1,150,238	-	12,985	5,633,551
Less: Accumulated depreciation	(2,097,083)	(355,149)	-	(11,043)	(2,463,275)
Net capital assets	2,373,245	795,089	-	1,942	3,170,276
Promissory note receivable	-	-	-	448,362	448,362
Restricted assets – net direct financing leases	21,878	-	-	-	21,878
Restricted assets – cash and cash equivalents	633,578	139,126	-	-	772,704
Restricted assets – investments	120,962	-	-	-	120,962
Other	9,585	-	-	-	9,585
Total noncurrent assets	3,159,248	934,215	-	450,304	4,543,767
Total assets	3,838,914	1,216,410	548,400	802,920	6,406,644
Deferred outflows of resources					
Deferred loss on refunding	3,002	3,469	-	-	6,471
Deferred outflows on net pension liability	18,596	3,439	-	1,355	23,390
Total deferred outflows of resources	$ 21,598	$ 6,908	$ -	$ 1,355	$ 29,861

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Proprietary Funds
Statement of Fund Net Position
June 30, 2016
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Liabilities					
Current liabilities					
Vouchers and contracts payable	$ 38,997	$ 8,299	$ 5,229	$ 951	$ 53,476
Payable from restricted assets – contracts payable, accrued interest and other	91,095	18,686	-	-	109,781
Other accrued liabilities	17,993	-	-	3,348	21,341
Due to primary government	5	1,612	-	-	1,617
Benefit claims payable	-	-	-	4,712	4,712
Unearned revenue	1,429	-	-	-	1,429
General obligation bonds payable, current portion	-	2,023	-	-	2,023
Reserve for losses and loss adjustment costs	1,441	223	-	-	1,664
Lease revenue certificates of participation	4,745	-	-	-	4,745
Accrued vacation, current portion	3,623	727	-	207	4,557
Payable from restricted assets – revenue bond payable	37,290	15,138	-	-	52,428
Premiums payable	-	-	-	43,431	43,431
Total current liabilities	196,618	46,708	5,229	52,649	301,204
Noncurrent liabilities					
General obligation bonds payable	-	25,377	-	-	25,377
Accrued vacation	7,560	1,760	-	557	9,877
Revenue bonds payable, net of unamortized bond premium and bond discount	1,068,928	308,624	-	-	1,377,552
Reserve for losses and loss adjustment cost	2,821	366	-	-	3,187
Lease revenue certificates of participation	175,240	-	-	-	175,240
Loans payable	34,910	-	-	-	34,910
Net pension liability	114,780	23,097	-	7,616	145,493
Other postemployment benefit liability	85,596	17,317	-	5,518	108,431
Prepaid airport use charge fund	10,350	-	-	-	10,350
Total noncurrent liabilities	1,500,185	376,541	-	13,691	1,890,417
Total liabilities	1,696,803	423,249	5,229	66,340	2,191,621
Deferred inflows of resources					
Deferred inflows on net pension liability	7,150	1,550	-	723	9,423
Total deferred inflows of resources	7,150	1,550	-	723	9,423
Net position					
Net investment in capital assets	1,340,906	528,706	-	1,942	1,871,554
Restricted for bond requirements and other	540,968	76,906	-	687,925	1,305,799
Unrestricted	274,685	192,907	543,171	47,345	1,058,108
Net position	$ 2,156,559	$ 798,519	$ 543,171	$ 737,212	$ 4,235,461

State of Hawaii
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2016
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Operating revenues					
Concession fees	$ 145,530	$ -	$ -	$ -	$ 145,530
Unemployment compensation	-	-	187,215	-	187,215
Aviation fuel tax	2,568	-	-	-	2,568
Airport use charges	66,088	-	-	-	66,088
Rentals	131,213	23,327	-	-	154,540
Services and others	-	105,975	-	-	105,975
Administrative fees	-	-	-	3,971	3,971
Premium revenue – self insurance	-	-	-	84,504	84,504
Experience refunds (overpayments), net	-	-	-	(3,701)	(3,701)
Other	7,672	824	-	3,652	12,148
Total operating revenues	353,071	130,126	187,215	88,426	758,838
Operating expenses					
Personnel services	150,811	18,990	-	7,344	177,145
Depreciation and amortization	99,397	26,033	-	1,582	127,012
Repairs and maintenance	48,170	4,403	-	66	52,639
Airports operations	40,617	-	-	-	40,617
Harbors operations	-	16,355	-	-	16,355
Fireboat operations	-	100	-	-	100
General administration	18,381	8,479	-	3,972	30,832
Unemployment compensation	-	-	144,481	-	144,481
Claims	-	-	-	88,571	88,571
Other	1,243	-	-	10,788	12,031
Total operating expenses	358,619	74,360	144,481	112,323	689,783
Operating income (loss)	(5,548)	55,766	42,734	(23,897)	69,055
Nonoperating revenues (expenses)					
Interest and investment income	6,095	1,725	11,451	2,005	21,276
Interest expense	(20,545)	(15,670)	-	-	(36,215)
Federal grants	2,273	-	-	-	2,273
Loss on disposal of capital assets	(2,229)	(3,058)	-	-	(5,287)
Rental car customer and passenger facility charges	108,058	-	-	-	108,058
Debt service support charges	4,000	-	-	-	4,000
Other	(1,860)	-	-	-	(1,860)
Total nonoperating revenues (expenses)	95,792	(17,003)	11,451	2,005	92,245
Income (loss) before capital contributions	90,244	38,763	54,185	(21,892)	161,300
Capital contributions	25,614	-	-	52,286	77,900
Change in net position	115,858	38,763	54,185	30,394	239,200
Net position					
Beginning of year	2,040,701	759,756	488,986	706,818	3,996,261
End of year	$ 2,156,559	$ 798,519	$ 543,171	$ 737,212	$ 4,235,461

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2016
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Cash flows from operating activities					
Cash received from customers	$ 353,679	$ 129,855	$ -	$ -	$ 483,534
Cash received from taxes	-	-	194,899	-	194,899
Cash received from employers and employees for premiums and benefits	-	-	-	626,674	626,674
Cash paid to suppliers	(161,980)	(26,350)	-	(3,857)	(192,187)
Cash paid to employees	(81,140)	(18,001)	-	(6,786)	(105,927)
Cash paid for unemployment compensation	-	-	(143,590)	-	(143,590)
Cash paid for premiums and benefits payable	-	-	-	(584,155)	(584,155)
Other cash receipts	-	-	6,463	-	6,463
Net cash provided by operating activities	110,559	85,504	57,772	31,876	285,711
Cash flows from noncapital financing activities					
State capital contributions	-	-	-	3,941	3,941
Proceeds from federal operating grants	3,480	-	-	48,141	51,621
Net cash provided by noncapital financing activities	3,480	-	-	52,082	55,562
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(157,842)	(46,788)	-	-	(204,630)
Repayment of general obligation and revenue bonds principal	(35,725)	(16,102)	-	-	(51,827)
Interest paid on bonds	(40,735)	(18,442)	-	-	(59,177)
Proceeds from issuance of bonds	264,654	-	-	-	264,654
Bond issue costs paid	(1,856)	-	-	-	(1,856)
Interest paid on loan payable	(524)	-	-	-	(524)
Proceeds from passenger facility charges program	38,654	-	-	-	38,654
Proceeds from rental car customer facility charges program	69,444	-	-	-	69,444
Payments for rental car customer facility charges program	(34,623)	-	-	-	(34,623)
Payments for passenger facility charges program	(28,956)	-	-	-	(28,956)
Proceeds from lease revenue certificates of participation	8,057	-	-	-	8,057
Interest paid on lease revenue certificates of participation	(8,343)	-	-	-	(8,343)
Payments – other	(5)	-	-	-	(5)
Purchase of equipment	-	-	-	(478)	(478)
Proceeds from federal, state and capital grants and contributions	26,230	-	-	-	26,230
Net cash provided by (used in) capital and related financing activities	98,430	(81,332)	-	(478)	16,620
Cash flows from investing activities					
Purchase of investments	(210,183)	-	-	(23,570)	(233,753)
Principal repayments on notes receivable	-	-	-	36,413	36,413
Disbursement of note receivable proceeds	-	-	-	(74,561)	(74,561)
Interest income from notes receivable	-	-	-	1,961	1,961
Administrative loan fees	-	-	-	3,940	3,940
Proceeds from sales and maturities of investments	220,935	-	-	-	220,935
Interest from and change in fair value of investments	4,577	1,900	11,451	1,915	19,843
Net cash provided by (used in) investing activities	15,329	1,900	11,451	(53,902)	(25,222)
Net increase in cash and cash equivalents	227,798	6,072	69,223	29,578	332,671
Cash and short-term investments, including restricted amounts					
Beginning of year	1,050,970	403,360	435,534	196,359	2,086,223
End of year	$ 1,278,768	$ 409,432	$ 504,757	$ 225,937	$ 2,418,894

(continued)

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2016
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	$ (5,548)	$ 55,766	$ 42,734	$ (23,897)	$ 69,055
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Provision for uncollectible accounts	333	698	-	-	1,031
Depreciation and amortization	99,397	26,033	-	1,582	127,012
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	1,105	-	-	-	1,105
Premium reserves held by insurance companies	-	-	-	51,598	51,598
Principal forgiveness of loans	-	-	-	10,084	10,084
Interest income from loans	-	-	-	(1,933)	(1,933)
Administrative loan fees	-	-	-	(3,971)	(3,971)
Pension expense	-	-	-	466	466
Changes in assets, deferred outflows, liabilities and deferred inflows					
Receivables	(2,105)	(1,329)	14,147	(1,773)	8,940
Inventory of materials and supplies	(13)	-	-	-	(13)
Deposits	1,209	-	-	-	1,209
Prepaid and other expenses	-	25	-	115	140
Net deferred outflows/inflows of resources related to pensions	-	(1,665)	-	(818)	(2,483)
Vouchers and contracts payable	9,018	1,629	891	(144)	11,394
Net pension liability	(1,992)	1,502	-	302	(188)
Other postemployment benefit liability	10,166	2,025	-	857	13,048
Other accrued liabilities	1,838	820	-	(846)	1,812
Unearned revenue	(2,849)	-	-	-	(2,849)
Benefit claims payable	-	-	-	254	254
Net cash provided by operating activities	$ 110,559	$ 85,504	$ 57,772	$ 31,876	$ 285,711
Supplemental information					
Noncash investing, capital, and financing activities					
Amortization of bond discount, bond premium and loss on refunding	$ (2,480)	$ (126)	$ -	$ -	$ (2,606)
Interest payments relating to special facility revenue bonds	1,222	-	-	-	1,222
Amortization of certificates of participation premium	(936)	-	-	-	(936)
Amounts included in contracts payable for the acquisition of capital assets	16,261	-	-	-	16,261
Interest capitalized in capital assets	33,583	-	-	-	33,583
Net book value of capital asset write-offs	2,229	-	-	-	2,229
Decrease in airports use charge fund for transfer to Airports to offset signatory airline requirement	4,000	-	-	-	4,000
Amortization of deferred outflows of resources related to pension contributions	3,183	-	-	-	3,183
In-kind contribution from the Environmental Protection Agency	-	-	-	392	392

(concluded)

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016
(Amounts in thousands)

	Agency Funds	OPEB Trust Fund
Assets		
Cash and cash equivalents	$ 134,835	$ 2,099
Receivables – taxes	46,129	-
Investments		
Certificates of deposit	65,266	-
Repurchase agreements	2,250	-
U.S. government securities	157,539	-
Equity securities	-	303,129
Mutual funds	104,809	-
Commingled funds	-	904,990
Invested securities lending collateral	-	81,122
Other assets, primarily due from individuals, businesses and counties	88,304	-
Total assets	599,132	1,291,340
Liabilities and Net Position		
Liabilities		
Vouchers payable	69,069	-
Due to individuals, businesses and counties	530,063	-
Securities lending collateral	-	81,122
Other accrued liabilities	-	374
Total liabilities	599,132	81,496
Net position held in trust for OPEB benefits	$ -	$ 1,209,844

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Fiduciary Funds
Statement of Changes in Fiduciary Net Position – OPEB Trust Fund
Year Ended June 30, 2016
(Amounts in thousands)

Additions	
Employer contributions	$ 338,498
Investment income	
Investing activities	
Interest	21,569
Net appreciation in the fair value of investments	7,518
	29,087
Less: Investment expenses	1,407
Net investment income from investing activities	27,680
Securities lending activities	
Securities lending income	194
Less: Securities lending expenses	48
Net investment income from securities lending activities	146
Total net investment income	27,826
Net increase in fiduciary net position	366,324
Net position	
Beginning of year	843,520
End of year	$ 1,209,844

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Component Units
Statement of Net Position
June 30, 2016
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
Assets				
Current assets				
Cash and cash equivalents	$ 103,179	$ 249,869	$ 79,363	$ 102,834
Receivables				
Accounts and accrued interest, net of allowance for doubtful accounts of $69,419	87,764	24,434	368	79,241
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of $1,088	16,972	28,572	-	-
Federal government	-	-	1,047	-
Other, net of allowance for doubtful accounts of $136	-	2,349	42	19,660
Due from primary government	235	47,286	104,020	80,654
Investments	298,702	30	-	7,363
Inventories – materials and supplies	10,250	-	663	16,218
Prepaid expenses and other assets	11,710	693	2,486	-
Total current assets	528,812	353,233	187,989	305,970
Restricted assets				
Cash and cash equivalents	-	65,235	-	4,211
Investments	-	72,235	-	-
Total restricted assets	-	137,470	-	4,211
Capital assets				
Land and land improvements	174,323	49,955	25,340	7,815
Infrastructure	218,284	-	-	-
Construction in progress	182,872	-	53,810	28,612
Buildings, improvements and equipment	2,891,434	159,511	635,762	736,418
Less: Accumulated depreciation	(1,413,528)	(118,712)	(385,403)	(414,291)
Total capital assets, net	2,053,385	90,754	329,509	358,554
Other assets				
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of $6,420	40,068	493,043	8,717	-
Due from primary government	329,370	6,430	-	-
Inventories – developments in progress and dwelling units	-	10,486	-	-
Investments	475,040	5,803	-	-
Other assets	18,890	-	-	640
Total other assets	863,368	515,762	8,717	640
Total assets	3,445,565	1,097,219	526,215	669,375
Deferred outflows of resources				
Deferred loss on refunding	11,383	426	-	-
Deferred outflows on net pension liability	163,699	966	3,704	81,616
Total deferred outflows of resources	$ 175,082	$ 1,392	$ 3,704	$ 81,616

The accompanying notes are an integral part of the basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 74,204	$ 26,420	$ 327	$ 636,196
-	444	755	193,006
-	-	-	45,544
-	-	-	1,047
293	-	-	22,344
-	11,618	-	243,813
-	-	189,251	495,346
-	-	-	27,131
8,548	1,412	-	24,849
83,045	39,894	190,333	1,689,276
8,167	-	-	77,613
-	-	-	72,235
8,167	-	-	149,848
131,497	135,257	-	524,187
-	44,314	-	262,598
2,645	3,509	-	271,448
215,936	25,095	-	4,664,156
(140,174)	(60,283)	-	(2,532,391)
209,904	147,892	-	3,189,998
-	17,000	-	558,828
-	-	-	335,800
-	-	-	10,486
16,652	-	-	497,495
-	362	-	19,892
16,652	17,362	-	1,422,501
317,768	205,148	190,333	6,451,623
-	-	-	11,809
584	597	-	251,166
$ 584	$ 597	$ -	$ 262,975

(continued)

State of Hawaii
Component Units
Statement of Net Position
June 30, 2016
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
Liabilities				
Current liabilities				
Vouchers and contracts payable	$ 51,596	$ 1,017	$ 5,815	$ 84,332
Other accrued liabilities	100,302	7,240	3,553	-
Due to primary government	6,195	-	-	-
Unearned revenue	46,314	512	380	-
Notes, mortgages and installation contracts payable	-	14	-	1,843
Accrued vacation and retirement benefits payable	29,923	-	-	18,756
Revenue bonds payable, net	18,940	28,520	-	-
Reserve for losses and loss adjustment costs	6,353	-	-	3,651
Capital lease obligations	-	-	-	6,629
Other liabilities	7,328	-	1,367	1,772
Total current liabilities	266,951	37,303	11,115	116,983
Noncurrent liabilities				
Notes, mortgages and installment contracts payable	17,000	140	-	38,046
Accrued vacation and retirement benefits payable	45,251	-	-	20,967
Revenue bonds payable, net	558,434	271,212	-	-
Reserve for losses and loss adjustment costs	11,747	-	-	9,811
Capital lease obligations	-	-	-	9,276
Due to primary government	-	-	-	-
Unearned revenue	-	21,334	-	-
Estimated future cost of land sold	-	35,040	-	-
Net pension liability	1,144,564	6,866	25,085	623,325
Other postemployment benefit liability	722,757	4,505	20,850	369,314
Other liabilities	17,144	1,746	1,573	20,433
Total noncurrent liabilities	2,516,897	340,843	47,508	1,091,172
Total liabilities	2,783,848	378,146	58,623	1,208,155
Deferred inflows of resources				
Deferred inflows on net pension liability	111,364	499	1,790	42,552
Total deferred inflows of resources	111,364	499	1,790	42,552
Net position				
Net investment in capital assets	1,503,902	45,269	329,509	310,465
Restricted	880,637	143,983	3,301	1,512
Unrestricted	(1,659,104)	530,714	136,696	(811,693)
Total net position	$ 725,435	$ 719,966	$ 469,506	$ (499,716)

The accompanying notes are an integral part of the basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 5,550	$ 589	$ 347	$ 149,246
242	167	-	111,504
27,464	-	-	33,659
-	157	-	47,363
-	-	-	1,857
106	83	-	48,868
-	-	-	47,460
-	-	-	10,004
-	-	-	6,629
-	1,373	3,049	14,889
33,362	2,369	3,396	471,479
-	-	-	55,186
193	166	-	66,577
-	-	-	829,646
-	-	-	21,558
-	-	-	9,276
216,981	-	-	216,981
-	-	-	21,334
-	-	-	35,040
4,523	2,739	-	1,807,102
2,396	1,841	-	1,121,663
-	10,939	-	51,835
224,093	15,685	-	4,236,198
257,455	18,054	3,396	4,707,677
307	21	-	156,533
307	21	-	156,533
17,453	147,892	-	2,354,490
43,137	12,703	-	1,085,273
-	27,075	186,937	(1,589,375)
$ 60,590	$ 187,670	$ 186,937	$ 1,850,388

(concluded)

State of Hawaii
Component Units
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
Expenses	$ 1,660,553	$ 37,084	$ 132,648	$ 782,277
Program revenues				
Charges for services	409,304	69,443	20,592	642,884
Operating grants and contributions	451,669	5,808	86,898	2,680
Capital grants and contributions	-	-	9,669	25,041
Total program revenues	860,973	75,251	117,159	670,605
Net program revenues (expenses)	(799,580)	38,167	(15,489)	(111,672)
General revenues (expenses)				
Interest and investment income	679	2,945	-	386
Transient accommodations tax	-	-	-	-
Payments from State, net	663,787	49,662	16,171	109,872
Gifts and subsidies	32,382	-	-	-
Other	(14,254)	-	127	(2,586)
Net general revenues	682,594	52,607	16,298	107,672
Special item – loan forgiveness	-	-	-	13,300
Change in net position	(116,986)	90,774	809	9,300
Net position				
Beginning of year	842,421	629,192	468,697	(509,016)
End of year	$ 725,435	$ 719,966	$ 469,506	$ (499,716)

The accompanying notes are an integral part of the basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 102,254	$ 7,770	$ 6	$ 2,722,592
12,710	8,800	-	1,163,733
-	-	-	547,055
-	-	-	34,710
12,710	8,800	-	1,745,498
(89,544)	1,030	(6)	(977,094)
376	125	7,551	12,062
108,500	-	-	108,500
5,000	1,442	(3,049)	842,885
-	-	-	32,382
68	-	-	(16,645)
113,944	1,567	4,502	979,184
-	-	-	13,300
24,400	2,597	4,496	15,390
36,190	185,073	182,441	1,834,998
$ 60,590	$ 187,670	$ 186,937	$ 1,850,388

1. Summary of Significant Accounting Policies

The basic financial statements of the State of Hawaii (the State) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The State's significant accounting policies are described below.

Reporting Entity

The accompanying basic financial statements present the financial activity of the State (Primary Government) and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

Primary Government

The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:

- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resource Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Discretely Presented Component Units
The Component Units column in the basic financial statements includes the financial data for the State's discretely presented Component Units. They are reported in a separate column to emphasize their legal separation from the State. The discretely presented Component Units are:

- ***University of Hawaii*** – The University of Hawaii (UH) is Hawaii's sole public higher education system. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH.

  The UH is comprised of ten campuses and provides a broad range of degree (baccalaureate to post-doctoral level) programs, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui and Kauai, the UH offers certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the UH houses more than a hundred centers with a research, instruction, or public service purpose. The UH is also engaged in instructional research and service activities at hundreds of Hawaii schools, hospitals, and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

  The UH Board of Regents is appointed by the Governor of the State of Hawaii. The UH is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The UH's complete financial statements are available online at: *http://www.hawaii.edu*.

- ***Hawaii Housing Finance and Development Corporation*** – The Hawaii Housing Finance and Development Corporation (HHFDC) was established by Act 196, SLH 2005, as amended by Act 180, SLH 2006. The HHFDC is a corporate body placed within the Department of Business Economic Development and Tourism (DBEDT) for administrative purposes. The HHFDC's mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development. Tools and resources include housing tax credits, low interest construction loans, equity gap loans, developable land, and expedited land use approvals.

  The HHFDC's Board of Directors is appointed by the Governor of the State of Hawaii. The HHFDC is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HHFDC's complete financial statements are available online at: *http://www.dbedt.hawaii.gov/hhfdc*.

- ***Hawaii Public Housing Authority*** – The Hawaii Public Housing Authority (HPHA) was established by Act 196, SLH 2005, as amended by Act 180, SLH 2006. The HPHA is administratively attached to the Department of Human Services. Its mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of the State of Hawaii and to operate its housing program in accordance with federal and State of Hawaii laws and regulations.

  The HPHA's Board of Directors is appointed by the Governor of the State of Hawaii. The HPHA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HPHA's complete financial statements are available online at: *http://www.hpha.hawaii.gov.*

- ***Hawaii Health Systems Corporation*** – Act 262, SLH 1996, transferred all facilities previously under the Department of Health – Division of Community Hospitals to the Hawaii Health System Corporation (HHSC). The HHSC is administratively attached to the Department of Health. Its mission is to provide and enhance accessible and comprehensive healthcare services that are quality-driven, customer-focused, and cost-effective. It operates the following facilities:

  East Hawaii Region:
  - Hilo Medical Center
  - Hale Ho'ola Hamakua
  - Ka'u Hospital
  - Yukio Okutsu Veterans Care Home

  West Hawaii Region:
  - Kona Community Hospital
  - Kohala Hospital

  Kauai Region:
  - Kauai Veterans Memorial Hospital
  - Samuel Mahelona Memorial Hospital

  Maui Region:
  - Maui Memorial Medical Center
  - Kula Hospital
  - Lanai Community Hospital

  Oahu Region:
  - Leahi Hospital
  - Maluhia

  Kahuku Medical Center

  The HHSC's Board of Directors is appointed by the Governor of the State of Hawaii. The HHSC is a public body corporate and politic and an instrumentality and agency of the State of Hawaii that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HHSC's complete financial statements are available online at: *http://www.hhsc.org*.

- ***Hawaii Tourism Authority*** – The Hawaii Tourism Authority (HTA) was established by Act 156, SLH 1998. The HTA is administratively attached to DBEDT. The HTA is responsible for developing and implementing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment taxes, and lesser-known and underutilized destinations.

  Effective July 2002, in accordance with Executive Order No. 3817, the HTA assumed control and management of the Hawaii Convention Center (Center). Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

  The HTA's Board of Directors is appointed by the Governor of the State of Hawaii. The HTA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. Information for obtaining the HTA's complete financial statements may be obtained from the Hawaii Tourism Authority, 1801 Kalakaua Avenue, Honolulu, Hawaii 96815.

- ***Hawaii Community Development Authority*** – The Hawaii Community Development Authority (HCDA) was established by HRS Chapter 206E to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in the urban areas of the State of Hawaii. The HCDA was established as a body corporate and a public instrumentality of the State and is administratively attached to DBEDT. The HCDA has three Community Development Districts: Kaka‘ako, Kalaeloa, and He‘eia.

  The HCDA's Board of Directors is appointed by the Governor of the State of Hawaii. The HCDA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. Information for obtaining the HCDA's complete financial statements may be obtained from the Hawaii Community Development Authority, 547 Queen Street, Honolulu, Hawaii 96813.

- ***Hawaii Hurricane Relief Fund*** – The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with HRS Chapter 431P. The HHRF was established as a public body and a body corporate and politic and is administratively attached to the Department of Commerce and Consumer Affairs.

  The HHRF was primarily organized to provide residential and commercial hurricane property insurance coverage to Hawaii consumers in situations where insurance companies will not underwrite such business in the State. Due to the increase in availability of hurricane insurance coverage from the private sector, the HHRF ceased writing policies effective December 1, 2000. However, it was determined that the HHRF should not be dissolved as it may need to reenter the insurance market in the future.

  In the event of dissolution of the HHRF, the net monies within the hurricane reserve trust fund shall revert to the State General Fund after any payments on behalf of licensed property and casualty insurers or the State that are required to be made pursuant to any federal disaster insurance program enacted to provide insurance or reinsurance for hurricane risks.

  The HHRF's Board of Directors is appointed by the Governor of the State of Hawaii. The HHRF is financially accountable, poses a financial burden or benefit to the State, and is therefore included as a discretely presented Component Unit. Information for obtaining the HHRF's complete financial statements may be obtained from the Department of Commerce and Consumer Affairs, 335 Merchant Street, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

Government-Wide and Fund Financial Statements
The Government-Wide financial statements (the statement of net position and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is

reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment or component unit. Taxes and other items not included in program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net position is restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net position is reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and discretely presented Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental Funds Financial Statements
The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues, which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under-accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements
The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. The financial statements of the Other Postemployment Benefit (OPEB) Trust Fund are reported as a fiduciary fund using the economic resource measurement focus and the accrual basis of accounting. Agency Funds do not have a measurement focus and report only assets and liabilities.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Accounting
The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

Governmental Fund Types – The State reports the following major Governmental Funds:

- **General Fund** – This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Capital Projects Fund** – This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.
- **Med-Quest Special Revenue Fund** – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- **Special Revenue Funds** – These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.
- **Debt Service Fund** – This fund accounts for the financial resources obtained and used for the payment of principal and interest on long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

Proprietary Fund Type – Enterprise Funds – The major Enterprise Funds are comprised of the following:

- **Department of Transportation – Airports Division** (Airports) – Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.
- **Department of Transportation – Harbors Division** (Harbors) – Harbors maintains and operates the State's commercial harbors system.
- **Unemployment Compensation Fund** – This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Treatment Revolving Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types –

- **Agency Funds** – Agency Funds account for retiree healthcare benefits, which includes medical, dental and life insurance coverage as well as various taxes, deposits, and property held by the State, pending distribution to other governments and individuals.
- **OPEB Trust Fund** – This Fund accounts for plan assets and related expenses from the pre-funding contributions made by the State and counties. The OPEB Trust Fund meets the criteria for plans that are administered as trusts, or equivalent arrangements.

Component Units – Component Units are comprised of the following:

- UH, which is comprised of the State's public institutions of higher education;
- HHFDC, which finances housing programs for residents of the State;
- HPHA, which manages state housing programs;
- HHSC, which provides quality health care for the people of the State;
- HTA, which manages the State's convention center as well as markets the State's visitor industry;
- HCDA, which coordinates private and public community development for residents of the State; and
- HHRF, which funds, assesses and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents
Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Receivables and Payables
Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Investments
The State's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles. Investments in mutual funds are reported at fair value based on quoted market prices. Investments in U.S. government obligations are reported at fair value based on quoted prices or other observable inputs, including pricing matrices. Investments in certificates of deposit and repurchase agreements are reported at amortized cost due to the nonparticipating nature of these securities. Investments in commingled funds are valued at net asset value based on the fair value of the underlying assets held by the fund less its liabilities.

Inventories
Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Restricted Assets
Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

Capital Assets
Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks and similar items), buildings and improvements, equipment, and computer software, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the Government-Wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. The primary government's capitalization threshold is $1,000,000 for purchased and internally generated software and $100,000 for other intangible assets. Component units and major enterprise funds establish separate capitalization thresholds and estimated useful lives, as appropriate. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years
Computer software	5–15 years
Other intangible assets	30 years

Works of art and historical treasures held for public exhibition, education or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Compensated Absences

It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net position. Initial-issue bond premiums and discounts, as well as prepaid insurance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bond issuance costs except any portion related to prepaid insurance costs, are expensed in the period incurred. Amortization of bond premiums or discounts, prepaid insurance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts and prepaid insurance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Balance
In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net position is reported in three categories: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position represents net position restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and includes unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The State classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments. Sources of these externally enforceable legal restrictions include creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action (i.e., legislation) of the State's Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, as authorized by the Hawaii Revised Statutes, but are not restricted or committed. For general fund only, encumbrance balances at fiscal year-end are classified as assigned.
- **Unassigned** – Residual balances that are not contained in the other classifications.

The State spends restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the State would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The following table presents the State's fund balance by major function at June 30, 2016 (amounts expressed in thousands):

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Restricted for					
Welfare	$ -	$ -	$ -	$ 15,522	$ 15,522
Debt service	-	-	-	35	35
	-	-	-	15,557	15,557
Committed to					
General government	-	-	-	27,385	27,385
Public safety	-	-	-	51,185	51,185
Conservation of natural resources	-	-	-	45,239	45,239
Health	-	-	-	180,357	180,357
Welfare	-	-	-	2,466	2,466
Culture and recreation	-	-	-	2,115	2,115
Urban development and housing	-	-	-	67,394	67,394
Economic development	-	-	-	25,172	25,172
	-	-	-	401,313	401,313
Assigned to					
General government	38,601	-	-	153,745	192,346
Public safety	16,958	-	-	48,441	65,399
Highways	-	-	-	262,142	262,142
Conservation of natural resources	17,660	-	-	92,597	110,257
Health	62,565	-	-	-	62,565
Welfare	160,429	-	4,620	-	165,049
Education	85,330	-	-	176,577	261,907
Culture and recreation	2,617	-	-	11,869	14,486
Urban development and housing	652	-	-	266,732	267,384
Economic development	9,769	-	-	182,357	192,126
	394,581	-	4,620	1,194,460	1,593,661
Unassigned	1,400,783	(316,424)	-	(24,247)	1,060,112
Total	$ 1,795,364	$ (316,424)	$ 4,620	$ 1,587,083	$ 3,070,643

The following describes the purposes, by function, for the most significant fund balances:

- **Urban development and housing** – To develop and deliver Hawaiian home lands to native Hawaiians by identifying and assessing the needs of beneficiaries of the Hawaiian Homes Commission Act; to develop, market, and manage lands not immediately needed; to develop lands for homesteading and income-producing purposes; and to develop waiting lists of applicants for homestead leases.
- **Highways** – To provide a safe, efficient, accessible, and sustainable inter-modal transportation system that ensures the mobility of people and enhances and/or preserves economic prosperity and the quality of life. This is accomplished through planning, designing, and supervising the construction and maintenance of the State Highway System.
- **Education** – For the public education system, to serve the community by developing the academic achievement, character and social-emotional well-being of the State's students to the fullest potential; to work with partners, families and communities to ensure that all students reach their aspirations from early-learning through college, career and citizenship. For the public charter commission, to authorize high-quality public charter schools throughout the State.
- **Health** – To administer programs designed to protect, preserve, care for and improve the physical and mental health of the people of the State.

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

Nonexchange Transactions
The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Medicare and Medicaid Reimbursements
Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State administration's opinion is that adequate provision has been made for any adjustments that may result from such reviews.

Fair Value Measurements
The State measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2** – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

- **Level 3** – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Risk Management
The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1,000,000 per occurrence of property losses, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $200,000,000, except for terrorism, which is $50,000,000 per occurrence. The annual aggregate limit for general liability losses is $5,000,000 per occurrence and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35,000,000 per occurrence and $39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Use of Estimates
The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Newly Issued Accounting Pronouncements

GASB Statement No. 72
During fiscal year 2016, the State implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The Statement requires governments to measure certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Statement also enhances fair value application guidance and disclosure. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 73
The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, and for the assets accumulated for purposes of providing those pensions. The requirements of this Statement that address accounting and reporting by employers and government nonemployer contributing entities for pensions are effective for reporting periods beginning after June 15, 2016. The requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for reporting periods beginning after June 15, 2015. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 74
The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended. The Statement addresses the financial reports of defined benefit other postemployment benefit plans that are administered through trusts that meet specified criteria. The requirements of this Statement are

effective for reporting periods beginning after June 15, 2016. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 75

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 76

During fiscal year 2016, the State implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement reduces generally accepted accounting principles (GAAP) to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 77

The GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement requires governments that enter into tax abatement agreements to disclose information about the nature and magnitude of the tax abatements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The State is currently evaluating the impact that Statement No. 77 will have on its financial statements.

GASB Statement No. 78

The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension that meet certain requirements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The State is currently evaluating the impact that Statement No. 78 will have on its financial statements.

GASB Statement No. 79

During fiscal year 2016, the State implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Statement addresses how certain state and local government external investment pools – and participants in those pools – may measure and report their investments. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 80

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement amends the blending requirements in GASB Statement No. 14. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 81
The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 82
The GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 83
The GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The State has not yet determined the effect this Statement will have on its financial statements.

2. Cash and Investments

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

Cash
The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2016, was $2,215,107,000 and $1,037,034,000 respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2016, was $136,934,000.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to approximately $2,239,729,000 at June 30, 2016. The entire amount represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $504,251,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized, and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments
The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance (Budget and Finance). The pool's investment options are limited to investments listed in the HRS.

At the end of each year, Budget and Finance allocates the investment pool amount to each of the participants including those participants who are part of the Proprietary Funds and Fiduciary Funds. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The EUTF maintains a separate investment pool. The EUTF board is responsible for safekeeping these monies and has appointed an Investment Committee responsible for investing EUTF assets in compliance with HRS Sections 87A-24(2) and 88-119. Money is invested in accordance with EUTF's investment policy

The following table presents the fair value of the State's investments by level of input at June 30, 2016 (amounts expressed in thousands):

	Reported Value	Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments − Primary government				
Investments by fair value level				
U.S. government securities	$ 2,079,266	$ 948,149	$ 1,131,117	$ -
Mutual funds	36,214	36,214	-	-
Total investments by fair value level	2,115,480	$ 984,363	$ 1,131,117	$ -
Investments measured at amortized cost				
Certificates of deposit	861,410			
Repurchase agreements	29,704			
Total investments	$ 3,006,594			
Investments – Fiduciary funds				
Investments by fair value level				
Equity securities	$ 303,129	$ 303,129	$ -	$ -
U.S. government securities	157,539	71,838	85,701	-
Mutual funds	104,809	104,809	-	-
	565,477	$ 479,776	$ 85,701	$ -
Investments at net asset value (NAV)				
Commingled funds				
Domestic equity	294,662			
International equity	234,594			
Domestic core fixed income	175,886			
Domestic inflation-linked fixed income	199,848			
Total investments at fair value	1,470,467			
Investments measured at amortized cost				
Certificates of deposit	65,266			
Repurchase agreements	2,250			
Total investments	$ 1,537,983			
Invested securities lending collateral at NAV				
Money market fund	$ 81,122			

Cash and cash equivalents, certificates of deposit, and repurchase agreements – The State considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts reported in the Statement of Net Position for cash equivalents, certificates of deposit, and repurchase agreements are measured at amortized cost.

The following methods and assumptions were used by the State in estimating the fair value of its financial instruments:

Debt securities – Debt securities held by the State consist of U.S. government obligations including U.S. Treasury bills and U.S. Treasury notes and bonds. The fair value of these investments are based on quoted prices in active markets or other observable inputs, including pricing matrices. These investments are categorized in either Level 1 or 2 of the fair value hierarchy.

Mutual funds – The mutual funds held by the State are open-ended mutual funds that are registered with the Securities Exchange Commission (SEC). The fair value of these mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. These investments are categorized in Level 1 of the fair value hierarchy.

Commingled funds – Investments in commingled funds are valued at the NAV of units of a bank commingled investment vehicle. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

Money market funds – Investments in money market funds are valued at the NAV of the custodian bank liquid asset portfolio. NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the State's investments have fluctuated since June 30, 2016.

	Fair Value	Unfunded Commitments	Redemption Frequency	Required Redemption Notice
Investments measured at NAV				
Commingled funds				
Domestic equity	$ 294,662	None	Daily	Same as trade date
International equity	234,594	None	Daily	Trade date – 1
Domestic core fixed income	175,886	None	Daily	Trade date – 2
Domestic inflation-linked fixed income	199,848	None	Daily	Trade date – 2
Total investments measured at NAV	$ 904,990			
Invested securities lending collateral				
Money market fund	$ 81,122	None	Daily	Same as trade date

Domestic equity – Northern Trust Russell 3000 Index Fund – Lending – primary objective is to approximate the risk and return characteristics of the Russell 3000 Index. This Index is commonly used to represent the broad U.S. equity market.

International equity – Northern Trust Common All Country World Index (ACWI) EX-US Fund – Lending – primary objective is to provide investment results that approximate the overall performance of the MSCI All Country World ex-US Index.

Domestic core fixed income – BlackRock U.S. Debt Index Fund B – primary objective is to provide investment results that correspond generally to the price and yield performance of Barclays US Aggregate Bond Index.

Domestic inflation-linked fixed income – BlackRock U.S. Inflation-Linked Bond Fund B – primary objective is to maximize real return by investing in inflation-linked fixed income securities issued by the U.S. government.

Money market fund – The Northern Trust Corporation Liquid Asset Portfolio is a money market fund that seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market investments.

The following table presents the State's investments by maturity period at June 30, 2016 (amounts expressed in thousands):

	Reported Value	Maturity (in years) Less than 1	1–5	>5
Investments − Primary government				
Certificates of deposit	$ 861,410	$ 829,635	$ 31,775	$ -
U.S. government securities	2,079,266	997,545	1,073,773	7,948
Repurchase agreements	29,704	29,704	-	-
	2,970,380	$ 1,856,884	$ 1,105,548	$ 7,948
Mutual funds	36,214			
Total investments	$ 3,006,594			
Investments – Fiduciary funds				
Certificates of deposit	$ 65,266	$ 62,859	$ 2,407	$ -
U.S. government securities	157,539	75,581	81,356	602
Repurchase agreements	2,250	2,250	-	-
	225,055	$ 140,690	$ 83,763	$ 602
Equity securities	303,129			
Mutual funds	104,809			
Commingled funds	904,990			
Total investments	$ 1,537,983			

Interest Rate Risk
As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk
The State's general investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating.

Custodial Risk
For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. Excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk
The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Securities Lending

The EUTF participates in a securities lending program administered by its custodian bank, Northern Trust. Under this program, which is permissible by State statutes and the EUTF's investment policy, certain equity securities are lent to participating broker-dealers and banks (borrowers). In return, the EUTF receives cash, securities, and/or letters of credit as collateral at 102% to 105% of the principal plus accrued interest for reinvestment. The collateral is marked to market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided. Accordingly, management believes that the EUTF has no credit risk exposure to borrowers because the amounts the EUTF owed the borrowers equaled or exceeded the amounts the borrowers owed the EUTF. The contract with the EUTF requires the custodian bank to indemnify the EUTF. In the event a borrower goes into default, the custodian bank will liquidate the collateral to purchase replacement securities. Any shortfall between the replacement securities cost and the collateral value is covered by the custodian bank. All securities loans can be terminated on demand within a period specified in each agreement by either the EUTF or the borrowers.

Cash collateral is invested in a separate account by the custodian bank using approved lender's investment guidelines. As such, maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. The EUTF does not impose any restrictions on the amount of loans the bank custodian makes on behalf of the EUTF. The securities lending program in which the EUTF participates only allows pledging or selling securities in the case of borrower default.

At June 30, 2016, the total securities lent for collateral amounted to $81,655,000. The total cash and noncash collateral received amounted to $81,122,000 and $2,900,000, respectively.

Each of the four commingled funds held in the EUTF investment pool participates in securities lending.

3. Capital Assets

For the fiscal year ended June 30, 2016, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016
Capital assets not being depreciated				
Land and land improvements	$ 2,267,218	$ 96,673	$ (55,618)	$ 2,308,273
Construction in progress	1,050,026	409,421	(379,340)	1,080,107
Total capital assets not being depreciated	3,317,244	506,094	(434,958)	3,388,380
Capital assets being depreciated				
Infrastructure	9,333,014	243,828	-	9,576,842
Buildings and improvements	4,432,284	170,245	(734)	4,601,795
Equipment	512,569	122,018	(35,195)	599,392
Intangible assets – software	113,457	42,158	-	155,615
Total capital assets being depreciated	14,391,324	578,249	(35,929)	14,933,644
Less: Accumulated depreciation and amortization				
Infrastructure	(5,656,667)	(212,875)	-	(5,869,542)
Buildings and improvements	(2,474,452)	(140,877)	611	(2,614,718)
Equipment	(373,583)	(90,764)	30,179	(434,168)
Intangible assets – software	(26,974)	(29,783)	-	(56,757)
Total accumulated depreciation and amortization	(8,531,676)	(474,299)	30,790	(8,975,185)
Total capital assets, net	$ 9,176,892	$ 610,044	$ (440,097)	$ 9,346,839

	Business-type Activities			
	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016
Capital assets not being depreciated				
Land and land improvements	$ 628,654	$ 12,722	$ -	$ 641,376
Construction in progress	824,834	309,587	(253,867)	880,554
Total capital assets not being depreciated	1,453,488	322,309	(253,867)	1,521,930
Capital assets being depreciated				
Land and improvements	1,258,586	113,457	-	1,372,043
Buildings and improvements	2,291,500	120,741	-	2,412,241
Equipment	322,474	5,301	(438)	327,337
Total capital assets being depreciated	3,872,560	239,499	(438)	4,111,621
Less: Accumulated depreciation				
Land and improvements	(847,730)	(36,230)	-	(883,960)
Buildings and improvements	(1,260,091)	(70,534)	-	(1,330,625)
Equipment	(228,895)	(20,248)	453	(248,690)
Total accumulated depreciation	(2,336,716)	(127,012)	453	(2,463,275)
Total capital assets, net	$ 2,989,332	$ 434,796	$ (253,852)	$ 3,170,276

Depreciation expense for the fiscal year ended June 30, 2016, was charged to functions/programs of the Primary Government as follows (amounts expressed in thousands):

Governmental activities	
Highways	$ 194,696
Lower education	138,931
Welfare	31,832
General government	29,836
Urban redevelopment and housing	23,681
Public safety	21,184
Conservation of natural resources	20,179
Health	6,222
Economic development and assistance	4,527
Culture and recreation	3,211
Total depreciation expense – governmental activities	$ 474,299

Business-type activities	
Airports	$ 99,397
Harbors	26,033
EUTF	1,386
DWTLF	188
WPCF	8
Total depreciation expense – business-type activities	$ 127,012

4. General Obligation Bonds Payable

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt is being retired from the resources of the Proprietary Funds – Airports and Harbors and is recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues contain call provisions except Series CM, issued December 1, 1996; Series DL, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT, issued November 24, 2009; Series DY, issued February 18, 2010; Series EK and EL, issued November 21, 2013, and Series EW and EX, issued October 29, 2015. Stated interest rates range from 0.20% to 6.5%.

During fiscal year June 30, 2016, the State issued three separate offerings of general obligation bonds.

- On October 29, 2015, the State issued $225,000,000 of general obligation bonds of 2015 Series ET and EU, $496,395,000 of general obligation refunding bonds of 2015 Series EV, EW, EX, EY and EZ, and $25,000,000 of taxable general obligation bonds of 2015 Series FA.
- On April 14, 2016, the State issued $500,000,000 of general obligation bonds of 2016 Series FB, and $25,000,000 of taxable general obligation bonds of 2016 Series FC.
- On April 14, 2016, the State issued $224,990,000 of general obligation refunding bonds of 2016 Series FD and FE, and $119,730,000 of taxable general obligation refunding bonds of 2016 Series FF.

All new issues except Series FF were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method. The bonds within Series FA and FC are subject to optional redemption. The following bonds are subject to optional redemption with restrictions: within Series ET, EU, EY and EZ that mature on or after October 1, 2025; within Series FB that mature on or after April 1, 2026; and within Series FE and FF that mature on or after October 1, 2026.

Refunding Series EV, EW, EX, EY, EZ, FD, FE and FF have interest rates of 1.3% to 5.0% and were used to advance refund $859,505,000 of certain general obligation bonds previously issued. The net proceeds of $989,950,000 (including premiums of $148,835,000) related to the issuance of Series EV, EW, EX, EY, EZ, FD, FE and FF were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the previously issued outstanding general obligation bonds series DF, DI, DJ, DK, DN, DQ and DZ. As a result, these series or portions of these series are considered to be defeased and the related liabilities have been removed from the Government-Wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 13 years by $94,133,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $81,063,000.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust, to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2016, $1,133,955,000 of bonds outstanding is considered defeased. At June 30, 2016, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 5,715,795
Noncallable	605,930
Total general obligation bonds outstanding	6,321,725
Add: unamortized bond premium	659,106
Less: Amount recorded as a liability of proprietary funds – Harbors	(27,400)
Amount recorded in the governmental activities of the primary government	$ 6,953,431

A summary of general obligation bonds outstanding by series as of June 30, 2016, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
CM	December 1, 1996	6.500%	December 1, 2016	$ 150,000	$ 8,330
DJ	April 12, 2007	3.800%–5.000%	April 1, 2017	350,000	18,100
DK	May 20, 2008	4.000%–5.000%	May 1, 2017–2028	375,000	32,475
DL	May 20, 2008	3.700%–5.000%	May 1, 2017–2018	29,010	9,015
DN	December 16, 2008	4.250%–5.000%	August 1, 2016–2028	100,000	16,530
DO	December 16, 2008	4.000%–5.000%	August 1, 2016–2018	101,825	42,305
DP	December 16, 2008	5.680%	August 1, 2016	26,000	4,910
DQ	June 23, 2009	3.600%–5.000%	June 1, 2017–2026	500,000	78,415
DR	June 23, 2009	3.000%–5.000%	June 1, 2017–2019	225,410	106,870
DS	November 5, 2009	0.200%–1.450%	September 15, 2016–2024	32,000	26,320
DT	November 24, 2009	2.750%–5.000%	November 1, 2016–2019	204,140	142,300
DX	February 18, 2010	3.730%–5.530%	February 1, 2017–2030	500,000	454,515
DY	February 18, 2010	3.500%–5.000%	February 1, 2017–2020	221,625	154,025
DZ	December 7, 2011	3.500%–5.000%	December 1, 2016–2031	800,000	584,175
EA	December 7, 2011	2.000%–5.000%	December 1, 2016–2023	403,455	403,455
EE	December 4, 2012	1.000%–5.000%	November 1, 2017–2032	444,000	444,000
EF	December 4, 2012	5.000%	November 1, 2017–2024	396,990	396,990
EG	December 4, 2012	1.000%–3.625%	November 1, 2017–2032	26,000	26,000
EH	November 21, 2013	4.000%–5.000%	August 1, 2018–2033	635,000	635,000
EK	November 21, 2013	3.000%–5.000%	August 1, 2016	27,330	27,330
EL	November 21, 2013	1.000%–5.000%	August 1, 2017–2023	50,860	50,860
EM	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	25,000	25,000
EN	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	29,795	29,795
EO	November 25, 2014	3.000%–5.000%	August 1, 2019–2034	575,000	575,000
EP	November 25, 2014	5.000%	August 1, 2019-2026	209,015	209,015
EQ	November 25, 2014	2.035%–3.915%	August 1, 2019–2034	25,000	25,000
ES	November 25, 2014	0.731%–1.231%	August 1, 2016–2017	193,880	193,880
ET	October 29, 2015	2.000%–5.000%	October 1, 2018–2035	190,000	190,000
EU	October 29, 2015	2.000%–3.500%	October 1, 2018–2035	35,000	35,000
EW	October 29, 2015	5.000%	October 1, 2018	34,950	34,950
EX	October 29, 2015	2.000%–4.000%	October 1, 2019–2025	25,035	25,035
EY	October 29, 2015	5.000%	October 1, 2020–2027	212,120	212,120
EZ	October 29, 2015	5.000%	October 1, 2019–2028	215,590	215,590
FA	October 29, 2015	1.330%–4.400%	October 1, 2018–2035	25,000	25,000
FB	April 14, 2016	3.000%–5.000%	April 1, 2019–2036	500,000	500,000
FC	April 14, 2016	1.000%–1.750%	April 1, 2017–2021	25,000	25,000
FE	April 14, 2016	3.000%–5.000%	October 1, 2019–2028	219,690	219,690
FF	April 14, 2016	1.309%–2.902%	October 1, 2019–2028	119,730	119,730
					$ 6,321,725

The general obligation bonds outstanding financed the Hawaiian Home Lands Trust settlement and the acquisition, construction, extension or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the general obligation bond premium activity for fiscal year 2016 is as follows (amounts expressed in thousands):

Balance – July 1, 2015	$	539,353
GO bond series ET – EZ, FA – FF		219,562
Defeased bond series DF, DI, DJ, DK, DN, DQ, and DZ		(32,102)
Current-year amortization		(67,707)
Balance – June 30, 2016	$	659,106

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	**Principal**	**Interest**	**Total**
2017	$ 432,032	$ 277,178	$ 709,210
2018	409,313	261,304	670,617
2019	444,332	244,289	688,621
2020	419,788	223,009	642,797
2021	374,544	203,978	578,522
2022–2026	1,925,640	751,123	2,676,763
2027–2031	1,510,576	333,593	1,844,169
2032–2036	778,100	59,835	837,935
	$ 6,294,325	$ 2,354,309	$ 8,648,634

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

Fiscal Year	**Principal**	**Interest**	**Total**
2017	$ 2,023	$ 1,358	$ 3,381
2018	2,122	1,258	3,380
2019	2,228	1,153	3,381
2020	2,337	1,044	3,381
2021	2,451	930	3,381
2022–2026	14,210	2,694	16,904
2027–2028	2,029	144	2,173
	$ 27,400	$ 8,581	$ 35,981

The State Constitution limits the amount of general obligation bonds which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2016 was $504,332,000.

At June 30, 2016, general obligation bonds authorized but unissued were approximately $2,107,896,000.

5. Revenue Bonds Payable

Governmental Activities

Revenue bonds are payable from and collateralized by each Departments' revenues generated from certain capital improvement projects. On November 13, 2014, the DBEDT issued $150,000,000 in State of Hawaii Green Energy Market Securitization Bonds of 2014, Series A, to provide funds for environmentally beneficial projects. The Series A is comprised of Tranche A-1 for $50,000,000 and Tranche A-2 for $100,000,000. The interest rate for Tranche A-1 is 1.467%, with bonds payable semi-annually on January 1 and July 1 through 2020. The interest rate for Tranche A-2 is 3.242%, with bonds payable semi-annually beginning July 1, 2020 through January 1, 2029. Both tranches have a final maturity date which is two years later than the scheduled final payment date to allow for any final true-ups for balances owed.

On August 14, 2014, the Department of Transportation – Highways Division (Highways) issued $103,375,000 in State of Hawaii Highway Revenue Bonds of 2014, Series A, with interest rates ranging from 2.0% to 5.0% to provide funds for certain highway capital improvement projects. The bonds are payable annually on January 1 through 2034.

On August 14, 2014, Highways issued $32,285,000 in State of Hawaii Highway Revenue Bonds of 2014, Series B, with interest rates ranging from 3.0% to 5.0% to advance refund $36,195,000 of certain highway revenue bonds previously issued. The bonds are payable annually January 1, 2017 through 2026.

On August 14, 2014, Highways issued $28,020,000 in State of Hawaii Highway Revenue Bonds of 2014, Series C, with interest rates ranging from 0.4% to 1.6% to advance refund $26,435,000 of certain highway revenue bonds previously issued. The bonds are payable annually on January 1 through 2018.

On December 15, 2011, Highways issued $112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 0.75% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2032.

On December 15, 2011, Highways issued $5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4.0% to advance refund $5,400,000 of certain outstanding highway revenue bonds previously issued. The bond is payable on January 1, 2023.

On April 2, 2009, the State of Hawaii Department of Hawaiian Home Lands (DHHL) issued $42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 2.0% to 6.0% to finance the construction of certain DHHL capital improvement projects. The bonds are payable annually on April 1 through 2039.

On December 17, 2008, Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.0% to 6.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2029.

On March 15, 2005, Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3.0% to 5.0% to finance certain highway capital improvement projects and related projects. The final payment date for the bonds was July 1, 2015.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3.0% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable annually on July 1 through 2021.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to advance refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest ranging from 4.5% to 5.5% and mature on July 1, 2017 and July 1, 2018.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bond of 2011 and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above); were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions.

The following is a summary of the State's revenue bonds issued and outstanding at June 30, 2016 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways					
1998	July 1, 1998	5.500%	July 1, 2017–2018	$ 94,920	$ 27,580
2005 B	March 15, 2005	5.00%–5.25%	July 1, 2016–2021	123,915	27,630
2008	December 17, 2008	4.75%–6.00%	January 1, 2017–2029	125,175	94,765
2011A	December 15, 2011	1.48%–5.00%	January 1, 2017–2032	112,270	96,200
2011B	December 15, 2011	4.00%	January 1, 2023	5,095	5,095
2014A	August 14, 2014	3.00%–5.00%	January 1, 2017–2034	103,375	97,585
2014B	August 14, 2014	3.00%–5.00%	January 1, 2017–2026	32,285	32,285
2014C	August 14, 2014	1.20%–1.60%	January 1, 2017–2018	28,020	26,750
DHHL					
2009	April 2, 2009	4.50%–6.00%	April 1, 2017–2039	42,500	37,490
DBEDT					
2014A-A1	November 13, 2014	1.467%	July 1, 2022	50,000	40,868
2014A-A2	November 13, 2014	3.242%	January 1, 2031	100,000	100,000
					586,248
Add: Unamortized bond premium					28,872
					$ 615,120

A summary of the revenue bond premium activity for fiscal year 2016 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance – July 1, 2015	$ 35,092
Current-year amortization	(6,220)
Balance – June 30, 2016	$ 28,872

Debt service requirements to maturity on revenue bonds are aggregated below (amounts expressed in thousands):

	Principal	Interest	Total
Fiscal Year			
2017	$ 46,053	$ 25,472	$ 71,525
2018	47,431	24,028	71,459
2019	49,476	22,070	71,546
2020	36,674	20,329	57,003
2021	38,141	18,809	56,950
2022–2026	175,560	70,954	246,514
2027–2031	142,729	31,108	173,837
2032–2036	42,135	7,130	49,265
2037–2039	8,049	985	9,034
	$ 586,248	$ 220,885	$ 807,133

Business-Type Activities
Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

Airports System Revenue Bonds
The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2016 (amounts expressed in thousands):

	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
Series				
2010A, refunding	2.00%–5.25%	2039	$ 478,980	$ 477,460
2010B, refunding	3.00%–5.00%	2020	166,000	103,800
2011, refunding	2.00%–5.00%	2024	300,885	226,530
2015A, non-refunding	4.125%-5.00%	2045	235,135	235,135
2015B, non-refunding	4.00%	2045	9,125	9,125
			$ 1,190,125	1,052,050
Add: Unamortized premium				32,496
Less: Unamortized discount				(53)
				1,084,493
Less: Current portion				(37,290)
Noncurrent portion				$ 1,047,203

Airports Special Facility Revenue Bonds
Airports entered into two special facility lease agreements with Continental Airlines, Inc. (Continental) in November 1997 and July 2000. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000 and $16,600,000, respectively. The $16,600,000 special facility revenue bond was called in full on May 18, 2015. The remaining bond is payable solely from and collateralized solely by certain rentals and other monies derived from the special facility.

$25,255,000 Issue
The bonds bear interest at 5.625%, and are subject to redemption at the option of Airports upon the request of Continental at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100% plus interest, if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

Special facility revenue bonds payable at June 30, 2016 consisted of $21,725,000, and is classified as noncurrent.

The special facility lease is accounted for and recorded as a direct financing lease. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

Harbors Revenue Bonds
The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from 102% to 100% of face value.

The following is a summary of the Harbors' revenue bonds issued and outstanding as of June 30, 2016 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2016	Current Due January 1, 2017	Current Total	Noncurrent
2004	January 1, 2024	2.50%–6.00%	$ 52,030	$ -	$ 1,665	$ 1,665	$ 14,530
2006	January 1, 2031	4.00%–5.25%	96,570	745	2,505	3,250	68,375
2007	July 1, 2027	4.25%–5.50%	51,645	2,105	-	2,105	31,895
2010	July 1, 2040	3.00%–5.75%	201,390	7,005	-	7,005	172,935
2013	July 1, 2029	3.25%	23,615	840	-	840	20,770
			$ 425,250	$ 10,695	$ 4,170	14,865	308,505
Add: Unamortized premium						273	119
						$ 15,138	$ 308,624

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2017	$ 52,155	$ 70,561	$ 122,716
2018	54,545	66,717	121,262
2019	57,135	64,108	121,243
2020	59,745	61,461	121,206
2021	62,715	58,339	121,054
2022–2026	302,905	244,794	547,699
2027–2031	200,280	179,996	380,276
2032–2036	175,890	132,542	308,432
2037–2041	223,460	81,205	304,665
2042–2046	208,315	26,782	235,097
	$ 1,397,145	$ 986,505	$ 2,383,650

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the twelve-month and six-month periods, respectively, preceding the date on which the payments are due.

Revenue Bonds Authorized, but Unissued
At June 30, 2016, revenue bonds authorized, but unissued, were approximately $4,686,829,000.

Special Purpose Revenue Bonds
HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2016 amounted to approximately $1,389,113,000. At June 30, 2016, special purpose revenue bonds of $1,284,073,000 were authorized, but unissued.

Improvement District Bonds
The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2016.

6. Changes in Long-Term Liabilities

Changes in the long-term liabilities for the primary government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities				
	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
General obligation bonds payable	$ 5,963,928	$ 1,616,115	$ (1,285,718)	$ 6,294,325	$ 432,032
Add: Unamortized premium	539,353	219,562	(99,809)	659,106	88,294
Total general obligation bonds payable	6,503,281	1,835,677	(1,385,527)	6,953,431	520,326
Revenue bonds payable	631,110	-	(44,862)	586,248	46,053
Add: Unamortized premium	35,092	-	(6,220)	28,872	3,676
Total revenue bonds payable	666,202	-	(51,082)	615,120	49,729
Accrued vacation payable	219,873	104,985	(102,131)	222,727	78,877
Reserve for losses and loss adjustment costs	150,176	54,248	(37,859)	166,565	31,595
Net pension liability	3,910,574	628,679	(370,499)	4,168,754	-
Other postemployment benefit liability	3,597,751	606,762	(462,186)	3,742,327	-
Capital lease obligations	96,175	60,286	(6,984)	149,477	5,855
Total	$ 15,144,032	$ 3,290,637	$ (2,416,268)	$ 16,018,401	$ 686,382

	Business-type Activities				
	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
General obligation bonds payable, net	$ 29,332	$ -	$ (1,932)	$ 27,400	$ 2,023
Revenue bonds payable	1,202,780	244,260	(49,895)	1,397,145	52,155
Add: Unamortized premium, net	16,163	20,448	(3,776)	32,835	273
Total revenue bonds payable	1,218,943	264,708	(53,671)	1,429,980	52,428
Accrued vacation and retirement benefits payable	13,766	7,348	(6,680)	14,434	4,557
Reserve for losses and loss adjustment costs	4,645	1,720	(1,514)	4,851	1,664
Net pension liability	137,308	21,883	(13,698)	145,493	-
Other postemployment benefit liability	95,383	21,654	(8,606)	108,431	-
Lease revenue certificates of participation	172,864	8,057	(936)	179,985	4,745
Prepaid airport use charge fund	13,245	1,105	(4,000)	10,350	-
Loan payable	34,910	-	-	34,910	-
Total	$ 1,720,396	$ 326,475	$ (91,037)	$ 1,955,834	$ 65,417

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's governmental funds. Approximately 79%, 20% and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2016.

7. Interfund Receivables and Payables

Interfund receivables and payables consisted of the following at June 30, 2016 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds		
General Fund		
Special Revenue Funds	$ 85,587	$ -
Med-Quest Special Revenue Fund	103,429	-
Proprietary Fund	20	-
Debt Service Fund	-	35
	189,036	35
Capital Projects Fund		
Proprietary Fund	1,597	-
	1,597	-
Med-Quest Special Revenue Fund		
General Fund	-	103,429
Nonmajor Governmental Funds		
General Fund	35	85,587
Proprietary Fund		
Airports	-	5
Harbors	-	1,612
	$ 190,668	$ 190,668

The interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occurred, transactions are recorded, and payment between funds are made.

8. Transfers

Transfers between funds occur when a fund receiving revenues, transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers between funds occur. For the fiscal year ended June 30, 2016, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds		
General Fund		
Med-Quest Special Revenue Fund	$ 179,418	$ 3,816
Nonmajor Governmental Funds	34,866	772,195
	214,284	776,011
Capital Projects Fund – Nonmajor Governmental Funds	129,932	37,623
Med-Quest Special Revenue Fund		
General Fund	3,816	179,418
Nonmajor Governmental Funds	-	8,109
	3,816	187,527
Nonmajor Governmental Funds		
General Fund	772,195	34,866
Capital Projects Fund	37,623	129,932
Med-Quest Special Revenue Fund	8,109	-
Other Nonmajor Governmental Funds	110,320	110,320
	928,247	275,118
	$ 1,276,279	$ 1,276,279

The General Fund transferred approximately $685,213,000 to the Nonmajor Governmental Funds for debt service payments and approximately $90,798,000 to subsidize various Special Revenue Funds' programs. Approximately $129,932,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. Leases

Lease Commitments

Governmental Activities

The State leases office facilities and equipment under various operating leases expiring through fiscal 2026. Future minimum lease commitments for noncancelable operating leases as of June 30, 2016, were as follows (amounts expressed in thousands):

Fiscal Year		
2017	$	18,297
2018		15,216
2019		12,579
2020		9,646
2021		4,526
2022–2026		3,508
Total future minimum lease payments	$	63,772

Rent expenditures for operating leases for the fiscal year ended June 30, 2016 amounted to approximately $35,127,000.

An equipment lease purchase agreement between the Department of Transportation Highways Division and Johnson Controls, Inc. was entered into on July 8, 2015 to fund the construction, acquisition and installation of energy conservation systems throughout the State. The proceeds of $60,286,091 were deposited into an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the Highways Division. Payments will commence on August 1, 2017 and continue through August 1, 2031 at an interest rate of 2.63%.

An equipment lease purchase agreement between DAGS and Banc of America Public Capital Corp. was entered into on August 1, 2013, to fund the construction, acquisition and installation of energy conservation systems throughout the State. The proceeds of $18,835,000 were deposited in an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the State. Payments commenced on March 20, 2014 and continue through September 20, 2033 at an interest rate of 3.63%.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of $25,512,000 in an escrow fund. Payments commenced on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the DAGS and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of $12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

The State issued $41,120,000 in Certificates of Participation (COPS) 2009 Series A, on November 5, 2009, to fully refund $47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capitol District Building. The net proceeds of $43,490,000 (including a premium of $2,876,000 and after payment of $503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding COPS. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next ten years by $7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,061,000. Payments commenced on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2.0% to 5.0%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State’s rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

	Principal	Interest	Total
Fiscal Year			
2017	$ 5,855	$ 6,243	$ 12,098
2018	10,322	5,582	15,904
2019	7,165	4,864	12,029
2020	7,974	4,575	12,549
2021	6,691	4,257	10,948
2022–2026	43,670	16,812	60,482
2027–2031	54,181	7,877	62,058
2032–2034	13,619	494	14,113
Total future minimum lease payments	$ 149,477	$ 50,704	$ 200,181

Capital assets acquired under these capital leases are as follows (amounts expressed in thousands):

Asset type	
Buildings and improvements	$ 65,620
Equipment	117,010
Total assets	$ 182,630

Business-Type Activities

Airports – Lease Revenue Certificates of Participation
Airports entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the energy performance contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of $167,740,000 at interest rates ranging from 3.00% to 5.25%. These lease revenue COPS are payable from revenues derived by Airports from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State.

On April 13, 2016, Airports entered into a lease agreement with Johnson Controls, Inc. amending the energy Performance Contract dated December 19, 2013 to finance improvements to Honolulu International Airport's cooling infrastructure. The costs relating to the lease and installation of certain equipment to implement the third amendment to the Energy Performance Contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of $8,056,521 at an interest rate of 1.74%. These lease revenue COPS are payable from revenues derived by Airports from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State. The Series 2016 certificates are secured by the Series 2013 certificates issued in December 2013.

At June 30, 2016, the outstanding balance of the lease revenue COPS and the unamortized premium were approximately $175,797,000 and $4,188,000, respectively. Future lease rent payments for the lease revenue COPS as of June 30, 2016 are as follows (amounts expressed in thousands):

	Principal	Interest	Total
Fiscal Year			
2017	$ 4,745	$ 8,272	$ 13,017
2018	6,346	8,309	14,655
2019	7,331	7,912	15,243
2020	8,593	7,575	16,168
2021	10,198	7,136	17,334
2022–2026	73,444	26,495	99,939
2027–2029	65,140	5,160	70,300
	$ 175,797	$ 70,859	$ 246,656

Lease Rentals

Airports – Airport-Airline Lease Agreement
The DOT and the airline companies serving the Airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior

written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Airports – Prepaid Airport Use Charge Fund
The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal years 1996 through 2016 have been transferred to the PAUCF.

Airports – Aviation Fuel Tax
In May 1996, the Department of Taxation issued a tax information release which stated that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to approximately $2,568,000 for fiscal year 2016.

Airports — System Rates and Charges
Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees amounted to approximately $68,723,000 for fiscal year 2016. Airport landing fees are shown net of aviation fuel tax credits of approximately $2,635,000 for fiscal year 2016, on the statement of revenues, expenses and changes in net position, which resulted in net airport landing fees of approximately $66,088,000 for fiscal year 2016. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines were set at 44% of the Airports landing fees for overseas flights for fiscal year 2016 and are scheduled to increase 1% annually until it reaches 100%.
- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately $66,307,000 for fiscal year 2016. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per enplaning or deplaning passenger.
- Exclusive use premise charges amounted to approximately $49,144,000 for fiscal year 2016, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately $25,204,000 for fiscal year 2016.

- Airports system support charges amounted to $0 for fiscal year 2016, and were established to recover all remaining residual costs of the Airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of Airports system support charges for overseas flights.

Airports – Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2016 was approximately $67,020,000.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kahului retail concession, accounted for approximately 22% of total concession fees revenues for the fiscal year ended June 30, 2016.

DFS was awarded a ten-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent was $38 million and the percentage rent was as follows: (1) for total concession receipts greater than $155 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

Effective October 31, 2014, the in-bond concession lease agreement was amended and the lease was extended through May 31, 2027. The amended lease contract provides (1) for the period from June 1, 2017 through May 31, 2019, $40 million, (2) for the period of June 1, 2019 through May 31, 2020, $47.5 million, (3) for the period June 1, 2020 through May 31, 2021, 85% of the actual annual fee paid and payable (either minimum annual guarantee (MAG) rent or percentage rent) for the previous year, (4) for the period of June 1, 2021 through May 31, 2022, the same as the previous year, (5) for the period of June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable for the previous year, and (6) for the period from June 1, 2023 through May 31, 2027, the same as the MAG rent for the period of June 1, 2022 through May 31, 2023. The percentage fee for the extension period will be set at 30% of gross receipts from on-airport sales and 18% of gross receipts from off-airport sales. Percentage fee for merchandise converted from duty free status to duty paid status shall be 1.25%, and the concession fee for items that are “High Price/Low Margin Merchandise” shall be 2.5% of the gross receipts from the sale. In addition, DFS agreed to pay $27.9 million for improvements to the Central Waiting Lobby Building at Honolulu International.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and scheduled to terminate on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) MAG rent (85% of the actual annual fee paid for the preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period, the MAG rent was $12 million. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the MAG rent for the period April 1, 2015 through March 31, 2016 be $12 million and for each subsequent year, the MAG rent will be 85% of the actual annual fee paid for the preceding year.

Harbors – Leasing Operations
Harbors leases land, wharf and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every five to ten years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2016 amounted to $23,327,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2016 (amounts expressed in thousands):

	Proprietary Funds		
	Airports	**Harbors**	**Total**
Fiscal Year			
2017	$ 74,515	$ 6,059	$ 80,574
2018	61,678	5,773	67,451
2019	58,522	5,222	63,744
2020	59,864	5,198	65,062
2021	12,680	5,255	17,935
2022–2026	47,430	25,819	73,249
2027–2031	33,356	24,110	57,466
2032–2036	4,066	18,357	22,423
2037–2041	3,593	11,999	15,592
2042–2046	3,478	9,031	12,509
2047–2051	-	2,771	2,771
2052–2056	-	2,574	2,574
2057–2059	-	947	947
	$ 359,182	$ 123,115	$ 482,297

Net Investment in Direct Financing Leases
Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2016, net investments in direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$	34,428
Less: Amount representing interest		(13,901)
		20,527
Cash with trustee and other		1,351
	$	21,878

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2016, consisted of the following (amounts expressed in thousands):

Fiscal Year		
2017	$	1,222
2018		1,222
2019		1,222
2020		1,222
2021		1,222
2022–2026		6,110
2027–2028		23,559
	$	35,779

10. Significant Transactions With Component Units

Hawaii Housing Finance and Development Corporation
Amounts payable from the State to the HHFDC include approximately $9,098,000 of amounts due from DHHL related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $1,700,000 payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using an imputed interest rate.

Hawaii Health Systems Corporation
In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. During 2016, an appropriation was granted from the State to allow HHSC to forego any obligation to pay back this amount. The remaining amount due to the State of $20,123,000 at June 30, 2016 is comprised of cash advances that was assumed by HHSC.

Hawaii Tourism Authority
During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's transient accommodations tax (TAT) revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the Convention Center Authority (CCA) and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253, SLH 2002. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to HTA by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. The payment plan is not directly related to the actual debt service on the general obligation bonds issued to finance the Hawaii Convention Center. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2016, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $192,450,000 and $98,275,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2017	$ 15,645	$ 10,786	$ 26,431
2018	16,580	9,847	26,427
2019	17,575	8,852	26,427
2020	18,630	7,797	26,427
2021	19,750	6,680	26,430
2022–2026	97,740	34,410	132,150
2027	6,530	19,903	26,433
	$ 192,450	$ 98,275	$ 290,725

For the year ended June 30, 2016, HTA was required to reimburse Budget and Finance approximately $26,400,000 for principal and interest.

Hawaii Hurricane Relief Fund

In 2002, Act 179, SLH 2002, provided that all interest and dividends earned from the principal in the hurricane reserve trust fund be transferred and deposited into the State General Fund each year that the hurricane reserve trust fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2016, interest and dividends earned and earmarked for transfer into the State General Fund amounted to $3,049,000.

11. Retirement Benefits

Pension Plan

Plan Description
Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: *http://www.ers.ehawaii.gov.*

Benefits Provided
The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

<u>Noncontributory Class</u>

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

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

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

  Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

  Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

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

  Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

  Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

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

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

- *Disability and Death Benefits* – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2016 were 25.00% for police officers and firefighters and 17.00% for all other employees. Contributions to the pension plan from the State was $373,881,000 for the fiscal year ended June 30, 2016.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

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

At June 30, 2016, the State reported a liability of approximately $4.3 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015, the State's proportion was 57.2380% which was a decrease of 1.2454% from its proportion measured as of June 30, 2014.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2016, the State recognized pension expense of approximately $354,299,000. At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,650	$ (121,021)
Changes in assumptions	102,682	-
Net difference between projected and actual earnings on pension plan investments	-	(146,939)
Changes in proportion and differences between State contributions and proportionate share of contributions	5,804	(26,929)
State contributions subsequent to the measurement date	476,076	-
Total	$ 626,212	$ (294,889)

The $476,076,000 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

Year ending June 30,	
2017	$ (64,048)
2018	(64,048)
2019	(64,048)
2020	52,228
2021	(4,837)
	$ (144,753)

Actuarial Assumptions
The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.50%
Investment rate of return	7.65% per year, compounded annual including inflation

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

Post-retirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Static Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

The actuarial assumptions used in the June 30, 2015 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the Employees' Retirement System of the State of Hawaii elected to lower the investment return assumption effective with the June 30, 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
Total investments	100.0%	

* The real estate, private equity and real return targets will be the percentage actually invested up to 7.0%, 7.0% and 5.0%, respectively, of the total fund. Changes in the real estate, private equity and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the net pension liability was 7.65%, a decrease from the 7.75% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate (amounts expressed in thousands):

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
State's proportionate share of the net pension liability	$ 5,465,016	$ 4,314,247	$ 3,213,481

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

At June 30, 2016, the amount payable to the ERS was $21,256,000.

Postemployment Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

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

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

Cost
Effective July 1, 2006, the State implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Statement No. 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. Statement No. 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with Statement No. 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended.

The State is required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to obtain an actuarial valuation every other year. Therefore, an actuarial valuation was performed as of July 1, 2015.

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

Prior to fiscal year 2014, the State's base contribution levels were tied to the pay-as-you-go amounts necessary to provide current benefits to retirees. In fiscal year 2016, the State contributed $249,827,000 in addition to amounts necessary to provide current benefits to retirees.

The State's annual OPEB cost for each plan was calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2016 (amounts expressed in thousands):

	EUTF	UH
Annual required contribution	$ 635,749	$ 107,059
Interest on net OPEB obligation	284,019	45,556
Adjustment to annual required contribution	(221,717)	(35,563)
Annual OPEB cost	698,051	117,052
Contributions made	(505,800)	(45,100)
Increase in net OPEB obligation	192,251	71,952
Net OPEB obligation		
Beginning of year	4,057,413	650,805
End of year	$ 4,249,664	$ 722,757
Actuarial accrued liability (AAL) July 1, 2015	$ 8,024,355	$ 1,262,765
Funded OPEB plan assets	(191,118)	(30,076)
Unfunded actuarial accrued liability (UAAL) July 1, 2015	$ 7,833,237	$ 1,232,689
Funded ratio	2.4%	2.4%
Covered payroll	$ 2,496,249	$ 569,235
UAAL as percentage of covered payroll	313.8%	216.6%

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the preceding years were as follows (amounts expressed in thousands):

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
EUTF	June 30, 2016	$ 698,051	72.5%	$ 4,249,664
	June 30, 2015	675,941	52.1%	4,057,413
	June 30, 2014	650,816	52.0%	3,733,472
UH	June 30, 2016	$ 117,052	38.5%	$ 722,757
	June 30, 2015	113,009	36.6%	650,805
	June 30, 2014	106,832	39.3%	579,196

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

On July 3, 2013, the Governor signed into law Act 268, SLH 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund postemployment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF and UH	
Actuarial valuation date	July 1, 2015	July 1, 2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	28 years	30 years
Asset valuation method	Fair value	Fair value
Actuarial assumptions		
Investment rate of return	7.0%	7.0%
Projected salary increase	3.5%	3.5%
Healthcare inflation rates		
PPO	9.0% initial, 5.0% after 8 years	9.0% initial, 5.0% after 10 years
HMO	7.0% initial, 5.0% after 8 years	7.5% initial, 5.0% after 10 years
Dental	4.0%	4.0%
Vision	3.0%	3.0%
Medicare Part B	3.0% initial, 5.0% after 2 years	5.0%

The July 1, 2013 actuarial valuation was used to determine the amounts reported in the State's financial statements for the year ended June 30, 2016. The information on the funded status of the plan is from the July 1, 2015 valuation, the most recent valuation.

Effective July 1, 2016, active employee health benefit contracts were extended through June 30, 2017.

12. Commitments and Contingencies

Commitments

General Obligation Bonds

The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2016, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds		
Highways	$	2,875
Agriculture		5,924
Natural Resources		1,632
All other		47
	$	10,478

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2016, accumulated sick leave was approximately $1,149,078,000.

Intergovernmental Expenditures

In accordance with Act 174, SLH 2014, HRS Section 237D-6.5, transient accommodation tax revenues collected are to be distributed to the counties as follows: $103,000,000 for fiscal year 2015-2016 and $93,000,000 for each fiscal year thereafter.

Guarantees of Indebtedness

The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $233,500,000 for aquaculture/agriculture loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units – HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2016.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2016, the Enterprise Funds had commitments of approximately $761,440,000 for construction and service contracts.

Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2016, 2015 and 2014 approximated $10,795,000, $5,322,000 and $20,344,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement (MSA) will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $49,267,000 during the fiscal year ended June 30, 2016. As of June 30, 2016, the State expects to receive $27,000,000 for the first six months of fiscal 2017.

The MSA requires the State to diligently enforce certain requirements enacted in the Tobacco Liability Act. Failure may result in a state losing a significant portion of its MSA payments. Participating tobacco manufacturers who have joined in the MSA are challenging whether the State of Hawaii diligently enforced the provisions of the Tobacco Liability Act for the entirety of 2004. Preliminary phases of the 2004 Diligent Enforcement Arbitration have commenced and the arbitration is anticipated to begin in the latter half of 2017.

Office of Hawaiian Affairs and Ceded Lands

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the Ceded Lands) to the State of Hawaii to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law, to better the conditions of native Hawaiians. In 1979, the Legislature adopted HRS Chapter 10 (Chapter 10), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the State new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

In OHA v. HHA, OHA filed suit on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) against the Hawaii Housing Authority (the HHA, since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in *OHA, et al. v. State of Hawaii, et al.,* Civil No. 94-0205-01 (1st Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii,* 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA,* and the case remains pending.

The Housing Finance and Development Corporation and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. This corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

In *OHA Notice of Intent to File HRS Ch. 673 Complaint* letter dated May 31, 2016, addressed to the State's Attorney General and the vice president for Legal Affairs and General Counsel of the University of Hawaii, OHA gave notice, pursuant to HRS Section 673-3, of its intent to sue the State, the Department of Land and Natural Resources, and the University of Hawaii for the State's breach of its fiduciary duties as trustee of the public land trust, in connection with their management of Mauna Kea. The notice also indicates that OHA will seek an award of land or monetary damages for the alleged breaches of trust.

The State intends to defend vigorously against OHA's claim in OHA v. HHA, and if suit is filed, against OHA's HRS Chapter 673 claim for breach of trust. Resolution of all claims in favor of OHA and its beneficiaries could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

In 1991, the Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (HHCA) to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999.

On December 29, 1999, three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661.

Kalima et al. v. State of Hawaii et al., Civil No. 99-4771 12VSM (1st Cir.) (*Kalima I*). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.) (*Aguiar),* is pending and stayed.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674.

Kalima et al. v. State of Hawaii, et al., Civil No. 00-1-1041-03 (1st Cir.) (*Kalima II*). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*. *Kalima I, Kalima II* and *Aguiar* are collectively referred to under this caption as the "Individual Claims Cases."

The plaintiffs in *Kalima I* filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in *Kalima I* for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to take an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in *Kalima I* have since filed first and second amended complaints to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting list subclass' claims separately and first, and after a six week bifurcated trial to determine liability only, the circuit judge for *Kalima II* ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL Website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 14, 2013. After a three-day trial completed on October 3, 2013, the court ruled in a minute order that (1) the annual fair market rental values used to calculate damages for claimants who applied for Oahu residential leases be based on four percent of the fee simple value of a 5,000 square foot lot in Maili, obtained from a "best fit" curve derived from actual fee simple Maili valuations from 1959 through July 8, 2013, (2) for damage calculations the rents adjust annually, and (3) that there are no increases for the consumer price index or other present value adjustments. However, to date, no proceeding or procedure has been scheduled or devised to apply the damages model to determine whether and how much each claimant would be awarded in damages. The parties have participated in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation to Participate in Private Mediation, etc., filed on September 13, 2013.

On January 14, 2015, Plaintiffs filed a motion for summary judgment to compute the damages of members of the Waiting List Damages Subclass (none of whom were named plaintiffs) who applied for a residential homestead on Oahu. The motion was heard on June 30, 2015. A written order disposing of the motion has not yet been entered.

The parties have agreed to make every effort to facilitate the entry of a final judgment in the case as expeditiously as possible. In furtherance of that effort, Plaintiffs filed seven motions in June and July 2016. The State filed cross motions to three of Plaintiffs' motions, and opposed all Plaintiffs' motions. The circuit court heard all motions on September 2, 2016, and took them under advisement. Plaintiffs filed four additional motions and the State filed three additional motions, which were heard on November 4, 2016 and December 12, 2016, respectively. Written orders disposing of all the motions have not been entered.

Nelson – In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al.*, Civil No. 07-1-1663-08 BIA (1st Cir.) (*Nelson*), the plaintiffs allege all defendants breached their duties under Article XII, Sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of Article XII, Sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (HHC Act) by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of Section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs asked the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in Article XII, Section 1 of the Hawaii Constitution.

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

On May 9, 2012, the Hawaii Supreme Court concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Hawaii Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. Pursuant to the Judgment on Appeal issued on July 25, 2013, the case was remanded to the circuit court for further proceedings.

On November 27, 2015, the circuit court issued its Findings of Fact, Conclusions of Law, and Order, which declared and ordered (1) the State has failed to provide sufficient funds to DHHL for its administrative and operating budget (budget) in violation of the State's constitutional duty, (2) the State must fulfill its constitutional duty by appropriating sufficient general funds to DHHL for its budget so that DHHL does not need to use or rely on revenue from general leases, and (3) although what is "sufficient" will change over the years, the sufficient sums that the legislature is constitutionally obligated to appropriate in general funds for DHHL's budget (not including significant repairs) is more than $28 million for fiscal year 2015–2016. The circuit court also ruled that prior to 2012, DHHL breached its trust duties by failing to take all reasonable efforts, including filing suit, to obtain all the funding it needs for its budget, and shall prospectively fulfill its constitutional duties and trust responsibilities and are enjoined from violating these obligations.

On December 21, 2015, after judgment was entered, the State filed a motion for reconsideration or to alter or amend the judgment and order, which the court granted in part and denied in part. The court rejected the State's position that (1) the legislature, not the courts, has the exclusive prerogative to decide what is a "sufficient sum" for DHHL's budget under Article XII, Section 1, and (2) there was insufficient evidence to support the court's conclusion that the "sufficient sum" for DHHL's budget is more than $28 million for fiscal year 2015–2016. The court granted reconsideration with the State's position that the judicial courts lack the authority, under the separation of powers doctrine, to order the legislative branch to appropriate any particular amount of funds to DHHL. The court amended its original Order to state that $9,632,000 is not sufficient and that the State is required to fund DHHL's expenses by making sufficient general funds available to DHHL for fiscal year 2015–2016.

Plaintiffs filed a motion for reconsideration which the court denied. The State filed a notice of appeal and the Plaintiff filed a notice of cross-appeal. The appeals are pending before the Intermediate court of Appeals.

On August 9, 2016, DHHL filed a motion in circuit court for an order sanctioning the State $100 million per day until the State fulfills their constitutional duty by providing DHHL with more than $28 million for its fiscal year 2015–2016 budget. The motion has been set for hearing on October 14, 2016 and continued to December 23, 2016. The State filed memoranda opposing the motion on October 7, 2016 and December 9, 2016. The October 14, 2016 hearing was rescheduled for December 23, 2016.

The State intends to defend vigorously the claims against the State in all of the remaining Individual Claims Cases and in *Nelson*. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees (Plaintiffs) filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the EUTF, and the EUTF Board of Trustees (collectively, the Defendants). *See Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii (Civil No. 06-1-1141-06). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents.

Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A-23) did not require that retiree health benefits reasonably approximate those provided to active employees. *See Everson v. State*, 122 Hawai'i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al*.) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. In January 2011, the Defendants filed an answer denying the substantive allegations of the Second Amended Complaint.

On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs' Motion for Class Action Certification. The class certified is all employees (and their dependent-beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post-retirement health benefits as a retiree or dependent-beneficiary of such a retiree. This includes: (a) those who have not yet received any post-retirement health benefits from Defendants as a retiree or dependent-beneficiary of such a retiree; and (b) those who have received any post-retirement health benefits from Defendants since July 1, 2003 as a retiree or dependent-beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent-beneficiary of a retiree who is or was a member of the class.

On December 10, 2012, Plaintiffs filed Plaintiffs' Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants' Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs' claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the First Circuit Court on October 30, 2013, and taken under advisement. On October 16, 2014, the Court issued an Order Denying Plaintiffs' Motion for Partial Summary Judgment and Order Granting State Defendants' Motion for Partial Summary Judgment (Order). The Court ruled that Plaintiffs' accrued health benefits have not been reduced, diminished or impaired inasmuch as the health benefits that retirees received under the Hawaii Public Employees Health Fund. Plaintiffs filed a motion for reconsideration of the Order or alternatively for an interlocutory appeal. On November 13, 2014, the Court issued a minute order denying a motion. On State Defendants' motion, the case was transferred to the Hawaii Supreme Court. Briefing was completed in October 2015. In October 2016, the Hawaii Supreme Court issued an opinion affirming the circuit court's decision in the State's favor, but also ruled that the State was not entitled to judgment as a matter of law, and remanded the case to the trial court.

State Defendants intend to continue to vigorously defend against Plaintiffs' claims in this lawsuit. Resolution of the Plaintiffs' claims in their favor could have a material adverse effect on the State's financial condition.

Department of Education
Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 to June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

The parties agreed to settle before the matter was set for trial on this issue. On February 26, 2014, a settlement check in the amount of approximately $15,091,100 was transmitted to Plaintiffs' attorney. Subsequently, the Circuit Court granted Plaintiffs' motion for the award of prejudgment interest. The State appealed this decision to the Intermediate Court of Appeals on June 15, 2015. The parties have submitted all briefs and are awaiting a decision.

Tax Foundation Claim on Rail Surcharge Tax
On October 21, 2015, the Tax Foundation of the State filed a class action lawsuit against the State seeking a judicial determination that the ten percent withheld from the county surcharge on State general excise tax under HRS Section 248-2.6(a), is unconstitutional because it exceeds the actual cost for the State to assess, collect and distribute the county surcharge to the City and County of Honolulu.

Since 2007 through June 2016, the Department of Budget and Finance has transferred $195 million from county surcharge proceeds into the general fund. The circuit court entered a final judgment in favor of the State on June 1, 2016. The Plaintiff appealed the ruling to the State Intermediate Court of Appeals. The ruling is pending.

The State intends to vigorously contest all claims in this case. Resolution of the Plaintiff's claims in their favor could have a material adverse effect on the State's financial condition.

13. Risk Management

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance
The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $200,000,000, except for terrorism, which is $50,000,000 per occurrence and a $10,000 deductible.

Crime Insurance
The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services and losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)
Liability claims up to $10,000 and automobile claims up to $15,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $5,000,000 and for crime loss, $10,000,000 with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Medical Insurance
The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $35,000,000 per occurrence and $39,000,000 in aggregate.

Self-Insured Risks
The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses below $15,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

Reserve for Losses and Loss Adjustment Costs
A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2016, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net position, as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following

table represents changes in the amount of the estimated losses and the loss adjustment costs for governmental activities at June 30, 2016 and 2015 (amounts expressed in thousands):

	2016	2015
Unpaid losses and loss adjustment costs		
Beginning of the fiscal year	$ 150,176	$ 147,120
Incurred losses and loss adjustment costs		
Provision for insured events of current fiscal year	55,743	32,721
Change in provision for insured events of prior fiscal years	(1,495)	(629)
Total incurred losses and loss adjustment costs	54,248	32,092
Payments		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(15,622)	(9,604)
Losses and loss adjustment costs attributable to insured events of prior fiscal year	(22,237)	(19,432)
Total payments	(37,859)	(29,036)
Unpaid losses and loss adjustment costs		
End of the fiscal year	$ 166,565	$ 150,176

14. Subsequent Events

General Obligation Bonds
On October 13, 2016, the State issued $375,000,000 in General Obligation Bonds of 2016, Series FG, $379,295,000 in General Obligation Refunding Bonds of 2016, Series FH, $2,710,000 in General Obligation Refunding Bonds of 2016, Series FI, and $25,000,000 in Taxable General Obligation Bonds of 2016, Series FJ. Series FG and FJ were issued for the purpose of financing or reimbursing the State for the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and for other public purposes. Series FH and FI were issued for the purpose of refunding, for saving, certain outstanding general obligation bonds of the State previously issued for public purposes.

Department of Transportation – Highways Division
On September 8, 2016, Highways issued $103,395,000 in Series 2016 A and $101,090,000 in Series 2016 B Revenue Bonds (the Bonds). The Bonds bear interest from 2.0% to 5.0% with maturity dates through January 2036. The Series 2016 B Revenue Bonds refunded $72,030,000 of Series 2008 Bonds and $39,560,000 of Series 2011 A Revenue Bonds. The refunding of the Series 2008 and the Series 2011 A Bonds provided net present value savings of approximately $17,400,000.

Department of Transportation – Harbors Division
On December 6, 2016, Harbors issued $14,565,000 in Series 2016 A, $68,535,000 in Series 2016 B, $8,135,000 in Series 2016 C, and $22,425,000 in Series 2016 D Revenue Refunding Bonds (the Bonds). The Bonds bear interest from 1.99% to 3.09% with maturity dates through January 2031. The Series A 2016 Revenue Bonds refunded $16,195,000 of 2004 B Bonds, the Series B 2016 Revenue Bonds refunded $71,625,000 of 2006 A Bonds, the Series C 2016 Revenue Bonds refunded $7,365,000 of 2007 A Bonds, and Series D 2016 Revenue Bonds refunded $22,315,000 of 2007 A Bonds. The refunding of 2004 B, 2006 A, and 2007 A Bonds provided net present value savings of approximately $15,900,000.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

State of Hawaii
Required Supplementary Information
Other Than Management's Discussion and Analysis
(Unaudited)

State of Hawaii
General Fund
Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2016
(Amounts in thousands)

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	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget – Positive (Negative)
Revenues				
Taxes				
General excise tax	$ 3,189,610	$ 3,197,573	$ 3,206,154	$ 8,581
Net income tax				
Corporations	84,451	82,683	93,478	10,795
Individuals	1,911,532	2,085,500	2,115,810	30,310
Inheritance and estate tax	15,286	12,232	49,613	37,381
Liquor permits and tax	49,053	50,532	50,590	58
Public service companies tax	176,483	167,469	152,760	(14,709)
Tobacco tax	79,178	87,198	83,685	(3,513)
Tax on premiums of insurance companies	142,000	157,000	152,622	(4,378)
Franchise tax (banks and other financial institutions)	32,218	10,595	12,691	2,096
Transient accommodations tax	206,795	225,906	233,781	7,875
Other taxes, primarily conveyances tax	31,203	28,262	42,393	14,131
Total taxes	5,917,809	6,104,950	6,193,577	88,627
Non-taxes				
Interest and investment income	5,059	5,218	10,407	5,189
Charges for current services	255,410	312,258	298,284	(13,974)
Intergovernmental	11,913	13,026	16,852	3,826
Rentals	693	542	557	15
Fines, forfeitures and penalties	23,502	22,648	22,529	(119)
Licenses and fees	1,020	1,022	989	(33)
Revenues from private sources	2,505	2,501	4,665	2,164
Debt service requirements	32,939	32,939	16,100	(16,839)
Other	276,459	512,052	488,699	(23,353)
Total non-taxes	609,500	902,206	859,082	(43,124)
Total revenues	6,527,309	7,007,156	7,052,659	45,503
Expenditures				
General government	2,696,237	2,650,696	2,552,595	98,101
Public safety	269,834	271,687	270,551	1,136
Conservation of natural resources	60,868	62,231	50,157	12,074
Health	439,343	445,007	440,289	4,718
Hospitals	105,940	105,940	105,940	-
Welfare	1,132,651	1,141,419	1,121,275	20,144
Lower education	1,616,187	1,657,477	1,605,029	52,448
Higher education	428,425	445,988	441,373	4,615
Other education	6,142	6,181	5,774	407
Culture and recreation	45,451	46,096	44,906	1,190
Economic development and assistance	28,732	36,357	34,588	1,769
Housing	25,682	31,633	31,118	515
Other	17,144	30,622	29,906	716
Total expenditures	6,872,636	6,931,334	6,733,501	197,833
Excess (deficiency) of revenues over (under) expenditures	(345,327)	75,822	319,158	243,336
Other financing sources – Transfers in	26,290	47,212	29,257	(17,955)
Excess (deficiency) of revenues and other sources over (under) expenditures	$ (319,037)	$ 123,034	$ 348,415	$ 225,381

State of Hawaii
Med-Quest Special Revenue Fund
Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2016
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget – Positive (Negative)
Revenues – non-taxes				
Intergovernmental	$ -	$ -	$ 11,964	$ 11,964
Revenues from private sources	-	-	58,398	58,398
Other	4,583	4,583	3,816	(767)
Total revenues – non-taxes	4,583	4,583	74,178	69,595
Expenditures				
Welfare	76,198	76,198	59,231	16,967
Total expenditures	76,198	76,198	59,231	16,967
Excess (deficiency) of revenues over (under) expenditures	$ (71,615)	$ (71,615)	$ 14,947	$ 86,562

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2015 (Act 119, SLH 2015), and as amended by the Supplemental Appropriations Act of 2016 (Act 124, SLH 2016), and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2015–2017 biennial budget and executive supplemental budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budgets in the accompanying General Fund and Special Revenue Fund Schedules of Revenues and Expenditures – Budget and Actual (Budgetary Basis) represent the original appropriations, transfers and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detailed level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2016, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund and Special Revenue Fund are presented in the General Fund and Special Revenue Fund schedules of revenues and expenditures – budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

State of Hawaii
General Fund and Med-Quest Special Revenue Fund
Reconciliation of the Budgetary to GAAP Basis
Year Ended June 30, 2016
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2016 follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures – actual (budgetary basis)	$ 319,158	$ 14,947
Transfers	520,258	180,606
Loan forgiveness	103,200	-
Reserve for encumbrances at fiscal year end*	448,776	-
Expenditures for liquidation of prior fiscal year encumbrances	(356,520)	(244,450)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(109,893)	240,442
Tax refunds payable	(111,602)	-
Accrued liabilities	(75,418)	113,561
Accrued revenues	62,310	(117,536)
Excess of revenues over expenditures – GAAP basis	$ 800,269	$ 187,570

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

State of Hawaii
Schedule of the Proportionate Share of the Net Pension Liability
Last Ten Fiscal Years*
(Amounts in millions)

	2016	2015	2014
State of Hawaii, excluding UH			
State's proportion of the net pension liability	57.238%	58.483%	57.638%
State's proportionate share of the net pension liability	$ 4,999	$ 4,689	$ 5,148
State's covered-employee payroll	$ 2,496	$ 2,424	$ 2,341
State's proportionate share of the net pension liability as a percentage of its covered-employee payroll	200.2%	193.4%	219.9%
Plan fiduciary net position as a percentage of total net pension liability	62.4%	63.9%	58.0%
UH			
Proportion of the net pension liability	13.110%	13.600%	13.750%
Proportionate share of the net pension liability	$ 1,145	$ 1,090	$ 1,228
Covered-employee payroll	$ 569	$ 565	$ 551
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	201.2%	192.9%	222.9%
Plan fiduciary net position as a percentage of total net pension liability	62.4%	63.9%	58.0%

* Information for 2007–2013 is unavailable.

State of Hawaii
Schedule of Contributions
Last Ten Fiscal Years*
(Amounts in millions)

	2016	2015	2014
State of Hawaii, excluding UH			
Statutorily required contribution	$ 432	$ 410	$ 380
Contributions in relation to the contractually required contribution	432	410	380
Contribution deficiency (excess)	$ -	$ -	$ -
State’s covered-employee payroll	$ 2,496	$ 2,424	$ 2,341
Contributions as a percentage of covered-employee payroll	17.3%	16.9%	16.2%
UH			
Statutorily required contribution	$ 97	$ 94	$ 88
Contributions in relation to the contractually required contribution	97	94	88
Contribution deficiency (excess)	$ -	$ -	$ -
State’s covered-employee payroll	$ 573	$ 565	$ 551
Contributions as a percentage of covered-employee payroll	16.9%	16.6%	16.0%

* Information for 2007–2013 is unavailable.

State of Hawaii
Schedules of Funding Progress
June 30, 2016
(Amounts in Millions)

Postemployment Benefits Other Than Pensions

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
EUTF						
July 1, 2011	$ -	$ 11,706	$ 11,706	– %	$ 2,093	559.3%
July 1, 2013	-	7,344	7,344	– %	2,341	313.7%
July 1, 2015	191	8,024	7,833	2%	2,496	313.6%
UH						
July 1, 2011	$ -	$ 1,861	$ 1,861	– %	$ 504	369.3%
July 1, 2013	-	1,186	1,186	– %	551	215.3%
July 1, 2015	30	1,263	1,233	2%	569	216.7%

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SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways – Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources – Accounts for programs related to the conservation, development and utilization of agriculture, aquaculture, water, land and other natural resources of the State.

Health – Accounts for programs related to mental health, nutrition services, communicable disease and for other public health services.

Human Services – Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education – Accounts for programs related to instructional education, school food services and student driver education.

Economic Development – Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment – Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory – Accounts for programs related to consumer protection, business registration and cable television regulation.

Hawaiian Programs – Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support – Accounts for programs of certain administrative agencies.

All Other – Accounts for programs related to water recreation, inmate stores, and driver training and education.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

State of Hawaii
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016
(Amounts in thousands)

	Special Revenue Funds					
	Highways	Natural Resources	Health	Human Services	Education	Economic Development
Assets						
Cash and cash equivalents	$ 32,478	$ 17,017	$ 26,865	$ 12,886	$ 60,388	$ 154,761
Notes and loans receivable, net	-	21,353	-	-	-	997
Due from federal government	-	-	-	2,154	-	-
Due from other funds	-	-	-	-	-	-
Investments	199,510	104,531	165,024	79,157	138,264	23,158
Other assets	60,286	-	-	-	-	-
Total assets	$ 292,274	$ 142,901	$ 191,889	$ 94,197	$ 198,652	$ 178,916
Liabilities and Fund Balances						
Liabilities						
Vouchers and contracts payable	$ 24,056	$ 4,026	$ 14,968	$ 9,896	$ 8,811	$ 716
Other accrued liabilities	6,076	2,902	6,135	389	12,964	1,085
Due to other funds	-	1,807	-	80,600	-	-
Payable from restricted assets – Matured bonds and interest payable	-	-	-	-	-	-
Total liabilities	30,132	8,735	21,103	90,885	21,775	1,801
Fund balances						
Restricted	-	-	-	15,522	-	-
Committed	-	45,239	180,357	2,466	-	8,670
Assigned	262,142	88,927	-	-	176,877	168,445
Unassigned	-	-	(9,571)	(14,676)	-	-
Total fund balances	262,142	134,166	170,786	3,312	176,877	177,115
Total liabilities and fund balances	$ 292,274	$ 142,901	$ 191,889	$ 94,197	$ 198,652	$ 178,916

The accompanying notes are an integral part of the basic financial statements.

Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 4,864	$ 10,895	$ 42,978	$ 44,172	$ 6,396	$ 413,700	$ 335	$ 414,035
-	-	54,642	-	-	76,992	-	76,992
-	-	-	-	-	2,154	-	2,154
-	-	-	-	-	-	35	35
29,882	66,921	240,750	151,743	39,291	1,238,231	-	1,238,231
-	-	-	-	-	60,286	-	60,286
$ 34,746	$ 77,816	$ 338,370	$ 195,915	$ 45,687	$ 1,791,363	$ 370	$ 1,791,733
$ 2,528	$ 670	$ 4,180	$ 2,115	$ 6,011	$ 77,977	$ -	$ 77,977
1,805	2,695	64	2,944	3,692	40,751	-	40,751
-	-	-	-	3,180	85,587	-	85,587
-	-	-	-	-	-	335	335
4,333	3,365	4,244	5,059	12,883	204,315	335	204,650
-	-	-	-	-	15,522	35	15,557
16,501	51,185	67,394	29,501	-	401,313	-	401,313
13,912	23,266	266,732	161,355	32,804	1,194,460	-	1,194,460
-	-	-	-	-	(24,247)	-	(24,247)
30,413	74,451	334,126	190,856	32,804	1,587,048	35	1,587,083
$ 34,746	$ 77,816	$ 338,370	$ 195,915	$ 45,687	$ 1,791,363	$ 370	$ 1,791,733

State of Hawaii
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2016
(Amounts in thousands)

	Special Revenue Funds					
	Highways	Natural Resources	Health	Human Services	Education	Economic Development
Revenues						
Taxes						
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -
Tobacco and liquor taxes	-	-	25,000	-	-	-
Liquid fuel tax	87,768	250	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Vehicle weight and registration tax	123,512	-	6,539	-	-	-
Rental motor/tour vehicle surcharge tax	54,872	-	-	-	-	-
Other	-	10,475	1,288	-	-	3,864
Total taxes	266,152	10,725	32,827	-	-	3,864
Interest and investment income	1,903	1,392	883	10	235	512
Charges for current services	4,461	28,088	41,447	570	42,279	27,603
Intergovernmental	156,573	18,161	118,658	705,400	251,876	7,371
Rentals	1,000	8,381	-	-	386	1,481
Fines, forfeitures and penalties	5,568	118	678	-	29	-
Licenses and fees	2,184	761	2,224	115	525	-
Revenues from private sources	-	26	48,950	33	9,018	522
Other	7,097	5,215	3,083	923	17,148	2,612
Total revenues	444,938	72,867	248,750	707,051	321,496	43,965
Expenditures						
Current						
General government	-	5,500	212	-	-	-
Public safety	-	2,292	-	-	-	-
Highways	254,777	74	-	-	-	-
Conservation of natural resources	-	96,738	-	-	-	-
Health	-	-	203,308	-	-	-
Welfare	-	-	-	691,029	-	-
Lower education	-	-	-	-	364,884	-
Other education	-	-	-	16,339	-	-
Culture and recreation	-	10,060	-	-	3,081	-
Urban redevelopment and housing	-	-	-	2,236	-	-
Economic development and assistance	-	2,233	-	-	-	28,737
Other	225	-	-	-	-	-
Debt service	-	-	-	-	-	-
Total expenditures	255,002	116,897	203,520	709,604	367,965	28,737
Excess (deficiency) of revenues over (under) expenditures	189,936	(44,030)	45,230	(2,553)	(46,469)	15,228
Other financing sources (uses)						
Issuance of GO and refunding GO bonds – par	-	-	-	-	-	-
Issuance of GO and refunding GO bonds – premium	-	-	-	-	-	-
Other financing sources – other	60,286	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-
Transfers in	5,947	40,692	407	8,783	77,914	-
Transfers out	(195,277)	(1,393)	(29,246)	(5,608)	(1,611)	(13,605)
Total other financing sources (uses)	(129,044)	39,299	(28,839)	3,175	76,303	(13,605)
Net change in fund balances	60,892	(4,731)	16,391	622	29,834	1,623
Fund balances						
Beginning of year	201,250	138,897	154,395	2,690	147,043	175,492
End of year	$ 262,142	$ 134,166	$ 170,786	$ 3,312	$ 176,877	$ 177,115

The accompanying notes are an integral part of the basic financial statements.

Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ -	$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ 2,000
-	-	-	1,964	-	26,964	-	26,964
-	-	-	-	1,684	89,702	-	89,702
-	2,068	-	-	-	2,068	-	2,068
-	-	-	-	-	130,051	-	130,051
-	-	-	-	-	54,872	-	54,872
1,440	-	-	-	-	17,067	-	17,067
1,440	4,068	-	1,964	1,684	322,724	-	322,724
184	370	5,738	825	105	12,157	-	12,157
17,147	24,869	4,441	60,616	26,840	278,361	-	278,361
38,201	631	11,700	21,940	45,035	1,375,546	-	1,375,546
-	-	15,572	986	4,008	31,814	-	31,814
955	3,217	-	220	2,425	13,210	-	13,210
-	38,235	-	208	497	44,749	-	44,749
-	-	3,000	1,639	33	63,221	-	63,221
694	185	6,317	5,173	7,976	56,423	-	56,423
58,621	71,575	46,768	93,571	88,603	2,198,205	-	2,198,205
2,000	13,145	-	33,346	17,121	71,324	-	71,324
3,542	38,084	-	19,167	56,898	119,983	-	119,983
-	-	-	-	-	254,851	-	254,851
-	-	-	59	209	97,006	-	97,006
-	-	-	-	-	203,308	-	203,308
-	-	-	11,672	1,440	704,141	-	704,141
-	-	-	6,421	-	371,305	-	371,305
-	-	-	-	-	16,339	-	16,339
-	-	-	11,193	17,006	41,340	-	41,340
-	-	36,743	247	-	39,226	-	39,226
53,067	-	-	-	57	84,094	-	84,094
-	-	-	6,341	6	6,572	-	6,572
-	-	-	-	-	-	760,112	760,112
58,609	51,229	36,743	88,446	92,737	2,009,489	760,112	2,769,601
12	20,346	10,025	5,125	(4,134)	188,716	(760,112)	(571,396)
-	-	-	-	-	-	841,115	841,115
-	-	-	-	-	-	148,835	148,835
-	-	-	-	-	60,286	-	60,286
-	-	-	-	-	-	(989,950)	(989,950)
-	3,475	7,512	19,235	4,170	168,135	760,112	928,247
(225)	(8,047)	(3,032)	(11,899)	(5,175)	(275,118)	-	(275,118)
(225)	(4,572)	4,480	7,336	(1,005)	(46,697)	760,112	713,415
(213)	15,774	14,505	12,461	(5,139)	142,019	-	142,019
30,626	58,677	319,621	178,395	37,943	1,445,029	35	1,445,064
$ 30,413	$ 74,451	$ 334,126	$ 190,856	$ 32,804	$ 1,587,048	$ 35	$ 1,587,083

State of Hawaii
Nonmajor Special Revenue Funds
Combining Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2016
(Amounts in thousands)

	Highways			Natural Resources		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenue						
Taxes						
Liquid fuel tax						
Highways	$ 87,689	$ 87,768	$ 79	$ 250	$ 250	$ -
Vehicle registration fee tax	44,004	44,071	67	-	-	-
State vehicle weight tax	78,076	79,440	1,364	-	-	-
Rental/tour vehicle surcharge tax	43,713	54,872	11,159	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	21,600	6,611	(14,989)
Environmental response tax	-	-	-	3,800	3,864	64
Transient accommodations tax	-	-	-	2,100	-	(2,100)
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	253,482	266,151	12,669	27,750	10,725	(17,025)
Non-taxes						
Interest and investment income	716	1,902	1,186	1,056	1,277	221
Charges for current services	36,807	4,461	(32,346)	29,821	27,369	(2,452)
Intergovernmental	60,000	36,727	(23,273)	-	1,896	1,896
Rentals	2,000	1,000	(1,000)	8,959	8,343	(616)
Fines, forfeitures and penalties	1,854	5,568	3,714	66	118	52
Licenses and fees	1,843	2,184	341	716	761	45
Revenues from private sources	-	-	-	-	26	26
Other	53	1,773	1,720	3,230	42,757	39,527
Total non-taxes	103,273	53,615	(49,658)	43,848	82,547	38,699
Total revenues	356,755	319,766	(36,989)	71,598	93,272	21,674
Expenditures						
General government	-	-	-	5,892	5,644	248
Public safety	-	-	-	1,275	870	405
Highways	281,626	258,620	23,006	-	-	-
Conservation of natural resources	-	-	-	65,746	44,586	21,160
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Culture and recreation	-	-	-	9,354	5,038	4,316
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	1,840	225	1,615	-	-	-
Total expenditures	283,466	258,845	24,621	82,267	56,138	26,129
Excess (deficiency) of revenues over (under) expenditures	$ 73,289	$ 60,921	$ (12,368)	$ (10,669)	$ 37,134	$ 47,803

The accompanying notes are an integral part of the basic financial statements.

Health			Human Services		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
5,408	6,539	1,131	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
30,720	25,000	(5,720)	-	-	-
-	-	-	-	-	-
1,118	1,288	170	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
37,246	32,827	(4,419)	-	-	-
89	883	794	-	8	8
81,675	82,319	644	-	239	239
1,565	9,445	7,880	240	18,339	18,099
-	-	-	-	-	-
1,121	677	(444)	-	-	-
2,296	2,224	(72)	406	115	(291)
52,308	48,950	(3,358)	-	33	33
315	1,835	1,520	-	1,273	1,273
139,369	146,333	6,964	646	20,007	19,361
176,615	179,160	2,545	646	20,007	19,361
273	209	64	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
211,919	167,332	44,587	-	-	-
-	-	-	5,742	1,608	4,134
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
212,192	167,541	44,651	5,742	1,608	4,134
$ (35,577)	$ 11,619	$ 47,196	$ (5,096)	$ 18,399	$ 23,495

(continued)

State of Hawaii
Nonmajor Special Revenue Funds
Combining Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2016
(Amounts in thousands)

	Education			Economic Development		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenue						
Taxes						
Liquid fuel tax						
Highways	$ -	$ -	$ -	$ -	$ -	$ -
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	3,900	3,864	(36)
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	3,900	3,864	(36)
Non-taxes						
Interest and investment income	50	217	167	73	438	365
Charges for current services	38,090	37,329	(761)	6,996	27,598	20,602
Intergovernmental	1,242	1,725	483	-	326	326
Rentals	50	386	336	1,803	1,431	(372)
Fines, forfeitures and penalties	-	29	29	-	-	-
Licenses and fees	694	525	(169)	-	-	-
Revenues from private sources	187	258	71	-	522	522
Other	2,023	16,107	14,084	7	2,495	2,488
Total non-taxes	42,336	56,576	14,240	8,879	32,810	23,931
Total revenues	42,336	56,576	14,240	12,779	36,674	23,895
Expenditures						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	117,206	52,493	64,713	-	-	-
Culture and recreation	3,500	1,922	1,578	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	81,393	16,343	65,050
Other	-	-	-	-	-	-
Total expenditures	120,706	54,415	66,291	82,493	16,343	66,150
Excess (deficiency) of revenues over (under) expenditures	$ (78,370)	$ 2,161	$ 80,531	$ (69,714)	$ 20,331	$ 90,045

The accompanying notes are an integral part of the basic financial statements.

Employment			Regulatory		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,200	1,238	38	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,900	2,068	168
1,200	1,238	38	3,900	4,068	168
40	146	106	161	370	209
15,940	16,885	945	20,658	24,869	4,211
-	969	969	-	-	-
-	-	-	-	-	-
80	955	875	2,535	3,217	682
-	-	-	16,281	38,235	21,954
-	-	-	-	-	-
-	1,127	1,127	4,159	4,613	454
16,060	20,082	4,022	43,794	71,304	27,510
17,260	21,320	4,060	47,694	75,372	27,678
-	-	-	12,901	12,801	100
2,945	2,172	773	55,874	41,884	13,990
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
36,012	19,025	16,987	-	-	-
-	-	-	-	-	-
38,957	21,197	17,760	68,775	54,685	14,090
$ (21,697)	$ 123	$ 21,820	$ (21,081)	$ 20,687	$ 41,768

(continued)

State of Hawaii
Nonmajor Special Revenue Funds
Combining Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2016
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenue						
Taxes						
Liquid fuel tax						
Highways	$ -	$ -	$ -	$ -	$ -	$ -
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	1,652	1,964	312
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,652	1,964	312
Non-taxes						
Interest and investment income	77	274	197	179	819	640
Charges for current services	-	10	10	74,342	62,489	(11,853)
Intergovernmental	-	2,089	2,089	-	307	307
Rentals	12,747	14,504	1,757	6,235	6,222	(13)
Fines, forfeitures and penalties	-	-	-	252	220	(32)
Licenses and fees	-	-	-	20,306	207	(20,099)
Revenues from private sources	-	3,000	3,000	1,651	1,631	(20)
Other	5,200	17,511	12,311	18,762	14,615	(4,147)
Total non-taxes	18,024	37,388	19,364	121,727	86,510	(35,217)
Total revenues	18,024	37,388	19,364	123,379	88,474	(34,905)
Expenditures						
General government	-	-	-	91,200	33,625	57,575
Public safety	-	-	-	12,408	8,980	3,428
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	285	-	285
Health	-	-	-	-	-	-
Welfare	-	-	-	594	497	97
Lower education	-	-	-	7,000	6,421	579
Culture and recreation	-	-	-	13,689	10,697	2,992
Urban redevelopment and housing	23,080	10,576	12,504	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	-	-	-	19,595	6,083	13,512
Total expenditures	23,080	10,576	12,504	144,771	66,303	78,468
Excess (deficiency) of revenues over (under) expenditures	$ (5,056)	$ 26,812	$ 31,868	$ (21,392)	$ 22,171	$ 43,563

The accompanying notes are an integral part of the basic financial statements.

All Other			Total Special Revenue Funds		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
$ -	$ -	$ -	$ 87,939	$ 88,018	$ 79
-	-	-	49,412	50,610	1,198
-	-	-	78,076	79,440	1,364
-	-	-	43,713	54,872	11,159
-	-	-	1,200	1,238	38
-	-	-	32,372	26,964	(5,408)
-	-	-	21,600	6,611	(14,989)
-	-	-	8,818	9,016	198
-	-	-	2,100	-	(2,100)
-	-	-	2,000	2,000	-
-	-	-	1,900	2,068	168
-	-	-	329,130	320,837	(8,293)
27	82	55	2,468	6,416	3,948
9,054	16,062	7,008	313,383	299,630	(13,753)
1,160	7,344	6,184	64,207	79,167	14,960
-	-	-	31,794	31,886	92
2,524	2,389	(135)	8,432	13,173	4,741
510	497	(13)	43,052	44,748	1,696
38	33	(5)	54,184	54,453	269
7,530	10,023	2,493	41,279	114,129	72,850
20,843	36,430	15,587	558,799	643,602	84,803
20,843	36,430	15,587	887,929	964,439	76,510
20,070	16,857	3,213	130,336	69,136	61,200
20,008	13,554	6,454	93,610	67,460	26,150
-	-	-	281,626	258,620	23,006
-	-	-	66,031	44,586	21,445
-	-	-	211,919	167,332	44,587
1,550	1,440	110	7,886	3,545	4,341
-	-	-	124,206	58,914	65,292
19,155	13,427	5,728	45,698	31,084	14,614
-	-	-	23,080	10,576	12,504
-	-	-	117,405	35,368	82,037
-	-	-	21,435	6,308	15,127
60,783	45,278	15,505	1,123,232	752,929	370,303
$ (39,940)	$ (8,848)	$ 31,092	$ (235,303)	$ 211,510	$ 446,813

(concluded)

State of Hawaii
Nonmajor Special Revenue Funds
Reconciliation of the Budgetary to GAAP Basis
Year Ended June 30, 2016
(Amounts in thousands)

Excess of revenues over expenditures – actual (budgetary basis)	$	211,510
Reserve for encumbrance at year end*		186,265
Expenditures for liquidation of prior fiscal year encumbrances		(566,542)
Expenditures for unbudgeted programs, principally expenditures for capital projects accounts and revolving funds		151,497
Transfers		207,099
Accrued liabilities		(488,901)
Accrued revenues		487,788
Excess of revenues over expenditures – GAAP basis	$	188,716

*Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Nonmajor Proprietary Funds
Combining Statement of Fund Net Position
June 30, 2016
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
Assets				
Current assets				
Cash and cash equivalents	$ 19,151	$ 154,395	$ 52,391	$ 225,937
Investments	36,214	-	-	36,214
Receivables				
Accounts and accrued interest	-	618	178	796
Promissory note receivable	-	29,234	8,881	38,115
Federal government	-	-	115	115
Premiums	32,353	-	-	32,353
Other	12,773	358	677	13,808
Prepaid expenses and other assets	5,278	-	-	5,278
Total current assets	105,769	184,605	62,242	352,616
Capital assets – equipment	10,491	85	2,409	12,985
Less: Accumulated depreciation	(9,272)	(82)	(1,689)	(11,043)
Net capital assets	1,219	3	720	1,942
Promissory note receivable	-	321,252	127,110	448,362
Total noncurrent assets	1,219	321,255	127,830	450,304
Total assets	106,988	505,860	190,072	802,920
Deferred outflows of resources				
Deferred outflows on net pension liability	703	311	341	1,355
Total deferred outflows of resources	$ 703	$ 311	$ 341	$ 1,355
Liabilities				
Current liabilities				
Vouchers and contracts payable	$ 496	$ 128	$ 327	$ 951
Other accrued liabilities	3,348	-	-	3,348
Benefits claims payable	4,712	-	-	4,712
Accrued vacation, current portion	75	80	52	207
Premiums payable	43,431	-	-	43,431
Total current liabilities	52,062	208	379	52,649
Noncurrent liabilities				
Accrued vacation	185	211	161	557
Net pension liability	3,582	2,553	1,481	7,616
Other postemployment benefit liability	3,100	1,527	891	5,518
Total noncurrent liabilities	6,867	4,291	2,533	13,691
Total liabilities	58,929	4,499	2,912	66,340
Deferred inflows of resources				
Deferred inflows on net pension liability	198	(50)	575	723
Total deferred inflows of resources	198	(50)	575	723
Net position				
Net investment in capital assets	1,219	3	720	1,942
Restricted for bond requirements and other	-	501,719	186,206	687,925
Unrestricted	47,345	-	-	47,345
Total net position	$ 48,564	$ 501,722	$ 186,926	$ 737,212

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Nonmajor Proprietary Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2016
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
Operating revenues				
Administrative fees	$ -	$ 1,586	$ 2,385	$ 3,971
Premium revenue – self insurance	84,504	-	-	84,504
Experience overpayments, net	(3,701)	-	-	(3,701)
Other	1,719	1,543	390	3,652
Total operating revenues	82,522	3,129	2,775	88,426
Operating expenses				
Personnel services	4,014	1,801	1,529	7,344
Depreciation	1,386	8	188	1,582
Repairs and maintenance	16	-	50	66
General administration	2,474	515	983	3,972
Claims	88,571	-	-	88,571
Other	822	7,467	2,499	10,788
Total operating expenses	97,283	9,791	5,249	112,323
Operating loss	(14,761)	(6,662)	(2,474)	(23,897)
Nonoperating revenues				
Interest and investment income	762	929	314	2,005
Loss before capital contributions	(13,999)	(5,733)	(2,160)	(21,892)
Capital contributions	-	25,230	27,056	52,286
Change in net position	(13,999)	19,497	24,896	30,394
Net position				
Beginning of year	62,563	482,225	162,030	706,818
End of year	$ 48,564	$ 501,722	$ 186,926	$ 737,212

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Nonmajor Proprietary Funds
Combining Statement of Cash Flows
Year Ended June 30, 2016
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
Cash flows from operating activities				
Cash received from employers and employees for premiums and benefits	$ 626,674	$ -	$ -	$ 626,674
Cash paid to suppliers	(2,426)	(326)	(1,105)	(3,857)
Cash paid to employees	(3,648)	(1,737)	(1,401)	(6,786)
Cash paid for premiums and benefits payable	(584,155)	-	-	(584,155)
Net cash provided by (used in) operating activities	36,445	(2,063)	(2,506)	31,876
Cash flows from capital financing activities				
Purchase of equipment	(478)	-	-	(478)
Cash flows from noncapital financing activities				
State capital contributions	-	2,172	1,769	3,941
Proceeds from federal operating grants	-	22,878	25,263	48,141
Net cash provided by noncapital financing activities	-	25,050	27,032	52,082
Cash flows from investing activities				
Purchase of investments	(23,570)	-	-	(23,570)
Principal repayments on notes receivable	-	28,162	8,251	36,413
Disbursement of notes receivable proceeds	-	(44,100)	(30,461)	(74,561)
Interest income from notes receivable	-	1,575	386	1,961
Administrative loan fees	-	1,522	2,418	3,940
Interest from and change in fair value of investments	762	864	289	1,915
Net cash used in investing activities	(22,808)	(11,977)	(19,117)	(53,902)
Net increase in cash and cash equivalents	13,159	11,010	5,409	29,578
Cash and cash equivalents, including restricted amounts				
Beginning of year	5,992	143,385	46,982	196,359
End of year	$ 19,151	$ 154,395	$ 52,391	$ 225,937
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Operating loss	$ (14,761)	$ (6,662)	$ (2,474)	$ (23,897)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation	1,386	8	188	1,582
Premium reserves held by insurance companies	51,598	-	-	51,598
Principal forgiveness of loan	-	7,644	2,440	10,084
Interest income from loans	-	(1,543)	(390)	(1,933)
Administrative loan fees	-	(1,586)	(2,385)	(3,971)
Pension expense	-	259	207	466
Change in assets, deferred outflows, liabilities and deferred inflows				
Receivables	(1,795)	(2)	24	(1,773)
Prepaid and other expenses	115	-	-	115
Net deferred outflows/inflows of resources related to pensions	(348)	(253)	(217)	(818)
Vouchers and contracts payable	(51)	(48)	(45)	(144)
Net pension liability	302	-	-	302
Other post employment benefits liability	591	120	146	857
Other accrued liabilities	(846)	-	-	(846)
Benefits claim payable	254	-	-	254
Net cash provided by (used in) operating activities	$ 36,445	$ (2,063)	$ (2,506)	$ 31,876
Supplemental information				
Noncash investing, capital, and financing activities				
In-kind contribution from the Environmental Protection Agency	$ -	$ 196	$ 196	$ 392

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Fiduciary Funds
Combining Statement of Fiduciary Net Position – Agency Funds
June 30, 2016
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
Assets				
Cash and cash equivalents	$ 8,158	$ 114,086	$ 12,591	$ 134,835
Receivables – taxes	-	-	46,129	46,129
Investments	50,116	205,326	74,422	329,864
Other assets, primarily due from individuals, businesses and counties	10,595	77,709	-	88,304
Total assets	$ 68,869	$ 397,121	$ 133,142	$ 599,132
Liabilities				
Vouchers payable	$ 68,869	$ 117	$ 83	$ 69,069
Due to individuals, businesses and counties	-	397,004	133,059	530,063
Total liabilities	$ 68,869	$ 397,121	$ 133,142	$ 599,132

The accompanying notes are an integral part of the basic financial statements.

State of Hawaii
Fiduciary Funds
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Year Ended June 30, 2016
(Amounts in thousands)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Tax collections				
Assets				
Cash and cash equivalents	$ 9,275	$ 8,558,531	$ (8,559,648)	$ 8,158
Due from individuals, businesses and counties	10,085	8,559,041	(8,558,531)	10,595
Investments	42,256	50,116	(42,256)	50,116
Total assets	$ 61,616	$ 17,167,688	$ (17,160,435)	$ 68,869
Liabilities				
Vouchers payable	$ 61,616	$ 68,869	$ (61,616)	$ 68,869
Total liabilities	$ 61,616	$ 68,869	$ (61,616)	$ 68,869
Custodial				
Assets				
Cash and cash equivalents	$ 157,081	$ 4,634,608	$ (4,677,603)	$ 114,086
Due from individuals, businesses and counties	98,705	499,928	(520,924)	77,709
Investments	407,191	100,703	(302,568)	205,326
Total assets	$ 662,977	$ 5,235,239	$ (5,501,095)	$ 397,121
Liabilities				
Vouchers payable	$ 5	$ 117	$ (5)	$ 117
Due to individuals, businesses and counties	662,972	4,765,391	(5,031,359)	397,004
Total liabilities	$ 662,977	$ 4,765,508	$ (5,031,364)	$ 397,121
Other				
Assets				
Cash and cash equivalents	$ 14,855	$ 40,393	$ (42,657)	$ 12,591
Receivables	47,694	46,129	(47,694)	46,129
Investments	66,033	74,423	(66,034)	74,422
Total assets	$ 128,582	$ 160,945	$ (156,385)	$ 133,142
Liabilities				
Vouchers payable	$ 98	$ 83	$ (98)	$ 83
Due to individuals, businesses and counties	128,484	38,828	(34,253)	133,059
Total liabilities	$ 128,582	$ 38,911	$ (34,351)	$ 133,142
Total – All agency funds				
Assets				
Cash and cash equivalents	$ 181,211	$ 13,233,532	$ (13,279,908)	$ 134,835
Receivables	47,694	46,129	(47,694)	46,129
Due from individuals, businesses and counties	108,790	9,058,969	(9,079,455)	88,304
Investments	515,480	225,242	(410,858)	329,864
Total assets	$ 853,175	$ 22,563,872	$ (22,817,915)	$ 599,132
Liabilities				
Vouchers payable	$ 61,719	$ 69,069	$ (61,719)	$ 69,069
Due to individuals, businesses and counties	791,456	4,804,219	(5,065,612)	530,063
Total liabilities	$ 853,175	$ 4,873,288	$ (5,127,331)	$ 599,132

The accompanying notes are an integral part of the basic financial statements.

PART III: STATISTICAL SECTION

State of Hawaii
Statistical Section (Unaudited)
June 30, 2016

This Part of the State's comprehensive annual financial report presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information on the State's overall financial health.

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

State of Hawaii
Financial Trends Information
Net Position by Component (Accrual Basis of Accounting)
Ten Years Ended June 30, 2016
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
Governmental activities					
Net investment in capital assets	$ 2,727,055	$ 2,826,649	$ 2,772,220	$ 2,863,379	$ 2,794,481
Restricted	1,591,701	1,445,824	1,128,678	1,051,548	930,294
Unrestricted	(7,190,837)	(7,379,890)	(3,096,065)	(2,669,391)	(2,394,874)
Total governmental activities net position	$ (2,872,081)	$ (3,107,417)	$ 804,833	$ 1,245,536	$ 1,329,901
Business-type activities					
Net investment in capital assets	$ 1,871,554	$ 1,773,613	$ 1,653,902	$ 1,599,483	$ 1,560,267
Restricted	1,305,799	1,227,441	1,160,551	1,068,146	966,042
Unrestricted	1,058,108	995,207	1,050,981	899,740	649,583
Total business-type activities net position	$ 4,235,461	$ 3,996,261	$ 3,865,434	$ 3,567,369	$ 3,175,892
Primary government					
Net investment in capital assets	$ 4,598,609	$ 4,600,262	$ 4,426,122	$ 4,462,862	$ 4,354,748
Restricted	2,897,500	2,673,265	2,289,229	2,119,694	1,896,336
Unrestricted	(6,132,729)	(6,384,683)	(2,045,084)	(1,769,651)	(1,745,291)
Total primary government net position	$ 1,363,380	$ 888,844	$ 4,670,267	$ 4,812,905	$ 4,505,793

Notes: Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statement Nos. 68 and 71.

2011	2010	2009	2008	2007
$ 3,326,245	$ 3,118,606	$ 3,298,144	$ 3,987,244	$ 3,597,174
917,730	655,238	641,031	909,877	569,006
(2,384,187)	(1,306,716)	(471,543)	121,480	1,578,412
$ 1,859,788	$ 2,467,128	$ 3,467,632	$ 5,018,601	$ 5,744,592
$ 1,476,136	$ 1,469,676	$ 1,527,018	$ 1,458,305	$ 1,278,608
956,894	922,846	782,569	730,061	655,055
579,383	493,163	597,624	1,013,447	1,304,586
$ 3,012,413	$ 2,885,685	$ 2,907,211	$ 3,201,813	$ 3,238,249
$ 4,802,381	$ 4,588,282	$ 4,825,162	$ 5,445,549	$ 4,875,782
1,874,624	1,578,084	1,423,600	1,639,938	1,224,061
(1,804,804)	(813,553)	126,081	1,134,927	2,882,998
$ 4,872,201	$ 5,352,813	$ 6,374,843	$ 8,220,414	$ 8,982,841

State of Hawaii
Financial Trends Information
Changes in Net Position (Accrual Basis of Accounting)
Ten Years Ended June 30, 2016
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
Expenses					
Governmental activities					
General government	$ 688,394	$ 595,278	$ 567,941	$ 531,839	$ 552,788
Public safety	485,985	504,343	533,727	451,946	502,002
Highways	399,997	426,142	554,039	490,091	516,924
Conservation of natural resources	107,740	89,176	101,587	52,208	96,349
Health	878,610	871,563	849,493	813,190	773,288
Welfare	3,343,392	3,196,602	2,879,813	2,798,053	2,464,582
Lower education	2,840,782	2,729,789	2,685,037	2,592,125	2,598,444
Higher education	673,217	761,837	693,292	654,611	672,716
Other education	23,379	21,664	21,766	20,086	16,753
Culture and recreation	106,511	84,265	104,303	94,679	111,628
Urban redevelopment and housing	122,981	115,653	137,160	173,677	23,888
Economic development and assistance	163,935	179,485	166,455	172,602	209,460
Interest expense	210,204	247,059	239,760	241,677	243,938
Total governmental activities expenses	10,045,127	9,822,856	9,534,373	9,086,784	8,782,760
Business-type activities					
Airports	377,393	350,041	346,699	366,918	353,541
Harbors	93,088	87,031	89,327	90,548	84,826
Unemployment compensation	144,481	186,893	244,947	336,931	468,610
Nonmajor proprietary funds	112,323	112,209	87,031	66,119	169,166
Total business-type activities expenses	727,285	736,174	768,004	860,516	1,076,143
Total primary government expenses	$ 10,772,412	$ 10,559,030	$ 10,302,377	$ 9,947,300	$ 9,858,903
Program revenues					
Governmental activities					
Charges for services					
General government	$ 209,598	$ 248,915	$ 223,066	$ 267,081	$ 266,878
Health	136,429	136,547	130,338	56,963	32,339
Other	371,823	314,099	287,937	170,603	121,928
Operating grants and contributions	2,986,842	2,809,460	2,660,770	2,589,537	2,370,437
Capital grants and contributions	113,006	139,977	97,290	96,184	97,322
Total governmental activities program revenues	3,817,698	3,648,998	3,399,401	3,180,368	2,888,904
Business-type activities					
Charges for services					
Airports	459,269	434,489	404,442	431,708	343,279
Unemployment compensation	187,215	239,375	353,546	507,096	533,963
Others	218,552	238,852	203,979	215,243	272,317
Capital grants and contributions	80,173	72,140	98,628	64,313	85,899
Total business-type activities program revenues	945,209	984,856	1,060,595	1,218,360	1,235,458
Total primary government program revenues	$ 4,762,907	$ 4,633,854	$ 4,459,996	$ 4,398,728	$ 4,124,362
Net (expense) revenue					
Governmental activities	$ (6,227,429)	$ (6,173,858)	$ (6,134,972)	$ (5,906,416)	$ (5,893,856)
Business-type activities	217,924	248,682	292,591	357,844	159,315
Total primary government net expenses	$ (6,009,505)	$ (5,925,176)	$ (5,842,381)	$ (5,548,572)	$ (5,734,541)

Notes: Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statement Nos. 68 and 71.

2011	2010	2009	2008	2007
$ 535,434	$ 421,327	$ 564,356	$ 548,439	$ 541,889
471,459	538,110	464,897	414,463	378,409
450,548	466,322	487,391	490,754	385,267
89,021	81,561	119,705	74,411	68,745
816,525	858,476	843,826	895,413	833,669
2,553,829	2,348,190	2,140,202	1,877,188	1,773,505
2,545,980	2,616,768	2,656,592	2,385,056	2,288,641
707,381	700,335	878,126	815,116	759,777
14,018	14,034	29,935	23,206	21,127
108,697	108,247	106,583	107,676	92,444
66,144	101,505	145,710	187,861	73,991
238,315	209,611	158,808	157,421	148,164
239,836	210,243	127,576	140,032	118,708
8,837,187	8,674,729	8,723,707	8,117,036	7,484,336
354,368	336,127	347,089	354,554	329,942
80,355	68,291	124,611	80,344	76,830
561,548	686,141	437,553	159,098	112,411
250,346	256,205	38,672	22,619	4,871
1,246,617	1,346,764	947,925	616,615	524,054
$ 10,083,804	$ 10,021,493	$ 9,671,632	$ 8,733,651	$ 8,008,390
$ 270,078	$ 231,629	$ 206,431	$ 203,336	$ 168,877
46,215	98,547	99,788	102,032	98,681
112,479	111,295	119,126	101,390	110,942
2,837,464	2,598,141	2,260,551	1,887,298	1,820,886
132,825	144,445	145,771	130,643	75,697
3,399,061	3,184,057	2,831,667	2,424,699	2,275,083
387,484	324,577	290,464	266,820	256,843
535,243	486,476	169,976	87,486	138,070
341,707	344,889	84,692	95,013	93,650
75,324	98,099	103,195	81,967	148,597
1,339,758	1,254,041	648,327	531,286	637,160
$ 4,738,819	$ 4,438,098	$ 3,479,994	$ 2,955,985	$ 2,912,243
$ (5,438,126)	$ (5,490,672)	$ (5,892,040)	$ (5,692,337)	$ (5,209,253)
93,141	(92,723)	(299,598)	(85,329)	113,106
$ (5,344,985)	$ (5,583,395)	$ (6,191,638)	$ (5,777,666)	$ (5,096,147)

(continued)

State of Hawaii
Financial Trends Information
Changes in Net Position (Accrual Basis of Accounting)
Ten Years Ended June 30, 2016
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
General revenues and other changes in net position					
Governmental activities					
Taxes					
General excise tax	$ 3,192,469	$ 3,021,418	$ 2,816,346	$ 2,991,792	$ 2,774,636
Net income tax – corporations and individuals	2,160,872	2,073,015	1,840,890	1,795,683	1,633,085
Public service companies tax	152,760	163,481	166,179	163,930	150,528
Transient accommodations tax	233,082	202,345	188,721	186,377	138,529
Tobacco and liquor tax	161,239	165,137	155,990	161,066	170,824
Liquid fuel tax	89,702	88,449	88,707	87,645	88,842
Tax on premiums of insurance companies	154,690	147,767	139,074	133,585	119,472
Vehicle weight and registration tax	130,051	125,113	124,686	121,605	98,187
Rental motor/tour vehicle surcharge tax	54,873	51,941	42,853	52,112	106,417
Franchise tax	14,691	19,930	38,983	22,673	7,229
Other tax	109,072	76,222	96,131	80,081	70,873
Interest and investment income	22,564	16,024	13,163	25,502	5,347
Other	-	-	-	-	-
Total governmental activities	6,476,065	6,150,842	5,711,723	5,822,051	5,363,969
Business-type activities					
Interest and investment income	21,276	17,567	12,805	14,633	4,164
Other	-	-	-	19,000	-
Total business-type activities	21,276	17,567	12,805	33,633	4,164
Total primary government	$ 6,497,341	$ 6,168,409	$ 5,724,528	$ 5,855,684	$ 5,368,133
Changes in net position					
Governmental activities	$ 235,336	$ (23,016)	$ (423,249)	$ (84,365)	$ (529,887)
Business-type activities	239,200	266,249	305,396	391,477	163,479
Total primary government	$ 474,536	$ 243,233	$ (117,853)	$ 307,112	$ (366,408)

Note: Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statement Nos. 68 and 71.

2011	2010	2009	2008	2007
$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121	$ 2,659,339
1,477,624	1,408,965	1,366,576	1,634,117	1,620,452
117,940	157,661	126,069	127,481	124,017
60,839	32,635	14,408	17,756	7,382
173,851	149,596	135,388	134,886	131,813
91,265	82,780	88,006	90,123	87,179
140,586	105,848	95,181	96,332	96,385
59,476	58,659	59,392	60,842	59,422
43,892	40,401	39,751	49,196	49,479
33,682	20,666	28,075	20,213	19,012
67,799	32,165	19,215	26,149	27,523
55,852	124,516	(42,051)	112,024	102,295
-	(3,034)	305	106	-
4,830,786	4,490,168	4,341,071	4,966,346	4,984,298
33,587	68,950	4,639	48,893	82,046
-	-	-	-	-
33,587	68,950	4,639	48,893	82,046
$ 4,864,373	$ 4,559,118	$ 4,345,710	$ 5,015,239	$ 5,066,344
$ (607,340)	$ (1,000,504)	$ (1,550,969)	$ (725,991)	$ (224,955)
126,728	(23,773)	(294,959)	(36,436)	195,152
$ (480,612)	$ (1,024,277)	$ (1,845,928)	$ (762,427)	$ (29,803)

(concluded)

State of Hawaii
Financial Trends Information
Fund Balances – Governmental Funds (Modified Accrual Basis of Accounting)
Ten Years Ended June 30, 2016
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
General Fund					
Reserved	N/A	N/A	N/A	N/A	N/A
Unreserved	N/A	N/A	N/A	N/A	N/A
Total General Fund	N/A	N/A	N/A	N/A	N/A
All other governmental funds					
Reserved	N/A	N/A	N/A	N/A	N/A
Unreserved, reported in					
Capital projects fund	N/A	N/A	N/A	N/A	N/A
Special revenue funds	N/A	N/A	N/A	N/A	N/A
Total all other governmental funds	N/A	N/A	N/A	N/A	N/A
General Fund (under GASB 54)					
Assigned fund balance	$ 394,581	$ 205,242	$ 256,483	$ 271,020	$ 236,779
Unassigned fund balance	1,400,783	1,384,053	1,079,180	1,154,253	570,659
Total General Fund	$ 1,795,364	$ 1,589,295	$ 1,335,663	$ 1,425,273	$ 807,438
All other governmental funds (under GASB 54)					
Restricted fund balance	$ 15,557	$ 25,370	$ 27,145	$ 21,854	$ 109
Committed fund balance	401,313	449,290	497,932	486,240	518,374
Assigned fund balance	1,199,080	1,009,503	739,279	612,762	532,466
Unassigned fund balance	(340,671)	(576,980)	(588,405)	(611,097)	(408,575)
Total all other governmental funds	$ 1,275,279	$ 907,183	$ 675,951	$ 509,759	$ 642,374

Note: Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement No. 54. Fund balance has not been restated for prior years.

N/A Not applicable.

2011	2010	2009	2008	2007
N/A	$ 243,485	$ 272,557	$ 406,884	$ 414,899
N/A	(210,551)	(87,537)	567,474	881,311
N/A	$ 32,934	$ 185,020	$ 974,358	$ 1,296,210
N/A	$ 2,275,968	$ 2,801,012	$ 2,344,961	$ 1,643,345
N/A	(1,651,855)	(2,019,696)	(1,788,357)	(1,111,924)
N/A	293,625	255,844	410,265	556,963
N/A	$ 917,738	$ 1,037,160	$ 966,869	$ 1,088,384
$ 210,164	N/A	N/A	N/A	N/A
346,882	N/A	N/A	N/A	N/A
$ 557,046	N/A	N/A	N/A	N/A
$ 21,582	N/A	N/A	N/A	N/A
600,125	N/A	N/A	N/A	N/A
339,337	N/A	N/A	N/A	N/A
(766,665)	N/A	N/A	N/A	N/A
$ 194,379	N/A	N/A	N/A	N/A

State of Hawaii
Financial Trends Information
Changes in Fund Balances – Governmental Funds
(Modified Accrual Basis of Accounting)
Ten Years Ended June 30, 2016
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
Revenues					
Taxes					
General excise tax	$ 3,192,469	$ 3,021,418	$ 2,816,346	$ 2,991,792	$ 2,774,636
Net income tax – corporations and individuals	2,157,879	2,047,327	1,840,963	1,804,409	1,633,412
Public service companies tax	152,760	163,481	166,179	163,930	150,528
Transient accommodations tax	233,082	202,345	188,721	186,377	138,529
Tobacco and liquor tax	161,239	165,137	155,990	161,066	170,824
Liquid fuel tax	89,702	88,449	88,707	87,645	88,842
Tax on premiums of insurance companies	154,690	147,767	139,074	133,585	119,472
Vehicle weight and registration tax	130,051	125,113	124,686	121,605	98,187
Rental motor/tour vehicle surcharge tax	54,873	51,941	42,853	52,112	106,417
Franchise tax	14,691	19,930	38,983	22,673	7,229
Other	109,072	76,222	96,131	80,079	70,873
Total taxes	6,450,508	6,109,130	5,698,633	5,805,273	5,358,949
Interest and investment income (loss)	22,564	16,024	13,163	25,502	5,347
Charges for current services	431,181	384,380	363,791	369,269	337,765
Intergovernmental	2,995,768	2,803,989	2,650,876	2,372,480	2,238,639
Rentals	32,371	31,127	31,846	28,633	25,421
Fines, forfeitures and penalties	35,738	37,201	33,087	36,802	35,083
Licenses and fees	45,738	42,463	47,209	46,839	46,390
Revenues from private sources	126,450	121,366	112,916	104,670	65,085
Other	169,533	191,472	173,483	235,516	152,091
Total revenues	10,309,851	9,737,152	9,125,004	9,024,984	8,264,770
Expenditures					
Current					
General government	673,236	573,820	543,129	408,538	487,596
Public safety	479,047	484,960	519,954	432,024	454,957
Highways	389,744	455,563	403,559	418,991	414,629
Conservation of natural resources	181,563	145,516	108,703	92,601	98,428
Health	876,820	855,797	828,088	779,755	729,841
Welfare	3,349,414	3,192,807	2,945,370	2,773,241	2,443,936
Lower education	2,828,013	2,619,156	2,603,774	2,358,763	2,330,130
Higher education	673,217	761,837	693,292	654,611	672,716
Other education	23,379	21,664	21,766	20,086	16,753
Culture and recreation	101,351	96,676	107,846	107,940	109,974
Urban redevelopment and housing	54,446	71,384	65,228	66,243	48,484
Economic development and assistance	159,483	176,919	158,379	157,468	147,445
Housing	58,381	48,565	63,683	112,614	46,133
Other	20,193	15,179	29,818	32,716	12,108
Debt service					
Principal	444,791	444,791	458,983	399,382	313,721
Interest and others	315,321	289,524	278,315	288,267	274,039
Total expenditures	10,628,399	10,254,158	9,829,887	9,103,240	8,600,890
Excess of expenditures over revenues	(318,548)	(517,006)	(704,883)	(78,256)	(336,120)
Other financing sources (uses)					
Proceeds from borrowing and refunding	1,835,677	1,518,709	948,190	1,066,848	1,600,308
Payments to escrow agent	(989,950)	(516,839)	(185,560)	(503,372)	(565,801)
Transfers in	1,276,279	1,171,272	1,066,780	1,033,917	950,717
Transfers out	(1,276,279)	(1,171,272)	(1,066,780)	(1,033,917)	(950,717)
Other	46,986	-	18,835	-	-
Total other financing sources	892,713	1,001,870	781,465	563,476	1,034,507
Net change in fund balances	$ 574,165	$ 484,864	$ 76,582	$ 485,220	$ 698,387
Total debt service as a percent of noncapital expenditures	8.2%	N/A	N/A	N/A	N/A

N/A Not available.

2011	2010	2009	2008	2007
$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121	$ 2,632,485
1,473,188	1,408,965	1,373,893	1,637,265	1,618,570
117,940	157,661	126,069	127,481	124,017
60,839	32,635	14,408	17,756	7,382
173,851	149,596	135,388	134,886	131,813
91,265	82,780	88,006	90,123	87,179
140,586	105,848	95,181	96,332	96,385
59,476	58,659	59,392	60,842	59,422
43,892	40,401	39,751	49,196	49,479
33,682	20,666	28,075	20,213	2,000
67,799	32,165	19,215	26,149	44,535
4,770,498	4,368,686	4,390,134	4,857,364	4,853,267
55,854	124,518	(42,051)	115,247	122,606
348,108	364,893	357,078	341,371	318,235
2,567,266	2,432,369	2,090,058	1,807,376	1,727,895
23,319	19,712	21,107	20,152	21,639
34,712	35,982	33,888	32,618	28,488
41,557	36,641	33,324	31,731	30,837
54,857	57,850	63,401	59,508	39,401
343,318	182,367	246,369	131,291	127,444
8,239,489	7,623,018	7,193,308	7,396,658	7,269,812
487,848	436,290	597,210	537,541	458,236
423,716	457,058	435,414	411,152	376,032
376,780	442,971	442,421	406,795	337,862
93,600	88,873	120,693	103,596	107,578
757,482	801,923	798,026	863,914	832,333
2,526,743	2,315,726	2,119,481	1,857,473	1,770,707
2,208,303	2,325,066	2,454,668	2,201,901	2,305,280
707,380	700,335	878,127	815,116	759,777
14,018	14,033	29,912	23,206	20,122
117,306	108,536	107,302	110,404	92,574
73,789	115,796	179,819	255,783	170,614
158,104	166,320	169,547	149,075	147,146
61,352	24,153	1,909	-	-
12,223	4,460	1,175	5,880	7,248
191,244	179,624	204,604	231,478	271,010
266,737	248,551	197,118	247,257	231,723
8,476,625	8,429,715	8,737,426	8,220,571	7,888,242
(237,136)	(806,697)	(1,544,118)	(823,913)	(618,430)
-	1,150,482	1,174,768	445,687	395,303
-	(619,708)	(349,697)	(29,510)	-
921,433	721,810	761,393	803,456	796,195
(921,433)	(721,810)	(761,393)	(803,456)	(796,195)
37,889	4,415	-	-	-
37,889	535,189	825,071	416,177	395,303
$ (199,247)	$ (271,508)	$ (719,047)	$ (407,736)	$ (223,127)
N/A	N/A	N/A	N/A	N/A

State of Hawaii
Revenue Capacity Information
Personal Income by Industry
Ten Years Ended June 30, 2016
(Amounts in millions)

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
Farm earnings	$ 284	$ 318	$ 349	$ 243	$ 288
Nonfarm wage and salary worker					
Goods-producing industries					
Forestry, fishing-related activities and other	76	76	66	60	60
Mining	39	41	37	39	35
Construction	4,038	3,542	3,328	3,236	3,046
Manufacturing – durable and nondurable goods	918	878	833	804	767
Subtotal goods – producing industries	5,071	4,537	4,264	4,139	3,908
Service-producing industries					
Transportation, communication and utilities	2,639	2,424	2,316	2,178	1,889
Trade	4,419	4,130	4,089	3,929	3,768
Information	742	718	711	692	645
Finance, insurance and real estate	3,051	3,110	3,267	2,752	2,329
Service	19,087	17,608	17,126	16,423	15,438
State and local government	6,949	6,426	6,089	5,873	5,425
Federal government	8,614	8,400	8,139	8,507	10,094
Subtotal service-producing industries	45,501	42,816	41,737	40,354	39,588
Total nonfarm wage and salary worker	50,572	47,353	46,001	44,493	43,496
Other (1)	19,814	19,092	18,270	18,473	16,144
Total personal income	$ 70,670	$ 66,763	$ 64,620	$ 63,209	$ 59,928
Total direct income tax rate (2)	N/A	N/A	N/A	N/A	N/A

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.

(2) The total direct rate for personal income is not available.

Source: State of Hawaii Department of Business, Economic Development and Tourism – Data Book and Quarterly Statistical and Economic Report (QSER)
Bureau of Economic Analysis – SQ5N Personal Income by major source and earnings by major NAICS industry.

N/A Not available.

2011	2010	2009	2008	2007
$ 288	$ 250	$ 232	$ 220	$ 213
42	45	36	47	42
33	51	44	45	55
2,843	2,598	2,714	3,271	3,188
768	766	807	874	1,003
3,686	3,460	3,601	4,237	4,288
1,783	1,718	1,714	1,826	1,926
3,666	3,651	3,636	3,817	3,654
711	732	657	711	759
2,081	2,014	2,044	2,126	2,311
15,075	14,901	14,514	14,723	13,611
5,327	5,609	5,609	5,372	5,023
9,531	9,252	9,077	8,258	7,745
38,174	37,877	37,251	36,833	35,029
41,860	41,337	40,852	41,070	39,317
15,981	14,661	13,329	12,891	10,601
$ 58,129	$ 56,248	$ 54,413	$ 54,181	$ 50,131
N/A	N/A	N/A	N/A	N/A

State of Hawaii
Revenue Capacity Information
Personal Income Tax Rates
Ten Years Ending December 31, 2016

	Top Income Tax Rate is Applied to Taxable Income in Excess of					
Year	Top Rate	Single	Top Rate	Married Filing Jointly	Top Rate	Head of Household
2016	11.00% + $16,379	$ 200,000	11.00% + $32,757	$ 400,000	11.00% + $24,568	$ 300,000
2015	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2014	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2013	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2012	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2011	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2010	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2009	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2008	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000
2007	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000

Source: State of Hawaii, Department of Taxation.

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State of Hawaii
Revenue Capacity Information
Taxable Sales by Industry
Ten Years Ended June 30, 2016
(Amounts in millions)

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
Taxable sales by activities					
Retailing	$ 29,498	$ 29,987	$ 31,152	$ 29,636	$ 29,095
Services	13,667	13,361	13,795	12,985	12,696
Contracting	8,185	7,322	7,046	7,547	6,253
Hotel rentals	4,442	4,328	4,279	3,871	3,431
All other rentals	6,474	6,544	6,472	6,377	6,154
All other (4%)	5,407	5,486	5,683	5,337	5,160
Subtotal	67,673	67,028	68,427	65,753	62,789
Producing	295	321	436	399	401
Manufacturing	734	716	1,876	639	681
Wholesaling	13,864	14,294	14,675	14,430	14,442
Use (0.5%)	7,354	7,127	6,489	8,867	8,005
Services (intermediary)	708	716	1,096	628	653
Insurance solicitors	485	489	485	464	477
Subtotal	23,440	23,663	25,057	25,427	24,659
Total all activities	$ 91,113	$ 90,691	$ 93,484	$ 91,180	$ 87,448

General excise and use tax is imposed on the gross income received by the business, as follows:

- 4% of sales of tangible personal property, services, contracting, theater amusement and broadcasting, commissions, transient accommodation rentals, other rentals, interest, and other business activities;
- 0.5% of sales from wholesaling, manufacturing, producing, wholesale services, and imports for resale;
- 0.15% on insurance producer commissions.

Source: State of Hawaii, Department of Taxation – Monthly Tax Collection Reports.

2011		2010		2009		2008		2007	
$	25,887	$	23,919	$	24,318	$	26,183	$	25,509
	11,944		11,154		11,059		11,073		11,205
	5,687		5,864		7,631		7,863		7,904
	3,024		2,606		2,812		3,321		3,480
	5,999		5,778		6,094		5,818		5,814
	4,825		4,360		4,375		5,238		5,606
	57,366		53,681		56,289		59,496		59,518
	370		340		405		457		482
	698		704		809		761		818
	13,121		12,207		12,502		13,746		13,558
	6,669		6,430		6,883		7,215		7,742
	577		572		611		649		718
	480		502		535		544		617
	21,915		20,755		21,745		23,372		23,935
$	79,281	$	74,436	$	78,034	$	82,868	$	83,453

State of Hawaii
Revenue Capacity Information
Sales Tax Revenue Payers by Industry
Ten Years Ended June 30, 2016
(Amounts in thousands)

Fiscal Year Ended June 30,

	2016		2015		2014		2013		2012	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	$ 1,179,911	36.8%	$ 1,199,488	39.4%	$ 1,246,061	43.3%	$ 1,185,446	40.3%	$ 1,163,805	43.1%
Services	546,684	17.1%	534,442	17.5%	551,784	19.2%	519,419	17.6%	507,864	18.8%
Contracting	327,394	10.2%	292,874	9.6%	281,839	9.8%	301,875	10.3%	250,122	9.3%
Theater, amusement, etc.	15,931	0.5%	15,955	0.5%	15,619	0.5%	15,986	0.5%	15,776	0.6%
Interest	1	0.0%	1	0.0%	3	0.0%	3	0.0%	4	0.0%
Commissions	44,777	1.4%	45,619	1.5%	45,125	1.6%	42,064	1.4%	38,848	1.4%
Hotel rentals	177,671	5.5%	173,100	5.7%	171,162	5.9%	154,837	5.3%	137,222	5.1%
All other rentals	258,977	8.1%	261,743	8.6%	258,886	9.0%	255,074	8.7%	246,151	9.1%
Use (4%)	35,620	1.1%	39,884	1.3%	40,277	1.4%	41,015	1.4%	41,797	1.6%
All other (4%)	119,948	3.7%	118,014	3.9%	126,306	4.4%	114,396	3.9%	109,989	4.1%
Pineapple canning	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Producing	1,473	0.0%	1,605	0.1%	2,181	0.1%	1,997	0.1%	2,004	0.1%
Manufacturing	3,670	0.1%	3,581	0.1%	9,380	0.3%	3,194	0.1%	3,402	0.1%
Wholesaling	69,322	2.2%	71,471	2.3%	73,373	2.5%	72,149	2.4%	72,210	2.7%
Use (0.5%)	36,872	1.2%	35,634	1.2%	32,446	1.1%	44,337	1.5%	40,026	1.5%
Services (Intermediary)	3,539	0.1%	3,578	0.1%	5,480	0.2%	3,139	0.1%	3,265	0.1%
Insurance solicitors	728	0.0%	733	0.0%	728	0.0%	697	0.0%	716	0.0%
Unallocated collections	383,736	12.0%	250,484	8.2%	19,893	0.7%	188,859	6.4%	64,750	2.4%
Total	$ 3,206,254	100.0%	$ 3,048,206	100.0%	$ 2,880,543	100.0%	$ 2,944,487	100.0%	$ 2,697,951	100.0%

Source: State of Hawaii, Department of Taxation – Monthly Tax Collection Reports.

Note: Information for number of filers is not available

2011		2010		2009		2008		2007	
Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
$ 1,035,465	41.5%	$ 956,761	41.3%	$ 972,728	40.1%	$ 1,047,340	40.0%	$ 1,020,357	39.9%
477,753	19.3%	446,142	19.3%	442,356	18.3%	442,909	17.0%	448,202	17.5%
227,497	9.1%	234,562	10.1%	305,241	12.6%	314,538	12.0%	316,142	12.4%
14,945	0.6%	13,378	0.6%	13,557	0.6%	13,998	0.5%	13,588	0.5%
74	0.0%	191	0.0%	339	0.0%	7,963	0.3%	13,818	0.5%
36,574	1.5%	33,024	1.4%	35,230	1.5%	42,500	1.6%	52,101	2.0%
120,954	4.8%	104,260	4.5%	112,484	4.6%	132,841	5.1%	139,186	5.5%
239,944	9.6%	231,123	10.0%	243,762	10.1%	232,718	8.9%	232,539	9.1%
37,316	1.5%	34,484	1.5%	34,088	1.4%	39,034	1.5%	37,548	1.5%
104,073	4.2%	93,327	4.0%	91,761	3.8%	106,040	4.0%	107,196	4.2%
-	0.0%	-	0.0%	-	0.0%	-	0.0%	76	0.0%
1,850	0.1%	1,697	0.1%	2,023	0.1%	2,286	0.1%	2,336	0.1%
3,488	0.1%	3,517	0.2%	4,045	0.2%	3,804	0.1%	4,091	0.2%
65,608	2.6%	61,036	2.6%	62,509	2.6%	68,730	2.6%	67,790	2.7%
33,347	1.3%	32,152	1.4%	34,415	1.4%	36,073	1.4%	38,712	1.5%
2,886	0.1%	2,862	0.1%	3,054	0.1%	3,242	0.1%	3,592	0.1%
721	0.0%	753	0.0%	803	0.0%	815	0.0%	925	0.0%
93,312	3.7%	67,165	2.9%	61,855	2.6%	123,953	4.8%	57,563	2.3%
$ 2,495,807	100.0%	$ 2,316,434	100.0%	$ 2,420,250	100.0%	$ 2,618,784	100.0%	$ 2,555,762	100.0%

State of Hawaii
Debt Capacity Information
Ratios of Outstanding Debt by Type
Ten Years Ended June 30, 2016
(Amounts in thousands except per capita data)

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
Governmental activities					
General obligation bonds	$ 6,294,325	$ 5,963,928	$ 5,784,139	$ 5,534,921	$ 5,475,348
Revenue bonds	586,248	631,110	412,725	441,150	468,180
Capital leases	149,477	96,175	102,622	89,879	95,340
Total governmental activities	7,030,050	6,691,213	6,299,486	6,065,950	6,038,868
Business-type activities					
General obligation bonds	27,400	29,332	31,176	32,934	34,611
Revenue bonds	1,429,980	1,218,943	1,278,137	1,326,112	1,370,314
Lease revenue certificates of participation	179,985	172,864	173,771	-	-
Total business-type activities	1,637,365	1,421,139	1,483,084	1,359,046	1,404,925
Total primary government	$ 8,667,415	$ 8,112,352	$ 7,782,570	$ 7,424,996	$ 7,443,793
Hawaii total personal income	$ 71,767,000	$ 66,763,000	$ 64,620,000	$ 63,209,000	$ 59,928,000
Debt as a percentage of personal income	12.1%	12.2%	12.0%	11.7%	12.4%
Hawaii population	1,429	1,432	1,420	1,404	1,392
Amount of debt per capita	$ 6,065	$ 5,665	$ 5,481	$ 5,288	$ 5,348

Source: State of Hawaii, Comprehensive Annual Financial Reports.
State of Hawaii, Department of Business, Economic Development and Tourism – QSER.

Note: Details regarding the State's outstanding debt can be found in the notes to basic financial statements.

2011	2010	2009	2008	2007
$ 4,987,544	$ 5,157,198	$ 4,779,666	$ 4,408,572	$ 4,079,714
378,625	400,215	420,605	268,425	283,310
100,520	64,385	71,685	75,480	79,090
5,466,689	5,621,798	5,271,956	4,752,477	4,442,114
36,221	37,362	38,329	38,357	37
1,410,624	1,248,680	861,423	861,141	939,349
-	-	-	-	-
1,446,845	1,286,042	899,752	899,498	939,386
$ 6,913,534	$ 6,907,840	$ 6,171,708	$ 5,651,975	$ 5,381,500
$ 58,129,000	$ 56,248,000	$ 54,413,000	$ 54,181,000	$ 50,131,000
11.9%	12.3%	11.3%	10.4%	10.7%
1,375	1,300	1,295	1,287	1,299
$ 5,028	$ 5,314	$ 4,766	$ 4,392	$ 4,143

State of Hawaii
Debt Capacity Information
Ratios of Net General Bonded Debt Outstanding
Ten Years Ended June 30, 2016
(Amounts in thousands except ratio data)

Fiscal Year	Taxable Sales (1)	Population (2)	General Obligation Bonded Debt (3)(4)	Less: Debt Services Monies Available (3)	Net General Obligation Bonded Debt	Percentage of Taxable Sales	Net General Obligation Bonded Debt Per Capita
2016	$ 91,113,000	1,429	$ 6,294,325	$ 35	$ 6,294,290	6.9%	$ 4,405
2015	90,691,000	1,432	5,963,928	35	5,963,893	6.6%	4,165
2014	93,484,000	1,420	5,784,139	35	5,784,104	6.2%	4,073
2013	91,181,000	1,404	5,534,921	63	5,534,858	6.1%	3,942
2012	87,448,000	1,392	5,475,348	64	5,475,284	6.3%	3,933
2011	79,281,000	1,375	4,987,544	109	4,987,435	6.3%	3,627
2010	74,436,000	1,300	5,157,198	118	5,157,080	6.9%	3,967
2009	78,034,000	1,295	4,779,666	68	4,779,598	6.1%	3,691
2008	82,868,000	1,287	4,408,572	22,002	4,386,570	5.3%	3,408
2007	83,453,000	1,276	4,079,714	21,704	4,058,010	4.9%	3,180

(1) **Source:** State of Hawaii, Department of Taxation.

(2) **Source:** State of Hawaii, Department of Business, Economic Development and Tourism – Census Data.

(3) **Source:** State of Hawaii, Department of Accounting and General Services, Accounting Division.

(4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

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State of Hawaii
Debt Capacity Information
Legal Debt Margin Information
Ten Years Ended June 30, 2016
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Average general fund revenues of the three preceding fiscal years	$ 6,577,966	$ 6,294,642	$ 5,987,800	$ 5,659,152	$ 5,197,547
Constitutional debt limit percentage	18.5%	18.5%	18.5%	18.5%	18.5%
Constitutional debt limit for total principal and interest payable in a current or future year	1,216,924	1,164,509	1,107,743	1,046,943	961,546
Less: Total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ended June 30, 2012)	(712,592)	(693,934)	(693,677)	(693,592)	(667,041)
Legal debt margin	$ 504,332	$ 470,575	$ 414,066	$ 353,351	$ 294,505
Legal debt margin as a percentage of the debt limit	41.4%	40.4%	37.4%	33.8%	30.6%

The formula for the legal debt limit is contained in Article VII, Section 13 of the State Constitution.

2011	2010	2009	2008	2007
$ 4,992,943	$ 5,032,973	$ 5,126,782	$ 5,083,126	$ 4,832,700
18.5%	18.5%	18.5%	18.5%	18.5%
923,694	931,100	948,455	940,378	894,050
(618,711)	(610,255)	(563,266)	(540,348)	(550,696)
$ 304,983	$ 320,845	$ 385,189	$ 400,030	$ 343,354
33.0%	34.5%	40.6%	42.5%	38.4%

State of Hawaii
Debt Capacity Information
Pledge Revenue Coverage
Ten Years Ended June 30, 2016
(Amounts in thousands)

	Fiscal Year Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenue bonds – Airports										
Gross revenue (1)	$ 381,404	$ 355,948	$ 341,155	$ 385,841	$ 319,542	$ 322,639	$ 295,087	$ 288,583	$ 307,418	$ 286,838
Less: Operating expenses (2)	259,223	253,581	246,982	244,328	230,224	218,290	214,208	233,896	239,667	211,119
Net available revenue	122,181	102,367	94,173	141,513	89,318	104,349	80,879	54,687	67,751	75,719
Debt services										
Principal	37,290	35,725	34,210	40,305	30,579	25,370	23,615	22,310	21,140	32,250
Interest (3)	42,532	41,671	23,414	40,705	34,440	35,319	21,300	17,453	26,076	10,868
Total debt services	79,822	77,396	57,624	81,010	65,019	60,689	44,915	39,763	47,216	43,118
Coverage (4)	153%	132%	163%	175%	137%	172%	180%	138%	143%	176%
Revenue bonds – Harbors										
Gross revenue (5)	$ 131,858	$ 124,663	$ 122,379	$ 114,640	$ 104,678	$ 88,018	$ 74,155	$ 80,896	$ 96,256	$ 97,414
Less: Operating expenses (6)	47,133	43,132	43,837	44,048	41,202	37,650	36,930	47,814	49,229	42,967
Net available revenue	84,725	81,531	78,542	70,592	63,476	50,368	37,225	33,082	47,027	54,447
Debt services	31,187	31,176	31,528	31,531	27,770	27,965	23,226	23,167	24,290	25,364
Coverage (4)	272%	262%	249%	224%	229%	180%	160%	143%	194%	215%
Revenue bonds – Highways										
Gross revenue	N/A	N/A	$ 255,431	$ 256,102	$ 232,543	$ 197,142	$ 184,852	$ 189,498	$ 213,378	$ 210,989
Less: Operating expenses	N/A	N/A	205,872	184,696	173,811	165,857	179,400	189,987	184,097	172,167
Net available revenue	N/A	N/A	49,559	71,406	58,732	31,285	5,452	(489)	29,281	38,822
Debt services										
Principal	34,920	31,890	28,825	27,170	22,465	21,570	20,535	16,150	15,495	14,885
Interest	20,571	19,402	19,036	20,245	18,906	17,195	18,028	15,823	12,930	12,988
Total debt services	55,491	51,292	47,861	47,415	41,371	38,765	38,563	31,973	28,425	27,873
Coverage (7)	N/A	N/A	104%	151%	142%	81%	14%	-2%	103%	139%
Revenue bonds – Department of Hawaiian Home Lands										
Revenue	$ 14,730	$ 15,230	$ 15,763	$ 12,585	$ 12,078	$ 12,036	$ 11,939	$ -	$ -	$ -
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	14,730	15,230	15,763	12,585	12,078	12,036	11,939	-	-	-
Debt services										
Principal	810	775	740	710	680	655	640	-	-	-
Interest	2,201	2,237	2,270	2,301	2,328	2,254	2,370	-	-	-
Total debt services	3,011	3,012	3,010	3,011	3,008	2,909	3,010	-	-	-
Coverage (4)	489%	506%	524%	418%	402%	414%	397%	0%	0%	0%

(1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.

(2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal and replacement plus amounts required to be paid into the General Fund for general obligation bond requirements.

(3) For purposes of calculating the debt service requirement, interest payment for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.

For fiscal 2008, Airports deposited $10,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2008 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

For fiscals 2016, 2015, and 2014, Airports transferred $4,000,000, $18,500,000, and $19,000,000, respectively, of available funds from the Prepaid Airport Use Charge Fund into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required to be deposited to the interest account, pursuant to the provisions of Section 6.01 in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

(4) Revenue bond indentures require a minimum debt service coverage percentage of 125%.

(5) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.

(6) Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.

(7) Highways revenue bond indentures require a minimum debt service coverage percentage of 100% during a routine year, 200% during the year bonds are issued, and 135% is required for any year Highways' funds are transferred out (i.e., General Fund).

N/A Not available

Coverage equals net available revenue divided by debt services.

Source: Airports Audited Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Airports Division.
Harbors Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Harbors Division.
Highways Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Highways Division.
DHHL Audited Financial Statements and Schedules of the State of Hawaii, Department of Hawaiian Home Lands.

State of Hawaii
Demographic and Economic Information
Demographic and Economic Statistics
Ten Years Ended June 30, 2016

	Fiscal Year Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Population (in thousands)										
State	1,429	1,432	1,420	1,404	1,392	1,375	1,300	1,298	1,287	1,276
Percentage change	-0.21%	0.85%	1.14%	0.85%	1.22%	5.77%	0.15%	0.46%	0.54%	1.09%
National	323,128	321,419	318,857	316,129	313,914	311,592	308,746	307,007	304,375	301,580
Percentage change	0.53%	0.80%	0.86%	0.70%	0.74%	0.92%	0.57%	0.86%	0.93%	1.00%
Total personal income (in millions)										
State	$ 70,670	$ 66,763	$ 64,620	$ 63,209	$ 59,928	$ 58,129	$ 56,248	$ 54,413	$ 54,181	$ 50,131
Percentage change	5.85%	3.32%	2.23%	5.19%	3.00%	3.34%	3.37%	0.43%	8.08%	5.90%
National	$ 15,725,128	$ 14,991,944	$ 14,420,041	$ 13,904,502	$ 13,150,560	$ 12,691,347	$ 12,530,101	$ 12,015,535	$ 12,225,589	$ 11,879,836
Percentage change	4.89%	3.97%	3.71%	5.42%	3.49%	1.29%	4.28%	(1.72%)	2.91%	5.54%
Per capita personal income (in thousands)										
State	$ 49,454	$ 46,622	$ 45,507	$ 45,021	$ 43,052	$ 42,276	$ 43,268	$ 42,018	$ 42,099	$ 39,073
Percentage change	6.07%	2.45%	1.08%	4.37%	1.80%	(2.29%)	2.97%	(0.19%)	7.74%	5.57%
National	$ 48,665	$ 46,643	$ 45,224	$ 43,984	$ 41,892	$ 40,731	$ 40,584	$ 39,138	$ 40,166	$ 39,392
Percentage change	4.34%	3.14%	2.82%	4.75%	2.77%	0.36%	3.69%	(2.56%)	1.96%	4.49%
Resident civilian labor force and employment										
Civilian labor force employed	660,942	645,092	624,638	615,546	615,333	591,329	587,304	594,500	620,000	623,150
Unemployed	22,563	27,729	30,142	33,913	43,321	39,941	41,600	43,250	26,000	17,000
Unemployment rate	3.30%	4.10%	4.60%	5.20%	6.60%	6.30%	6.60%	6.80%	4.00%	2.70%

Source: State of Hawaii, Department of Business, Economic Development and Tourism – QSER.
Bureau of Economic Analysis – Regional Economic Accounts.
State of Hawaii, Department of Labor and Industrial Relations –
Hawaii Workforce Infonet (HWI).

Note: The Per Capita Personal Income amount is computed by dividing Personal Income by Population, multiplied by 1,000.

State of Hawaii
Demographic and Economic Information
Ten Largest Private Sector Employers
June 30, 2016 and June 30, 2007

2016			2007		
Employer	Employees	Percentage of Total State Employment	Employer	Employees	Percentage of Total State Employment
Bank of Hawaii Corp	2,216	0.3%	Aloha Airgroup Inc.	3,465	0.5%
Hawaii Pacific Health	6,617	1.0%	Hawaii Pacific Health	5,200	0.8%
Hawaiian Electric Industries, Inc.	3,918	0.6%	Hawaiian Airlines	3,587	0.6%
Hawaiian Holdings, Inc.	5,548	0.8%	Hawaiian Electric Industries, Inc.	3,447	0.5%
Kaiser Permanente Hawaii	4,424	0.6%	Kaiser Permanente Medical Care Program	4,017	0.6%
Kamehameha Schools	2,114	0.3%	Kyo-ya Co., Ltd	3,764	0.6%
Kyo-ya Hotels & Resorts LP	3,003	0.4%	McDonald's Restaurants of Hawaii	3,775	0.6%
Outrigger Enterprises Group	3,684	0.5%	NCL America	4,461	0.7%
Securitas Security Services USA, Inc.	2,300	0.3%	The Queen's Health Systems	4,834	0.8%
The Queen's Health Systems	5,320	0.8%	Starwood Hotels and Resort Hawaii	2,382	0.4%

Source: Hawaii Business, Annual August Issue.
State of Hawaii, Department of Labor and Industrial Relations – HWI – Labor (Total State Employees).

Note: Total Annual Average Employment for Hawaii for fiscal year 2016 – 663,000 and for fiscal year 2007 – 634,000.

Listed alphabetically.

State of Hawaii
Demographic and Economic Information
State Employees by Function
Ten Years Ended June 30, 2016

	Fiscal Year Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government	4,537	4,571	4,572	4,419	4,394	4,381	4,381	4,752	4,720	4,523
Public safety	3,316	3,197	3,175	2,981	2,903	2,864	2,880	3,089	3,011	2,889
Transportation	2,263	2,295	2,254	2,275	2,202	2,160	2,158	2,290	2,229	2,222
Conservation of natural resources	1,015	1,007	1,007	972	929	941	983	1,146	1,126	1,041
Health	6,544	6,731	6,813	7,136	6,919	6,876	6,863	7,266	6,730	6,909
Welfare	1,913	1,927	1,941	1,940	1,800	1,788	1,848	2,404	2,312	2,242
Lower education	21,841	21,707	21,797	21,976	22,065	21,917	22,090	22,675	22,620	23,521
Higher education	8,746	8,802	9,080	8,978	8,795	8,687	8,732	9,066	8,705	8,619
Other education	496	488	492	-	454	473	482	516	518	509
Urban redevelopment and housing	18	123	127	116	127	130	146	154	150	147
Economic development and assistance	749	761	759	781	815	816	835	1,141	865	850
Total	51,438	51,609	52,017	51,574	51,403	51,033	51,398	54,499	52,986	53,472

Source: State of Hawaii, Department of Human Resources Development.

State of Hawaii
Operating Information
Operating Indicators by Function
Ten Years Ended June 30, 2016

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
General government					
Tax Commission					
Total individual net income returns	768,261	715,706	737,205	612,373	703,262
Number of individual net income returns filed electronically	529,527	509,409	483,817	397,178	430,421
Percentage of individual net income returns transmitted electronically	68.93%	71.18%	65.63%	64.86%	61.20%
Public safety					
Inmate population					
In-state facilities	4,584	4,683	4,456	4,438	4,396
Out-of-state facilities	1,386	1,341	1,363	1,415	1,677
Total	5,970	6,024	5,819	5,853	6,073
Conservation and natural resources					
Parks and Recreation					
Number of state-owned parks	54	52	51	53	53
Health					
Environmental health					
Air quality sites monitored	14	14	13	14	12
Water quality stations	160	161	173	173	193
Revolving loan funds	176	159	149	133	120
Mental health					
Adult consumers served	7,828	8,282	10,408	10,728	11,062
Individuals with developmental disabilities served	2,738	2,705	2,615	2,599	2,558
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF)					
Families per-month average	6,918	8,102	8,927	10,075	10,300
Average time on assistance	18.1	17.5	N/A	14.6	13.5
Monthly benefits paid for the month of July (in millions)	$ 3.90	$ 3.60	$ 4.10	$ 5.47	$ 6.42
General assistance					
Individuals per month	5,676	5,699	5,598	5,687	5,633
Food stamp program					
Number of persons participating	173,780	191,918	193,565	187,062	172,676
Number of households participating	87,636	96,502	98,440	94,649	86,418
Benefits issued (in millions)	$ 40.23	$ 49.90	$ 43.39	$ 40.33	$ 37.18
Medicaid programs					
Med-Quest enrollment	350,358	332,197	325,510	292,423	287,902

2011	2010	2009	2008	2007
747,237	665,057	682,178	678,305	667,297
388,463	322,515	308,366	271,212	231,154
51.99%	48.49%	45.20%	39.98%	34.64%
4,423	4,047	3,928	6,014	6,045
1,667	1,940	2,077	2,014	2,009
6,090	5,987	6,005	8,028	8,054
53	53	53	53	53
14	13	14	14	16
201	290	349	271	363
109	107	102	90	73
11,194	14,633	15,772	15,586	13,545
2,438	2,661	2,879	2,821	3,360
10,014	9,448	8,661	8,358	8,381
13.0	15.0	14.0	13.0	16.0
$ 6.17	$ 5.29	$ 3.46	$ 4.75	$ 4.60
5,298	5,068	5,014	4,458	3,955
154,496	133,043	109,268	93,956	88,847
77,133	66,885	54,925	47,545	45,026
$ 33.42	$ 28.74	$ 20.22	$ 14.64	$ 12.89
272,218	259,307	235,203	211,105	202,126

(continued)

State of Hawaii
Operating Information
Operating Indicators by Function
Ten Years Ended June 30, 2016

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
Lower education					
Number of schools	290	289	288	286	286
Number of students	181,995	182,384	185,273	183,251	181,213
Staff					
Classroom teachers	11,747	11,663	11,781	11,632	11,458
Librarians	160	173	185	192	199
Counselors	634	623	625	629	627
Administrators	943	914	833	823	806
Other support staff	9,113	9,052	9,014	8,987	8,975
Total	22,597	22,425	22,438	22,263	22,065
Higher education					
Enrollment					
Number of credit students	53,418	55,756	57,052	58,941	60,295
Degrees earned					
Certificates/Associate Degrees/Advanced Professional certificates	5,192	4,830	5,158	4,097	3,638
Bachelor's degrees	4,841	4,599	4,408	4,236	4,055
Master's degrees/Professional diploma	1,126	1,035	1,179	1,095	1,287
Doctor's degrees/First Professional	472	579	467	508	494
Other	49	61	66	65	154
Total	11,680	11,104	11,278	10,001	9,628
Degrees by campus/college					
University of Hawaii at Manoa	5,104	4,923	4,949	4,737	4,767
University of Hawaii at Hilo	893	905	806	809	915
University of Hawaii at West Oahu	474	439	352	349	301
Hawaii Community College	693	569	669	552	452
Honolulu Community College	886	725	683	551	565
Kapiolani Community College	1,383	1,335	1,513	1,193	987
Kauai Community College	248	264	203	216	196
Leeward Community College	1,057	1,000	1,090	770	721
Maui Community College	594	575	660	601	560
Windward Community College	348	369	353	223	164
Total	11,680	11,104	11,278	10,001	9,628

N/A Not available.

Source: General Government – State of Hawaii, Department of Taxation.
Public Safety – State of Hawaii, Department of Public Safety.
Conservation of Natural Resources – State of Hawaii, Department of Land and Natural Resources.
Health – State of Hawaii, Department of Health.
Welfare – State of Hawaii, Department of Human Services.
Lower Education – State of Hawaii, Department of Education.
Higher Education – University of Hawaii.

2011	2010	2009	2008	2007
287	286	289	287	286
178,208	178,649	177,871	178,369	179,234
11,046	11,262	11,294	11,396	11,270
204	225	249	257	272
618	646	660	660	670
734	728	747	773	746
8,408	8,607	8,654	8,566	8,103
21,010	21,468	21,604	21,652	21,061
60,330	60,090	57,945	53,526	50,454
3,324	3,025	2,785	2,660	2,710
3,796	3,593	3,705	3,698	3,586
1,269	1,216	1,185	1,269	1,219
496	351	354	369	320
103	106	55	-	-
8,988	8,291	8,084	7,996	7,835
4,675	4,414	4,496	4,566	4,313
731	601	614	588	592
255	242	221	180	217
405	426	386	346	311
559	486	504	520	537
851	783	702	685	757
208	162	163	139	135
657	608	503	475	514
482	416	364	367	336
165	153	131	130	123
8,988	8,291	8,084	7,996	7,835

(concluded)

State of Hawaii
Operating Information
Capital Assets Statistics by Function
Ten Years Ended June 30, 2016

	Fiscal Year Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government										
Department of Accounting and General Services										
Buildings	81	79	78	74	74	74	74	74	72	71
Vehicles	673	650	650	608	600	592	582	602	571	553
Department of the Attorney General										
Buildings	6	6	6	5	5	5	5	5	5	5
Vehicles	4	3	3	3	3	3	3	3	2	1
The Judiciary										
Buildings	19	19	19	19	18	18	18	18	17	17
Vehicles	18	18	18	18	18	17	16	15	13	14
Other departments										
Buildings	21	23	23	22	24	24	24	23	23	23
Vehicles	3	3	4	4	4	4	4	4	5	6
Public safety										
Department of Public Safety										
Buildings and correction facilities	76	77	75	74	74	74	73	72	71	71
Vehicles	302	306	279	274	277	278	277	262	260	245
Department of Defense										
Buildings	99	99	98	98	97	97	96	96	96	100
Vehicles	104	96	128	118	112	81	79	79	79	84
Department of Commerce and Consumer Affairs										
Buildings	4	4	4	4	4	4	4	4	4	4
Vehicles	-	-	-	-	-	-	1	-	-	-
Highways										
Department of Transportation										
Highway lane miles	2,487	2,477	2,488	N/A	N/A	N/A	2,497	2,479	2,478	2,466
Highway bridges	752	752	752	N/A	N/A	N/A	752	752	752	752
Buildings	40	39	37	36	36	34	34	34	29	26
Vehicles	989	971	982	984	951	958	968	963	949	932

N/A Not available

Source: Buildings and Vehicles – State of Hawaii, Department of Accounting and General Services.
Lane Miles – State of Hawaii, Department of Transportation.
Land Area and Highway Bridges – State of Hawaii, Data Book 2015.

	Fiscal Year Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Conservation of natural resources										
Department of Land and Natural Resources										
Land area (in square miles)	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423
Buildings	97	97	96	94	93	95	95	95	74	76
Vehicles	855	824	785	788	756	758	732	731	706	681
Department of Agriculture										
Buildings	33	33	32	32	32	32	32	32	32	31
Vehicles	161	164	166	167	170	176	186	186	184	166
Health										
Department of Health										
Buildings	74	74	74	74	74	74	74	72	71	75
Vehicles	241	230	227	238	252	259	280	284	295	292
Welfare										
Department of Human Services										
Buildings	18	18	18	18	18	18	18	18	18	18
Vehicles	99	104	116	110	107	111	111	117	128	126
Lower education										
Department of Education										
Buildings	8	8	8	8	8	8	8	8	8	8
Other education										
Department of Education – libraries										
Buildings	39	38	38	38	34	34	34	34	34	34
Vehicles	29	29	25	27	28	27	28	28	30	31
Urban redevelopment and housing										
Department of Hawaiian Home Lands										
Buildings	19	18	18	18	18	18	18	17	16	18
Vehicles	39	36	33	37	33	34	34	34	33	30
Economic development and assistance										
Department of Business, Economic Development and Tourism										
Buildings	32	32	32	32	33	33	33	33	32	27
Vehicles	32	32	28	30	32	33	34	34	39	37
Department of Labor and Industrial Relations										
Buildings	8	8	8	8	8	8	8	8	8	8
Vehicles	2	2	2	2	2	2	2	2	2	2

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APPENDIX D

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

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APPENDIX D

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

ARTICLE VII
TAXATION AND FINANCE
LAPSING OF APPROPRIATIONS

Section 11. All appropriations for which the source is general obligation bond funds or general funds shall be for specified periods. No such appropriation shall be made for a period exceeding three years; provided that appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities. Any such appropriation or any portion of any such appropriation that is unencumbered at the close of the fiscal period for which the appropriation is made shall lapse; provided that no appropriation for which the source is general obligation bond funds nor any portion of any such appropriation shall lapse if the legislature determines that the appropriation or any portion of the appropriation is necessary to qualify for federal aid financing and reimbursement. Where general obligation bonds have been authorized for an appropriation, the amount of the bond authorization shall be reduced in an amount equal to the amount lapsed.

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

1. The term "bonds" shall include bonds, notes and other instruments of indebtedness.

2. The term "general obligation bonds" means all bonds for the payment of the principal and interest of which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, includes reimbursable general obligation bonds.

3. The term "net revenues" or "net user tax receipts" means the revenues or receipts derived from:

a. A public undertaking, improvement or system remaining after the costs of operation, maintenance and repair of the public undertaking, improvement or system, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made; or

b. Any payments or return on security under a loan program or a loan thereunder, after the costs of operation and administration of the loan program, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made.

4. The term "dam and reservoir owner" means any person who has a right to, title to, or an interest in, a dam, a reservoir, or the property upon which a dam, a reservoir, or appurtenant work is located or proposed to be located.

5. The term "person" means an individual, firm, partnership, corporation, association, cooperative or other legal entity, governmental body or agency, board, bureau or other instrumentality thereof, or any combination of the foregoing.

6. The term "rates, rentals and charges" means all revenues and other moneys derived from the operation or lease of a public undertaking, improvement or system, or derived from any payments or return on security under a loan program or a loan thereunder; provided that insurance premium payments, assessments and surcharges, shall constitute rates, rentals and charges of a state property insurance program.

7. The term "reimbursable general obligation bonds" means general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be

derived for the payment of the principal and interest as reimbursement to the general fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund is required by law to be made from the revenue of the political subdivision.

8. The term “revenue bonds” means all bonds payable from the revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law, including a loan program to provide loans to a state property insurance program providing hurricane insurance coverage to the general public.

9. The term “special purpose revenue bonds” means all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law.

10. The term “user tax” means a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system; provided that mortgage recording taxes shall constitute user taxes of a state property insurance program.

The legislature, by a majority vote of the members to which each house is entitled, shall authorize the issuance of all general obligation bonds, bonds issued under special improvement statutes and revenue bonds issued by or on behalf of the State and shall prescribe by general law the manner and procedure for such issuance. The legislature by general law shall authorize political subdivisions to issue general obligation bonds, bonds issued under special improvement statutes and revenue bonds and shall prescribe the manner and procedure for such issuance. All such bonds issued by or on behalf of a political subdivision shall be authorized by the governing body of such political subdivision.

Special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist:

1. Manufacturing, processing or industrial enterprises;

2. Utilities serving the general public;

3. Health care facilities provided to the general public by not for profit corporations;

4. Early childhood education and care facilities provided to the general public by not for profit corporations;

5. Low and moderate income government housing programs;

6. Not for profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities;

7. Agricultural enterprises; or

8. Dam and Reservoir Owners; provided that the bonds are issued for and the proceeds are used to offer loans to assist dam and reservoir owners to improve their facilities to protect public safety and provide significant benefits to the general public as important water sources, each of which is hereinafter referred to in this paragraph as a special purpose entity.

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature; and provided further that the State may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds to assist not for profit private nonsectarian and sectarian elementary schools, secondary schools, colleges, and universities, dam and reservoir owners, or agricultural enterprises, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds. If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision. No special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person or persons under contract or from any security for such contract or contracts or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof. The governor shall provide the legislature in November of each year with a report on the cumulative amount of all special purpose revenue bonds authorized and issued, and such other information as may be necessary.

DEBT LIMIT; EXCLUSIONS

Section 13. General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed: a sum equal to twenty percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance until June 30, 1982; and thereafter, a sum equal to eighteen and one half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance. Effective July 1, 1980, the legislature shall include a declaration of findings in every general law authorizing the issuance of general obligation bonds that the total amount of principal and interest, estimated for such bonds and for all bonds authorized and unissued and calculated for all bonds issued and outstanding, will not cause the debt limit to be exceeded at the time of issuance. Any bond issue by or on behalf of the State may exceed the debt limit if an emergency condition is declared to exist by the governor and concurred to by a two-thirds vote of the members to which each house of the legislature is entitled. For the purpose of this paragraph, general fund revenues of the State shall not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded as permitted by this section.

A sum equal to fifteen percent of the total of the assessed values for tax rate purposes of real property in each political subdivision, as determined by the last tax assessment rolls pursuant to law, is established as the limit of the funded debt of such political subdivision that is outstanding and unpaid at any time.

All general obligation bonds for a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest. The first installment of principal of general obligation bonds and of reimbursable general obligation bonds shall mature not later than five years from the date of issue of such series. The last installment on general obligation bonds shall mature not later than twenty-five years from the date of such issue and the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue. The interest and principal payments of general obligation bonds shall be a first charge on the general fund of the State or political subdivision, as the case may be.

In determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision under Section 12, the following shall be excluded:

1. Bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for any political subdivision, whether issued before or after the effective date of this section, but only for as long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the effective date of this section, the consent of the governing body of the political subdivision has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such political subdivision.

8. Bonds constituting instruments of indebtedness under which the State or any political subdivision incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under this section; provided that the State or political subdivision shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State or political subdivision as provided by law.

9. Bonds issued by or on behalf of the State or by any political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

The total outstanding indebtedness of the State or funded debt of any political subdivision and the exclusions therefrom permitted by this section shall be made annually and certified by law or as provided by law. For the purposes of Section 12 and this section, amounts received from on-street parking may be considered and treated as revenues of a parking undertaking.

Nothing in Section 12 or in this section shall prevent the refunding of any bond at any time.

<u>APPENDIX E</u>

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

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APPENDIX E

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

[Dated Date]

Department of Hawaiian Home Lands
Kapolei, Hawaii

State of Hawaii
Department of Hawaiian Home Lands
Certificates of Participation
(Kapolei Office Facility)
2017 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel in connection with the execution and delivery of $15,125,000 aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility) 2017 Series A (the "Certificates"). In such connection, we have reviewed an Amended and Restated Trust Agreement, dated as of August 1, 2017 (the "Trust Agreement"), by and among the State of Hawaii, by its Department of Hawaiian Home Lands, as Lessee (the "State"), The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and The Bank of New York Mellon Trust Company, N.A., as lessor, the Facility Lease, the First Amendment to Facility Lease Agreement, the Ground Lease, and the First Amendment to Ground Lease, each as defined in the Trust Agreement (collectively, the "Leases"), a Tax Certificate of the State, dated the date hereof (the "Tax Certificate"), opinions of counsel to the State and the Trustee, certificates of the State, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Leases, the Trust Agreement and the Tax Certificate including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest portion of Lease Payments to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Leases, the Trust Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State of Hawaii and its departments. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Leases or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Leases and the Trust Agreement have been duly executed and delivered by the State, and constitute the valid and binding obligations of the State.

2. The obligation of the State to make the Lease Payments during the term of the Leases is limited to Available Funds, and contingent upon appropriation by the State Legislature at its discretion, and does not constitute a debt of the State within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the State of Hawaii is obligated to appropriate any funds or to levy or pledge any form of taxation.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The portion of each Lease Payment designated as and constituting interest paid by the State under the Leases and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. The portion of each Lease Payment designated as and constituting interest paid by the State under the Leases and received by the registered owners of the Certificates is exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of the Certificates, or the amount, accrual or receipt of the interest portion of each Lease Payment.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Department of Hawaiian Home Lands of the State of Hawaii (the "Department") in connection with the issuance of $15,125,000 aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2017 Series A (the "Certificates"). The Certificates are being issued pursuant to an Amended and Restated Trust Agreement dated as of Aucust 1, 2017 (the "Trust Agreement") entered into by the State of Hawaii (the "State"), by the Department, and The Bank of New York Mellon Trust Company, N.A., as trustee. The Department covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the Department or any successor Dissemination Agent designated in writing by the Department and which has filed with the Department a written acceptance of such designation.

"Holder" shall mean the person in whose name any Certificate shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the Department's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2017, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Certificates by name and CUSIP number.

(b) Not later than fifteen (15) Business Days prior to said date, the Department shall provide the Annual Report to the Dissemination Agent (if other than the Department). If the Department is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Department shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Department) file a report with the Department certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The Department's Annual Report shall contain or include by reference information of the type included (i) in Appendix C, Part I, to the Official Statement relating to the Certificates dated July 25, 2017 (the "Official Statement"), under the captions "Summary of Total Indebtedness of the State of Hawaii," "Revenue Projections; Certain Tax Collections — General Fund Tax Revenues," and "Revenue Projections; Certain Tax Collections — Actual Collections and Distributions," and (ii) in Appendix C, Part II, to the Official Statement. The Department shall take such actions as may be necessary to obtain such information on a timely basis in order to file the Annual Report by the time required pursuant to subsection 3(a).

The audited financial statements of the State for the prior fiscal year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements, if available, without the State having to undertake to prepare unaudited financial statements exclusively for the purpose of satisfying this Section 4, in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any or all of such information may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, which have been made available to the public on the MSRB's website. If the document included by reference is a final official statement, it must be available from the MSRB. The Department shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates , if material, not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates ;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Certificates ;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Department shall determine if such event would be material under applicable federal securities laws.

(d) If the Department learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Department's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates . If such termination occurs prior to the final maturity of the Certificates , the Department shall give notice of such termination in a filing with the MSRB.

SECTION 8. Dissemination Agent. The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Disclosure Certificate.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates , or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates , after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates .

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the Department shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Department agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Department under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates , and shall create no rights in any other person or entity.

Date: August 25, 2017

DEPARTMENT OF HAWAIIAN HOME LANDS

By__________________________________

Chairman

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD

OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Department of Hawaiian Home Lands of the State of Hawaii
Name of Issue:	State of Hawaii Department of Hawaiian Home Lands Certificates of Participation, 2017 Series A
Date of Issuance:	August 25, 2017

NOTICE IS HEREBY GIVEN that the Department has not provided an Annual Report with respect to the Bonds referenced above as required by Section 3 of the Certificate dated August 25, 2017. [The Department anticipates that the Annual Report will be filed by _____________.]

Dated: _______________.

DEPARTMENT OF HAWAIIAN HOME LANDS

By_________________________________
Chairman

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STATE OF HAWAII, DEPARTMENT OF HAWAIIAN HOME LANDS • Certificates of Participation (Kapolei Office Facility), 2017 Series A

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