NEW ISSUE | BOOK-ENTRY ONLY

In the opinion of Bond Counsel, under existing laws regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating alternative minimum taxable income. See "TAX MATTERS" herein for a description of certain provisions of law which may affect the federal tax treatment of interest on the Bonds. In addition, in the opinion of Bond Counsel, under the existing laws of the State of Hawaii, the Bonds and the income therefrom are exempt from all taxation by the State or any county or any political subdivision thereof, except inheritance, transfer and estate taxes and the franchise tax imposed on banks and other financial institutions.

OFFICIAL STATEMENT

State of Hawaii

$150,000,000
General Obligation Bonds
of 1996, Series CM

Dated: December 1, 1996 | **Due: December 1, as shown below**

Maturities, Amounts, Interest Rates and Yields

Due	Amount	Interest Rate	Yield	Due	Amount	Interest Rate	Yield
1999	$8,335,000	5.00%	4.20%	2008	$8,335,000	6.00%	5.10%
2000	8,335,000	5.00	4.375	2009	8,335,000	6.00	5.20
2001	8,335,000	5.00	4.50	2010	8,335,000	6.00	5.25
2002	8,335,000	5.50	4.60	2011	8,330,000	6.00	5.30
2003	8,335,000	5.50	4.70	2012	8,330,000	6.00	5.35
2004	8,335,000	5.50	4.80	2013	8,330,000	6.50	5.375
2005	8,335,000	6.00	4.875	2014	8,330,000	6.50	5.375
2006	8,335,000	6.00	4.95	2015	8,330,000	6.50	5.40
2007	8,335,000	6.00	5.05	2016	8,330,000	6.50	5.40

(Plus Accrued Interest from December 1, 1996)

The Bonds are issuable in fully registered form and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants. Purchases of the Bonds may be made in the denomination of $5,000 or any integral multiple thereof. Beneficial owners of the Bonds will not receive physical delivery of Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Bonds. So long as DTC or its nominee is the registered owner of Bonds, payment of the principal of and interest on the Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants (See "**THE BONDS—Book-Entry System**" herein).

The Bonds bear interest payable on June 1 and December 1 of each year, commencing June 1, 1997. The Bonds are not subject to redemption prior to the respective stated maturities thereof.

The Bonds are being issued for the purpose of financing, or reimbursing the State of Hawaii for, costs of acquisition, construction, extension or improvement of various public improvement projects, among which are a State Convention Center, public lands, public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks, and for other public purposes. The Bonds are general obligations of the State of Hawaii. The interest and principal payments of the Bonds are a first charge on the General Fund of the State of Hawaii, and the full faith and credit of the State of Hawaii are pledged to the punctual payment thereof.

The payment of the principal of and interest on the Bonds when due will be insured by a municipal bond new issue insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Bonds.

FGIC. Financial Guaranty Insurance Company

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriters, and are subject to the approval of validity by Kutak Rock, Omaha, Nebraska, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miho Miller Mukai, Honolulu, Hawaii. It is expected that the Bonds in definitive form will be available for delivery to the facilities of DTC in New York, New York, on or about December 19, 1996.

Lehman Brothers

Smith Barney Inc. | **Hawaiian Capital Securities**
A Division of Hanifen, Imhoff Inc.

Dated: December 11, 1996

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Benjamin J. Cayetano
Governor

Mazie Hirono
Lieutenant Governor

Earl I. Anzai
Director of Finance

Margery S. Bronster
Attorney General

Sam Callejo
Comptroller

BOND COUNSEL

Kutak Rock
Omaha, Nebraska

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No representation, warranty or 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 Underwriters. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Bonds in any state to any person to whom it is unlawful to make such offer in such state. 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 Bonds, 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.

TABLE OF CONTENTS

OFFICIAL STATEMENT

State of Hawaii

$150,000,000
General Obligation Bonds
of 1996, Series CM

The purpose of this Official Statement, which includes the cover page hereof and the appendices hereto, is to set forth information concerning the State of Hawaii (sometimes herein referred to as the "State") and its $150,000,000 aggregate principal amount of General Obligation Bonds of 1996, Series CM (the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii.

AUTHORITY AND PURPOSE

The Bonds will be issued pursuant to the authority of and in full compliance with the provisions, restrictions and limitations of the Constitution and the laws of the State, including Part I of Chapter 39, Hawaii Revised Statutes, as amended ("HRS"), and pursuant to the authority of certain acts of the Legislature of the State.

The principal proceeds from the sale of the Bonds will be used to finance, or to reimburse the State for, costs of acquisition, construction, extension or improvement of various public improvement projects, among which are a State Convention Center, public lands, public buildings and facilities, public libraries, community college and university facilities and parks, and for other public purposes, for which appropriations have been made in certain Acts of the State Legislature. See "**INFORMATION ABOUT INDEBTEDNESS—General Obligation Funded Debt of the State of Hawaii Authorized But Unissued**" in Part I of Appendix B.

THE BONDS

Details of Bonds

The Bonds will be dated as of December 1, 1996, will be issued in fully registered form without coupons, will be in the denomination of $5,000 or any integral multiple of $5,000, will be numbered with the prefix HAW/CM, will mature serially on December 1 in each of the years and in the respective principal amounts, and will bear interest at the rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the cover page hereof, payable on June 1 and December 1 of each year, commencing June 1, 1997 (each an "interest payment date").

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only (the "Book-Entry System"), in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds. Principal of and interest on the Bonds will be paid by the Registrar and Paying Agent for the Bonds (initially the Director of Finance of the State of Hawaii) to DTC, which will in turn remit such principal and interest to its Participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the Bonds, as described herein. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in related proceedings of the State. See **"THE BONDS—Book-Entry System,"** below. If the State ceases to use the Book-Entry System, the Director of Finance may select a different Registrar and Paying Agent to perform such payment and registration functions.

No Optional Redemption

The Bonds are not subject to redemption at the option of the State prior to the respective stated maturities thereof.

Book-Entry System

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

DTC and Its Participants. 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 ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as 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 Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (for the purposes of the discussion under "**Book-Entry System,**" "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, but Beneficial Owners are 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 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. 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.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. 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 State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Bonds 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 the Participant acquires an interest in the Bonds, but (i) all rights of ownership, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

DTC and Book-Entry Information. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State.

The State will have no 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 Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Bonds or (v) any other event or purpose.

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the interest on and principal payments of general obligation bonds of the State, including the Bonds, shall be a first charge on the General Fund of the State. Under said laws, the full faith and credit of the State are pledged to the punctual payment of the principal of and interest on general obligation bonds of the State, including the Bonds. At the beginning of each month, the Director of Finance of the State transfers from the General Fund into a special reserve account the amount of interest due and principal maturing during that month on the issued and outstanding general obligation bonds of the State. The special reserve account is used to pay the debt service on such general obligation bonds and any balance in said account is held for that sole purpose.

Market Risk

There can be no assurance of continued marketability of the Bonds at the current price level. Various factors affect the market value of municipal securities, including the Bonds, over most of which the State has no control, such as general economic conditions in the world and the nation, inflation, federal economic policies, interest rate trends and proposed or actual changes to the Internal Revenue Code of 1986. State finances, future State legislative actions and bond ratings will also affect the market value of the Bonds.

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 (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 (including the 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 State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against State officials to enforce such payment.

The State has never defaulted in the payment of either principal of or interest on any indebtedness.

BOND INSURANCE

The following information has been furnished by Financial Guaranty Insurance Company for use in this Official Statement. Reference is made to Appendix G for a specimen of the Municipal Bond New Issue Insurance Policy for the Bonds.

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the State. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest are due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the State. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The policy is noncancellable, and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds, and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of June 30, 1996, the total capital and surplus of Financial Guaranty was approximately $1,069,597,000. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 160 West Broadway, 18th Floor, New York, New York 10013, Attention: Financial Condition Property/Casualty Bureau (telephone number: (212) 602-0389).

THE STATE OF HAWAII

Certain general information concerning the State of Hawaii is contained in Appendix A to this Official Statement. Selected financial information concerning the State of Hawaii, including *inter alia* information about the State's outstanding indebtedness and its revenue projections, is contained in Part I of Appendix B to this Official Statement. Part II of Appendix B 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, 1995. The information in Appendices A and B has been furnished by the State of Hawaii and other sources considered reliable. The Underwriters and their counsel have not independently verified any of such information nor have they made an independent determination of the financial position of the State. 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 not now pending any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or in any other manner affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be sold and issued.

Office of Hawaiian Affairs. On January 4, 1994, the Office of Hawaiian Affairs ("OHA") and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA et al., v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.)), alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust established by the Admission Act and the 1978 amendments to the State Constitution. Although the complaint does not specify the State's alleged failures, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of (a) the proceeds and income derived from the public land trust since November 7, 1978, (b) the proceeds and income derived from the public land trust since June 16, 1980, and (c) the proceeds and income derived from the public land trust under Act 304, Haw. Sess. Laws 947 (1990), as well as interest thereon.

In May 1996, the Plaintiffs filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys from four specific sources, and the State opposed Plaintiffs' four motions on the merits, as well as on the basis of nonjusticiability (political question doctrine), waiver, laches and estoppel, res judicata/collateral estoppel, failure to exhaust administrative remedies and several statutes of limitation. The State also filed a motion to dismiss on sovereign immunity grounds.

The circuit court denied the State's motion to dismiss and granted OHA's four motions for partial summary judgment on October 24, 1996. The State filed an immediate appeal from the order denying its motion to dismiss to the Hawaii Supreme Court, and filed a second appeal from both orders after it was granted leave to file an interlocutory appeal to the Hawaii Supreme Court from both orders by the circuit court. All other proceedings, including the trial previously scheduled to begin on November 18, 1996, have been stayed pending the Hawaii Supreme Court's disposition of the two appeals.

Given that OHA's complaint and motions do not specify the dollar amount of its claims against the State, the express statement by the circuit court in its October 24, 1996 order granting OHA's motions for partial summary judgment that it was not ruling as to such amounts, the dispute as to the basis and methodology for calculating any such amount and the uncertain timing of any final disposition of the case, the State is not able to predict with reasonable certainty the magnitude of its potential liability, if any. Nevertheless, an ultimate decision against the State could have a material adverse effect on the State's financial condition. The State's potential liability for OHA's four partial summary judgment motions for the years 1981 through 1991 (but not thereafter) was stated to be approximately $178,000,000 by the auditor retained by OHA to assist it in determining the amount payable for the period in connection with the case. OHA has not provided complete information for its claims for the period from 1981 through 1991, and has provided no information as to its claims for the period from 1991 to the present. The actual amount, if any, of the State's potential liability will not be determined until the Hawaii Supreme Court rules on the State's interlocutory appeal and, if the State is unsuccessful, after any subsequent trial and related appeals have been concluded—a process that might take years. (See "**CEDED LANDS AND HAWAIIAN HOME LANDS—Ceded Lands**" in Appendix A.)

Several other complaints relating to Ceded Lands have been filed in the state courts and await disposition. (See "**CEDED LANDS AND HAWAIIAN HOME LANDS—Ceded Lands**" in Appendix A.)

Hawaiian Home Lands. In addition, state law permits beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "Act"), to file individual claims against the State for breaches of trust imposed by the Act. Such claims are subject to various statutory, administrative and procedural requirements. The State cannot predict the monetary impact, if any, of the ultimate outcome of these claims. (See "**CEDED LANDS AND HAWAIIAN HOME LANDS—Hawaiian Home Lands**" in Appendix A.)

Employees' Retirement System. Teachers and educational officers, including school principals and vice principals, have filed several suits against the Retirement System to challenge the method it uses to establish "average final compensation" for purposes of calculating their retirement benefits. In the principal case, the consolidated agency appeal in *Chun v. Employees Retirement System* and *Southwood v. Matsuura*, Civil No. 95-1409-04 (1st Cir.), the First Circuit Court, State of Hawaii, ruled in the teachers' and educational officers' favor, and the Retirement System's appeal of the ruling is presently pending in the Hawaii Supreme Court. Actuarial testimony presented at the agency hearing indicates that, if plaintiffs prevail, total payout over 30 years would range between $46,000,000 and $74,000,000. Any shortfall in the Retirement System's ability to pay plaintiffs' increased retirement benefits during that period would constitute a statutory obligation of the State as the plaintiffs' employer. (See "**EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System**" in Appendix A.)

Insurance Premium Tax Credit. The Attorney General reports that no pending litigation materially affects the State's power to tax. However, there is pending litigation that may affect the application of and the methodology of determining certain taxes on insurance companies, as described below.

In 1992, Haw. Rev. Stat. § 431:7-207 was enacted to provide qualifying insurers with an insurance premium tax credit equal to 1% of its taxable premiums if the insurer maintains records, books, personnel and a customer service center in Hawaii. Forty-nine foreign insurance companies filed suit challenging the validity of Haw. Rev. Stat. § 431:7-207. The foreign insurers contend that Haw. Rev. Stat. § 431:7-207 violates their constitutional rights to equal protection and due process because the statute discriminates without rational basis against foreign insurance companies. As of September 18, 1996, the insurance premium tax credit litigated claims fund contained approximately $26.0 million.

Other. The State has also been named as a defendant in numerous other lawsuits and claims arising in the normal course of operations.

TAX MATTERS

In the opinion of Kutak Rock, Bond Counsel, to be delivered at the time of original issuance of the Bonds, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds, however, will be included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those times that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Internal Revenue Code of 1986, as amended (the "Code")) of certain corporations and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The opinions set forth above are subject to continuing compliance by the State with its covenants made in connection with the issuance of the Bonds regarding federal tax laws. Failure to comply with such covenants could cause interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of certain recipients such as banks, thrift institutions, property and casualty insurance companies, corporations (including S corporations, foreign corporations operating branches in the United States and corporations subject to the environmental tax imposed by Section 59A of the Code), Social Security or Railroad Retirement benefit recipients, or individuals who itemize deductions, among others. The extent of these other tax consequences will depend upon the recipients' particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences and investors should consult their own tax advisors regarding the tax consequences of purchasing or holding the Bonds.

In the further opinion of Bond Counsel, under the existing laws of the State, the Bonds, and the income therefrom, are exempt from all taxation by the State or any county or any political subdivision thereof, except inheritance, transfer and estate taxes and the franchise tax imposed on banks and other financial institutions.

The form of opinion Bond Counsel proposes to render is set forth in Appendix F hereto.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Kutak Rock, Omaha, Nebraska, Bond Counsel to the State. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Bonds. The form of opinion Bond Counsel proposes to render is set forth in Appendix F hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miho Miller Mukai.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have rated the Bonds "Aaa" and "AAA," respectively, with the understanding that, upon delivery of the Bonds, the Policy will be issued by Financial Guaranty. Such ratings reflect only the respective views of such rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that either of such ratings will be retained for any given period of time or that the same will not be revised downward, suspended or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. The State undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Lehman Brothers Inc., Smith Barney Inc. and Hawaiian Capital Securities, a division of Hanifen, Imhoff Inc. (collectively, the "Underwriters"), have agreed to purchase the Bonds at an aggregate purchase price equal to 99.735% of the principal amount of the Bonds, plus a premium of $11,089,688, plus accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any are purchased.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds 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.

CONTINUING DISCLOSURE

The State has entered into a Continuing Disclosure Certificate (the "Disclosure Certificate") for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the State to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). See "**APPENDIX E—CONTINUING DISCLOSURE CERTIFICATE.**"

The State has not failed to comply with any of its previous continuing disclosure certificates under the Rule. A failure by the State to comply with the Disclosure Certificate will not constitute an event of default of the Bonds, although any Bondholder or any beneficial owner may bring action to compel the State to comply with its obligations under the Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 1995 included as Part II of Appendix B have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein, which is based in part on the reports of other auditors.

MISCELLANEOUS

As far as any statements made in this Official Statement involving 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 Bonds.

The Department of Budget and Finance, State of Hawaii has prepared this Official Statement and has duly authorized the delivery hereof.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix A 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.

INTRODUCTION

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 a little larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states, being also larger in area than the State of Delaware. The island of Hawaii with 4,134 square miles in area is the largest island. The other inhabited islands in the 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, and 1,115,274 in 1990, making the State the forty-first most populous state in the Union as of 1990. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 596.3 square miles. The capital of the State and the principal port are located on Oahu. According to the 1990 U.S. Census, about 75% of the population of the State lives on Oahu. Hawaii's population shows greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. The 1990 U.S. Census indicated that about 33.4% of the State's population is Caucasian and about 22.3% of the State's population is Japanese. Other ethnic backgrounds are Filipino, Chinese, Hawaiian, Samoan and others. People of mixed ethnic background constitute an increasing group, with part-Hawaiians predominating.

State Government

The Constitution of the State provides for three separate branches of government: the legislative, the executive and the judicial. 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 inability to exercise and discharge the powers and duties of his 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 in 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 by and 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, information processing, telecommunications, and financial management programs of the State.

The Counties and Their Relationship to the State

There are four counties in the State, being 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 which in most other parts of the United States are performed by or shared by local governments. For example, the State pays all costs in connection with the public school system, libraries, hospitals and public welfare. The greatest expenditures by the State in past years have been in the areas of education and public welfare. On the other hand, the counties' major areas of responsibility and expenditure are in police and fire protection, 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 to include 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). 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, utilities serving the general public, health care facilities provided to the general public by not-for-profit corporations, or low and moderate income government housing programs. All bonds other than special purpose revenue bonds shall be authorized by a majority vote of the members to which each house of the Legislature is entitled. Special purpose revenue bonds shall be authorized by two-thirds vote of the members to which each house of the Legislature is entitled.

A proposed constitutional amendment authorizing the issuance of special purpose revenue bonds for early childhood education and care facilities was approved by the electorate on November 8, 1994. Before the Chief Elections Officer certified the electorate's approval, the State filed a complaint in the Circuit Court of the First Circuit of the State of Hawaii (*State of Hawaii, ex rel. Margery S. Bronster v. Dwayne D. Yoshina, T. David Woo, Jr., and Patricia Mau-Shimizu*, Civil No. 94-4369-11 (1st Cir.)) seeking (a) a declaratory judgment that the proposed constitutional amendment was not lawfully submitted to the electorate because adequate notice was not given to the Governor prior to the adoption of the proposal and (b) an injunction against certification of the proposed amendment by the Chief Elections Officer. The Circuit Court has granted a motion for summary judgment by Defendants Woo and Mau-Shimizu. The State has appealed the matter to the Hawaii Supreme Court (*State of Hawaii, ex rel. Margery S. Bronster v. Dwayne D. Yoshina, T. David Woo, Jr., and Patricia Mau-Shimizu*, No. 19940).

Limitation on Issuance of General Obligation Bonds

Under the Constitution, 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 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 monies received as grants from the federal government and receipts in reimbursement of any indebtedness that is excluded in computing the total indebtedness of the State. See "**DEBT STRUCTURE—Exclusions**" and "**DEBT STRUCTURE—Statements of Director of Finance,**" below.

Thus, the limitation contained in the Constitution basically limits the power of the State to incur indebtedness, applies only to the issuance of general obligation bonds, is computed at the time of issuance of such bonds and includes only issued and outstanding general obligation bonds and the general obligation bonds proposed to be issued when determining the limitation.

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. Since, 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 a measure of the debt service on only 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 for assessable public improvements payable solely from assessment collections are chiefly of concern to counties when computing the funded debt of such 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 C to this Official Statement.

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 monies 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 reimbursement to the General Fund is in fact made from the revenues, or user taxes, or both, derived from the particular undertaking, improvement or system 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 the public undertaking, improvement or system. 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 are 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 reimbursable general obligation bonds of the State issued for the counties for the payment of the principal and interest of which reimbursement is made to the General Fund of the State from the taxes and other revenues of the counties and general obligation bonds issued for assessable public improvements to the extent reimbursements to the General Fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

One other exclusionary provision excludes instruments of indebtedness under which the State incurs a contingent liability as a guarantor, but only to the extent the principal amount of such instruments of indebtedness 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 there is established a reserve 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.

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. In order to carry out the provisions as contained in the Constitution, the Legislature has 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. Pursuant to Part IV, a statement of the total outstanding indebtedness of the State and the exclusions therefrom and a statement of the debt limit of the State evidencing the power of the State to issue general obligation bonds are each prepared as of July 1 of each year. The July 1, 1996 statement is the most recent such statement prepared. See "**INFORMATION ABOUT INDEBTEDNESS**" in Part I of Appendix B for a tabular summary of the statement of total outstanding indebtedness of the State and exclusions therefrom as of July 1, 1996, 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. See also "**APPENDIX D—GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII.**"

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, 1994, 1995 and 1996 and the net general fund revenues after required exclusions, the average of 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 B. The greatest amount of principal and interest payable in any fiscal year on the outstanding general obligation indebtedness as of July 1, 1996, and on the Bonds after exclusions therefrom permitted by the Constitution is $394,789,391 in the fiscal year ending June 30, 2000. A summary of debt service on all general obligation bonded indebtedness of the State is set forth in the table in Part I of Appendix B; however, the debt service excluded in that table includes all general obligation bonds for which reimbursement is made regardless of whether such bonds may be excluded under the Constitution. A summary of authorized and unissued general obligation bonded indebtedness is set forth in the table in Part I of Appendix B.

The Governor recently announced his intention to propose to the Legislature, for the regular session beginning in early January 1997, that the State increase its annual issuance of general obligation bonds to fund the

State's capital improvement program to approximately $500 million for the fiscal years ending June 30, 1998 and 1999. For planning purposes in recent years, the State has assumed a $200 million annual issuance, although the projected issuance in fiscal year 1997 (including the Bonds) is $500 million. Because the issuance of general obligation bonds requires the Legislature's authorization, the State is unable to determine the amount or timing of any such issuance as might result from the Governor's proposal.

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) which may be issued and defining the purposes for which the bonds are to be issued.

The Constitution requires that all 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 the limitations on the details of general obligation bonds, such as maximum maturities and maximum interest rates, and also sets forth the provisions for the sale and other details of such bonds. Such part provides that the Director of Finance may, with the approval of the Governor, 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 allocates 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. In no event may any period for an appropriation exceed three years and 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. 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 C to this Official Statement 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.

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 and for the housing program where the General Fund is required to be reimbursed for interest only. Reimbursement is made from the income or revenues or user taxes derived from or with respect to such highways, harbor, airport facilities, land development, economic development projects, university projects, parking facilities or housing program. 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 MONIES; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Fund**" 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 since 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 "**INFORMATION ABOUT INDEBTEDNESS—General Obligation Bonds Outstanding**" in Part I of Appendix B for a tabular summary of reimbursable and non-reimbursable general obligation bonds.

REIMBURSEMENT TO AIRPORT REVENUE FUND

In an audit report dated April 28, 1995, the Office of Inspector General, U.S. Department of Transportation ("OIG") concluded that airport revenues were used to purchase certain parcels of land on the island of Oahu that were not needed for airport purposes. The OIG contends that $64.4 million in airport revenues, excluding lost interest, were not used for airport purposes. As such, the transaction was found not to be in compliance with grant assurances made by the State's Department of Transportation relating to the use of the Airport Revenue Fund. The OIG recommended that the Federal Aviation Administration initiate procedural steps necessary to reach a final determination regarding noncompliance with grant assurances and ensure that the State returns the $64.4 million, along with lost interest, to the Airport Revenue Fund. The State did not contest the OIG's findings and intends to restore to the Airport Revenue Fund the $64.4 million used to acquire the land. In 1996, the Legislature authorized the issuance of general obligation bonds to restore this amount; the State expects to apply a portion of the Bond proceeds to this purpose. Accordingly, this amount is included in the General Long-Term Obligations Account Group in the State's financial statements. The matter of the lost interest has not been resolved.

In an audit report dated September 19, 1996, the OIG also questioned (a) the use of $28.2 million in airport revenue to make payments to OHA under Hawaii Revised Statutes Chapter 10, as amended (see "**CEDED LANDS AND HAWAIIAN HOME LANDS—Ceded Lands**" in Appendix A), since fiscal year 1992, (b) the loss of at least $1.7 million in interest income as a result of making the payments to OHA, (c) the use of $14.5 million to widen Hana Highway and provide new access through the widened highway to Kahului Airport, and (d) the loss of at least $6.5 million in airport revenue by not charging market rental rates for the use of the land at eight airport sites to state agencies operating at those locations. The State has asserted that the payments to OHA represent airport operating expenses, but has placed all such payments since June 1996 into an escrow account pending final resolution of the OIG's concern. The Department of Transportation has asserted that the Hana Highway widening and new access for Kahului Airport are responsive to that airport's need for access and egress, and that the rents charged state agencies with operations at its airport sites are reasonable and fair. The U.S. Department of Transportation is in the process of reviewing the OIG's audit report; the timing and outcome of such review are unknown to the State.

CEDED LANDS AND HAWAIIAN HOME LANDS

Ceded Lands

The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the "Ceded Lands."

Upon Hawaii's admission to the Union in 1959, title to Ceded Lands still held by the United States and to lands which the United States acquired by exchanges for Ceded Lands after 1898 was conveyed by the United States to the State of Hawaii. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust for five purposes. Those five purposes were (1) for the support of the public schools and other public educational institutions, (2) for the betterment of the conditions of native Hawaiians, (3) for the development of farm and home ownership on as widespread a basis as possible, (4) for the making of public improvements and (5) for the provision of lands for public use. Article XIV, section 8 of the State Constitution affirmed the State's commitment to comply with these trust purposes.

In 1978, the State Constitution was amended to expressly specify that the lands conveyed to the State as a public trust by the Admission Act were to be held by the State as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from the pro rata portion of the lands held by the State in public trust for the betterment of native Hawaiians.

In 1979, the Legislature adopted Hawaii Revised Statutes Chapter 10 ("Chapter 10") to provide for OHA's structure and organization, and to detail its duties and responsibilities. In 1980, Chapter 10 was amended to specify that OHA expend 20% of all funds derived from the lands of the public trust for the betterment of native Hawaiians. In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that the 1980 amendment to Chapter 10 was insufficiently clear as to be determinative of what OHA was entitled to receive, and, therefore, presented a non-justiciable political question, not susceptible to adjudication, for the Legislature to address.

In 1990, in response to the Hawaii Supreme Court's ruling in the *Yamasaki* case, the Legislature adopted Act 304, Haw. Sess. Laws 947 (1990). Act 304 attempted to clarify which lands were subject to the public trust imposed by the Admission Act and Article XII, Section 4 of the State Constitution for the betterment of native Hawaiians by providing a definition for "public land trust." It also attempted to clarify how OHA was to be funded by establishing a definition for "revenue" and specifying that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians. It also established a process for OHA and the Director of Finance of the State to jointly determine the amount equivalent to 20% of the "revenue" from the "public land trust" during the period June 16, 1980 through June 30, 1991, which the State would pay OHA to retroactively settle all of OHA's claims for funding for that period.

In 1993, the Legislature enacted Act 35, Haw. Sess. Laws 41 (1993), appropriating $136.5 million to pay the amount determined, by the process set out in Act 304, to be OHA's "revenue" claims, with interest in the amount specified in Act 304, for the period June 16, 1980 through June 30, 1991.

Since fiscal year 1992, the State through its departments and agencies has paid 20% of revenues derived from the Ceded Lands of the public trust, as clarified by Act 304, to OHA on a quarterly basis.

On January 4, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.)), claiming that the amount paid was inadequate and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Although the complaint does not specify the State's alleged failures, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since

1978, and restitution or damages amounting to 20% of (i) the proceeds and income derived from the public land trust since November 7, 1978, (ii) the proceeds and income derived from the public land trust since June 16, 1980 and (iii) the proceeds and income derived from the public land trust under Act 304, as well as interest thereon.

The State answered the Plaintiffs' complaint, denying all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bond duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital (including patient service receipts), (iii) the State's rental public housing projects and affordable housing developments and (iv) interest income (investment earnings). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits, as well as on the basis of nonjusticiability (political question doctrine), waiver, laches and estoppel, res judicata/collateral estoppel, failure to exhaust administrative remedies and several statutes of limitation.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its political question, statute of limitation, res judicata/collateral estoppel and waiver defenses. The court concluded that the State waived its sovereign immunity and consented to be sued by OHA.

On October 24, 1996, the circuit court also filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the sources cited in OHA's motions, and deferred establishing amounts owed for these sources for further proceedings or trial.

The State filed an appeal to the Hawaii Supreme Court from the order denying its motion to dismiss on October 28, 1996.

On October 29, 1996, the State filed a motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments. On November 27, 1996, the circuit court filed an order granting the State's motion for leave to file the interlocutory appeal. On November 25, 1996, the circuit court filed an order granting the State's motion to stay all proceedings, including all discovery and the November 18, 1996 trial, pending the Supreme Court's disposition of the State's appeals. The State filed a notice of its interlocutory appeal to the Hawaii Supreme Court on November 22, 1996. (See **"PENDING LITIGATION."**)

On November 4, 1994, OHA filed a complaint for declaratory and injunctive relief (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from selling or transferring any Ceded Lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in Ceded Lands which may have been conveyed or otherwise alienated. On April 2, 1996, the First Circuit Court, State of Hawaii, denied the Defendants' motion for partial summary judgment which sought a ruling from the court that the State has the authority to alienate Ceded Lands. No trial date has been set.

On July 27, 1995, OHA filed suit against the Hawaii Housing Authority (the "HHA"), the executive director of the HHA, the board members of the HHA and the Director of Finance (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) 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 Hawaii Revised Statutes Chapter 356. Discovery is ongoing, and no trial date has been set.

Hawaiian Home Lands

Pursuant to the Hawaiian Homes Commission Act of 1920 (the "Act" for purposes of this subheading) enacted by the United States Congress, approximately 203,500 acres of public lands were set aside as "Hawaiian home lands" for the rehabilitation of native Hawaiians. The State has a trust responsibility to carry out the mandates of the Act.

Since the enactment of the Act, claims have been made by beneficiaries of the trust and other interested persons that several thousand acres of the Lands subject to the trust created by the Act were withdrawn or used without compensation for nontrust purposes by Territorial and State Executive actions. In 1988, the Legislature enacted Act 395, Session Laws of Hawaii, the Native Hawaiian Trusts Judicial Relief Act, which required the Governor to present a plan for resolving claims of this kind which arose between August 21, 1959 and June 17, 1988 and permits native Hawaiian individuals and native Hawaiian organizations to bring claims of breach of trust arising out of acts or omissions of state officers and employees in the management and disposition of trust funds and resources committed on or after July 1, 1988. The Governor appointed a task force to develop a proposed plan. The task force submitted a memorandum of understanding outlining its recommendation for resolving the controversies to the Legislature in December, 1994.

The Legislature did not adopt the recommendations of the task force, but it did enact Act 14, Special Session Laws of Hawaii (1995), which (a) resolved all controversies relating to the Hawaiian Home Lands trust except those individual claims described below which arose between August 21, 1959 and July 1, 1988, and foreclosed any other similar claims from being brought in the future, (b) confirmed the validity of, and the rights arising from or relating to, permits issued to convey Hawaiian home lands to third parties since the Act's enactment through June 30, 1988 and (c) established the Hawaiian Home Lands Trust Fund into which a total of $600,000,000 in cash or equivalent land value must be paid by annual payments of $30,000,000 for 20 years beginning in fiscal year 1995-1996.

In addition, in 1991, the Legislature enacted Hawaii Revised Statutes chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a separate process to resolve claims unique to individual beneficiaries of the Hawaiian Home Lands Trust for actual economic damages suffered out of or resulting from a breach of trust caused by an act or omission of an officer or employee of the State, or any person acting in behalf of a state agency since Statehood (August 21, 1959) through June 30, 1988. Claims were required to be filed no later than August 31, 1995.

The process is a three-step process which begins with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel. The Panel is required to provide the Legislature with findings and an advisory opinion for each claim no later than 20 days before the beginning of the 1997 Regular Session. They are not binding on the Legislature.

The Legislature's review and consideration of the Panel's findings and advisory opinions for all claims, and appropriations of funds to pay the actual economic damages it deems appropriate, constitute the second step of the process.

The third step, a de novo civil action which must be commenced between October 1, 1997 and September 30, 1998, is available to claimants who are not satisfied with the Panel's advisory opinion or the Legislature's response to the Panel's recommendation.

Timely filed were 4,327 claims. Of that total, 3,836 claims were accepted for investigation and further processing by the Hawaiian Claims Office. Thereafter 44 claims were voluntarily dismissed leaving a total of 3,792 claims for resolution by the Panel. Included among the 3,792 claims are claims for economic damages suffered by individuals while waiting to receive a homestead lease. The Panel has found that claims for actual economic damages arising out of time spent on the waiting list as a consequence of trust mismanagement are compensable.

The Attorney General believes that claims of this type were resolved and fully compensated by the Legislature's appropriation and 20-year commitment to make annual deposits of $30,000,000 in the Hawaiian Home Lands Trust Fund in Act 14, Special Session Laws of Hawaii (1995), and are not compensable under this process.

To date, approximately 317 cases or 8% of the cases submitted to the Panel have been fully concluded by way of settlement, dismissal or findings of nonliability or liability. The Panel has issued final advisory decisions which recommend an award of monetary damages in 40 cases, totaling $1,501,215, ranging from $938 to $199,000. Such advisory decisions will be presented to the 1997 Legislature for disposition.

Thus far, the Panel has forwarded to the Legislature reports on fewer than 3% of the claims filed. The Legislature has not acted upon any advisory opinion which recommends a monetary award. It is not possible to reasonably estimate the aggregate amount of monetary damage which may be recommended by the Panel, proffered by the Legislature or awarded by the courts at this time.

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

Introduction

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 Constitution does not require any action by the Legislature with respect to the recommendations as submitted. The "Report of the First Tax Review Commission" was submitted to the Thirteenth Legislature of the State on December 17, 1984. The Second Tax Review Commission was convened on July 1, 1988; its report was submitted to the Fifteenth State Legislature on December 1, 1989. A third tax review commission convened on September 26, 1995, and is expected to issue its report in final form on December 16, 1996.

The taxes described below account for substantially all of the tax revenues of the State. 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 all 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 the Special Fund. The revenues and expenditures for the last five fiscal years of these two funds are set forth hereinafter.

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 shall be exercised exclusively by the counties.

The description of the taxes below is subject in all cases to subsequent legislation.

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.

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 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 fiscal 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. Pursuant to this Constitutional requirement, the Legislature enacted acts in 1981 through 1995, inclusive, providing for tax credits amounting to $78.5 million for the taxable year 1981, $20 million for the taxable year 1982, approximately $1 million for each of the taxable years 1983 through 1988, approximately $106.8 million for the taxable year 1989, approximately $54 million for the taxable year 1990, and approximately $900,000 each for the taxable years 1991 through 1995, to qualified resident individual taxpayers. The General Fund balance for FY 1995 fell below five percent of General Fund revenues, therefore the Legislature did not provide for a rebate for the 1996 tax year.

As part of the annual financial planning and executive budgeting process, the Department of Budget and Finance makes projections of the 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 TO DATE—General Fund Financial Plan: 1995-1997**" in Part I of Appendix B for further information.

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

Taxes Deposited in General Fund

KIND OF TAX	MEASURE AND RATE OF TAX
Net Income (Individual and Corporate)	Tax rates for individuals as well as estates and trusts range from 2.0% to 10.0% of taxable income. The allowable standard deduction amounts vary by filing status. The standard deduction amount for married filing joint return or surviving spouse with dependent child is $1,900; single is $1,500; head of household is $1,650; and married filing separately is $950. Tax rates for corporations are 4.4% up to $25,000, 5.4% over $25,000 but not over $100,000 and 6.4% over $100,000 of taxable income.
Estate and Transfer	Every resident decedent is taxed on the transfer of a taxable estate equal to federal credit for estate death taxes allowed by the federal Internal Revenue Code section 2011. A credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For a nonresident decedent, the tax is based on the transfer of taxable estate located in Hawaii by use of a ratio. An exemption afforded to a resident estate is equally applicable to nonresidents who reside in states with reciprocal exemption provisions, with certain exceptions. For generation-skipping transfers after June 30, 1994, a tax in an amount equal to the federal credit is imposed on every generation-skipping transfer of (1) property located in Hawaii and (2) property from a resident trust.

KIND OF TAX	MEASURE AND RATE OF TAX
General Excise (Gross Income)	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is 1/2 of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theater, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents and solicitors who are taxed at .15%. The licensing fee for general excise tax licensees and nonprofit organizations is a one-time fee of $20.
Transient Accommodations Tax	This is a tax levied on the furnishing of a room, apartment, suite or the like which is 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. The tax is imposed at the rate of 6% (1/6 of which is dedicated to convention center purposes and 95% of the remaining 5/6 of which is distributed to the counties). The registration fee for transient accommodations operators is a one-time fee of $5 for each registration consisting of 1 to 5 units and $15 for 6 or more units.
Use	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase or value of the tangible personal property purchased or imported, whichever is applicable. Rates: 1/2 of 1% if for resale at retail, 4% if for use or consumption.
Public Service Company	Nature of Tax—(1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar or fiscal year. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, 1/2 of 1%. (iii) All other revenues: if ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, the tax rate increases .2675%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measurement of assessment—general rule: Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar or fiscal year. (b) Rate: 4% of gross income.
Banks, Building and Loan, Financial Services Loan Companies and Certain Other Financial Corporations	(1)(a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax 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 net income tax. Specific exempt activities are enumerated in Chapter 237, HRS. (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Income Tax Law with modifications. (3) Rate: 7.92% of taxable income.

KIND OF TAX	MEASURE AND RATE OF TAX
Liquor	This is a gallonage tax imposed upon "dealers" as defined in the law and others who sell or use liquor. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. Effective July 1, 1996, the tax rates per wine gallon are $5.87 on distilled spirits, $2.06 on sparkling wine, $1.34 on still wine, $.83 on cooler beverages, $.91 on beer other than draft beer, and $.51 on draft beer. The liquor tax rate increases on July 1, 1997 and July 1, 1998 for the 6 liquor categories by 1% on distilled spirits and 1.25% for the remaining categories of liquor, rounded to the nearest $.01.
Cigarette and Tobacco	"Wholesalers" as defined in the law and others must pay an excise tax on sale or use of tobacco products other than cigarettes, equal to 40% of the wholesale price, and a fixed tax rate of 3¢ on each cigarette. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.
Conveyance	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 10¢ (5¢ of which is transferred to the Special Fund) per $100 of the actual and full consideration paid or to be paid. Minimum $1 tax for each taxable transaction.
Insurance Premiums	Tax on authorized insurance companies (underwriters) based on premiums received in Hawaii. Generally in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance, 2.75% of gross premiums (as adjusted); Ocean Marine, .8775% on gross underwriting profit; Real Property Title Insurance, 4.265% of risk premium; and Other Insurance, 4.265% of gross premiums (as adjusted). In addition, a tax of 4.68% of gross premiums (as adjusted) is imposed on Surplus Lines insurance not otherwise taxed as set forth above. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of such taxes collected.

Special Fund

The Special Fund, which for accounting purposes is actually composed of several separate accounts, is used to account for revenues designated for particular purposes. The Special Fund is often of the same nature as the General Fund, the distinguishing characteristic being that the accounts in the Special Fund have legislative or other limitations imposed upon their use. *The Special Fund is not a source of payment for the Bonds*. The Special Fund is used primarily and extensively with regard to highway construction and maintenance, harbor and airport operations, hospital operations, housing and homestead programs, and certain programs in the area of education. The types of revenues credited to the various accounts in the Special Fund 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 proceeds of the taxes described below are deposited in the Special Fund. See "**REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS TO DATE—Actual Tax Collections and Distributions**" in Part I of Appendix B.

Taxes Deposited in Special Fund

KIND OF TAX	MEASURE AND RATE OF TAX
Fuel	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 24.8¢ to 32.5¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 24.8¢ to 32.5¢ per gallon on diesel oil and from 17¢ to 22¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways, however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed. Distributors are required to register and be licensed. Licenses are valid until revoked. An Environmental Response Tax of 5¢ per barrel or a fractional part of a barrel of petroleum product sold by a distributor to a retail dealer or end user is imposed after June 30, 1993.
Rental Motor Vehicle and Tour Vehicle Surcharge Tax	There is a rental motor vehicle surcharge tax of $2 a day or any portion of a day that a rental motor vehicle is rented or leased. The tax is levied on the lessor. There is also a tour vehicle surcharge tax of $65 per month for each tour vehicle in the 25 passenger seat and over category and $15 per month for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. There is a one-time $20 registration fee.
Motor Vehicle Tax	The State vehicle tax rate is 0.75¢ per pound for vehicles up to and including 4,000 pounds net weight, 1¢ per pound for vehicles over 4,000 pounds net weight and up to and including 7,000 pounds net weight, 1.25¢ per pound for vehicles over 7,000 pounds net weight and up to and including 10,000 pounds net weight, and a $150.00 flat rate for vehicles over 10,000 pounds. The State motor vehicle registration fee is $20.00. This tax is collected by the counties for remittance to the State.
Unemployment Insurance	This is a tax on wages paid by employing units with 1 or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. Each year, 1 of 8 contribution schedules is applicable depending on the condition of the UI Trust Fund. An employer's contribution rate is not less than 0.00% or greater than 5.40%. Through December 1, 1996, there generally is a .05% employment and training fund assessment on taxable wages paid to all employees by employing units with contribution rates that are not 0.00% or 5.40%.
Nursing Facility Tax	There is a nursing facility tax in the amount of 6% on nursing facility income. The tax is levied on the nursing facility operator. The tax shall apply to nursing facility income (as defined) arising from activities occurring before the earlier of July 1, 1997 and the end of the month following the time at which the tax no longer qualifies as permissible under Section 1903(w) of the Social Security Act.

Federal Monies

State departments, agencies, and institutions annually receive substantial federal grants. See "**FEDERAL GRANTS**" in Part I of Appendix B. These amounts account for about 15% of the total State budget for each year, *but are not a source of payment for the Bonds*. Approximately 48% of the federal grants are to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 22% of such federal funds were used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 19% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 7% of such federal receipts. Other programs account for the balance of such receipts.

Budget System

Pursuant to the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of State was adopted. The purpose of this act is 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 time frame 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 act provides that the Director of Finance may modify or withhold planned expenditures at any time if such expenditures would be in excess of authorized levels of service or in the event that receipts and surpluses are insufficient to meet authorized expenditure levels.

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.

In not fewer than 30 days before the Legislature convenes in regular session in an odd-numbered year, the Governor shall submit to the Legislature the budget of the executive branch of the State 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 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 shall thereupon be presented to the Governor. If the Governor approves it, the Governor signs the bill and 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 which 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 at 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.

Expenditure Control

Expenditure Ceiling. The 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 appropriation 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 considering the fiscal year 1978-1979 General Fund appropriations as the base appropriation amount and adjusting such amount by the applicable "state growth." State growth 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 and Chief Justice are held accountable to the public for any appropriations requested in their respective branch of government in excess of their expenditure ceilings.

The Constitution requires that provision for the control of the rate of expenditures of appropriated State monies, 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.

Appropriations for fiscal years 1995 and 1996 did not exceed the expenditure ceiling, and currently approved appropriations for fiscal year 1997 are also within the expenditure ceiling.

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. However, monies can be withheld by the Department of Budget and Finance to insure the solvency of each fund. Expenditure plans as to program requirements are prepared at the beginning of each fiscal year by the respective departments of State government. After the expenditure plans are evaluated by the Department of Budget and Finance, quarterly allotments are made to each department as prescribed by Chapter 37, HRS. Within each quarter, allotted amounts for personnel costs cannot be expended by a department for other expenditures without prior concurrence from the Department of Budget and Finance. Unexpended balances from prior quarters are automatically restricted unless approval is obtained from the Department of Budget and Finance. 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. If federal funds allocable to a particular item are greater than had been estimated, the General Fund share is reduced proportionately. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably.

The Office of the Governor approves all consultant contracts as to scope, justification, need, and cost. In order to realize savings from bulk acquisition, central purchasing is utilized for certain office and medical supplies, equipment, and motor vehicles. The Department of Accounting and General Services performs pre-audits on each financial transaction before any payment can be made, except for the University of Hawaii and the Department of Education, which have statutory authority to pre-audit payments made by themselves. 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.

Annual Capital Improvement Expenditure. Annual capital improvement expenditure plans are also prepared to control and monitor allotments and expenditures. Prior to the initiation of a project, it is reviewed for adherence to the State's General Plan 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 insure that the lowest possible costs are obtained. Change orders during construction must be substantiated and approved by the expending agency. The need for additional funds must be approved by the Governor. An assessment of the quality of construction material being utilized is performed on a continuous basis. Individual guarantees and warranties are inventoried and monitored as to the adequacy of stipulated performances.

In order to avoid any conflicts that may be created by the capital improvement program, the State has developed an overall State Plan, which identifies both long and short-range goals and general implementation directions. The general plans for each county must conform to this State Plan. 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. This fund was funded with the transfer of $90 million from general excise tax collections in each of the fiscal years 1990, 1991, and 1992. The proceeds of general obligation bonds of the State in the amount of $90 million were deposited in such fund in each of the fiscal years 1993, 1994, 1995 and 1996. The amounts in such fund are to be used solely for capital improvements and facilities under the jurisdiction of the State Department of Education, except public libraries.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

The Constitution grants public employees in the State the right to organize for the purpose of collective bargaining. Chapter 89, HRS, provides for 13 recognized bargaining units for all employees throughout the State including 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. 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, other than cost items relating to the bargaining unit for county policemen, are subject to appropriation. 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 (10) bargaining units, including fire fighters and police officers, a strike is prohibited by law although those units have available to them an alternative process for mediation and final and binding arbitration to settle any impasse.

White-collar workers, white-collar supervisors and professional and scientific employees have contracts effective until June 30, 1997. Under their respective contracts, the agreements have been reopened. The reopener is limited to Article 51, Salaries; Article 52, Health Fund; three other cost articles; and three non-cost articles unless modified by mutual consent. Such amended articles shall remain in effect to and including June 30, 1997. All other bargaining units agreed to contract extensions generally effective until January 1, 1997. White-collar workers, white-collar supervisors and professional and scientific employees are at impasse and have arbitration decisions pending. Teachers and university faculty, having completed 60-day cooling-off periods, can legally strike upon 10 days' notification. The teachers and the university faculty have filed a challenge to the payroll lag authorized by Act 80, Session Laws of Hawaii 1996, which, if successful, will increase General Fund operating costs from the amount planned by $47 million in fiscal year 1997. See "**Payroll Lag**" below and "**GENERAL FUND FINANCIAL PLAN: 1995-1997**" in Part I of Appendix B. In separate arbitration rulings for the two year contract period, the firefighters were granted a 6.7% pay increase, the police were awarded a 7.25% increase, and the nurses were granted a 5.98% increase. All other bargaining units are still negotiating or are in the process of arbitration.

Payroll Lag

The payroll lag referred to above under "**Employee Relations**" was established by Act 80, SLH 1996, to convert the State's payroll system from a predicted payroll to an after-the-fact payroll and to save the State $47 million by deferring the payment of payroll by one pay period in fiscal year 1997. The payroll lag is scheduled to be in effect from January 1, 1997 through September 15, 1997. During that time, State employees will be paid one day later each pay period until a two-week lag is reached. As described under "**Employee Relations**," two public worker unions have challenged the payroll lag before the Hawaii Labor Relations Board; the matter is unresolved.

State Employees' Retirement System

The Employees' Retirement System of the State of Hawaii began operation on January 1, 1926, having been established by the Legislature in the preceding year. Since that date, the Retirement System has experienced a rapid growth in membership and assets. The System covers all regular employees of the State and each of its counties, including judges and elected officials. On March 31, 1995, the System's membership was comprised of approximately 58,498 active employees, 2,189 inactive vested members, and 25,360 pensioners and beneficiaries. The total assets of the System amounted to approximately $5.9 billion as of June 30, 1995.

The statutory provisions of Chapter 88, HRS govern the operation of the Retirement System. Responsibility for the general administration and proper operation of the Retirement 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 Retirement System (two general employees, one teacher, and one retirant) who are elected by the members and retirants of the Retirement 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.

The Retirement System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by The Segal Company, consulting actuary to the Board of Trustees, to determine the total employer contribution requirement. The total actuarially determined employer contribution is reduced by investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the Retirement System. Beginning with the 1995 fiscal year and each year thereafter, cumulatively up to 100%, the Retirement System will be able to retain 10% of its excess earnings to reduce the unfunded pension benefit obligation. In accordance with the statutory funding provisions (Section 88-122 of Chapter 88, HRS), the total actuarially determined employer contributions to the pension accumulation fund is comprised of the normal cost plus a level annual payment required to amortize the unfunded accrued liability over a period of 28 years from July 1, 1988. The actuarial cost method used to calculate employer contributions is the frozen initial liability method.

Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and other public safety employees; and (2) all other employees who are members of the Retirement System.

Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the Employees' Retirement System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, judges, elected officials, chief clerk, assistant clerk, sergeant at arms and assistant sergeant at arms of each house of the Legislature, members of the Governor's cabinet and deputy directors, attorney general investigators, narcotics enforcement investigators, water safety officers, public safety investigations, staff investigators, and persons employed in positions not covered by Social Security are excluded from the noncontributory plan.

As of March 31, 1995, the noncontributory plan covered approximately 43,749 active employees or 75% of all active members of the Retirement System. The number and percentage of noncontributory plan members will increase in the future because most new employees are required to be members of the noncontributory plan.

See "**PENDING LITIGATION**" concerning certain lawsuits about retirement benefits filed against the Retirement System.

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

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to certain economic factors in the State under the captions "**State of the Economy**" through and including "**Construction**" and "**State Fiscal Position**" has been excerpted from the September 1996 *Quarterly Statistical and Economic Report* ("QSR") published by the State of Hawaii Department of Business, Economic Development and Tourism ("DBEDT"). The remaining material has been extracted from The State of Hawaii Data Book 1993 and 1994, the reports and monthly review published by the Bank of Hawaii and from the other sources indicated. There are also included unpublished data compiled by DBEDT.

Unless otherwise stated, the following information is historical; estimated figures are used only when the definitive figures are unavailable. The text refers to certain enumerated tables found under "**GENERAL ECONOMIC INFORMATION.**" Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position. See "**APPENDIX B—FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII.**"

The State estimates that the total Gross State Product (the value of all goods and services produced and consumed within the State) totalled approximately $32.7 billion in fiscal year 1995, which is an increase of 2.4% over fiscal 1994. Measured in constant 1987 dollars, the fiscal year 1995 increase totalled 0.5%. As hereinafter described, based on historical data the State estimates that the private sector accounted for approximately 80% of the Gross State Product, with the services sector the largest component of the private sector. Government and government enterprises accounted for the remaining 20% of Gross State Product. Measuring the State's economy on the basis of the number of jobs in these different sectors reveals a similar picture, with the private sector employing approximately 80% of the labor force. Retail trade and services and miscellaneous jobs account for the largest share (nearly 60%) of private sector employment.

State of the Economy

Though weakening somewhat in comparison with the first quarter of 1996, economic recovery continued in the second quarter of 1996. The number of visitors increased 3.7% in the second quarter of this year, following an 8.9% increase in the first quarter, both relative to the same period in 1995. Overall, the number of visitor arrivals increased 6.3% from the first half of 1995 to the first half of 1996 (table 1). The increase was mainly due to the 11.4% growth of Eastbound arrivals, primarily from Japan. Westbound arrivals also increased 3.2% in the first half of 1996, relative to the first half of 1995, continuing the growth observed in the first quarter of 1996.

Reflecting the increase in visitor arrivals, transient accommodation tax ("TAT") revenues and the general excise tax base for hotel services grew 11.7% and 14.7%, respectively, over the second quarter of last year (table 1). For the first half of the year, TAT revenues and the hotel tax base increased 18.7% and 11.4%, respectively, from the same period in 1995. The retailing tax base grew 5.1% in the second quarter of 1996 over the year-earlier quarter; for the first half of 1996, the retailing base was 6.1% higher than in the first half of 1995. The average hotel occupancy rate also showed an increase of 0.7 percentage points (to 72.5%) from the second quarter of 1995 to the second quarter of 1996.

The agriculture and food processing industries also showed significant improvement. The general excise tax for producing increased 14.7% in the second quarter of 1996, relative to the year-earlier figure. This was the largest annual growth in the quarterly figure since the third quarter of 1993. Wage and salary jobs in agriculture also grew by 5.8% in the second quarter of 1996 over the year-earlier quarter (table 1). For the first half of 1996, agricultural wage and salary jobs were 4.3% higher than in the first half of 1995.

The general excise tax base for contracting grew by 6.7% in the second quarter over the year-earlier quarter and by 6.5% from the first half of 1995 to the first half of 1996 (table 1). These were the highest annual rates of growth for either a quarter or a half year since 1991. On the other hand, the number of wage and salary jobs in the industry continued to fall from 26,200 in the second quarter of 1995 to 24,200 in 1996, a 7.6% drop (table 4). For the first half of 1996, construction jobs were 7% lower than in the year earlier.

Despite growth in key sectors of the economy, the number of non-agricultural wage and salary jobs declined 1.0%, from 535,600 jobs in the first half of 1995 to 530,250 jobs in the first half of 1996, a loss of more than 5,300 jobs (table 4). Most of the loss in jobs was due to the restructuring of the State government (3,050 jobs) and the decline in construction jobs (1,850 jobs) as previously discussed (table 4). In contrast, as noted above, the number of jobs in agriculture rose from an average of 7,000 jobs in the first half of 1995 to 7,300 jobs in the first half of 1996 (table 4). The hotel industry also added 1,000 jobs, from an average of 37,800 jobs in the first half of 1995 to 38,800 jobs in the first half of 1996, or an increase of 2.6% (table 4).

Although the total number of salary and wage jobs declined in the second quarter of 1996, the number of employed persons increased 1.4%, from 547,700 in the second quarter of 1995 to 555,500 in the second quarter of 1996 (table 1). The data are preliminary, but the divergent trends of declining jobs and rising employment may indicate either a rise in the number of proprietors or a fall in the number of multiple job holders.

Perhaps reflecting the lack of growth in wage and salary jobs, the latest U.S. Bureau of Economic Analysis ("BEA") data indicate that personal income increased only 1.1% in the first quarter of 1996, relative to the previous year figure (table 4). The increase is smaller than the consumer inflation rate of 2.2% in the first half of 1996 and was mainly due to an increase in transfer payments. This performance is the slowest rate of annual growth in quarterly personal income since 1980 other than the third quarter of 1992—the quarter following Hurricane Iniki—and the fourth quarter of 1993.

Outlook of the Economy

Because available data on prices and visitor arrivals are consistent with earlier projections, DBEDT continues to forecast moderate inflation and modest visitor growth for the remainder of [1996]. The June 1996 issue of the QSR reported DBEDT's inflation expectation, as measured by changes in the Honolulu Consumer Price Index ("CPI"), at a low level of about 2 to 2.5% in 1996 and 1997. The latest data released by the U.S. Bureau of Labor Statistics in August 1996 indicated the Honolulu CPI increased 2.2% from the first half of 1995 to the first half of 1996. DBEDT also projected the number of visitor arrivals to increase between 5 to 7% from 1995 to 1996. The latest data from the Hawaii Visitors and Convention Bureau indicated that the number of visitor arrivals increased 6.3% in the first half of 1996, compared to the same period in the previous year (table 1.) Based on DBEDT's visitor trend model, DBEDT expects growth in the total number of visitors to be about 3.5 to 4.0% from the second half of 1995 to the second half of 1996. As a result, for 1996 as a whole, the number of visitors to Hawaii in 1996 will grow by about 5% over 1995 levels. After 1996, the number of visitors should continue to grow at an annual average rate of 3 to 4%, based on mainland forecasts of annual growth in the U.S. economy of 2-3% in 1997 and 1998.

However, recent economic performance has caused DBEDT to lower its projections for jobs and personal income growth in 1996. In the June 1996 issue of the QSR, DBEDT projected that the total number of jobs and personal income would grow 1.1% and 3.9%, respectively, from 1995 to 1996. Preliminary employment data from the Hawaii Department of Labor and Industrial Relations ("DLIR") indicated the total number of jobs actually declined 1.0 from the first half of 1995 to the first half of 1996. In addition, BEA released preliminary data indicating that personal income grew only 1.1% in the first quarter, relative to the year-earlier figure (table 5). This followed growth of 1.8% from the fourth quarter of 1994 to the fourth quarter of 1995. DBEDT has therefore lowered the 1996 growth rate projections of total jobs and personal income to 0.0% and 2.7%, respectively. Beyond 1996, the outlook is more optimistic. As the slow economic expansion continues, the State economy is expected to grow 2.6% in 1997, slightly better than the 2.1% growth forecast for the U.S. economy.

Table 1
SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	UNIT	2nd QUARTER 1996 NUMBER	2nd QUARTER 1996 % CHANGE YEAR AGO	YEAR-TO-DATE NUMBER	YEAR-TO-DATE % CHANGE YEAR AGO
CIVILIAN LABOR FORCE[1]	PERSONS	592,200	1.7	588,700	1.4
Civilian Employment	PERSONS	555,533	1.4	553,500	1.3
Civilian Unemployment	PERSONS	36,667	5.0	35,150	4.2
UNEMPLOYMENT RATE[2]	%	6.2	0.2	6.0	0.1
TOTAL JOBS	JOBS	573,200	-0.9	573,150	-1.0
TOTAL NON-AGR. WAGE & SALARY[1]	JOBS	530,500	-1.0	530,250	-1.0
Contract Construction	JOBS	24,167	-7.6	24,450	-7.0
Manufacturing	JOBS	16,500	-2.2	16,550	-1.6
Trans., Comm., Utilities	JOBS	40,433	-0.9	40,550	-0.1
Trade	JOBS	134,350	-0.2	134,500	-0.3
Retail	JOBS	113,050	-0.1	113,200	-0.2
Finance, Insur., & Real Estate	JOBS	36,867	-0.4	36,950	-0.4
Services & Miscellaneous	JOBS	165,100	0.3	165,000	0.1
Hotels	JOBS	38,883	3.6	38,800	2.6
Government	JOBS	113,117	-2.2	112,050	-2.5
State	JOBS	65,950	-3.9	65,050	-4.4
Federal	JOBS	30,817	0.0	30,700	0.2
AGRICULTURE WAGES AND SALARIES	JOBS	7,333	5.8	7,300	4.3
AGRICULTURE SELF-EMPLOYED	JOBS	3,850	3.1	3,750	1.8
NON-AGR. SELF-EMPLOYED	JOBS	31,517	-1.7	31,800	-2.4
STATE GENERAL FUND TAX REVENUES[3]	$1,000	667,711	15.6	1,392,995	11.5
TRANS. ACCOM. TAX REVENUES[2]	$1,000	30,146	11.7	64,339	18.7
GENERAL EXCISE & USE TAX BASE	$1,000	11,662,000	5.9	23,985,000	4.8
Retailing Tax Base	$1,000	3,757,000	5.1	7,963,000	6.1
Services Tax Base	$1,000	1,430,102	9.0	2,802,513	4.5
Contracting Tax Base	$1,000	811,888	6.7	1,636,433	6.5
Hotel Rental Tax Base	$1,000	512,649	14.7	1,030,690	11.4
Producing Tax Base	$1,000	122,401	14.7	246,611	7.7
VISITOR ARRIVALS	PERSONS	1,650,170	3.7	3,403,080	6.3
Westbound Visitors	PERSONS	991,400	2.1	2,046,160	3.2
Eastbound Visitors	PERSONS	658,770	6.3	1,356,920	11.4
HOTEL OCCUPANCY RATES[2]	%	72.5	0.7	77.1	0.9

Notes: 1 Labor force and jobs averages are based on monthly rounded data. Labor force data were also rebenchmarked in April of this year. Self-employed data will no longer be published by Department of Labor and Industrial Relations.

2 Change represents absolute change in rates rather than percentage change in rates.

3 Tax period ended on a weekend, therefore some of the collections may be shifted to the next month.

Source: Hawaii Dept. of Labor & Industrial Relations, Dept. of Taxation, Hawaii Visitors and Convention Bureau, and PKF-Hawaii. Compiled by Economic Planning Information System, READ, DBEDT.

Table 2
ACTUAL AND FORECASTED KEY ECONOMIC INDICATORS
FOR HAWAII: 1993 TO 2000

Economic Indicators	1993 (actual)	1994 (actual)	1995 (actual)	1996 (forecast)	1997 (forecast)	1998 (forecast)	1999 (forecast)	2000 (forecast)
TOTAL POPULATION (in thousands)	1,165.5	1,178.3	1,186.8	1,198.7	1,210.7	1,222.8	1,235.0	1,247.3
VISITOR ARRIVALS (in thousands)	6,124.2	6,430.3	6,629.2	6,958.5	7,236.8	7,490.1	7,752.2	8,023.6
HONOLULU CPI-U (1982-84=100)	160.1	164.5	168.1	171.8	176.1	181.4	186.8	192.4
PERSONAL INCOME (in million dollars)	27,466.0	28,335.0	29,340.0	30,124.6	31,573.4	33,178.8	34,847.3	36,627.9
PERSONAL INCOME (in $1987 million)	19,715.7	19,791.4	20,052.2	20,145.3	20,599.1	21,016.0	21,430.0	21,868.9
TOTAL JOBS (in thousands)	589.7	582.1	576.1	576.1	586.9	597.2	607.9	620.1
GROSS STATE PRODUCT (in million dollars)	31,106.9	31,947.9	32,723.7	33,999.9	35,699.9	37,592.0	39,546.8	41,682.3
REAL GROSS STATE PRODUCT (in $1987 million)	25,320.0	25,311.5	23,297.8	23,841.6	24,470.9	25,017.3	25,551.6	26,147.0
GROSS STATE PRODUCT DEFLATOR (1987=100)	122.9	126.3	140.5	142.6	145.8	150.2	154.7	159.4
Annual Percentage Growth								
TOTAL POPULATION (in thousands)	1.1	1.1	0.7	1.0	1.0	1.0	1.0	1.0
VISITOR ARRIVALS (in thousands)	(6.0)	5.0	3.2	5.0	4.0	3.5	3.5	3.5
HONOLULU CPI-U (1982-84=100)	3.2	2.7	2.2	2.2	2.5	3.0	3.0	3.0
PERSONAL INCOME (in million dollars)	5.2	3.2	3.6	2.7	4.8	5.1	5.0	5.1
PERSONAL INCOME (in $1987 million)	1.9	0.5	1.3	.5	2.3	2.0	2.0	2.0
TOTAL JOBS (in thousands)	(0.2)	(1.3)	(1.0)	0.0	1.9	1.8	1.8	2.0
GROSS STATE PRODUCT (in million dollars)	3.4	2.5	2.4	3.9	5.0	5.3	5.2	5.4
REAL GROSS STATE PRODUCT (in $1987 million)	0.3	0.0	0.5	2.3	2.6	2.2	2.1	2.3
GROSS STATE PRODUCT DEFLATOR (1987=100)	3.1	2.5	1.9	1.5	2.3	3.0	3.0	3.0

Source: Research and Economic Analysis Division, DBEDT

Labor Force and Jobs

The employment data display contradictory trends in the labor market. DLIR's industry survey indicated that the total number of non-agricultural salary and wage jobs declined 1.0% from the second quarter of 1995 to the second quarter of 1996, continuing the trend of declining jobs since the fourth quarter of 1992. In contrast, the household survey indicated that the number of employed persons increased 1.4% over the same period (table 3). According to DLIR, these preliminary data will be revised in April 1997, and the revision may resolve the contradiction. At present, data on persons employed appear more consistent with data on tourism and tax revenues.

The breakdown of jobs by industry indicated that about half of the 5,500 jobs lost from the second quarter of 1995 to the second quarter of 1996 was due to the restructuring of the state government. The number of state government workers fell from 68,700 in the second quarter of 1995 to 66,000 in the second quarter of 1996. This was the fourth consecutive quarter of decline in state government jobs, a phenomenon unseen since the second quarter of 1973. The number of jobs in the construction industry averaged only 24,200 in the second quarter of 1996, or a loss of 2,000 jobs as compared to the same period in 1995. Jobs in retail trade declined 0.1% in the second quarter of 1996 after a decline of 0.2% in the first quarter, both compared to figures in the same periods in 1995.

Employment in services and trade, the two largest sectors of the economy, showed slight improvement in the second quarter. The number of jobs in services increased 0.3% in the 1996 second quarter as compared to zero growth in the first quarter, both relative to the same quarter in the previous year. The number of jobs in hotel and agriculture displayed growth of 3.7% and 5.8%, respectively, from the second quarter of 1995 to the second quarter of 1996.

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(in thousands of persons)

Year	Civilian Labor Force	% Change[1] Civilian Labor Force	Civilian Employment	% Change[1] Civilian Employment	Civilian Unemployment Rate
1980	439.0	4.3	418.0	5.8	4.8
1981	451.0	2.7	427.0	2.2	5.3
1982	461.0	2.2	430.0	0.7	6.7
1983	472.0	2.4	442.0	2.8	6.3
1984	472.0	0.0	445.0	0.7	5.7
1985	479.0	1.5	452.0	1.6	5.6
1986	492.0	2.7	468.0	3.5	4.9
1987	514.0	4.5	494.0	5.6	3.9
1988	518.0	0.8	502.0	1.6	3.1
1989	524.0	1.2	511.0	1.8	2.5
1990	542.0	3.4	527.0	3.1	2.8
1991	573.7	5.9	557.8	5.8	2.8
1992	584.1	1.8	557.8	0.00	4.5
1993	586.0	0.3	560.9	0.6	4.3
1994	582.9	-0.5	547.6	-2.4	6.1
1995	579.8	-0.5	545.8	-0.3	5.8
1996 (2nd Qtr)	592.2	1.7	555.5	1.4	6.2

[1]Percent change is over comparable period.

Source: Hawaii State Department of Labor and Industrial Relations.

Table 4

JOBS
(in thousands of persons)

Series	1991	1992	1993	1994	1995	1996 (2nd Qtr)
Total Jobs	587.1	590.3	589.3	581.9	576.1	573.1
Agriculture Wage and Salary Jobs	9.6	9.3	8.6	8.0	7.3	7.3
Non-Agricultural Wage and Salary Jobs	539.1	542.8	538.9	536.2	532.7	530.5
Self-Employed Agriculture	4.3	4.3	4.0	3.8	3.8	3.9
Self-Employed Non-Agriculture	35.3	34.8	38.3	34.1	32.3	31.5
Construction Jobs	33.6	31.5	32.3	29.2	26.4	24.2
Manufacturing Jobs	20.5	19.7	19.2	17.8	16.9	16.5
Transportation Jobs	32.9	32.9	31.3	31.9	30.7	30.4
Communication Jobs	7.3	6.9	6.4	6.3	6.2	6.3
Utilities Jobs	3.1	3.4	3.6	3.7	3.8	3.7
Retail Trade Jobs	113.7	113.2	111.1	111.8	114.1	113.1
Wholesale Trade Jobs	22.7	22.5	21.9	21.5	21.5	21.3
Finance, Insurance and Real Estate Jobs	37.4	37.9	39.0	38.4	37.1	36.9
Services and Miscellaneous Jobs	159.1	163.6	162.6	163.9	164.8	165.1
Hotel Jobs	40.8	41.0	38.0	38.0	37.9	38.9
Federal Government Jobs	33.9	33.3	31.8	31.3	30.7	30.8
State Government Jobs	60.3	62.6	64.2	65.0	63.9	66.6
Local Government Jobs	14.8	15.3	15.5	15.6	16.4	16.4

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

The latest data indicate that personal income growth is slowing. BEA revised its estimates of Hawaii personal income for 1995 when it released the first quarter 1996 number in June 1996. The revised numbers show stronger growth in the first three quarters of 1995 than previously reported and much slower growth in the fourth quarter of 1995—1.8% over the fourth quarter of 1994 as compared to the earlier estimate of 2.8% growth. Continuing this trend, BEA estimates that personal income grew 1.1% from the first quarter of 1995 to the first quarter of 1996. This growth was lower than the 2.2% increase in consumer prices over the same period.

The largest component of personal income, wage and salary disbursements, fell 0.2% in the first quarter of 1996 as compared to the year-earlier figure (table 5). This decrease reflects the decline in the number of wage and salary jobs. On the other hand, total earnings increased 0.2% from the first quarter of 1995 to the first quarter of 1996 as a result of a 3.0% increase in proprietors' income. Transfer payments also showed growth of 5.8% in the first quarter of 1996 over the year-earlier quarter.

By industry, earnings declined between the first quarter of 1995 and the first quarter of 1996 in construction (-9.2%); state and local government (-3.1%); finance, insurance, and real estate (-2.5%); and the federal military (-1.7%). These declines were offset by increases in earnings in transportation, communications and utilities (9.0%); retail trade (4.1%); and wholesale trade (2.3%).

Table 5
PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(millions of dollars)

Series	1995	1st Q. 1996	Percentage Change from Previous Year 1995	Percentage Change from Previous Year 1st Q. 1996
Derivation of Personal Income:				
Wage and salary disbursements	17,082	17,028	1.7	-0.2
Plus: Other labor income	1,912	1,883	2.7	-1.4
Plus: Proprietors' income	3,127	3,187	3.9	3.0
Total earnings	22,120	22,099	2.1	0.2
Less: Personal contribution for social insurance	1,314	1,299	1.9	-1.3
Net earnings	20,807	20,799	2.1	0.0
Plus: Dividends, interest, rent	3,971	3,964	6.9	0.4
Plus: Transfer payments	4,562	4,725	7.5	5.8
Personal income	29,340	29,488	3.5	1.1
Total Earnings by Industry:	22,120	22,099	2.1	0.2
Farm	236	247	3.1	6.9
Nonfarm	21,885	21,852	2.1	0.1
Private	16,568	16,567	2.7	0.6
Agriculture forestry, fish, other	150	151	1.4	0.0
Mining	22	23	22.2	4.5
Construction	1,520	1,426	-10.7	-9.2
Manufacturing	939	929	0.5	0.4
Transportation, communication, utilities	1,840	1,910	2.7	9.0
Wholesale trade	824	836	2.2	2.3
Retail trade	2,930	2,930	3.4	4.1
Finance, insurance, real estate	1,634	1,634	9.2	-2.5
Services	6,710	6,722	4.9	-0.3
Government and government enterprises	5,316	5,285	0.1	-1.3
Federal civilian	1,292	1,324	3.1	2.8
Federal military	1,485	1,468	-2.8	-1.7
State and local	2,540	2,493	0.4	-3.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Table 6

PERSONAL INCOME
(In millions of Dollars)

Year	Annual	Percentage Change
1980	10,431	14.8%
1981	11,243	7.8
1982	11,933	6.1
1983	13,117	9.9
1984	13,969	6.5
1985	14,910	6.7
1986	16,055	7.7
1987	17,182	7.0
1988	18,924	10.1
1989	20,957	10.7
1990	23,267	11.0
1991	24,545	5.5
1992	26,101	6.3
1993	27,466	5.2
1994	28,335	3.2
1995	29,340	3.5

Tourism

Approximately 1,650,200 visitors arrived in Hawaii in the second quarter of 1996, almost 60,000 more visitors than in the second quarter of 1995 (an increase of 3.7%). This growth followed a 8.9% increase in the first quarter relative to the year earlier. Over the same period, eastbound visitor arrivals increased 6.3% while westbound visitors increased only 2.1%. The rate of growth for eastbound visitors is considerably lower than in recent quarters, while the growth in westbound visitors continues the positive growth of the first quarter of 1996 after four quarters of decline in 1995.

The 72.5% hotel occupancy rate in the second quarter of 1996 is also an improvement over the 71.8% rate in the second quarter of 1995 (table 8). This is the fourth consecutive quarter of improving occupancy rates on an annual basis. Because of shorter average lengths of stay, the growth rate in average daily visitor census in the second quarter of 1996 was slightly lower than the growth rate of visitor arrivals.

DBEDT expects the number of visitors will continue to increase by about 4% in the second half of 1996 over the year earlier. The total number of visitor arrivals for 1996 should reach 6.9 to 7.0 million visitors. If accurate, this level would match or exceed the peak achieved in 1990, and it would mark the third consecutive year of positive growth in the number of visitor arrivals to Hawaii.

Table 7

VISITOR ARRIVALS AND AVERAGE DAILY VISITOR CENSUS

Year	Visitors Staying Overnight or Longer			Average Number of Visitors Present Daily		
	Westbound	Eastbound	**Total**	Westbound	Eastbound	**Total**
1980	3,046,132	888,372	3,934,504	86,722	9,709	96,431
1981	2,974,791	959,832	3,934,623	85,475	10,519	95,994
1982	3,278,525	964,400	4,242,920	94,811	10,570	105,381
1983	3,396,115	971,990	4,368,105	97,388	10,650	108,038
1984	3,721,380	1,134,200	4,855,580	106,268	12,400	118,668
1985	3,708,610	1,175,500	4,884,110	103,857	12,880	116,737
1986	4,256,390	1,350,590	5,606,980	118,152	14,800	132,952
1987	4,204,010	1,595,820	5,799,830	116,868	17,490	134,358
1988	4,264,730	1,877,690	6,142,420	115,739	25,650	141,389
1989	4,705,320	1,936,500	6,641,820	128,173	34,190	162,363
1990	4,719,730	2,251,450	6,971,180	125,626	36,441	162,067
1991	4,584,460	2,289,430	6,873,890	121,172	36,158	157,330
1992	3,980,120	2,533,760	6,513,880	113,806	39,526	153,332
1993	3,764,520	2,359,710	6,124,230	108,122	40,613	148,735
1994	3,997,820	2,432,480	6,430,300	115,281	43,966	159,247
1995	3,933,110	2,696,070	6,629,180	114,243	44,109	158,352
1996 1 Qtr.	1,054,760	698,150	1,752,910	128,267	46,417	174,684
2 Qtr.	991,400	658,770	1,650,170	107,520	41,330	148,850
Percentage Change from the Same Period in Previous Year						
1980	-3.0	8.2	-0.7	-3.2	7.9	-2.2
1981	-2.3	8.0	0.0	-1.4	8.3	-0.5
1982	10.2	0.5	7.8	10.9	0.5	9.8
1983	3.6	0.8	3.0	2.7	0.8	2.5
1984	9.6	16.7	11.2	9.1	16.4	9.8
1985	-0.3	3.6	0.6	-2.3	3.9	-1.6
1986	14.8	14.9	14.8	13.8	14.9	13.9
1987	-1.2	18.2	3.4	-1.1	18.2	1.1
1988	1.4	17.7	5.9	-1.0	46.7	5.2
1989	10.3	3.1	8.1	10.7	33.3	14.8
1990	0.3	16.3	5.0	-2.0	6.6	-0.2
1991	-2.9	1.7	-1.4	-3.5	-0.8	-2.9
1992	-13.2	10.7	-5.2	-6.1	9.3	-2.5
1993	-5.4	-6.9	-6.0	-5.0	2.8	-3.0
1994	6.2	3.1	5.0	6.6	8.3	7.1
1995	-1.6	10.8	3.1	-0.9	0.3	-0.6
1996 1 Qtr.	4.4	16.6	8.9	1.9	10.5	4.1
2 Qtr.	2.1	6.0	3.6	0.7	2.3	1.1

Sources: Department of Business, Economic Development & Tourism, *Hawaii Data Book*, 1987; *Hawaii Data Book*, 1993-94; Hawaii Visitors Bureau

Table 8

HOTEL OCCUPANCY RATE

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual
	Percentage				
1980	78.4	67.9	67.3	65.3	69.7
1981	72.0	66.5	70.2	64.1	68.2
1982	79.0	65.9	70.9	66.7	70.6
1983	75.2	68.1	71.7	66.5	70.4
1984	84.0	75.6	74.6	75.1	77.3
1985	88.1	69.1	75.0	72.5	76.2
1986	87.0	78.8	79.9	76.8	80.6
1987	88.0	77.1	82.1	77.8	81.2
1988	81.7	75.1	81.3	75.1	78.3
1989	85.9	73.9	81.0	75.7	79.1
1990	83.9	75.5	81.0	74.3	78.7
1991	68.2	70.7	79.7	72.5	72.8
1992	75.3	68.6	75.5	75.2	73.6
1993	75.3	67.9	73.8	72.5	72.4
1994	80.9	72.7	79.1	74.8	76.9
1995	80.2	71.8	80.2	75.4	76.7
1996	82.1	72.5	n/a	n/a	n/a

Note: n/a = not available.
Source: PKF Hawaii.

Construction

The value of construction completed increased 6.7% in the second quarter of 1996, following an increase of 6.0% in the first quarter, both relative to previous-year figures (table 10). For four quarters in a row, the value of construction completed came in above the $800 million level. This is a significant improvement over the first and second quarters of 1995.

Although construction output rose, the number of wage and salary jobs in the industry declined 7.0% from the first half of 1995 to the first half of 1996 (table 1). These apparently contradictory trends may indicate that the number of proprietors in the industry increased during the same period. Unfortunately, data are unavailable to verify this hypothesis at this time.

The value of private building authorizations, an indicator of future construction, declined substantially in the first half of 1996 relative to the same period in 1995 (table 10). Because of data unavailability, information for Maui could not be included in the figures for permit authorizations. Therefore the percentage changes from the first quarter of 1995 are calculated excluding the Maui data for 1995. The year-over-year figures also indicate that government contracts declined 29.3% in the second quarter of 1996, following an increase of 8.8% in the first quarter.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED

Year	Value of Construction Completed[1]	Private Building Authorization[3]				Government Contracts Awarded
		Total Private Authorizations	Residential	Commercial and Industrial[2]	Additions and Alterations	
	In millions of Dollars					
1980	1,569.7	1,219.2	680.2	331.5	207.5	244.5
1981	1,584.7	802.0	398.3	240.8	162.9	429.2
1982	1,323.9	683.1	299.2	242.9	141.1	391.6
1983	1,334.2	685.2	296.2	203.2	185.9	275.0
1984	1,227.2	581.5	327.7	104.0	149.9	388.7
1985	1,429.6	888.4	500.1	208.8	180.1	248.9
1986	1,802.1	1,025.2	455.5	267.4	302.3	422.7
1987	2,145.5	1,161.9	507.0	344.4	310.5	370.9
1988	2,529.0	1,546.5	689.2	541.2	316.1	665.0
1989	3,193.1	1,882.4	910.7	561.8	409.9	725.2
1990	4,121.6	2,101.8	952.3	698.0	451.5	825.5
1991	4,305.3	2,151.8	1,192.0	556.2	403.7	729.4
1992	3,950.4	1,751.9	811.1	532.3	408.5	1,159.1
1993	3,785.4	1,496.5	734.7	306.3	455.5	651.8
1994	3,317.3	1,612.9	849.3	370.3	393.4	693.0
1995	3,153.4	1,538.1	748.8	369.5	419.8	490.2
1995						
1 Qtr	757.6	428.7	227.1	102.7	98.9	149.4
2 Qtr	755.8	476.6	173.3	153.3	150.2	110.3
3 Qtr	811.7	379.4	221.3	62.8	95.3	105.2
4 Qtr	828.3	253.3	127.1	50.7	75.4	125.3
1996						
1 Qtr	803.0	280.4	118.3	78.4	83.7	162.5
2 Qtr	806.4[4]	235.6[3]	80.7[3]	56.1[3]	98.8[3]	78.0

Notes: [1]Value of construction subject to State excise tax, adjusted to reflect reporting delay of about one month.
[2]Includes hotels.
[3]Maui county data not included.
[4]DBEDT preliminary estimate.

Source: Hawaii State Department of Taxation; F. W. Dodge; County building departments; and First Hawaiian Bank.

Table 10

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED

Year	Value of Construction Completed[1]	Private Building Authorization[3]				Government Contracts Awarded
		Total Private Authorizations	Residential	Commercial and Industrial[2]	Additions and Alterations	
Percentage Change from the Same Period in Previous Year						
1981	1.0	-34.2	-41.4	-27.4	-21.5	75.5
1982	-16.5	-14.8	-24.9	0.9	-13.4	-8.8
1983	0.8	0.3	-1.0	-16.3	31.8	-29.8
1984	-8.0	-15.1	10.6	-48.8	-19.4	41.3
1985	16.5	52.8	52.6	100.8	20.1	-36.0
1986	26.1	15.4	-8.9	28.1	67.9	69.8
1987	19.1	13.3	11.3	28.8	2.7	-12.3
1988	17.9	33.1	35.9	57.1	1.8	79.3
1989	26.3	21.7	32.1	3.8	29.7	9.1
1990	29.1	11.7	4.6	24.2	10.1	13.8
1991	4.5	2.4	25.2	-20.3	-10.6	-11.6
1992	-8.2	-18.6	-32.0	-4.3	1.2	58.9
1993	-4.2	-14.6	-9.4	-42.5	11.5	-43.8
1994	-12.4	7.8	15.6	20.9	-13.6	6.3
1995	-4.9	- 5.1	-12.2	-0.5	6.1	-29.3
1995						
1 Qtr	-2.3	39.5	49.5	65.6	13.7	-3.3
2 Qtr	-12.8	5.3	-30.4	51.5	46.8	-15.3
3 Qtr	-5.6	18.6	1.8	-50.2	-16.4	-63.0
4 Qtr	1.6	-36.1	-44.0	-34.6	-18.2	-6.3
1996						
1 Qtr	6.0	-33.6	-49.2	-23.6	-13.3	8.8
2 Qtr	6.7[4]	-35.1[3]	-47.9[3]	-14.6[3]	-30.6[3]	-29.3

Notes:
1 Value of construction subject to State excise tax, adjusted to reflect reporting delay of about one month.
2 Includes hotels.
3 Maui county data not included, percentage change was calculated by subtracting Maui figure from the 1995 first quarter.
4 DBEDT preliminary estimate.

Source: Hawaii State Department of Taxation; F. W. Dodge; County building departments; and First Hawaiian Bank.

Federal Government Expenditures

Total expenditures by the federal government in the State for the fiscal years 1991 to 1995 were $6.2 billion, $6.5 billion, $7.3 billion, $7.6 billion and $7.5 billion, respectively. Defense expenditures fluctuated between $2.9 billion in 1991 and $3.2 billion in 1994. During 1995, defense expenditures were $2.9 billion. In calendar year 1995, the federal government employed 31,478 civilians and military personnel with a total payroll of $1.05 billion. Federal government outlays for both defense and nondefense activities are among the largest expenditures in the State.

The federal government maintains 26 military installations in the State, encompassing approximately 5% of the land area of the State. To reduce the number of military installations in the United States, and to ensure the impartiality of the decision-making process, the Defense Base Closure and Realignment Commission (the "Commission") was established pursuant to the Defense Base Closure and Realignment Act of 1993. On July 1, 1995, the Commission reported to President Clinton its final determinations as to the timely closure and realignment of domestic military installations. Barber Point Naval Air Station will be closed in 1999. Air squadrons will be redeployed to Seattle, Washington and to the Kaneohe Marine Corps Base, Hawaii.

Banks and Other Financial Institutions

As of June 30, 1996 total assets of all State-chartered financial institutions, including banks, trust companies, savings and loan associations and industrial loan companies were reported at $24.98 billion, a 3.2% increase over 1995. The five State-chartered banks accounted for $20.3 billion of such assets.

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's position in the center of the Pacific makes the State dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, surface transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas cargo shipments for the fiscal years 1993, 1994 and 1995 amounted to 10.8 million short tons, 9.5 million short tons and 9.1 million short tons.

To facilitate the movement of goods from the mainland, foreign and interisland ports, the State has seven deep draft harbors: Honolulu and Barbers Point (Oahu), Kahului (Maui), Hilo and Kawaihae (Hawaii), and Nawiliwili and Port Allen (Kauai). In addition, there are two medium draft harbors: Kaunakakai (Molokai) and Kewalo Basin (Oahu). The number of commercial vessels entering all ports was 8,872 in fiscal year 1994 and 9,102 in fiscal year 1995.

Honolulu Harbor is the hub of the State's Statewide System of Harbors, where it serves as a major distribution point of overseas cargo to the neighbor islands and a primary consolidation center for export overseas cargo. Overseas and interisland cargo tonnage handled through the Honolulu Harbor was 8.2 million short tons in fiscal year 1995 and 8.5 million short tons in fiscal year 1996.

The harbors are also continuously maintained through the issuance of appropriate special maintenance contracts to ensure the availability of safe and effective harbor facilities.

In 1981, the State created the Aloha Tower Development Corporation ("ATDC") to redevelop portions of the Honolulu Harbor (the "Aloha Tower Complex"). To implement the Aloha Tower Complex, in 1993, the Department of Transportation transferred to ATDC portions of Piers 5 through 23 pursuant to a lease agreement under which ATDC is required annually to reimburse the Department of Transportation for any losses in revenues caused by any action of ATDC or a developer, and to provide replacement facilities for maritime activities at no cost to the Department. ATDC thereafter entered into a sublease and other agreements with a private developer to develop portions of the Aloha Tower Complex at Piers 7, 8 and 9 into 200,000 square feet of a variety of commercial, retail and eating establishments, and to reimburse the Department its lost revenues and replacement facility costs on ATDC's behalf. During 1996, ATDC sent to its developer default notices, including the developer's failure to pay approximately $1.5 million in reimbursements to the Department. The developer's mortgage lender paid the deficiency and an additional $600,000. There have been continuing negotiations among various parties to seek new sources of financing to complete the development project. Neither the Department nor ATDC can predict the outcome of such negotiations or the receipt of future reimbursements.

Air Transportation. The State operates and maintains sixteen airports at various locations within the State. The principal airport which provides facilities for overseas flights (i.e., other than interisland flights within the State) is Honolulu International Airport (HIA) on the Island of Oahu. Kahului Airport on the Island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo on the Island of Hawaii, Keahole-Kona International Airport also on the Island of Hawaii and Lihue Airport on the Island of Kauai, also service direct flights to and from the continental United States.

HIA is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,001 feet and 12,360 feet) are among the nation's longest. With 29 overseas gate positions, 20 inter-island gate positions and public parking stalls for 5,300 vehicles, HIA is the most important in the State airports system.

According to the most recent publication of the Airports Council International, HIA is one of the busiest air terminals in the world, ranking 26th in the world and 17th in the United States in total passengers serviced in 1995. HIA is the fifth busiest airport in the Pacific Rim, after Los Angeles International Airport, Tokyo International Airport (Haneda), San Francisco International Airport and New Tokyo International Airport (Narita). In 1995, HIA recorded 375,926 aircraft operations.

Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft.

Statewide, combined incoming and outgoing overseas air cargo decreased from 324,028 tons in 1994 to 306,591 tons in 1995. Total statewide air cargo, both overseas and intra-state combined, decreased from 472,927 tons in 1994 to 455,765 tons in 1995. Although of high unit value, air cargo still remains relatively insignificant compared with surface shipping.

Land Transportation. The State has 4,455 miles of streets and highways, which include 138 miles of roads in State parks and national parks, and military roads open to the public. The State has an ongoing program of new construction, maintenance and upgrading to improve traffic flow and safety and relieve congestion. The H-3 freeway is currently under construction. When completed the H-3 freeway will connect the Kaneohe Marine Corps Air Station with the Halawa Interchange, which is adjacent to Pearl Harbor and Hickam Air Force Base.

Hawaii's major bus system operates island-wide on Oahu under the jurisdiction of the City and County of Honolulu. As of June 30, 1995, the bus system operated 525 buses. For the FY 1995, the buses carried an estimated 80.5 million passengers over a total of 19.4 million revenue miles.

Motor vehicle registration peaked in 1991 at 897,193 vehicles. It decreased to 885,761 in 1992, 879,112 in 1993, and 875,144 in 1994, and amounted to 877,756 in 1995.

Education

The State maintains a statewide public school system for elementary, intermediate and high schools. In the 1996-1997 school year, enrollment in this system totaled 188,486 in 246 public schools. The State also maintains a system of community colleges within the University of Hawaii system. In the fall of 1996, based on preliminary data, 47,380 students attended State colleges and universities, 18,252 of them on the Manoa Campus of the University of Hawaii. The University of Hawaii Manoa Campus offers bachelors, masters, and doctors degrees, as well as a certificate in teaching. The system of community colleges offers associate in arts and associate in science degrees and certificates, including certificates of achievement. The public school system at all levels (elementary, intermediate, high school, college and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. The State has established a State Educational Facilities Improvement Special fund to finance capital improvements and facilities under the jurisdiction of the State Department of Education. The fund is to be funded in the amount of $90 million each year from a portion of State general excise tax revenues and/or proceeds from the sale of any general obligation bonds authorized for the purposes of the State Educational Facilities Improvement Special Fund. The State issued general obligation bonds for such purpose in fiscal years 1994, 1995 and 1996.

State Housing Programs

Since 1970, the State has been undertaking 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 the construction thereof through the permanent financing thereof, and also attempts to solve or mitigate the housing problem by utilizing both the public and private sectors of the economy. To this end the State has undertaken, among other things, 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 consisting of construction financing (interim financing) for the partnership, including for land acquisition; construction and permanent financing to developers of residential housing; financing of construction 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 a dwelling unit constructed by the State or by a partnership which includes the State, for which loans the State receives a mortgage.

The State's housing programs are carried out by the Hawaii Housing Authority and the Housing Finance and Development Corporation. In 1987, the Legislature established the Housing Finance and Development Corporation within the then newly-created Department of Business and Economic Development for the purpose of assuming the Hawaii Housing Authority's housing finance, housing development and residential leasehold functions. The Housing Finance and Development Corporation was transferred to the Department of Budget and Finance for administrative purposes in 1989. The Hawaii Housing Authority retains its housing management functions and is administratively part of the Department of Human Services. The Housing Finance and Development Corporation is empowered under its enabling act to raise funds through the sale of revenue bonds and to make those funds available at affordable interest rates to meet the housing needs of low and moderate income persons and families and may issue bonds in the amounts and for the purposes for which Hawaii Housing Authority has unissued authorization. The bonds are special obligations of the Housing Finance and Development Corporation and do not impact the debt limit of the State, nor do the bonds constitute general obligations or so-called moral obligations of the State.

Statistical Summary and Forecast of Hawaii's Economy

The following tables present a statistical summary of Hawaii's economy and provide a forecast for Hawaii's economy:

STATISTICAL SUMMARY OF HAWAII'S ECONOMY

Prepared by Bank of Hawaii

		1990	1991	1992	1993	1994	Percent Change 1993/1992	1994/1993
RESIDENT POPULATION (As of July 1st)	Number	1,112,900	1,133,800	1,153,000	1,165,500	1,178,600	1.1	1.1
Civilian	Number	997,100	1,015,800	1,040,900	1,050,700	1,071,400	0.9	2.0
Military dependents	Number	60,600	63,300	57,000	62,200	54,300	9.1	-12.7
Armed forces	Number	55,200	54,700	55,100	52,700	52,800	-4.4	0.2
CIVILIAN LABOR FORCE	Number	542,000	566,000	576,000	578,000	583,000 N	0.3	0.9
Employment	Number	527,000	550,000	550,000	554,000	548,000 N	0.7	-1.1
Unemployment	Percent	2.8	2.8	4.5	4.2	6.1 N	-6.7	45.2
INCOME								
Gross state product	$ Millions	27,033.6	28,608.6	30,083.3	31,106.9	31,947.9	3.4	2.7
GSP in 1982 dollars	$ Millions	19,227.3	19,149.0	19,296.5	19,357.1	19,350.6	0.3	-0.0
Total personal income	$ Millions	23,266.0	24,539.0	26,100.5	27,466.1	28,335.3	5.2	3.2
Per capita personal income	Dollars	20,905	21,621	22,637	23,566	24,042	4.1	2.0
CONSUMER PRICE INDEX	1982-84=100	138.1	148.0	155.1	160.1	164.5	3.2	2.7
Food items	1982-84=100	137.8	145.9	148.5	152.9	153.4	3.0	0.3
Housing	1982-84=100	141.5	152.8	161.7	166.5	171.6	3.0	3.1
MANUFACTURING SALES	$ Millions	2,615.2	2,402.6	2,263.0	2,106.6	2,026.1	-6.9	-3.8
Sugar	$ Millions	353.3	302.0	280.5 E	292.9 E	290.2 E	4.4	-0.9
Pineapple	$ Millions	161.6	172.7	141.8	86.6	81.1	-38.9	-6.4
Petroleum	$ Millions	1,345.9	1,214.8	1,144.4	1,007.3	1,044.8	-12.0	3.7
Diversified manufacturing	$ Millions	754.4	713.2	696.4	719.7	610.0	3.4	-15.2
TOTAL DIVERSIFIED AGRICULTURE	$ Millions	274.9	268.7	264.4	263.6	263.5	-0.3	-0.1
Crops (pineapple & sugar excluded)	$ Millions	274.9	268.7	264.4	178.7	186.8	-32.4	4.5
Livestock products	$ Millions	87.2	86.0	84.1	84.9	71.6	0.9	-15.7
Pineapple (fresh market)	$ Millions	54.3	51.9	55.9	54.0	53.0	-3.4	-1.9
CONSTRUCTION								
Construction completed	$ Millions	4,121.5	4,305.3	3,950.4	3,785.4	3,317.3	-4.2	-12.4
Private construction authorizations	$ Millions	2,122.6	2,211.1	1,858.8	1,878.9 R	1,705.3	1.1	-9.2
Residential	$ Millions	1,231.4	1,510.6	1,122.3	1,226.8 R	1,115.8	9.3	-9.0
Nonresidential	$ Millions	891.2	700.6	736.5	652.2 R	589.5	-11.5	-9.6
Government contract awards	$ Millions	1,494.0	1,039.8 R	1,525.4	1,027.2	1,094.4	-32.7	6.5
Construction employment	Number	32,300	33,500	31,550	32,300	29,300	2.4	-9.3
Housing inventory (April 1st)	Number	389,810	398,325	407,606	413,830	420,748	1.5	1.7
TRADE								
Foreign imports	$ Millions	2100.3	1,892.4	2,119.8	2,218.1	NA	4.6	-
Foreign exports	$ Millions	512.2	568.3	604.2	1,099.7	NA	82.0	-
Retail sales	$ Millions	13,674.5	13,884.8	14,192.1	14,380.7	15,237.7	1.3	6.0
Wholesale sales	$ Millions	11,012.6	10,947.1	10,601.8	11,133.1	11,454.5	5.0	2.9
FEDERAL GOVERNMENT	$ Millions	5,461.0	6,162.0	6,497.0	7,052.0	7,603.0	8.5	7.8
Defense expenditures	$ Millions	2,604.0	2,936.0	2,893.0	2,928.0	3,196.0	1.2	9.2
Non-defense expenditures	$ Millions	2,857.0	3,226.0	3,604.0	4,124.0	4,407.0	14.4	6.9
Civilian employment	Number	34,150	33,850	33,250	31,850	31,350	-4.2	-1.6
FINANCE (As of Dec. 31st)								
Bank deposits	$ Millions	15,137.1	14,845.4	13,912.6	12,941.9	12,600.3	-7.0	-2.6
Bank loans	$ Millions	11,206.4	11,620.0	12,729.3	12,095.8	12,907.1	-5.0	6.7
Deposits of all financial institutions	$ Millions	23,586.7	23,815.2	23,527.1	22,343.9	22,044.3	-5.0	-1.3
Loans of all financial institutions	$ Millions	18,824.3	21,052.7	21,920.6	22,604.4	25,484.6	3.1	12.7
Debits to demand deposits	$ Millions	217,639.4	239,886.5	NA	NA	NA	-	-
Investments of insurance companies	$ Millions	3,155.9	3,156.7	3,380.1	4,263.2	NA	26.1	-
TRANSPORTATION								
Air passenger movements	Thousands	35,752.5	34,108.5	34,791.0	33,821.1	35,587.0	-2.8	5.2
Interisland	Thousands	19,814.3	18,737.2	19,136.9	18,690.6	19,842.0	-2.3	6.2
Overseas	Thousands	15,938.2	15,371.4	15,654.2	15,130.5	15,745.0	-3.3	4.1
Air cargo movements	Thou. Tons	461.9	468.3	459.4	428.5	489.8	-6.7	14.3
Interisland	Thou. Tons	145.4	144.1	153.9	147.1	147.8	-4.5	0.5
Overseas	Thou. Tons	316.5	324.2	305.4	281.4	342.0	-7.9	21.5
UTILITIES								
Telephone access lines	Thousands	586.1	606.9	629.2	649.3	666.2	3.2	2.6
Volume of electricity sold	Million KWH	8,310.6	8,524.1	8,667.0	8,657.9	8,948.5	-0.1	3.4
Volume of gas sold	Mil. Therms	54.3	54.0	54.4	56.6	59.8	4.0	5.7
STATE AND LOCAL GOVERNMENTS								
Revenues	$ Millions	4,842.7	5,349.7	5,703.9	6,159.9	NA	8.0	-
Expenditures	$ Millions	4,812.5	5,491.3	6,286.7	6,551.9	NA	4.2	-
TAX COLLECTIONS (Fiscal Year)	$ Millions	7,213.0	7,904.1	7,976.1	8,032.7	NA	0.7	-
Federal	$ Millions	4,264.1	4,570.5	4,542.9	4,489.1	NA	-1.2	-
State	$ Millions	2,441.3	2,753.6	2,772.3	2,829.0	NA	2.0	-
Counties	$ Millions	507.6	580.1	660.8	714.5	NA	8.1	-

N Not strictly comparable to earlier years.

E Bank of Hawaii estimate.

R Revised.

AN OUTLOOK FOR HAWAII'S ECONOMY

Prepared by Bank of Hawaii

In Millions of Dollars (except as noted)	1992	1993	1994	1995	Percent Change 1995/94	1996 Bankoh Projection (Mar 96)	1996 Percent Change 1996/95	1997 Bankoh Forecast (Mar 96)	1997 Percent Change 1997/96
Resident Population (As of July 1)	1,153,000	1,165,500	1,178,600	1,186,815	0.7	1,197,496	0.9	1,209,471	1.0
Income									
Gross State Product	30,083.3	31,106.9	31,947.9	32,847.6	2.8	34,000.0	3.5	35,550.0	4.6
Total Personal Income	26,100.5	27,466.1	28,335.3	29,501.7	4.1	30,850.0	4.6	32,475.0	5.3
Per Capita Pers. Income ($)	22,637	23,566	24,042	24,858	3.4	25,762	3.6	26,851	4.2
CPI-U (1982-84 = 100)	155.1	160.1	164.5	168.1	2.2	171.8	2.2	176.1	2.5
Tourism									
Total Arrivals (000)	6,513.9	6,124.2	6,430.0	6,633.8	3.2	6,872.8	3.6	7,122.8	3.6
Westbound (000)	3,980.0	3,764.5	3,998.0	3,977.8	-0.5	4,057.4	2.0	4,138.5	2.0
Eastbound (000)	2,533.8	2,359.7	2,432.0	2,656.0	9.2	2,815.4	6.0	2,984.3	6.0
Total Expenditures	9,558.9	8,677.6	10,603.2	11,000.0	3.7	11,435.0	4.0	11,890.0	4.0
Hotel Occupancy	73.7	72.0	76.6	76.6	-	78.0	-	79.5	-
Average Room Rates	$105.50	$104.08	$104.80	$110.27	5.2	$113.58	3.0	$116.99	3.0
Manufacturing	2,263.0	2,106.6	2,026.1	2,023.1	-0.1	2,050.0	1.3	2,120.0	3.4
Sugar (incl. elec., molasses)	280.5	292.9	290.2	226.5	-21.9	200.0	-11.7	200.0	0.0
Pineapple (processed)	141.8	86.6	81.1	89.8	10.7	90.0	0.2	90.0	0.0
Petroleum	1,144.4	1,007.3	1,044.8	1,074.8	2.9	1,120.0	4.2	1,180.0	5.4
Diversified Manufacturing	696.4	719.7	610.0	632.0	3.6	640.0	1.3	650.0	1.6
Diversified Agriculture	264.4	263.6	265.8	NA	NA	270.0	NA	280.0	3.7
Crops	176.2	178.7	189.2	NA	NA	200.0	NA	210.0	5.0
Livestock	88.3	84.9	76.6	NA	NA	70.0	NA	70.0	0.0
Pineapple (fresh market)	55.9	54.0	53.0	62.5	17.9	65.0	4.0	65.0	0.0
Retail Sales	14,192.1	14,380.7	15,237.7	15,693.3	3.0	16,290.0	3.8	17,070.0	4.8
Federal Government	6,497.0	7,052.0	7,603.0	NA	NA	7,900.0	NA	8,050.0	1.9
Defense	2,893.0	2,928.0	3,196.0	NA	NA	3,200.0	NA	3,200.0	0.0
Non-Defense	3,604.0	4,124.0	4,407.0	NA	NA	4,700.0	NA	4,850.0	3.2
State Government[1]	5,238.7	5,354.1	NA	NA	NA	6,200.0	NA	6,500.0	4.8
Local Government[1]	1,028.1	1,197.9	NA	NA	NA	1,350.0	NA	1,400.0	3.7
Construction									
Costruction Completed	3,950.4	3,785.4	3,317.3	3,153.3	-4.9	3,000.0	-4.9	3,150.0	5.0
Government Contracts	1,525.4	1,027.2	1,094.4	788.9	-27.9	920.0	16.6	800.0	-13.0
Residential Authorizations	1,122.3	1,226.8	1,115.8	941.2	-15.6	1,000.0	6.2	1,100.0	10.0
Nonresidential Authorizations	736.5	652.2	589.5	618.4	4.9	650.0	5.1	700.0	7.7

State Fiscal Position

Tax revenue growth in the second quarter reflected both improved economic conditions and some technical anomalies. State general fund tax revenues increased 15.6% from the second quarter of 1995 to the second quarter of 1996 (table 11). This was the largest quarterly increase since the third quarter of 1990.

The largest source of general fund tax revenues, general excise and use tax collections, increased 6.4% in the second quarter of 1996, following an increase of 6.5% in the first quarter, both relative to the same periods in 1995. The increase in general excise tax collections in the second quarter of 1996 reflected the strong increase in visitor arrivals in the first quarter of 1996, as there is always a time lag between increases in economic activity and tax collections.

Net individual income tax revenues rose 41.1% from the second quarter of 1995 to the second quarter of 1996 (table 11). The increase in net individual income tax mainly reflected lower tax refunds and higher payments with returns when taxpayers filed their 1995 income tax returns. Income tax refunds declined from $192.4 million in the second quarter of 1995 to $152.4 million (-20.8%) in the 1996 second quarter. At the same time, payment with returns increased from $35.7 million to $43.1 million (+20.7%). Lower food tax credits and the elimination of medical services tax credits largely explain the lower refunds and higher payments with returns (components of net individual income tax revenues are not shown).

Net corporate income tax revenues grew a sharp 43.0% in the second quarter of 1996 relative to the year earlier (table 11). While this indicates improvement in Hawaii's economy, net corporate tax revenues are particularly volatile.

Transient accommodation tax revenues and the hotel rental tax base grew 11.7% and 14.7%, respectively, from the second quarter of 1995 to the second quarter of 1996. These increases reflect both higher room rates and higher hotel occupancy rates (table 8).

Table 11

GENERAL FUND TAX REVENUES AND MAJOR COMPONENTS

Year	General Excise and Use Tax[1]	Net Individual Income Tax[2]	Net Corporate Income Tax[3]	Tax Revenues Distributed to State General Fund
In Thousands of Dollars				
1990	1,250,204	743,114	86,268	2,246,752
1991	1,287,818	900,963	70,568	2,397,289
1992	1,299,813	922,205	42,736	2,523,672
1993	1,308,798	951,403	22,237	2,555,914
1994	1,347,943	1,003,477	34,226	2,672,293
1995	1,386,685	918,809	37,337	2,614,713
1995 1 Qtr.	363,101	224,594	12,869	671,365
2 Qtr.	335,907	154,310	19,818	577,802
3 Qtr.	348,033	277,057	12,030	705,998
4 Qtr.	339,644	262,848	-7,380	659,548
1996 1 Qtr.	386,710	242,253	15,450	725,284
2 Qtr.	357,416	217,770	28,338	667,711
Percentage Change from the Same Period in Previous Year				
1991	3.0	21.2	-18.2	6.7
1992	0.9	2.4	-39.4	5.3
1993	0.7	3.2	-48.0	1.3
1994	3.0	5.5	53.9	4.6
1995	2.9	-8.4	9.1	-2.2
1995 1 Qtr.	2.8	-5.0	23.1	-1.5
2 Qtr.	1.7	-30.0	-24.4	-10.8
3 Qtr.	0.7	-1.6	31.7	0.3
4 Qtr.	6.6	-0.9	-36.2	3.2
1996 1 Qtr.	6.5	7.9	20.1	8.0
2 Qtr.	6.4	41.1	43.0	15.6

Notes: This series represents data as reported by the Department of Taxation, without adjustment.

[1]Manufactured goods shipped out of state have been exempted from the general excise tax by Act 239, SLH 1987, effective January 1, 1988.

[2]Declaration of estimated taxes, plus payments with returns, plus withholding tax on wages, less refunds.

[3]Declaration of estimated taxes, plus payments with returns, less refunds.

Source: Hawaii State Department of Taxation.

Table 12

TAX BASE
(millions of dollars)

Tax Base	1991	1992	1993	1994	1995	1996 (2nd Qtr)
General Excise & Use Tax	43,132.0	43,249.0	44,287.0	44,518.0	45,577.0	11,662.0
Retailing Tax	13,398.0	13,845.0	13,976.0	14,568.0	15,051.0	3757.0
Services Tax	4,888.2	5,032.7	5,092.7	5,270.8	5,351.1	1430.1
Contracting Tax	4,334.1	4,012.7	3,803.6	3,322.3	3,133.5	811.9
Hotel Rental Tax	1,513.0	1,621.8	1,527.0	1,666.4	1,776.5	512.6
Producing Tax	301.9	408.7	474.9	467.2	457.5	122.4
4% Use Tax	446.0	419.5	436.7	484.2	461.2	110.5

APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION
(commences on page B-1)

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 1995 AND INDEPENDENT AUDITORS' REPORT
(commences on page B-19)

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

FINANCIAL INFORMATION
ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

The statistical information presented by this Part I of Appendix B 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 table sets forth the State's total indebtedness, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit.

SUMMARY OF TOTAL INDEBTEDNESS
OF THE STATE OF HAWAII

As of July 1, 1996

GENERAL OBLIGATION INDEBTEDNESS

General obligation bonds outstanding:		$2,851,169,307
Less excludable reimbursable general obligation bonds*(1)*		
(Purposes)		
Highways	$ 197,404,600	
Airports	2,479,405	
Harbors	3,191,232	
University of Hawaii	21,375,245	
Parking facilities	5,501,050	
Hawaiian Home Lands	2,433,597	232,385,129
Less all general obligation bonds maturing in the current fiscal year		$ 249,196,434
Net general obligation bonds outstanding:		$2,369,587,744

---

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

REVENUE INDEBTEDNESS*(2)*
As of July 1, 1996

Revenue bonds outstanding:		
(Purposes)		
airports:		
airports system	$1,215,745,000	
airports special facility	25,745,000	$1,241,490,000
housing*(3)*:		
single family mortgage purchase	$ 409,370,000	
multifamily	175,191,075	584,561,075
harbors:		
revenue	$ 178,305,000	
special facilities revenue bond	16,500,000	194,805,000
highway:		
revenue		66,820,000
Hawaiian home lands		15,570,000
university revenue projects		$ 40,324,000
Total revenue bonds outstanding:		$2,143,570,075

SPECIAL ASSESSMENT BONDS*(4)*
As of July 1, 1996

Special Assessment Bonds outstanding:	
improvement district bonds	$ 9,585,000

SPECIAL PURPOSE REVENUE INDEBTEDNESS*(5)*
As of July 1, 1996

Special Purpose Revenue Bonds outstanding:	
(Purposes)	
health care facilities	$ 441,345,000
utilities serving the general public	625,400,000
industrial enterprises	42,575,000
Total special purpose revenue bonds outstanding:	$1,109,320,000

---

(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. The Department of Transportation delivered $55,000,000 principal amount of Highway Revenue Bonds, Series 1996 in October 1996.

(3) *Does not include $71,749,671 (as of December 31, 1995) of bonds and permanent notes of the Hawaii Housing Authority (a public body and a body corporate and politic and also a constituent corporate unit of the State Department of Human Services), secured or payable by contributions from the federal government. In 1987, the Housing Finance and Development Corporation was created to assume certain of the Hawaii Housing Authority's functions, including housing finance. The Housing Finance and Development Corporation and the Hawaii Housing Authority are statewide public housing agencies and, although the counties are authorized to perform certain functions with respect to housing, are the only housing agencies in the State.* *See "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix A.*

(4) *All special assessment indebtedness is payable solely from receipts derived from assessments against the real property specially benefitted from the sale of the bonds.*

(5) *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. The Department of Budget and Finance delivered $118,500,000 principal amount of Special Purpose Revenue Bonds (The Queen's Health Systems Project) 1996 Series A in July 1996.*

The following table presents a summary of the calculation of the State's constitutional debt limit.

SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII

As of July 1, 1996

NET GENERAL FUND REVENUES FOR THE STATE OF HAWAII FOR PRECEDING THREE FISCAL YEARS:	**1993-1994**	**1994-1995**	**1995-1996**
Total General Fund revenues exclusive of grants from the federal government:	$3,086,403,223	$2,968,530,703	$3,194,383,025
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State:			
State Agencies	32,095,721	35,650,889	57,839,457
Net General Fund revenues	$2,801,180,523	$3,054,307,502	$3,136,543,568
Sum of net General Fund revenues for preceding three fiscal years	$9,123,730,884		
Average of preceding three fiscal years	$3,041,243,628		
18-1/2% of average net General Fund revenues of the three preceding years ending June 30, 1994, 1995 and 1996	$ 562,630,071	*(1)*	

---

(1) *The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness and on the Bonds as of July 1, 1996, after exclusions therefrom permitted by the Constitution is $398,803,909 in the fiscal year ending June 30, 2000.*

The following table shows the basis for the assessment for debt service charges on the general obligation bonds issued and outstanding as of July 1, 1996, and includes both general obligation bonds which qualify for exclusion when determining the power of the State to incur indebtedness and bonds that do not qualify for such exclusion. As a result of new bonds and the retirement of outstanding bonds, both the principal amounts and percentages of reimbursable debt service will vary from year to year. Such table sets forth those bonds for which reimbursement is required by statute. The figures in the 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.

The figures in the following table and those set forth under **"SUMMARY OF TOTAL OUTSTANDING INDEBTEDNESS OF THE STATE OF HAWAII"** (the "Summary") do not coincide, since they are as of different dates, and the following table lists all outstanding general obligation bonds where reimbursement is required by statute (regardless of the extent to which such reimbursement is made and whether such bonds may be excluded) while the Summary addresses compliance with the constitutional requirements pertaining to the exclusion from the debt limit of reimbursable general obligation bonds.

GENERAL OBLIGATION BONDS OUTSTANDING

As of July 1, 1996

		Principal Amount	Balance	% of Total
(1)	Reimbursable General Obligation Bonds			
	From State special funds for highways	$197,404,600		
	airports	2,479,405		
	commercial harbors	3,191,232		
(2)	small boats harbors	10,967,772		
(2)	Hawaiian Home Lands	2,433,597		
	University of Hawaii	21,375,245		
	parking facilities	5,501,050		
(2)	economic development	511,231		
	Convention Center	131,943,635		
	Total for State special funds	$375,807,767		
	Total reimbursable General Obligation Bonds		$ 375,807,767	13.18%
	Non-reimbursable General Obligation Bonds			
	From State General Funds for various purposes	$2,475,361,540		
	Total non-reimbursable General Obligation Bonds		2,475,361,540	86.82%
	Total General Obligation Bonds issued and outstanding as of July 1, 1996		$2,851,169,307	100.00%

---

(1) See discussion above 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.

SUMMARY OF DEBT SERVICE

The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii. The various outstanding general obligation indebtedness is set forth in greater detail in Appendix D hereto. There is also set forth the debt service on the Series CM Bonds.

							Debt Service on the Series CM Bonds		
Fiscal Year ending June 30	Total principal outstanding as of July 1	Total principal payable	Total interest payable	Total debt service payable	Less amounts reimbursable to General Fund[1]	Net debt service payable	Total principal payable	Total interest payable	Total debt service payable
1997	$2,851,169,307	$249,196,434	$133,062,690	$382,259,124	$47,018,184	$335,240,940	—	$4,395,763	$4,395,763
1998	2,601,972,873	262,369,037	136,485,023	398,854,060	55,853,522	343,000,538	—	8,791,525	8,791,525
1999	2,339,603,836	256,315,422	123,548,649	379,864,071	52,779,072	327,084,999	—	8,791,525	8,791,525
2000	2,083,288,414	247,005,738	115,300,828	362,306,566	50,390,687	311,915,879	$8,335,000	8,583,150	16,918,150
2001	1,836,282,676	210,270,265	99,757,533	310,027,798	47,031,509	262,996,289	8,335,000	8,166,400	16,501,400
2002	1,626,012,411	201,989,440	89,953,192	291,942,632	44,939,424	247,003,208	8,335,000	7,749,650	16,084,650
2003	1,424,022,971	198,650,151	79,897,994	278,548,145	42,419,235	236,128,910	8,335,000	7,312,063	15,647,063
2004	1,225,372,820	141,764,208	71,212,038	212,976,246	34,929,262	178,046,984	8,335,000	6,853,638	15,188,638
2005	1,083,608,612	136,285,429	65,281,225	201,566,654	31,917,525	169,649,129	8,335,000	6,395,213	14,730,213
2006	947,323,183	140,799,333	68,574,144	209,373,477	30,782,583	178,590,894	8,335,000	5,915,950	14,250,950
2007	806,523,850	136,584,530	63,675,471	200,260,001	29,066,685	171,193,316	8,335,000	5,415,850	13,750,850
2008	669,939,320	136,675,308	59,044,352	195,719,660	27,926,204	167,793,456	8,335,000	4,915,750	13,250,750
2009	533,264,012	128,144,472	54,446,568	182,591,040	25,324,407	157,266,633	8,335,000	4,415,650	12,750,650
2010	405,119,540	100,249,540	34,767,750	135,017,290	21,198,379	113,818,911	8,335,000	3,915,550	12,250,550
2011	304,870,000	93,100,000	15,735,198	108,835,198	20,259,700	88,575,498	8,335,000	3,415,450	11,750,450
2012	211,770,000	70,170,000	11,099,786	81,269,786	15,444,761	65,825,025	8,330,000	2,915,500	11,245,500
2013	141,600,000	64,615,000	7,168,191	71,783,191	10,976,959	60,806,232	8,330,000	2,415,700	10,745,700
2014	76,985,000	39,880,000	3,823,564	43,703,564	1,101,128	42,602,436	8,330,000	1,895,075	10,225,075
2015	37,105,000	25,995,000	1,960,765	27,955,765	—	27,955,765	8,330,000	1,353,625	9,683,625
2016	11,110,000	11,110,000	437,456	11,547,456	—	11,547,456	8,330,000	812,175	9,142,175
2017	—	—	—	—	—	—	8,330,000	270,725	8,600,725

[1] 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. See **"DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service"** in Appendix A for the sources of reimbursement, including taxes.

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII AUTHORIZED BUT UNISSUED

July 1, 1996

General obligation bonds of the State of Hawaii authorized but unissued:
Session Laws of Hawaii and Purposes

Act 214 of 1979, as amended, for public improvements	$ 308,974
Act 1 of 1981 (Special Session), as amended, for public improvements	1,204,952
Act 301 of 1983, as amended, for public improvements	2,316,657
Act 300 of 1985, as amended, for public improvements	2,986,865
Act 216 of 1987, as amended, for public improvements	9,057,093
Act 217 of 1987, as amended, for public improvements	15,098
Act 73 of 1989, for acquisition of Kapalama Military Reservation	89,900,000
Act 315 of 1989, as amended, for public improvements	154,863
Act 316 of 1989, as amended, for public improvements	16,771,226
Act 296 of 1991, as amended, for public improvements	338,535,287
Act 299 of 1991, as amended, for public improvements	1,663,662
Act 317 of 1991, as amended, for public improvements	3,548,293
Act 323 of 1992, for public improvements	472,006
Act 277 of 1993, as amended, for public improvements	2,977,655
Act 289 of 1993, as amended, for public improvements	197,688,395
Act 364 of 1993, for public improvement	90,000,000
Act 7 of 1993 (Special Session) for public improvements	196,932,987
Act 218 of 1995, for public improvements	294,623,000
Act 9 of 1995 (1st Special Session) for public improvements	180,000,000
Act 14 of 1995 (1st Special Session for claims payment to Hawaiian Home Lands	30,000,000
Act 16 of 1995 (1st Special Session) for public improvements	1,300,000
Act 17 of 1995 (1st Special Session) for the Hawaiian Hurricane Relief Fund	200,000,000
Act 18 of 1995 (1st Special Session) for public improvements	2,695,000
Act 77 of 1996, for Public Safety	5,068,000
Act 118 of 1996, for the Reimbursement of the Airport Revenue Fund	64,400,000
Total General Obligation Bonds of the State of Hawaii Authorized but Unissued	$1,773,620,013(1)

Instruments of indebtedness authorized:

Act 105 of 1970, (guarantee provision) for housing program	$ 10,000,000
Act 11 of 1971, (guarantee provision) for housing program	10,000,000
Act 88 of 1978, (guarantee provision) for aquaculture	1,000,000
Act 209 of 1979, (guarantee provision) for Hawaiian Home Lands loans	21,000,000
Act 222 of 1979, (guarantee provision) for agricultural loans	10,000,000
Act 307 of 1992, (guarantee provision) for housing program	100,000,000
Act 232 of 1996, (guarantee provision) for Hawaiian Home Commission Act	29,000,000
Total instruments of indebtedness authorized	$181,000,000(2)

---

(1) The amount of general obligation bonds remaining authorized and unissued is overstated (i) by $207,071,264 due to excess allocations (i.e., the difference between allocations heretofore made by the Governor of actual bond proceeds to various purposes of bond authorizing acts and the amount of such proceeds actually applied to such purposes), and (ii) by an amount to be determined due to lapsing of appropriations or by allotment from General Fund revenues, special fund revenues or proceeds of revenue bonds. The table does not reflect the allocation of the proceeds of the $268,000,000 State of Hawaii General Obligation Bonds of 1995, Series CJ, the $100,000,000 State of Hawaii General Obligation Bonds of 1995, Series CK, and the $100,000,000 State of Hawaii General Obligation Bonds of 1996, Series CL to appropriations made in the Acts set forth herein. The allocation of such $468,000,000 of bond proceeds will reduce the amount of general obligation bonds authorized but unissued by an equal amount. The aggregate net amount of authorized but unissued general obligation bonds as of July 1, 1996, after all adjustments, including all enactments of the State Legislature at its 1996 Regular Session, is $1,058,548,749.

(2) The maximum amount of mortgages, housing and other loans which the State is authorized to guarantee. As of June 30, 1996, the State guaranteed approximately $15,810,000 in principal for Hawaiian Home Lands loans and $2,753,805 in principal for agricultural loans.

SCHEDULE OF RATIO OF NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
(Amounts in thousands except ratio data)

Fiscal Year	Population	General Obligation Bonded Debt(1)	Less Debt Service Monies Available(2)	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
1995	1,190	$2,901,651	$165	$2,901,486	$2,438
1994	1,188	2,834,234	46	2,834,188	2,386
1993	1,178	2,726,654	534	2,726,120	2,314
1992	1,150	2,281,875	66	2,281,809	1,984
1991	1,126	2,222,324	166	2,222,158	1,974
1990	1,128	1,967,556	68	1,967,488	1,744
1989	1,116	1,913,456	255	1,913,201	1,714
1988	1,100	1,777,408	123	1,777,285	1,616
1987	1,078	1,746,657	172	1,746,485	1,620
1986	1,071	1,651,899	43	1,651,856	1,542

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

(1) *Excludes Enterprise Funds and Component Limit-University Funds General Obligation Bonds.*

(2) *These monies are held for the payment of ongoing administrative costs and are not available for the payment of debt service on the Bonds.*

Source: Hawaii State Department of Accounting and General Services, Accounting Division.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

The investment policies of the State's cash management program are: (a) Safety: To safeguard State funds by securing cash, personnel and facilities and requiring 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 within a minimum risk in principal; and (c) Yield: To maximize interest earnings on State investments by investing funds in excess of immediate needs to the maximum extent possible.

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 prescribed in Section 36-21, HRS. The securities in which State funds may be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds; (b) obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest; (c) time certificates of deposits in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured banks and savings and loan associations; and (f) money market mutual funds which invest solely in U.S. Treasury obligations or obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. Section 36-21, Hawaii Revised Statutes, 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. 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 June 30, 1996, 71% of the State's investment portfolio consisted of collateralized repurchase agreements with banks, 14% consisted of time certificates with banks and the remaining 15% consisted of U.S. Treasury securities.

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 fully collateralized by the depository with securities deposited with the Director of Finance as provided in Section 38-3, HRS. Pursuant to the authority granted the Director of Finance under Section 38-3, Hawaii Revised Statutes, the valuation policy for securities pledged as collateral for the protection of State deposits is 70% of the outstanding balance of mortgage-backed pass-through certificates, i.e., Collateralized Mortgage Obligations backed by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) securities, and 91% of par or face value of all other securities accepted by the State for protection of State deposits.

With respect to the types of securities pledged as collateral, Section 38-3, Hawaii Revised Statutes, generally requires such securities to be investment grade financial instruments with a high degree of liquidity or marketability. Accordingly, the State will not accept, as collateral, derivative products or other securities which move inversely to the general level of interest rates. Collateralized mortgage obligations which do not pass the Federal Financial Institutions Examination Council test for high-risk securities are also unacceptable as collateral for State deposits.

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 weekly basis. Approximately 70% of the securities used to collateralize repurchase agreements are marked to market regularly. Because the average term of the State's General Fund investments is relatively short (83 days as of June 30, 1996), it is not practical or desirable to mark to market the securities collateralizing those investments having very brief terms.

The State utilizes a uniform repurchase agreement in all such transactions. Such form requires sellers to mark purchased securities to market on a weekly basis, or more frequently at the State's request. Such form further requires sellers to increase the purchased securities in the State's account to maintain market value of the purchased securities in an amount equal to or greater than the original purchase price.

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. All investments of the State are made by the Director of Finance. The length or term of an investment is determined by the cash flow requirements of the particular program and the general direction of interest rates.

In the fiscal year ended June 30, 1996, the State earned $53.41 million on its General Fund investments. This amount represents an average return on investment for the General Fund of 5.38%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund as of each June 30 from 1991 to 1995. Following thereafter is the statement of revenues and expenditures of the General Fund 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, 1995 in Part II of Appendix B.

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, i.e., the recording of principal installment repayments received from the counties and other governmental agencies on certain general obligation bonds issued for their purposes prior to Statehood. Such principal installment repayments are required by statute to be made one year in advance; they are therefore not recorded in the year of collection as revenues. Revenues for which receivables have been recorded (and other non-cash assets generally) are fully reserved until such time as they are converted to cash.

Expenditures are recorded at the time vouchers for payment 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 General Fixed Assets Account Group. Depreciation on general fixed assets is not recorded in the general accounting records.

BALANCE SHEET OF THE GENERAL FUND
OF THE STATE OF HAWAII
As of June 30
(Amounts in Thousands)

	1991	1992	1993	1994	1995
ASSETS:					
Cash	$ 504,353	$190,183	$ -	$ 6,710	$ 91,149
Advances to other funds	13,443	13,469	24,944	22,943	23,521
Due from other funds	90,206	167,696	90,403	90,403	90,000
Due from Component Units	-	-	-	6,000	6,000
Receivables:					
Taxes	38,825	40,239	41,852	70,075	266,313
Notes	1,369	1,147	1,091	1,115	906
Other	124	123	123	149	148
Total receivables	40,318	41,509	43,066	71,339	267,367
Investments	527,967	538,757	713,915	635,642	152,300
TOTAL ASSETS	$1,176,287	$951,614	$872,328	$833,037	$630,337
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Cash overdraft	$ -	$ -	$61,063	$ -	$ -
Vouchers payable	27,958	97,608	83,868	95,090	72,174
Due to other funds	34,560	41,233	74,750	115,151	174
Due to Component Units	-	-	-	42,644	34,304
Deferred revenue	38,825	40,239	41,852	70,075	-
Total liabilities	101,343	179,080	261,533	322,960	106,652
FUND EQUITY:					
Reserves:					
Unrealized receivables	14,936	14,713	26,128	24,152	24,518
Encumbrances	317,499	424,714	303,755	230,997	172,105
Unencumbered allotments	67,852	5,828	8,503	7,701	7,369
Total reserves	400,287	445,255	338,386	262,850	203,992
Unreserved fund balance:					
Designated for future expenditures	328,152	2	64,863	16,081	12,391
Undesignated	346,505	327,277	207,546	231,146	307,302
Total fund equity	1,074,944	772,534	610,795	510,077	523,685
TOTAL LIABILITIES AND FUND EQUITY	$1,176,287	$951,614	$872,328	$833,037	$630,337

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

	1990-1991	% of Total	1991-1992	% of Total	1992-1993	% of Total	1993-1994	% of Total	1994-1995	% of Total
Revenues:										
General excise tax	$1,165,646	43.96	$1,197,225	45.12	$1,298,134	44.65	$1,329,739	42.95	$1,364,644	46.76
Income tax-copporation	95,947	3.62	37,514	1.41	27,201	0.94	36,840	1.19	31,471	1.08
Income tax-individual	872,339	32.90	889,532	33.53	923,372	31.76	969,108	31.30	928,004	31.80
Service companies tax	77,572	2.92	85,252	3.21	86,229	2.97	92,292	2.98	100,504	3.44
Liquor licenses and tax	40,795	1.54	41,492	1.56	39,349	1.35	38,997	1.26	38,362	1.31
Tobacco licenses and tax	26,263	0.99	27,384	1.03	32,238	1.11	32,658	1.05	35,386	1.21
Insurance premiums tax	44,039	1.66	60,178	2.27	67,875	2.34	173,308	5.60	63,872	2.19
Inheritance and estate tax	11,861	0.45	16,416	0.62	11,771	0.40	28,120	0.91	16,438	0.56
Banks and other financial corporation tax	20,433	0.77	20,355	0.77	27,415	0.94	27,371	0.88	17,519	0.60
Transient accommodations tax	16,442	0.62	4,205	0.16	4,192	0.14	3,895	0.13	4,135	0.14
Conveyance tax	5,641	0.21	4,031	0.15	4,426	0.15	4,601	0.15	3,864	0.13
Total Taxes	2,376,978	89.64	2,383,584	89.83	2,522,202	86.75	2,736,929	88.40	2,604,199	89.22
Charges for current services and other revenues	274,601	10.36	269,528	10.16	265,014	9.12	254,110	8.21	314,488	10.78
Transfer from:										
University Funds	-	-	145	0.01	-	-	-	-	-	-
Capital Projects Fund	-	-	-	-	120,000	4.13	63,012	2.03	-	-
Special Revenue Funds	-	-	-	-	-	-	42,103	1.36	-	-
Total Revenues	$2,651,579	100.00	$2,653,257	100.00	$2,907,216	100.00	$3,096,154	100.00	$2,918,687	100.00
Expenditures:										
General government	$ 301,606	11.63	$ 358,276	12.16	$ 367,523	11.93	$ 399,952	12.54	$ 394,544	12.35
Public safety	122,557	4.72	125,164	4.25	128,701	4.18	133,178	4.18	134,282	4.20
Conservation of natural resources	27,704	1.07	28,930	0.98	28,500	0.93	28,301	0.89	26,864	0.84
Health	170,822	6.58	211,435	7.17	236,098	7.66	235,189	7.37	223,277	6.99
Welfare	292,835	11.29	405,233	13.75	427,226	13.87	456,244	14.31	533,254	16.69
Education:										
Lower and others	659,331	25.42	700,775	23.78	725,931	23.57	756,371	23.72	793,948	24.86
Culture-recreation	42,303	1.63	46,783	1.59	43,871	1.42	42,843	1.34	41,719	1.31
Urban redevelopment and housing	3,137	0.12	4,322	0.15	3,793	0.12	3,146	0.10	3,188	0.10
Economic development and assistance	63,184	2.44	71,783	2.44	68,185	2.21	75,909	2.38	83,034	2.60
Intergovernmental expenditures	2,838	0.11	825	0.03	1,725	0.06	2,375	0.08	3,844	0.12
Retirement and pension contribution	126,874	4.89	133,536	4.53	185,033	6.01	228,810	7.17	149,875	4.69
Capital outlay	115,769	4.46	141,982	4.82	100,006	3.25	66,699	2.09	35,170	1.10
Miscellaneous	15,307	0.59	9,490	0.32	16,857	0.55	11,950	0.37	6,027	0.19
Transfers to:										
Special Revenue Funds	36,299	1.40	27,966	0.95	12,581	0.41	10,655	0.33	14,664	0.46
Debt Service Fund	246,340	9.50	262,088	8.90	264,448	8.58	287,225	9.01	305,879	9.58
Enterprise Funds:										
Hospital Funds	8,698	0.33	21,687	0.74	30,092	0.98	22,987	0.72	16,241	0.51
Housing Funds	-	-	-	-	43,837	1.42	-	-	-	-
University Funds	358,482	13.82	396,156	13.44	395,963	12.85	-	-	-	-
Component Units:										
Housing Funds	-	-	-	-	-	-	9,876	0.31	9,354	0.29
University Funds	-	-	-	-	-	-	417,429	13.09	419,039	13.12
Total Expenditures	$2,594,086	100.00	$2,946,431	100.00	$3,080,370	100.00	$3,189,139	100.00	$3,194,203	100.00

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

The Constitution requires that there be established by law a Council on Revenues to prepare revenue estimates for State government and 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, Session Laws of Hawaii 1980, provided for the establishment of such a council consisting of 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 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. In the Council's report dated December 12, 1996, the Council estimated that General Fund tax revenues for Fiscal Year 1997 will increase by 1.2% over General Fund tax revenues for Fiscal Year 1996, in contrast to its September 6, 1996 forecast of a 2.1% increase. The Council revised its estimate because total personal income for the first half of 1996 grew only 1.8% over the first half of 1995 ("the lowest rate of growth, in nominal terms, over several decades") and because the "visitor industry appears to be struggling and the construction industry is trying to make positive strides." The Council's next scheduled meeting is March 11, 1997.

The Council's estimates are utilized 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.

During the period from September 1994 through December 1995, the Council reduced General Fund revenue forecast by a total of $619 million for the 2-1/2 year period from December 1994 through June 1997.

The impact of the revised revenue estimates on the budget prompted the administration to pursue additional measures to reduce expenditures and enhance revenues. Executive departments were required to cut $139 million in Fiscal Year 1996. A permanent reduction in the size of the State government was undertaken in Fiscal Year 1996. This reduction was made in conjunction with statewide program reviews. The purpose of these reviews was to guide the restructuring of government to realize efficiencies and economies and to reduce or curtail programs which were less needed or have outlived their usefulness, while still providing for priority government services. During Fiscal Year 1996, approximately 600 employees were laid off. However, as expected, some of these employees were placed in other State jobs which became vacant as a result of retirements and resignations. For the General Fund, approximately 550 filled and 620 vacant permanent and temporary positions were eliminated. Programs abolished include the State Meat Inspection Program, Litter Control Program and school vision/screening services. In some instances, the services provided by the abolished programs were duplicative of services offered by other governmental agencies or the private sector. Additional savings and revenues may be realized from the early retirement program instituted by the State in Fiscal Year 1995, transfers of excess funds from special and revolving funds and the resolution of protested insurance premium taxes. Additional financial policies will be developed and budgetary action taken by the administration to ensure the State's maintenance of a positive general fund balance and a well-defined financial plan. By the end of Fiscal Year 1996, the State's financial condition has improved slightly. Revenue collections totalled $3.194 billion and exceeded expenditures by $70 million. The fund balance rose to $161 million, or 5% of revenues.

For Fiscal Year 1997, the administration proposed that executive departments carry their Fiscal Year 1996 cuts over to Fiscal Year 1997. These cuts, together with other reductions to the Fiscal Year 1997 budget (primarily, for example, the reduction in contributions to the Employees' Retirement System due to a lower salary assumption), resulted in the Fiscal Year 1997 general fund budget being reduced by $172 million from $3.247 billion to $3.075 billion.

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal years ended June 30, 1995 and June 30, 1996, and estimates for the fiscal year ending June 30, 1997.

GENERAL FUND FINANCIAL PLAN: 1995-1997
(Millions of Dollars)

	Actual 1994-1995	Preliminary Actual 1995-1996	Estimated 1996-1997(1)
Resources:			
Tax Revenues	$2,593.5	$2,785.1	$2,787.1(2)
Non-tax Revenues	354.4	389.5	296.5
Judicial Branch Revenues	20.6	19.8	20.3
Other Revenue Sources/Adjustments	0.0	0.0	48.3(3)
Total Resources	$2,968.5	$3,194.4	$3,152.2
Expenditures:			
Executive			
Operating	3,073.0	3,042.3	3,112.2(4)
Capital Investment	0.0	0.0	0.0
Total Executive	$3,073.0	$3,042.3	$3,112.2
Legislative	21.2	21.4	22.0
Judicial	88.9	84.0	86.5
OHA and Counties	4.5	3.2	2.8
Appropriation Lapses	(18.5)(4)	(27.2)(5)	(30.0)(5)
Total Expenditures	$3,169.1	$3,123.7	$3,193.5
Resources over Expenditures	(200.6)	70.7	(41.3)
Carry-over Balance	290.9	90.3	161.0
Ending Balance	90.3	161.0	119.7

(1) Includes budgetary reduction actions.
(2) Differs from Council on Revenues due to an adjustment for contributions to the Compound Bond Reserve Fund.
(3) Includes the following major items: $9.1 million for the transfer of excess non-general funds to the general fund; $10.5 million for the transfer of undisputed insurance premium taxes; $18.7 million for federal reimbursements; $9.9 million for reimbursement of Convention Center debt service (this is in addition to $10.3 million included in "Non-tax Revenues").
(4) Includes savings of: $47 million from payroll lag authorized by Act 80, SLH 1996; restrictions of $18.9 million; an additional $58.8 million for medicaid, $21 million for community hospitals and $4.1 million for children's mental health. The teachers have challenged the legality of the payroll lag. See ***"EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—Employee Relations"*** *in Appendix A.*
(5) Not included as an item in the financial statements under ***"FINANCIAL STATEMENTS"*** *in Part I of this Appendix B nor in the projections of the Council on Revenues.*

Note: Totals may not add due to rounding.
Source: Department of Budget and Finance: December, 1996

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ending June 30, 1996, and represent about 87% of the total General Fund revenues.

Set forth below are the actual General Fund tax revenues for the fiscal years ended June 30, 1995 and June 30, 1996, and the estimated tax revenues for the fiscal year ending June 30, 1997, based upon the Council on Revenues' December 12, 1996 projection.

GENERAL FUND TAX REVENUES

(Thousands of Dollars)

	Actual 1994-1995	Actual 1995-1996	Estimated 1996-1997
General Excise and Use	$1,363,262	$1,431,802	$1,467,936
Income - Individual	925,338	999,625	1,028,135
Income - Corporation	30,249	48,438	52,631
Public Service Company	100,505	104,131	104,952
Insurance Premiums *(1)*	62,271	59,164	66,051
Tobacco & Licenses	35,386	39,572	39,140
Liquor & Permits	38,362	37,811	40,166
Banks & Other Finan. Corp.	17,047	17,109	19,038
Inheritance & Estate	16,438	17,540	19,171
Miscellaneous	4,227	3,521	4,894
Transient Accommodation *(2)*	98,040	115,747	120,599
TOTAL BEFORE ADJUSTMENTS	2,691,125	2,874,460	2,962,713
GROWTH RATE	(0.3%)	6.8%	3.1%
ADJUSTMENTS *(3)*	(98,906)	(115,919)	(170,573)
NET REVENUES	$2,592,217	$2,758,541	$2,792,140
GROWTH RATE	(1.1%)	6.4%	1.2%

(1) *Does not include taxes paid under protest and now being held in an escrow account by the State. As of June 30, 1996, the net balance in the insurance premium tax escrow account, after settlements, was $36.0 million.*

(2) *Tax rate increased to 6% effective July 1, 1994.*

(3) *FY 1995, and FY 1996 transfer of $5.0 million into the Bond Reserve Fund. Annual transfers of transient accommodation tax from July 1, 1994: one-sixth to Convention Center Special Fund and 95% of remainder to the counties. Effect of changing the maximum income tax withholding rate from 10% to 8% is a decrease in revenues of $55 million in FY 1997, an increase of $40 million in FY 1998, and an increase of $15 million in FY 1999.*

Actual Tax Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for the first four months of the fiscal year ending June 30, 1997 and for the first four months of the preceding fiscal year ended June 30, 1996, both as reported by the State Director of Taxation. The collections from all sources for the first four months of the fiscal year ending June 30, 1997 totaled $1,137 million, representing a 1.5% increase over collections for the first four months of the preceding fiscal year ended June 30, 1996. The General Fund tax collections for the first four months of the fiscal year ending June 30, 1997 were $962 million, representing a 2.0% increase from the General Fund tax collections for the first four months of the preceding fiscal year ended June 30, 1996. The December 10, 1996 preliminary report of the State Director of Taxation reported collections of $1.157

billion for the first five months of the fiscal year ending June 30, 1997, a decrease of 0.8% from the collections for the comparable fiscal year 1996 period; the November 1996 collections totaled $194.3 million, a decrease of $28.4 million (12.7%) when compared to the November 1995 collections.

	State Tax Collections - Source of Revenue	July 1 through October 31 1996-97	1995-96
	Banks - financial corporations	$ (24,808)	$ 5,279,529
(1)	Conveyance	2,071,579	1,331,003
	Employment security contributions	64,360,968	73,377,876
	Fuel	48,826,683	49,135,345
	General excise, license and registration fees	218,513	213,071
(1)	General excise and use	495,168,329	473,590,004
	Income - corporations:		
	Declaration of estimated taxes	22,275,750	20,243,642
	Payment with returns	3,530,775	2,189,740
	Refunds	(11,330,874)	(8,176,572)
	Income - individuals:		
	Declaration of estimated taxes	33,100,093	30,203,174
	Payment with returns	10,872,449	8,965,266
	Withholding tax on wages	345,385,078	354,477,720
	Refunds	(28,517,642)	(27,744,482)
	Inheritance and estate	10,122,240	6,802,349
	Insurance premiums	16,055,461	15,248,270
	Liquor and permits	13,177,611	12,362,816
(2)	Motor Vehicle Tax/Fees, etc.	20,256,235	19,146,107
	Public service companies	36,888,516	33,105,068
	Tobacco and licenses	12,767,903	14,865,355
	Transient Accommodations Fees	1,896	2,210
(1)	Transient Accommodations Tax	42,244,527	35,653,488
(3)	All other	3,337	135
	Total	$1,137,454,620	$1,120,271,114

(1) *Gross collection—does not reflect allocation to Special Funds.*

(2) *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.*

(3) *Includes fuel retail dealer permits, penalty and interest on fuel tax.*

State Tax Collections - Distribution	July 1 through October 31 1996-97	1995-96
State General Fund	$962,490,605	$943,778,357
State Highway Fund	44,774,941	43,370,615
State Airport Fund	1,535,722	2,554,956
Boating Special Fund	466,415	459,677
Environmental Fund	649,466	612,659
Employment Security Fund	64,360,968	73,377,876
Rental Housing Fund	517,895	332,751
Natural Area Reserve Fund	517,895	332,751
Convention Center Fund	7,040,755	5,942,248
Subtotal	$1,082,354,661	$1,070,761,891
Distributions to Counties*:		
Fuel tax	21,656,374	21,283,545
Transient Accommodation Tax	33,443,584	28,225,678
Counties Total	$ 55,099,958	$ 49,509,223
Total	$1,137,454,620	$1,120,271,114

* *Refers to distributions received by the Counties from the specified taxes.*
Note: Totals may not add due to rounding.
Source: State Department of Taxation: Tax Research and Planning.

FEDERAL GRANTS

The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions. See "**TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONIES; BUDGET SYSTEM; EXPENDITURE CONTROL—Federal Monies**" in Appendix A.

Fiscal Year Ended June 30	Grant Amount ($ in millions)
1991	$ 712.2
1992	848.0
1993	1,030.0
1994	1,120.0
1995	1,095.0
1996	1,204.0

STATE EMPLOYEES' RETIREMENT SYSTEM

A description of the State's Retirement System for employees of the State and the counties is provided under "**EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System**" in Appendix A. The following statistical information addresses the entire Retirement System, including both State and county employees.

Employer Contribution Rate

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

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)
1991	18.20
1992	19.19
1993	19.39*
1994	15.24
1995	15.00

** Reflects the inclusion of the pensioner bonus pursuant to Act 276 of 1994 which amended Section 88-114, HRS.*

Based on the results of the last five annual actuarial valuations, the calculated total employer contribution rates have increased in three of the five years from 1991 to 1995 as a percentage of total payroll. The decreases in the 1994 and 1995 actuarial valuations are attributed to both a decrease in the normal cost rate and a decrease in the amortization payment as a percentage of payroll and reflect a change in the actuarial valuations.

Actuarial Balance Sheet

The actuarial balance sheet of the Employees' Retirement System as of June 30, 1994 and 1995 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

Actuarial Balance Sheet as of June 30, 1994 and 1995

ASSETS

	1994	1995
Total current assets	$5,146,827,700	$ 5,615,930,200
Present value of future employee contributions	402,785,200	402,148,800
Present value of future employer "normal cost" contributions	2,455,877,900	2,523,066,900
Unfunded accrued liability	429,663,100	421,915,300
Present value of future Early Incentive Retirement Program Employers' contributions	--	54,496,400
TOTAL ACTUARIAL ASSETS	$8,435,153,900	$9,017,557,600

LIABILITIES

Present value of benefits to current pensioners and beneficiaries	$2,771,193,300	$ 3,359,439,600
Present value of future benefits to active employees and inactive members .	5,663,960,600	5,658,118,000
TOTAL ACTUARIAL LIABILITIES . . .	$8,435,153,900	$9,017,557,600

Source: The Segal Company.

As of June 30, 1995, the total unfunded accrued liability (under the frozen initial liability method) of the pension accumulation fund amounted to approximately $421.9 million or 20.3% of total covered payroll. The Retirement System's funded ratios—assets divided by assets plus the unfunded accrued liability—increased during fiscal year 1995 as shown below:

	Funded Ratios	
	June 30, 1994	June 30, 1995
Basic benefits	92.3%	93.0%

Distribution of Unfunded Accrued Liabilities

The unfunded liability is not calculated separately for each employer, but the State estimates that its portion of the Retirement System's total unfunded accrued liability as of June 30, 1995 was approximately 75.8%, based on the 1995 payroll distribution of covered employees.

A standardized disclosure measure to determine the actuarial condition of a public retirement system is the PBO funded ratio—the ratio of assets over the total pension benefit obligation (PBO). The PBO is determined on the basis of the projected unit credit method, and is recalculated annually (unlike the frozen unfunded accrued liability which is fixed by Chapter 88, HRS). As of June 30, 1995, the unfunded pension benefit obligation amounted to approximately $1,376 million. The funded ratios, i.e., assets divided by total pension benefit obligation, decreased from 82.2% for fiscal year ending June 30, 1994 to 80.3% for fiscal year ending June 30, 1995.

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 1995 AND INDEPENDENT AUDITORS' REPORT

The following information is excerpted from the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1995 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the immediately following excerpt from the Table of Contents of the CAFR.

STATE OF HAWAII

Comprehensive Annual Financial Report
Table of Contents

June 30, 1995

ERNST & YOUNG LLP

2400 Pauahi Tower
1001 Bishop Street
Honolulu, Hawaii 96813

Phone: 808 531 2037

Independent Auditors' Report

Comptroller
State of Hawaii

We have audited the accompanying general purpose financial statements of the State of Hawaii as of June 30, 1995 and for the year then ended, as listed in the table of contents under Part II: Financial Section. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Enterprise Funds, comprised of the Department of Transportation - Airports and Harbors Divisions, and the State Hospitals, or the Component Units of the State - the Housing Finance and Development Corporation, the Hawaii Housing Authority, the Hawaii Hurricane Relief Fund, and the University Funds comprised of the State's public institutions of higher education. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Enterprise Funds and Component Units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Hawaii as of June 30, 1995, and the results of its operations and cash flows of its Enterprise Funds and Component Units for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 1996 on our consideration of the State of Hawaii's internal control structure and a report dated January 25, 1996 on its compliance with laws and regulations.

As discussed in Note 5 to the general purpose financial statements, the State of Hawaii implemented GASB Statement No. 22, *Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds*, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements and schedules listed in the table of contents under Part II: Financial Section are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Hawaii. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introduction and statistical sections (Parts I and III) of this report and, accordingly, express no opinion thereon.

Ernst + Young LLP

January 25, 1996

STATE OF HAWAII

Exhibit A-1

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 1995

(Amounts in thousands)

	Governmental Fund Types			
ASSETS AND OTHER DEBITS	General	Special Revenue	Debt Service	Capital Projects
Cash and short-term investments (note 4)	$ 91,149	$246,325	$5,458	$ 299,151
Receivables:				
Taxes (note 5)	266,313	-	-	-
Accounts and accrued interest, net (note 5)	-	-	-	-
Notes and loans, net (note 5)	906	188,516	-	-
Federal Government	-	-	-	-
Other	148	-	-	-
Due from other funds (note 15)	90,000	287	165	1,450
Due from Component Units (note 15)	6,000	-	-	-
Due from Primary Government (note 15)	-	-	-	-
Investments (note 4)	152,300	382,724	-	174,345
Advances to Enterprise Funds (note 15)	23,521	-	-	-
Inventories:				
Materials and supplies	-	-	-	-
Developments in progress and dwelling units	-	-	-	-
Restricted assets (notes 4, 6 and 10)	-	-	-	-
Property, plant and equipment (notes 7, 8 and 10)	-	-	-	-
Less accumulated depreciation	-	-	-	-
Net property, plant and equipment	-	-	-	-
Other assets:				
Assets held by agents for State Deferred Compensation Plan (note 19)	-	-	-	-
Unamortized bond issue costs	-	-	-	-
Unamortized loan commitment fees (note 19)	-	-	-	-
Prepaid expenses	-	-	-	-
Other	-	1	-	-
Amount available in Debt Service Fund	-	-	-	-
Resources to be provided in future years for retirement of general long-term obligations	-	-	-	-
Total Assets and Other Debits	$630,337	$817,853	$5,623	$ 474,946

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

Proprietary Fund Type	Fiduciary Fund Type	Account Groups				
Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
$ 469,491	$340,873	$ -	$ -	$ 1,452,447	$ 263,719	$ 1,716,166
572	49,009	-	-	315,894	-	315,894
91,697	-	-	-	91,697	22,483	114,180
1,708	2,950	-	-	194,080	241,500	435,580
5,009	-	-	-	5,009	60,800	65,809
4,865	-	-	-	5,013	15,739	20,752
-	-	-	-	91,902	-	91,902
-	-	-	-	6,000	6,101	12,101
-	-	-	-	-	34,304	34,304
37,063	89,107	-	-	835,539	172,398	1,007,937
-	-	-	-	23,521	-	23,521
4,133	-	-	-	4,133	10,363	14,496
-	-	-	-	-	178,268	178,268
451,546	-	-	-	451,546	374,961	826,507
3,063,813	-	3,651,427	-	6,715,240	1,361,265	8,076,505
(615,722)	-	-	-	(615,722)	(128,237)	(743,959)
2,448,091	-	3,651,427	-	6,099,518	1,233,028	7,332,546
-	408,586	-	-	408,586	-	408,586
21,729	-	-	-	21,729	6,615	28,344
-	-	-	-	-	7,204	7,204
1,214	-	-	-	1,214	7,733	8,947
-	-	-	-	1	3,950	3,951
-	-	-	165	165	-	165
-	-	-	3,854,092	3,854,092	287	3,854,379
$3,537,118	$890,525	$3,651,427	$3,854,257	$13,862,086	$2,639,453	$16,501,539

(continued)

STATE OF HAWAII

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units (Cont'd)

June 30, 1995

(Amounts in thousands)

	Governmental Fund Types			
LIABILITIES, EQUITY AND OTHER CREDITS	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**
Liabilities:				
Vouchers and contracts payable	$ 72,174	$ 5,399	$ -	$ 6,681
Other accrued liabilities	-	-	-	-
Prepaid airport use charge fund (note 17)	-	-	-	-
Claims and judgments payable (notes 12, 19 and 22)	-	-	-	-
Due to employees under State Deferred Compensation Plan (note 19)	-	-	-	-
Due to individuals, businesses and counties	-	-	-	-
Due to other funds (note 15)	174	-	-	90,000
Due to Component Units (note 15)	34,304	-	-	-
Due to Primary Government (note 15)	-	-	-	-
Advances from General Fund (note 15)	-	-	-	-
Due to Federal Government and others	-	-	-	-
Payable from restricted assets:				
Contracts payable, accrued interest and other	-	-	-	-
Matured bonds and interest payable	-	-	-	-
Revenue bonds payable, net (note 10)	-	-	-	-
General obligation bonds payable (note 9)	-	-	-	-
General obligation bonds payable (notes 9 and 12)	-	-	-	-
Matured bonds and interest payable	-	-	5,458	-
Notes and installment contracts payable (note 8)	-	-	-	-
Deferred revenue	-	-	-	-
Accrued vacation payable (note 12)	-	-	-	-
Security deposits	-	-	-	-
Liabilities collateralized by HUD annual contributions (note 10)	-	-	-	-
Revenue bonds payable, net (notes 10 and 12)	-	-	-	-
Unearned premiums	-	-	-	-
Reserve for losses and loss adjustment costs (notes 12 and 22)	-	-	-	-
Other	-	-	-	-
Total Liabilities	106,652	5,399	5,458	96,681
Equity and Other Credits:				
Investment in fixed assets	-	-	-	-
Contributed capital (note 14)	-	-	-	-
Retained earnings - reserved for bond requirements and other	-	-	-	-
Retained earnings - unreserved	-	-	-	-
Fund balances (deficit):				
Reserved for refundable Federal grants	-	-	-	-
Reserved for continuing appropriations	179,474	185,147	165	559,363
Reserved for receivables and advances	24,518	188,516	-	-
Reserved for Federal aid highway projects encumbrances	-	-	-	311,374
Reserved for unemployment compensation and other	-	1	-	-
Unreserved:				
Designated for future expenditures	12,391	92,032	-	-
Undesignated	307,302	346,758	-	(492,472)
Total Equity and Other Credits	523,685	812,454	165	378,265
Commitments and contingencies (notes 17, 18 and 19)				
Total Liabilities, Equity and Other Credits	$630,337	$817,853	$5,623	$ 474,946

Proprietary Fund Type	Fiduciary Fund Type	Account Groups				
Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
$ 23,185	$ 6,264	$ -	$ -	$ 113,703	$ 18,627	$ 132,330
94,450	-	-	-	94,450	92,441	186,891
686	-	-	-	686	-	686
-	-	-	520,500	520,500	-	520,500
-	408,586	-	-	408,586	-	408,586
-	126,081	-	-	126,081	-	126,081
1,450	287	-	-	91,911	-	91,911
-	-	-	-	34,304	6,101	40,405
-	-	-	-	-	6,000	6,000
23,521	-	-	-	23,521	-	23,521
-	-	-	-	-	20,466	20,466
66,691	-	-	-	66,691	-	66,691
1,290	-	-	-	1,290	-	1,290
95,679	-	-	-	95,679	2,368	98,047
1,343	-	-	-	1,343	-	1,343
8,605	-	-	2,901,651	2,910,256	23,366	2,933,622
-	-	-	-	5,458	-	5,458
-	-	-	-	-	8,908	8,908
26,174	-	-	-	26,174	18,368	44,542
-	-	-	108,441	108,441	-	108,441
-	-	-	-	-	1,890	1,890
-	-	-	-	-	77,644	77,644
1,456,363	-	-	88,665	1,545,028	609,072	2,154,100
-	-	-	-	-	29,904	29,904
-	-	-	235,000	235,000	-	235,000
3,705	41,434	-	-	45,139	54,202	99,341
1,803,142	582,652	-	3,854,257	6,454,241	969,357	7,423,598
-	-	3,651,427	-	3,651,427	863,241	4,514,668
418,623	-	-	-	418,623	512,918	931,541
151,937	-	-	-	151,937	-	151,937
1,035,328	-	-	-	1,035,328	100,817	1,136,145
-	-	-	-	-	12,508	12,508
-	-	-	-	924,149	3,394	927,543
-	-	-	-	213,034	-	213,034
-	-	-	-	311,374	-	311,374
17,204	307,873	-	-	325,078	111,318	436,396
-	-	-	-	104,423	-	104,423
110,884	-	-	-	272,472	65,900	338,372
1,733,976	307,873	3,651,427	-	7,407,845	1,670,096	9,077,941
$3,537,118	$890,525	$3,651,427	$3,854,257	$13,862,086	$2,639,453	$16,501,539

[THIS PAGE INTENTIONALLY LEFT BLANK]

Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances (Deficit) - All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
Revenues:						
Taxes (note 5)	$2,604,199	$ 168,288	$ -	$ -	$143,932	$2,916,419
Interest and investment income (note 5)	78,203	29,106	-	6,323	17,900	131,532
Charges for current services	123,192	130,435	-	-	49	253,676
Intergovernmental	17,667	816,886	-	-	11,986	846,539
Rentals	6,479	25,916	-	-	-	32,395
Fines, forfeitures and penalties	15,926	1,895	-	-	-	17,821
Licenses and fees	1,289	12,608	-	-	-	13,897
Donations, contributions and deposits	-	-	-	-	20,788	20,788
Revenues from private sources	6,358	1,607	-	-	-	7,965
Accrued interest on general obligation bonds sold	1,319	-	-	-	-	1,319
Income tax designation for election campaign	-	-	-	-	376	376
Other	64,055	54,327	-	-	347	118,729
Total Revenues	2,918,687	1,241,068	-	6,323	195,378	4,361,456
Other Financing Sources:						
Proceeds from general obligation bonds (note 12)	-	-	-	268,000	-	268,000
Operating transfers in from other funds (note 16)	-	28,500	344,715	139,975	-	513,190
Operating transfers in from Component Units (note 16)	-	1,238	-	55	-	1,293
Total Other Financing Sources	-	29,738	344,715	408,030	-	782,483
Total Revenues and Other Financing Sources	2,918,687	1,270,806	344,715	414,353	195,378	5,143,939

(continued)

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

Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances (Deficit) - All Governmental Fund Types and Expendable Trust Funds (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
Expenditures:						
Current:						
General government	$ 394,544	$ 28,093	$ -	$ -	$ -	$ 422,637
Public safety	134,282	39,553	-	-	-	173,835
Highways	-	101,703	-	-	-	101,703
Conservation of natural resources	26,864	10,608	-	-	-	37,472
Health	223,277	104,763	-	-	-	328,040
Welfare	533,254	490,219	-	-	-	1,023,473
Lower education	781,600	116,147	-	-	-	897,747
Other education	12,348	10,013	-	-	-	22,361
Culture and recreation	41,719	24,352	-	-	-	66,071
Urban redevelopment and housing	3,188	27,420	-	-	-	30,608
Economic development and assistance	83,034	113,117	-	-	-	196,151
Social security and pension contributions	149,875	-	-	-	-	149,875
Unemployment compensation and other	-	-	-	-	220,635	220,635
Other	6,027	5,445	-	-	-	11,472
Intergovernmental	3,844	-	-	-	-	3,844
Capital outlay	35,170	-	-	518,966	-	554,136
Debt service	-	-	344,596	-	-	344,596
Total Expenditures	2,429,026	1,071,433	344,596	518,966	220,635	4,584,656
Other Financing Uses:						
Operating transfers out to other funds (note 16)	336,784	189,789	-	12,416	-	538,989
Operating transfers out to Component Units (note 16)	428,393	-	-	297	-	428,690
Total Other Financing Uses	765,177	189,789	-	12,713	-	967,679
Total Expenditures and Other Financing Uses	3,194,203	1,261,222	344,596	531,679	220,635	5,552,335
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(275,516)	9,584	119	(117,326)	(25,257)	(408,396)

STATE OF HAWAII

Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances (Deficit) - All Governmental Fund Types and Expendable Trust Funds (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
Other Changes in Unreserved Fund Balances:						
Add:						
Continuing appropriations, July 1, 1994	$ 238,699	$ 210,183	$ 46	$ 562,157	$ -	$1,011,085
Deduct:						
Continuing appropriations, June 30, 1995	(179,474)	(185,147)	(165)	(559,363)	-	(924,149)
	59,225	25,036	(119)	2,794	-	86,936
Decrease (increase) in reserve for Federal aid highway projects encumbrances, unemployment compensation and other	-	-	-	(10,733)	25,257	14,524
Total Other Changes in Unreserved Fund Balances	59,225	25,036	(119)	(7,939)	25,257	101,460
Excess of Revenues and Other Financing Sources over (under) Expenditures, Other Financing Uses and Other Changes in Unreserved Fund Balances	(216,291)	34,620	-	(125,265)	-	(306,936)
Unreserved Fund Balances (Deficit), July 1, 1994, as previously reported	247,227	418,814	-	(393,804)	-	272,237
Add:						
Prior period adjustment (note 5)	275,307	-	-	-	-	275,307
Unreserved Fund Balances (Deficit), July 1, 1994, as restated (note 11)	522,534	418,814	-	(393,804)	-	547,544
Residual equity transfer in from (out to) other funds	14,644	(14,644)	-	-	-	-
Residual equity transfer in from (out to) Component Units	(1,194)	-	-	26,597	-	25,403
Unreserved Fund Balances (Deficit), June 30, 1995	$ 319,693	$ 438,790	$ -	$(492,472)	$ -	$ 266,011

Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds (Note 3)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:						
Taxes	$2,701,295	$2,593,457	$(107,838)	$ 134,882	$ 168,288	$ 33,406
Interest and investment income	81,837	78,203	(3,634)	11,642	29,106	17,464
Charges for current services	104,777	123,192	18,415	94,978	130,435	35,457
Intergovernmental	11,063	17,667	6,604	660,332	816,886	156,554
Rentals	5,452	6,479	1,027	11,179	25,916	14,737
Fines, forfeitures and penalties	16,761	15,926	(835)	1,892	1,895	3
Licenses and fees	4,326	1,289	(3,037)	5,045	12,608	7,563
Revenues from private sources	5,065	6,358	1,293	-	1,607	1,607
Accrued interest on general obligation bonds sold	700	1,319	619	-	-	-
Other	17,100	64,055	46,955	12,579	54,327	41,748
Total Revenues	2,948,376	2,907,945	(40,431)	932,529	1,241,068	308,539
Other Financing Sources:						
Operating transfers in from other funds	37,438	45,941	8,503	1,226	28,500	27,274
Operating transfers in from Component Units	-	-	-	-	1,238	1,238
Total Other Financing Sources	37,438	45,941	8,503	1,226	29,738	28,512
Total Revenues and Other Financing Sources	2,985,814	2,953,886	(31,928)	933,755	1,270,806	337,051

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

STATE OF HAWAII

Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds (Note 3) (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Expenditures:						
Current:						
General government	$ 437,864	$ 398,758	$ 39,106	$ 45,579	$ 21,323	$ 24,256
Public safety	140,250	135,157	5,093	56,210	39,348	16,862
Highways	-	-	-	148,679	77,095	71,584
Conservation of natural resources	28,579	26,113	2,466	31,953	9,919	22,034
Health	238,619	228,305	10,314	106,563	55,270	51,293
Welfare	531,203	519,450	11,753	469,214	450,899	18,315
Lower education	775,445	756,362	19,083	135,241	106,661	28,580
Other education	12,935	12,157	778	8,594	8,167	427
Culture and recreation	43,609	40,008	3,601	31,426	20,683	10,743
Urban redevelopment and housing	3,342	3,137	205	36,706	20,833	15,873
Economic development and assistance	87,900	78,709	9,191	131,934	83,615	48,319
Social security and pension contributions	166,159	149,875	16,284	-	-	-
Other	7,345	4,679	2,666	7,874	5,570	2,304
Intergovernmental	3,844	3,844	-	-	-	-
Total Expenditures	2,477,094	2,356,554	120,540	1,209,973	899,383	310,590
Other Financing Uses:						
Operating transfers out to other funds	388,034	382,715	5,319	-	-	-
Operating transfers out to Component Units	438,274	428,393	9,881	-	-	-
Total Other Financing Uses	826,308	811,108	15,200	-	-	-
Total Expenditures and Other Financing Uses	3,303,402	3,167,662	135,740	1,209,973	899,383	310,590
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ (317,588)	$ (213,776)	$ 103,812	$ (276,218)	$ 371,423	$ 647,641

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance - Enterprise Funds and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Operating Revenues:			
Concession fees	$ 158,400	$ -	$ 158,400
Sales of dwelling units	-	5,440	5,440
Sales of land	-	20,433	20,433
Net patient service revenues	185,250	-	185,250
Airport use charges	38,970	-	38,970
Assessments	-	32,152	32,152
Special mortgage recording fees	-	6,966	6,966
Rentals	81,823	30,803	112,626
Services and others	32,301	-	32,301
Interest	-	49,578	49,578
Premiums earned	-	24,956	24,956
Other	7,040	13,452	20,492
Total Operating Revenues	503,784	183,780	687,564
Operating Expenses:			
Personal services	149,096	13,891	162,987
Nursing services	74,934	-	74,934
Interest	-	36,181	36,181
Depreciation	80,754	10,143	90,897
Repairs and maintenance	17,716	3,217	20,933
Cost of sales - dwelling units	-	4,177	4,177
Cost of sales - land	-	18,439	18,439
Airports operations	23,988	-	23,988
Harbors operations	6,134	-	6,134
Fireboat operations	1,112	-	1,112
Patrol services operations	1,161	-	1,161
Loan servicing fees and amortization of bond issue costs	-	1,551	1,551
Premiums ceded	-	60,574	60,574
General administration	52,197	8,944	61,141
Ceded land payments	7,458	-	7,458
Project expense	-	6,912	6,912
Provision for uncollectible accounts	3,148	-	3,148
Other	1,468	11,414	12,882
Total Operating Expenses	419,166	175,443	594,609
Operating Income	84,618	8,337	92,955

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

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance - Enterprise Funds and Discretely Presented Component Units (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Nonoperating Revenues (Expenses):			
Interest income	$ 43,166	$ 839	$ 44,005
Aviation fuel tax	6,726	-	6,726
Interest expense	(91,314)	(5,078)	(96,392)
Amortization of bond discount and bond issue costs	(409)	-	(409)
HUD annual contributions	-	9,245	9,245
Donations and grants	11	-	11
Loss on disposal of property, plant and equipment	(109)	-	(109)
Other	(4,354)	-	(4,354)
Total Net Nonoperating Revenues (Expenses)	(46,283)	5,006	(41,277)
Income before Operating Transfers In and Extraordinary Item	38,335	13,343	51,678
Operating Transfers In From (note 16):			
General Fund	16,241	-	16,241
Special Revenue Funds	525	-	525
Capital Projects Fund	9,033	-	9,033
Total Operating Transfers In	25,799	-	25,799
Income before Extraordinary Item	64,134	13,343	77,477
Extraordinary Item - loss from early redemption of revenue bonds payable (note 20)	-	(230)	(230)
Net Income	64,134	13,113	77,247
Excess of expenditures and other financing uses over revenues and other financing sources from governmental operations	-	(5,151)	(5,151)
Depreciation on contributed fixed assets that reduces contributed capital	10,124	5,698	15,822
Decrease in valuation of allowance on investments in revenue bond reserve accounts	33	-	33
Net Change in Retained Earnings/Fund Balance	74,291	13,660	87,951
Retained Earnings/Fund Balance*, July 1, 1994	1,241,062	96,887	1,337,949
Retained Earnings/Fund Balance*, June 30, 1995	$1,315,353	$110,547	$1,425,900

* Fund balance relates to State Hospitals only.

Combined Statement of Cash Flows - Enterprise Funds and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Cash Flows from Operating Activities:			
Operating income	$ 84,618	$ 8,337	$ 92,955
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Provision for uncollectible accounts	3,148	-	3,148
Gain on sale of property and equipment	-	(564)	(564)
Interest paid on bonds	-	35,776	35,776
Depreciation and amortization	80,754	9,666	90,420
Interest on investments	-	(29,852)	(29,852)
HUD operating subsidy	-	4,539	4,539
Other	14,516	15	14,531
Decrease (increase) in assets:			
Accounts receivable	(6,543)	-	(6,543)
Notes and loans receivable	-	13,424	13,424
Accrued interest receivable	-	870	870
Premiums receivable	-	(3,051)	(3,051)
Due from HUD	-	4,762	4,762
Mortgage loans receivable	-	6,805	6,805
Other assets	(2,431)	(35,988)	(38,419)
Increase (decrease) in liabilities:			
Vouchers and contracts payable	(10,627)	(2,052)	(12,679)
Other accrued liabilities	(4,389)	747	(3,642)
Prepaid airport use charge fund	66	-	66
Deferred revenue	9,507	-	9,507
Other restricted liabilities	465	-	465
Security deposits	437	(67)	370
Arbitrage rebate payable	-	(3,279)	(3,279)
Deferred gain on sale of dwelling units and land	-	(2,636)	(2,636)
Unearned premiums	-	29,326	29,326
Deferred commitment fees	-	1	1
Net Cash Provided by Operating Activities	169,521	36,779	206,300
Cash Flows from Noncapital Financing Activities:			
Principal payments on bond maturities	-	(26,178)	(26,178)
Interest paid on bonds	-	(27,064)	(27,064)
Operating transfers in from General Fund	16,241	-	16,241
Operating transfers in from Special Revenue Funds	525	-	525
Other State support	(853)	-	(853)
Donations and grants	69	-	69
Residual equity transfer in from General Fund	-	1,194	1,194
Residual equity transfer out to Capital Projects Fund	-	(26,597)	(26,597)
Net Cash Provided by (Used in) Noncapital Financing Activities	15,982	(78,645)	(62,663)

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

Combined Statement of Cash Flows - Enterprise Funds and Discretely Presented Component Units (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from sale of property and equipment	$ -	$ 788	$ 788
Proceeds from additional borrowings	-	430	430
Acquisition and construction of property and equipment	(107,249)	(21,273)	(128,522)
Proceeds from issuance of refunding revenue bonds	52,797	-	52,797
Repayment of bond principal	(46,826)	-	(46,826)
Payments to refund bonds	(22,242)	-	(22,242)
Bond issue costs	(597)	-	(597)
Interest paid on bonds	(100,327)	(7,311)	(107,638)
Principal payments on revenue bond maturities and redemptions	-	(310)	(310)
Principal payments on notes payable	-	(31)	(31)
Principal payments on mortgage loans	-	(73)	(73)
Proceeds from Federal, State, and capital grants	11,970	17,372	29,342
Operating transfers in from Capital Projects Fund	9,033	-	9,033
Contribution from State of Hawaii and others	-	696	696
Other	(5,383)	-	(5,383)
Net Cash Used in Capital and Related Financing Activities	(208,824)	(9,712)	(218,536)
Cash Flows from Investing Activities:			
Purchase of investments	(548,711)	(495,310)	(1,044,021)
Proceeds from sales and maturities of investments	579,746	509,060	1,088,806
Interest received on note receivable	139	-	139
Principal received on note receivable	761	-	761
Interest from investments	36,980	30,466	67,446
Net increase in restricted deposits and funded reserves	-	(976)	(976)
Net Cash Provided by Investing Activities	68,915	43,240	112,155
Net Increase (Decrease) in Cash and Cash Equivalents	45,594	(8,338)	37,256
Cash and Cash Equivalents, July 1, 1994	562,200	154,108	716,308
Cash and Cash Equivalents, June 30, 1995	$ 607,794	$ 145,770	$ 753,564
Reconciliation of Cash and Cash Equivalents to Cash and Short-Term Investments:			
Cash and cash equivalents	$ 607,794	$ 145,770	$ 753,564
Cash and cash equivalents:			
Governmental Fund Types	-	4,654	4,654
Fiduciary Fund Type	-	902	902
Time certificates of deposit with original maturities greater than three months	97,481	-	97,481
Cash and short-term investments - University Funds, June 30, 1995	-	124,576	124,576
Less deposits held in trust	-	(201)	(201)
Cash and Short-Term Investments, including Restricted Amounts	705,275	275,701	980,976
Less restricted amounts	(235,784)	(11,982)	(247,766)
Cash and Short-Term Investments, June 30, 1995	$ 469,491	$ 263,719	$ 733,210
Noncash Investing, Capital and Financing Activities:			
Capital assets contributed by Federal and State agencies	$16,793	$28,253	$45,046
Amortization of bond discount and bond issue costs	3,634	-	3,634
Interest on collateralized debt paid for by a Federal agency	-	1,717	1,717
Interest expense expected to be forgiven by a Federal agency	-	2,989	2,989
Retirement of liabilities collateralized by HUD	-	1,658	1,658

Combined Statement of Changes in Fund Balances - Component Unit - University Funds

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Current Funds		Loan	Endowment and Similar
	Unrestricted	Restricted	Funds	Funds
Revenues and Other Additions:				
Unrestricted current funds revenues	$ 98,180	$ -	$ -	$ -
Tuition and fees	-	2,186	-	1,000
Federal appropriations	-	3,163	-	-
Federal grants and contracts	-	111,163	341	-
State grants and contracts	-	14,971	-	-
Local grants and contracts	-	867	-	-
Private gifts, grants and contracts	-	24,318	-	2,694
Endowment and investment income	-	2,300	500	157
Sales and services of educational activities	-	2	-	-
Auxiliary enterprises revenues	-	577	-	-
Realized gains on investments	-	-	-	2,702
Expended for plant facilities	-	-	-	-
Amounts spent for construction in progress	-	-	-	-
Transfers from other State agencies	-	-	-	-
Contributions - renewals and replacements	-	-	-	-
Contributions - retirement of indebtedness	-	-	-	-
Other	-	729	49	17
Total Revenues and Other Additions	98,180	160,276	890	6,570
Expenditures and Other Deductions:				
Educational and general expenditures	458,632	153,681	-	-
Auxiliary enterprises expenditures	52,561	542	-	-
Independent operations expenditures	5,076	1,835	-	-
Administrative and collection cost	-	-	288	14
Expenditures for plant facilities (including uncapitalized expenditures of $1,611)	-	-	-	-
Loan cancellations and write-offs	-	-	151	-
Retirement of indebtedness - bonds	-	-	-	-
Interest on indebtedness - bonds	-	-	-	-
Disposals of plant facilities	-	-	-	-
Increase in allowance for uncollectible loans	-	-	432	-
Other	2,135	-	118	-
Total Expenditures and Other Deductions	518,404	156,058	989	14

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

Plant Funds				
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total
$ -	$ -	$ -	$ -	$ 98,180
-	-	-	-	3,186
12,747	-	459	-	16,369
-	-	-	-	111,504
-	-	-	-	14,971
-	-	-	-	867
(7)	-	-	5,277	32,282
(45)	-	289	-	3,201
-	-	-	-	2
-	-	-	-	577
-	-	7	-	2,709
-	-	-	32,893	32,893
-	-	-	13,173	13,173
-	-	-	16,672	16,672
-	51	-	-	51
-	-	139	1,847	1,986
-	-	-	-	795
12,695	51	894	69,862	349,418
-	-	-	-	612,313
-	-	-	-	53,103
-	-	-	-	6,911
-	-	-	-	302
15,843	2,713	-	-	18,556
-	-	-	-	151
-	-	3,300	-	3,300
-	-	2,701	-	2,701
-	-	-	9,251	9,251
-	-	-	-	432
-	-	1	1,995	4,249
15,843	2,713	6,002	11,246	711,269

(continued)

Combined Statement of Changes in Fund Balances - Component Unit - University Funds (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
University Interfund Transfers In (Out):				
Mandatory:				
Hawaii Opportunity Program for Education ...	$ 5,000	$ -	$ -	$ (5,000)
Institutional contributions:				
Federal Perkins Loan Program	(114)	-	114	-
Nursing Loan Program	(2)	-	2	-
Retirement of indebtedness	(5,297)	(40)	-	-
Renewals and replacements	(266)	-	-	-
Voluntary:				
Retirement of indebtedness	(1,168)	-	-	-
Renewals and replacements	(7,792)	-	-	-
Quasi-endowment - restricted	-	(17)	-	17
Quasi-endowment - unrestricted	(130)	-	-	130
Quasi-endowment - fund transfer	169	(411)	-	242
Housing assistance loans	(146)	-	146	-
Institutional contributions to State Higher Education Loan Fund	(256)	-	256	-
Interfund transfer	824	749	-	(1,573)
Total University Interfund Transfers In (Out)	(9,178)	281	518	(6,184)
Operating Transfers In From (Out To):				
General Fund	418,736	303	-	-
Special Revenue Funds	(1,238)	-	-	-
Capital Projects Fund	-	-	-	-
Net Operating Transfers In	417,498	303	-	-
Net Increase (Decrease) for the Fiscal Year	(11,904)	4,802	419	372
Fund Balances, July 1, 1994	60,205	15,330	21,107	72,727
Fund Balances, June 30, 1995	$ 48,301	$ 20,132	$21,526	$73,099

Plant Funds				
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-	-	5,337	-	-
-	266	-	-	-
-	-	1,168	-	-
-	7,792	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	8,058	6,505	-	-
-	-	-	-	419,039
-	-	-	-	(1,238)
297	-	-	-	297
297	-	-	-	418,098
(2,851)	5,396	1,397	58,616	56,247
5,041	8,465	2,884	777,660	963,419
$ 2,190	$13,861	$4,281	$836,276	$1,019,666

Statement of Current Funds Revenues, Expenditures and Other Changes - Component Unit - University Funds

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Unrestricted	Restricted	Total
Revenues and Other Additions:			
Educational and general:			
Tuition and fees	$ 19,244	$ 2,186	$ 21,430
Federal appropriations	-	3,163	3,163
Federal grants and contracts	10,104	108,047	118,151
State grants and contracts	771	15,671	16,442
Local grants and contracts	-	867	867
Private gifts, grants and contracts	371	22,213	22,584
Endowment income	906	2,300	3,206
Sales and services of educational activities	7,663	2	7,665
Other	3,557	729	4,286
Total educational and general	42,616	155,178	197,794
Sales and services of auxiliary enterprises	55,564	577	56,141
Total Revenues and Other Additions	98,180	155,755	253,935
Expenditures, Other Deductions and Mandatory Transfers:			
Educational and general:			
Instruction	212,170	23,002	235,172
Research	53,337	77,926	131,263
Public services	22,543	27,257	49,800
Academic support	53,958	5,287	59,245
Student services	26,534	4,968	31,502
Institutional support	44,385	1,143	45,528
Operation and maintenance of plant	43,765	899	44,664
Scholarships and fellowships	1,940	13,199	15,139
Other	2,135	-	2,135
	460,767	153,681	614,448
Mandatory transfers for:			
Retirement of indebtedness	1,028	40	1,068
Institutional contributions:			
Federal Perkins Loan Program	114	-	114
Nursing Loan Program	2	-	2
Total educational and general	461,911	153,721	615,632

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

STATE OF HAWAII

Statement of Current Funds Revenues, Expenditures and Other Changes - Component Unit - University Funds (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Unrestricted	Restricted	Total
Independent Operations:			
Expenditures	$ 5,076	$ 1,835	$ 6,911
Auxiliary Enterprises:			
Expenditures	52,561	542	53,103
Mandatory transfers for:			
Principal and interest	4,269	-	4,269
Renewals and replacements	266	-	266
Total auxiliary enterprises	57,096	542	57,638
Total Expenditures, Other Deductions and Mandatory Transfers	524,083	156,098	680,181
University Interfund Transfers and Other Additions (Deductions):			
Excess of restricted revenues of $160,579 over expenditures of $156,058	-	4,521	4,521
Hawaii Opportunity Program for Education	5,000	-	5,000
Voluntary transfer to retirement of indebtedness	(1,168)	-	(1,168)
Voluntary transfer to renewals and replacements	(7,792)	-	(7,792)
Quasi-endowment - restricted	-	(17)	(17)
Quasi-endowment - unrestricted	(130)	-	(130)
Quasi-endowment - fund transfer	169	(411)	(242)
Housing assistance loans	(146)	-	(146)
Institutional contributions to State Higher Education Loan Fund	(256)	-	(256)
Interfund transfer	824	749	1,573
Total University Interfund Transfers and Other Additions (Deductions)	(3,499)	4,842	1,343
Operating Transfers In From (Out To):			
General Fund	418,736	303	419,039
Special Revenue Funds	(1,238)	-	(1,238)
Net Operating Transfers In	417,498	303	417,801
Net Increase (Decrease) in Fund Balances	$ (11,904)	$ 4,802	$ (7,102)

[THIS PAGE INTENTIONALLY LEFT BLANK]

1. Financial Statements Presentation

General

The accompanying general purpose financial statements of the State of Hawaii (State) present the financial position of the various fund types and account groups, the results of operations of the various fund types and the changes in retained earnings/fund balance and cash flows of the Enterprise Funds and Component Units as of and for the fiscal year ended June 30, 1995.

Definition of Reporting Entity

The State has defined its reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. The basic criterion for including a potential component unit within the reporting entity is financial accountability. Other criteria include legal standing and fiscal dependency.

The financial reporting entity consists of the Primary Government, which is the State, and all potential component units for which the Primary Government is financially accountable and other organizations for which the nature and significance of their relationship with the Primary Government are such that exclusion would cause the State's general purpose financial statements to be misleading or incomplete. 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 and are thus included in the accompanying general purpose financial statements:

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 Resources 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 general purpose financial statements include the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the State. The discretely presented Component Units are as follows:

University Funds

The State established the University Funds (University) to account for the financial activities of the State's public institutions of higher education whose functions are to provide thorough instruction and conduct research in, and disseminate knowledge of, agriculture, mechanic arts, mathematics, physics, natural sciences, economics, political and social sciences, languages, literature, history, philosophy, and such other branches of advanced learning as the Board of Regents of the University of Hawaii

(UH), may prescribe, and the Federal Government require.

Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH. The activities of the UH are under the general management of the Board of Regents consisting of 11 members who are appointed and may be removed by the Governor.

Housing Finance and Development Corporation

The Housing Finance and Development Corporation (HFDC) was established as a corporate body to be placed within the Department of Budget and Finance for administrative purposes. The HFDC was created to perform housing finance, housing development and residential leasehold functions in response to the State Legislature's determination that there exists a critical shortage of safe and sanitary, affordable housing units for lower income residents. The State Legislature has undertaken the duty to provide the overview and the direction to solve this problem through the creation of the HFDC.

HRS Chapter 201E provides that the HFDC shall be a public body and a corporate body with perpetual existence. That statute requires that the HFDC shall be headed by a Board of Directors comprised of nine members. The nine members consist of the following:

- Six public members appointed by the Governor (two appointed at large; and the remaining four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai),
- The Director of Finance,
- The Director of Business, Economic Development and Tourism, and
- The Special Assistant to the Governor for Housing.

Hawaii Housing Authority

The Hawaii Housing Authority (HHA) was established for the clearance, replanning and reconstruction of areas in which unsanitary or unsafe housing conditions exist, and to provide safe and sanitary dwelling accommodations for which public money can be spent and private property acquired.

HRS Chapter 356 created the HHA as a separate legal entity. The HHA's Board of Commissioners consists of eight members, six of whom are public members appointed by the Governor. Two of the public members are appointed at large, and the remaining four are selected from each county. Not more than three of the public members can be members of the same political party. The last two voting members are the Director of Human Services and the Special Assistant to the Governor for Housing.

Hawaii Hurricane Relief Fund

The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

The HHRF began issuing hurricane property insurance policies beginning June 1, 1994. Residential policies cover dwelling, contents and additional living expenses, and coverage for small business and condominium associations are for building and its contents. The policies are made available to the general public by property and casualty insurance companies under servicing facility agreements. Under such servicing facility agreements, the insurance companies are responsible for providing underwriting, policy management, and settlement of losses on behalf of the HHRF.

In addition to income from policies written by servicing carriers (premiums), the HHRF is entitled to annually charge all Hawaii licensed property or casualty insurers a 3.75% assessment on each insurer's gross direct written premiums for property and casualty insurance in Hawaii (exclusive of motor vehicle premiums) for the preceding calendar year. The rate may be increased to an amount not to exceed 5% (inclusive of motor vehicle premiums) in a year in which a covered event occurs.

In the event of a loss from a covered event, the HHRF may also assess those insurers who wrote property insurance coverage an amount not exceeding $500 million in the aggregate provided that a separate assessment is made for each covered event.

The HHRF is also entitled to collect a special mortgage recording fee from mortgagors of one-tenth of one percent of the stated principal amount of the debt secured by the mortgage or in the case of an amendment to a mortgage, the same percentage based on the increase of the stated principal debt.

The monies collected from premiums and other revenues, assessments and special mortgage recording fees are required to be deposited into a hurricane reserve trust fund to be administered by the HHRF. Upon dissolution of the HHRF, the net monies of the hurricane reserve trust fund shall revert to the State's General Fund, after any payments by the HHRF 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 uses premiums and other revenues to purchase reinsurance. In the event of a covered event, claims will be paid with reinsurance proceeds, standby term loan facility proceeds and available monies of the HHRF. If the total amount available to the HHRF is insufficient to pay all necessary claims, the available monies will be prorated among the claimants. Any unpaid portion will be paid as monies become available.

The HHRF is administered and operated by a Board of Directors. The Board consists of the following members:

- The Insurance Commissioner, as an Ex Officio voting member, and
- Six members appointed by the Governor with the advice and consent of the Senate:
    - Two members appointed by the Governor,
    - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate, and
    - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Combining financial statements for the discretely presented Component Units are presented at Exhibit J. Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services.

The following agencies are excluded from the reporting entity:

- Employees' Retirement System
- Office of Hawaiian Affairs

Employees' Retirement System

While the State is responsible for funding certain contributions to the Employees' Retirement System of the State of Hawaii (ERS), the ERS is fiscally independent of the State. The ERS Board of Trustees administers the ERS on behalf of public employees for both the State and county governments. Except for limited administrative functions, the State does not have the power to supervise or control the Board in the exercise of its functions, duties and powers.

Office of Hawaiian Affairs

The Office of Hawaiian Affairs (OHA) was established by the State Constitution and the HRS as a separate corporate body from the State to exist for the betterment of the conditions of native Hawaiians. OHA has no financial accountability to the State. OHA's Board of Trustees are elected by qualified native Hawaiian voters. The State does not have the power to supervise or control the Board in the exercise of its functions, duties and powers, or exercise control over a significant portion of OHA's financial resources.

Fund Accounting

The financial activities are recorded in individual funds classified by type and described in the following sections, each of which is deemed to be a separate accounting entity. The financial position and operations of each fund are accounted for in separate self-balancing accounts which represent the fund's assets, liabilities, equity, revenues and expenditures or expenses. Account groups are used to establish accounting control and accountability for the State's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities.

GOVERNMENTAL FUND TYPES

General Fund

Financial resources obtained and used for services traditionally provided by a state government, which are not accounted for in other funds, are accounted for in the General Fund.

Special Revenue Funds

Financial resources obtained from specific revenue sources and used for restricted purposes are accounted for in the Special Revenue Funds.

Debt Service Fund

Financial resources obtained and used for the payment of principal and interest on general long-term bond obligations are accounted for in the Debt Service Fund.

Capital Projects Fund

Substantially all financial resources obtained and used for the acquisition or construction of State general fixed assets and facilities are reflected in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues, Federal grants and operating transfers from the Special Revenue Funds.

PROPRIETARY FUND TYPE

Enterprise Funds are comprised of:

- Department of Transportation - Airports Division (Airports) which 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) which operates the State's commercial harbors.
- State Hospitals Fund (State Hospitals) which accounts for the operations of the State's hospitals and is comprised of the following:

  Hilo Medical Center
  Honokaa Hospital
  Ka'u Hospital
  Kauai Veterans Memorial Hospital
  Kohala Hospital
  Kona Community Hospital
  Kula Hospital
  Lanai Community Hospital
  Leahi Hospital
  Samuel Mahelona Memorial Hospital
  Maluhia (A Long-Term Care Health Center)
  Maui Memorial Hospital and Hana Medical Center

  The financial statements of the State Hospitals have been prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide - Audits of Providers of Health Care Services.

FIDUCIARY FUND TYPE

Trust and Agency Funds

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in the Trust and Agency Funds. Trust and Agency Funds are comprised of:

- Expendable Trust Funds which account for assets held in trust to be expended for designated purposes.
- Agency Funds which account for employee benefit receipts and payments to the Hawaii Public Employees Health Fund and the clearance accounts for State payroll and tax collections, including protested tax payments.

ACCOUNT GROUPS

General Fixed Assets Account Group

General Fixed Assets Account Group is used to account for all fixed assets of the State other than those accounted for in the Enterprise Funds and Component Units.

General Long-Term Obligations Account Group

General Long-Term Obligations Account Group is used to account for the unmatured long-term general obligation and revenue bonds, excluding those accounted for in the Enterprise Funds and Component Units. Certain claims and judgments payable, accrued self-insurance claims and accrued vacation payable for Governmental Fund Types are reflected in the General Long-Term Obligations Account Group.

COMPONENT UNITS

University Funds

Financial activities of the State's public institutions of higher education are accounted for in the University. The financial statements of the University have been prepared in accordance with the AICPA Industry Audit Guide - Audits of Colleges and Universities.

Enterprise Funds

Enterprise Funds are comprised of (1) HFDC and (2) HHA which both provide dwelling units for low and moderate income residents of the State; and (3) HHRF which funds, assesses and provides, when necessary, hurricane insurance to residents of the State.

2. Summary of Significant Accounting Policies

GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST AND AGENCY FUNDS

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of those funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The State uses the modified accrual basis of accounting for the General, Special Revenue, Debt Service, Capital Projects and Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at year-end. Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. Revenues susceptible to accrual include Federal grants and 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.

Expenditures are recorded when the related fund liabilities are incurred with the exception that principal and interest on general long-term bond obligations are recorded as fund liabilities when due or when amounts have been accumulated in the Debt Service Fund for payments of principal and interest to be made early in the following fiscal year.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Cash and Short-Term Investments

Cash and short-term investments include all cash and repurchase agreements with original maturities of three months or less and all time certificates of deposit.

Investments

Investments are carried at cost or amortized cost.

Assets Held by Agents for the State Deferred Compensation Plan

Assets held by agents for the State Deferred Compensation Plan are carried at market value.

Accumulated Vacation and Sick Leave

State employees' accumulated vacation is expected to be liquidated with future expendable resources and therefore is accrued in the General Long-Term Obligations Account Group. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

Fund Balances

Portions of fund balances are reserved for the following:

- Continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

- Notes and loans receivable, advances and investments which are not currently available for expenditure at the balance sheet date.

- Federal aid highway projects encumbrances.

- Expendable trust fund balances which are restricted to the purpose of the account.

Portions of the unreserved fund balances are designated for future capital and operating expenditures. Those designated fund balances represent appropriations which have not been allotted and are established to reflect tentative plans for the future use of financial resources. It has been the policy of the State to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

PROPRIETARY FUND TYPE

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of those funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital, fund balance and retained earnings components. Proprietary Fund Type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accounts of the Proprietary Fund Type are reported under the accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred. The Proprietary Fund Type has not applied Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the Combined Statement of Cash Flows include all cash and investments with original maturities of three months or less.

Investments

Investments in U.S. Government securities, corporate bonds and other short-term investments are stated at amortized cost. Investments in repurchase agreements and corporate stocks are stated at cost. Contributed investments are recorded at fair market value at date of receipt.

Inventories

Materials and supplies are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment acquired by purchase or construction are recorded at cost. Contributed property is recorded at fair market value at date of receipt. Airports facilities are depreciated on the straight-line basis over estimated useful lives of 20 to 45 years for land improvements and buildings and improvements and 10 years for machinery and equipment.

Depreciation on Harbors facilities is provided on the straight-line basis over estimated useful lives using composite rates of 1% to 3% for land improvements, 1% to 20% for buildings and improvements and 8% for machinery and equipment. Depreciation on Harbors facilities is not provided for in the year of acquisition, but is provided for an entire year in the year of disposal.

Depreciation on State Hospitals facilities is provided on the straight-line basis over estimated useful lives of 5 to 50 years for buildings and improvements and 5 to 20 years for machinery and equipment.

Maintenance, repairs, minor replacements, renewals and betterments are charged to operations as incurred. Major replacements, renewals and betterments are capitalized. Disposal of assets is recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in operations.

Depreciation on property acquired through grants is included in depreciation expense presented in the Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance - Enterprise Funds and is transferred to the contributed capital account.

Bond Issue Costs

Costs related to the issuance of bonds are capitalized and amortized using the straight-line method over the term of the obligations.

Unamortized Bond Discount

Bond discount is amortized using the effective interest method over the term of the related debt. The unamortized balance is offset against the related long-term debt.

Interest Cost

Total interest cost incurred for the fiscal year ended June 30, 1995 amounted to $106,998,000, of which $15,684,000 was capitalized as part of the acquisition cost of facilities.

Restricted Assets Investments

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.

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 is of the opinion that adequate provision has been made for any adjustments that may result from such reviews.

ACCOUNT GROUPS

General Fixed Assets

General fixed assets are recorded at cost. Certain assets for which cost is not determinable have been valued at estimated historical cost. Contributed fixed assets are recorded at fair market value at date of receipt. Infrastructure assets consisting principally of highways, roads and bridges are expended in the Capital Projects Fund and are not capitalized or reported in the General Fixed Assets Account Group. Such assets are normally immovable and of value only to the State. Depreciation is not provided on general fixed assets.

COMPONENT UNIT - UNIVERSITY FUNDS

Basis of Accounting

The accounts of the University are reported using the current financial resources measurement focus.

The financial statements of the University have been prepared on the accrual basis of accounting with the following exceptions:

- Depreciation expense related to plant fund assets is not recorded.
- Revenues and expenditures of an academic program encompassing more than one fiscal year are reported solely in the fiscal year in which the program is predominantly conducted.

The Combined Statement of Changes in Fund Balances - Component Unit - University Funds is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. To the extent that current funds are used to finance plant fund assets, the amounts so provided are accounted for as (1) expenditures, in the case of equipment and library books; (2) mandatory transfers, in the case of required provisions for debt agreements and equipment renewal and replacement; and (3) voluntary transfers in all other cases.

Fund Accounting

The financial activities of the UH are recorded in funds which classify the various transactions by specified activities or objectives. Tuition and fees of the UH's fall and spring semesters and certain other receipts aggregating $37,187,000 in fiscal 1995 were deposited in the State's General Fund in accordance with Act 184, Session Laws of Hawaii (SLH) of 1961 and other acts.

Restricted gifts, grants, endowment income and other restricted resources are accounted for in the Current Funds - Restricted, Loan Funds, Endowment and Similar Funds and Plant Funds. Revenues and expenditures reported in the Current Funds - Restricted are designated for specific current operating purposes. Transactions related to the various student loan programs are accounted for in the Loan Funds. Resources restricted for the acquisition of and investment in property, plant and equipment are accounted for in the Plant Funds.

Endowment and Similar Funds are subject to donor restrictions requiring the principal to be invested in perpetuity with only the related income to be utilized.

Agency Funds include all funds held by the UH as custodian or fiscal agent for others.

COMPONENT UNITS - ENTERPRISE FUNDS

Basis of Accounting

All Component Units - Enterprise Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of those funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital, fund balance and retained earnings components. Component Units - Enterprise Funds operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accounts of the Component Units - Enterprise Funds are reported under the accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments are presented on the same basis of accounting as those of the Proprietary Fund Type.

Inventories

Inventories for HFDC consist of developments in progress and dwelling units available for sale which 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.

Property, Plant and Equipment

Depreciation is provided by HFDC and HHA on its property and equipment on the straight-line basis over estimated useful lives of 10 to 40 years for buildings and improvements and 3 to 10 years for equipment.

Transfer of depreciation on HHA assets acquired or constructed from U.S. Department of Housing and Urban Development (HUD) annual contributions is limited to the lesser of the depreciation expense or HUD annual contributions received for the payment of debt principal.

HUD Annual Contributions

HHA receives contributions from HUD for payment of principal and interest on notes and bonds. The debt service contributions related to principal and interest are recognized as contributed capital and nonoperating revenue, respectively.

Profit Recognition of Dwelling Unit Sales

The recognition of profit from the sale of dwelling units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale and the future involvement of HFDC in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred until such time as the criteria are met.

Commitment Fees

Commitment fees collected are deferred and amortized as an adjustment of the related loan's yield. The State has anticipated prepayments and is amortizing those amounts over an estimated economic life of twelve years. Costs relating to additional due diligence procedures performed by the State prior to acquiring the loans are expensed as incurred.

Recognition of Premium Revenues and Premiums Ceded

Premiums are recognized by the HHRF as revenue on a prorata basis over the policy term. Premiums ceded are recognized as incurred over the contract period in proportion to the amount of insurance protection provided.

Servicing Facility Agreements

The HHRF has entered into servicing facility agreements with various property and casualty insurers. Under the terms of these servicing facility agreements, participating insurance companies receive a servicing fee equal to $25 for each policy issued or renewed on an annual basis. For the fiscal year ended June 30, 1995, servicing fees amounted to $3,002,182.

ALL FUNDS

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 retains the first $250,000 per occurrence of property losses and the first $2 million with respect to general liability claims. Losses in excess of these retention amounts are insured with commercial insurance carriers. The annual aggregates per occurrence for property and general liability losses are $100 million and $23 million, respectively. The State also has an insurance policy to cover medical malpractice risk in the amount of $10 million per occurrence with no annual aggregate limit. The State is self-insured for workers' compensation and automobile claims. The estimated reserve for loss and loss adjustment costs include the accumulation of estimates for losses and claims reported prior to year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and 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 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 amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the State, subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the State's general creditors in an amount equal to the fair market value of the deferred account of each participant.

It is the opinion of the Attorney General that the State has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The State believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs. All other Federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

Intrafund and Interfund Transactions

Transfers of financial resources between departments and activities included within the same fund are eliminated. Transfers from funds receiving revenues to funds through which the resources are to be expended are recorded as operating transfers unless the transfers are considered to be nonrecurring or nonroutine transfers of equity, which are then recorded as residual equity transfers.

Total Columns on General Purpose Financial Statements

The total columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Information in those columns do not purport to present financial position, results of operations, or cash flows of the State in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund balances and transactions have not been eliminated.

3. Budgeting and Budgetary Control

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 throughout the fiscal year. Amounts reflected as budgeted revenues in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds 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 1993 (Act 289, SLH of 1993), as amended by the Supplemental Appropriations Act of 1994 (Act 252, SLH of 1994), and from other authorizations contained in the State Constitution, the HRS and other specific appropriations acts in various SLH.

All expenditures of those appropriated funds are made pursuant to the appropriations in the 1993-1995 biennial budget.

The General Fund and Special Revenue Funds (except for revolving funds) have legally appropriated annual budgets. Capital Projects Fund appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General and Special

Revenue Funds represents the original appropriations, transfers and other legally authorized legislative and executive changes.

Budgetary control is maintained at the appropriation line item level as established in the appropriations acts. The Governor is authorized to transfer appropriations within a State agency; however, transfers of appropriations between State agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 1995, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, General Fund and Special Revenue Funds appropriations 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 Funds are presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds. The State's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations and equipment acquired through long-term financing (basis differences); (2) the accounting for transfers of debt service payments through the General Fund (perspective differences); and (3) Special Revenue Funds programs which do not require legal appropriations (entity difference). The first two differences represent departures from generally accepted accounting principles (GAAP).

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 1995 follows (amounts expressed in thousands):

	Funds	
	General	Special Revenue
Excess of revenues and other financing sources over (under) expenditures and other financing uses - actual (budgetary basis)	$(213,776)	$ 371,423
Reserve for encumbrances at year-end*	128,955	88,769
Expenditures for liquidation of prior fiscal year encumbrances and for unbudgeted programs, principally expenditures for capital projects accounts and revolving funds	(197,776)	(450,608)
Tax refunds payable	(264)	-
Accrued liabilities	(3,661)	-
Accrued revenues	11,006	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses - GAAP basis	$(275,516)	$ 9,584

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

4. Cash and Investments

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies of the State which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. 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.

Information on cash and investments of the ERS is presented in note 18.

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 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. 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 carrying amount of the State's total deposits as of June 30, 1995 was $1,688,231,000 for the Primary Government and $275,701,000 for the Component Units (including cash, time certificates of deposit, money market accounts and repurchase agreements with original maturities of three months or less classified as restricted assets). Approximately $235,784,000 for the Primary Government and $11,982,000 for the Component Units of the State's total deposits are restricted and are included in restricted assets in the accompanying general purpose financial statements.

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 amounted to $1,852,938,000 at June 30, 1995. The portion of such 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 totaled $1,509,980,000. The remaining bank balances of $342,958,000 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 Enterprise Funds' cash in bank which was uninsured and uncollateralized. The Special Revenue Funds' and Enterprise Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations.

Investments

The State holds investments both for its own benefit and as an agent for other parties. The State's investment of funds not required for immediate payments are predominantly comprised of U.S. Government securities.

The following tables present the State's investments at June 30, 1995 (amounts expressed in thousands), and provides information about the credit and market risks associated with the

State's investments. The three categories of credit risks are:

- Category 1: investments which are insured or registered, or securities held by the State or its agent in the State's name.

- Category 2: investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

- Category 3: investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

	Carrying Value	Market Value	Category 1	Category 2	Category 3	Not Categorized
Investments - Primary Government:						
U.S. Government securities, at amortized cost	$ 162,326	$ 165,051	$ 162,326	$ -	$ -	$ -
Time certificates of deposit	264,965	264,965	264,965	-	-	-
Repurchase agreements	2,004,055	2,004,055	2,004,055	-	-	-
Corporate stocks and bonds	630	630	630	-	-	-
	2,431,976	2,434,701	2,431,976	-	-	-
Less restricted assets investments*	(267,022)	(270,366)	(267,022)	-	-	-
Less investments reported as cash and short-term investments	(1,329,415)	(1,329,415)	(1,329,415)	-	-	-
	$ 835,539	$ 834,920	$ 835,539	$ -	$ -	$ -

	Carrying Value	Market Value	Category 1	Category 2	Category 3	Not Categorized
Investments - Component Units:						
U.S. Government securities, at amortized cost	$ 70,190	$ 75,117	$ 70,190	$ -	$ -	$ -
Time certificates of deposit	43,111	43,111	43,111	-	-	-
Repurchase agreements	337,453	337,453	337,453	-	-	-
Mortgage-backed securities	87,554	82,764	87,554	-	-	-
Corporate stocks and bonds	47,379	56,574	47,379	-	-	-
Miscellaneous	316	324	316	-	-	-
	586,003	595,343	586,003			
Less restricted assets investments*	(365,369)	(360,511)	(365,369)	-	-	-
Less investments reported as cash and short-term investments	(48,236)	(48,236)	(48,236)	-	-	-
	$ 172,398	$ 186,596	$ 172,398	$ -	$ -	$ -

* Restricted assets investments include $116,053 and $6,196 in time certificates of deposit, U.S. Government securities and repurchase agreements for the Primary Government and Component Units, respectively, with original maturities of three months or less which were reclassified as restricted cash and short-term investments.

5. Receivables

Taxes Receivable

The State has implemented new accounting standards for recognition of taxpayer-assessed tax revenues on a modified accrual basis as required by GASB Statement No. 22, "Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds." The State now recognizes revenue for general excise tax, individual income tax, corporate income tax, unemployment compensation tax and miscellaneous other taxes that are collected by merchants and other government agencies and earned by the State as of June 30, 1995 and are due and payable shortly thereafter. Previously only delinquent taxes due and payable to the State by June 30, 1995 were recognized as revenue.

At June 30, 1995, taxes receivable, net of refunds for income taxes of $20,000,000, consisted of the following (amounts expressed in thousands):

	Funds	
	General	Expendable Trust
General excise tax	$186,330	$ -
Income taxes - corporate and individual	79,983	-
Unemployment compensation tax	-	49,009
	$266,313	$ 49,009

Due to the implementation of the provisions of GASB Statement No. 22, certain fund balances were restated to reflect the changes in reporting tax revenues susceptible to accrual as follows (amounts expressed in thousands):

	Funds (note 11)	
	General	Expendable Trust
June 30, 1994 fund balance, as previously reported	$510,077	$307,261
Increase for restatement of tax revenues	275,307	25,869
July 1, 1994 fund balance, as restated	$785,384	$333,130

Accounts and Accrued Interest Receivable

At June 30, 1995, accounts and accrued interest receivable for the Enterprise Funds and Component Units consisted of the following (amounts expressed in thousands):

	Enterprise Funds			
	Airports	Harbors	State Hospitals	Total
Airport services and fees	$ 31,396	$ -	$ -	$ 31,396
Harbor services and fees	-	7,739	-	7,739
Hospital patient services	-	-	134,925	134,925
Accrued interest	4,016	948	-	4,964
	35,412	8,687	134,925	179,024
Less allowance for doubtful accounts	(12,700)	(1,260)	(73,367)	(87,327)
Accounts and accrued interest receivable, net	$ 22,712	$ 7,427	$ 61,558	$ 91,697

	Component Units			
	University	HFDC	HHRF	Total
Accrued interest	$ 474	$7,216	$15	$ 7,705
Other	15,165	-	-	15,165
	15,639	7,216	15	22,870
Less allowance for doubtful accounts	(387)	-	-	(387)
Accounts and accrued interest receivable, net	$15,252	$7,216	$15	$22,483

Notes and Loans Receivable

At June 30, 1995, notes and loans receivable, net of estimated uncollectible amounts, consisted of the following (amounts expressed in thousands):

Primary Government	
General Fund	
Molokai Task Force loans	$ 165
Kauai Task Force loans	117
Independent sugar growers loans	14
North Kohala Task Force loans	118
Emergency farm loans	454
OHA - economic development loans	2
Hamakua low interest loans	36
Total General Fund	$ 906
Special Revenue Funds	
Agriculture:	
Farm loans	$ 31,051
Hawaii agricultural products loans	183
Hawaii aquacultural loans	557
Business, Economic Development and Tourism:	
Commercial fishing vessel repairs and maintenance loans	177
Hawaii capital loans	14,309
Fisheries new vessel loans	2,702
State disaster loans	285
Molokai loans	179
Hawaii innovation loans	603
Hawaii community - based development	362
Hawaii Community Development Authority relocation loans	48
Hawaiian Home Lands*:	
Native Hawaiian Rehabilitation Fund loans	22
Homesteaders loans	2,570
Hawaiian Home Lands general loans	39,627
Health - wastewater treatment plant loans	95,841
Total Special Revenue Funds	$188,516
Enterprise Funds	
Airports, net of discount of $142	$ 1,708
Trust and Agency Funds	
Rental housing trust funds	$ 2,950
Component Units	
University Funds	
Student loans, net of allowance for doubtful accounts of $4,316	$ 19,741
Enterprise Funds	
HFDC:	
Mortgage loans	154,125
Notes and loans, net of deferred gain and income of $13,801 on sale of housing projects	67,208
HHA:	
Notes and loans	426
Total Enterprise Funds	221,759
Total Component Units	$241,500

*Hawaiian Home Lands loans are generally collateralized by real property.

6. Restricted Assets

At June 30, 1995, restricted assets for the Enterprise Funds and Component Units consisted of the following (amounts expressed in thousands):

	Enterprise Funds			
	Airports	Harbors	State Hospitals	Total
Cash	$ 90,727	$28,621	$ 383	$119,731
Time certificates of deposit, U.S. Government securities and repurchase agreements	113,770	2,283	-	116,053
Investments:				
Time certificates of deposit	-	9,157	-	9,157
U.S. Government securities, at amortized cost (total market value of $103,293)	93,792	6,157	-	99,949
Repurchase agreements*	23,153	18,710	-	41,863
Net direct financing leases	30,033	17,767	-	47,800
Due from General Fund	-	9	-	9
Other	-	96	16,888	16,984
	$351,475	$82,800	$17,271	$451,546

	Component Units		
	HFDC	HHA	Total
Cash	$ 5,786	$ -	$ 5,786
Time certificates of deposit	6,196	-	6,196
Investments:			
U.S. Government securities, at amortized cost (total market value of $9,084)	9,129	-	9,129
Mortgage-backed securities (total market value of $82,543)	87,356	-	87,356
Repurchase agreements*	262,688	-	262,688
Deposits and funded reserves	-	3,806	3,806
	$371,155	$3,806	$374,961

* The repurchase agreements are with certain regulated financial institutions and are collateralized by U.S. Government securities with a market value that approximates cost at June 30, 1995. The securities collateralizing the repurchase agreements are held by the State's agent in the State's name.

See note 4 for carrying amounts and market values of investments by type and investment risk categories.

Certain leases of State-owned special facilities to parties engaged in airline and maritime operations are accounted for as direct financing leases. At June 30, 1995, net direct financing leases consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Total minimum lease payments receivable	$ 63,082	$ 33,261	$ 96,343
Estimated unguaranteed residual value	-	3,600	3,600
Less amount representing interest	(39,694)	(19,094)	(58,788)
	23,388	17,767	41,155
Cash with trustee and other	6,645	-	6,645
	$ 30,033	$ 17,767	$ 47,800

Minimum future rentals to be received under direct financing leases as of June 30, 1995 consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Fiscal year ending June 30:			
1996	$ 7,291	$ 949	$ 8,240
1997	3,188	949	4,137
1998	3,050	949	3,999
1999	2,929	949	3,878
2000	2,909	949	3,858
Thereafter	43,715	28,516	72,231
	$63,082	$33,261	$96,343

7. Property, Plant and Equipment

Enterprise Funds and Component Units

At June 30, 1995, property, plant and equipment for Enterprise Funds and Component Units consisted of the following (amounts expressed in thousands):

	Enterprise Funds			
	Airports	Harbors	State Hospitals	Total
Land and land improvements	$ 894,115	$220,873	$ 2,163	$1,117,151
Buildings and improvements	1,069,917	151,780	127,218	1,348,915
Machinery and equipment	128,978	9,694	79,458	218,130
	2,093,010	382,347	208,839	2,684,196
Less accumulated depreciation	(455,820)	(70,791)	(89,111)	(615,722)
	1,637,190	311,556	119,728	2,068,474
Construction in progress.	231,476	140,443	7,698	379,617
	$1,868,666	$451,999	$127,426	$2,448,091

	Component Units			
	University	HFDC	HHA	Total
Land and land improvements	$ 66,750	$ 22,991	$ 27,339	$ 117,080
Buildings and improvements	429,605	130,634	243,822	804,061
Machinery and equipment	281,261	2,570	8,363	292,194
Library and other books.	91,389	-	-	91,389
Livestock	321	-	-	321
	869,326	156,195	279,524	1,305,045
Less accumulated depreciation	-	(17,708)	(110,529)	(128,237)
	869,326	138,487	168,995	1,176,808
Construction in progress.	14,085	-	42,135	56,220
	$883,411	$138,487	$ 211,130	$1,233,028

General Fixed Assets Account Group

Changes in general fixed assets during the fiscal year ended June 30, 1995 were as follows (amounts expressed in thousands):

	Land	Buildings And Improvements	Equipment	Construction In Progress	Total
Balance, July 1, 1994	$389,458	$1,758,039	$389,000	$ 639,868	$3,176,365
Additions	118,994	229,197	44,890	246,463	639,544
Deductions	(5,096)	(1,197)	(20,386)	(137,803)	(164,482)
Balance, June 30, 1995	$503,356	$1,986,039	$413,504	$ 748,528	$3,651,427

8. Notes and Installment Contracts Payable - Component Units

University Funds

At June 30, 1995, notes payable to various banks amounted to $4,100,000. The notes are payable in monthly or annual installments with interest ranging from 5.25% to 9.25% and are secured by accounts receivable and various plant facilities.

At June 30, 1995, installment contracts payable arising from purchases of certain equipment amounted to $3,892,000 with interest ranging from 5.3% to 12.0% per annum.

HFDC

At June 30, 1995, HFDC had three mortgage notes payable to the U. S. Department of Agriculture, Farmers Home Administration amounting to $745,000. Two notes were originated in August 1976, and are payable in combined monthly installments of $2,207, including interest at 1%, with the final combined payment due in August 2009. The final note was originated in October 1994, and is payable in monthly installments of $1,315, with the final payment due in October 2027. The notes are secured by property and rental receipts.

HHA

At June 30, 1995, the note payable consisted of a $171,000, unsecured promissory note payable to an individual. The entire principal balance plus accrued interest, 3.30% at June 30, 1995, is due on February 15, 2018.

Debt service requirements to maturity on notes and installment contracts payable for fiscal years ending June 30 are summarized below (amounts expressed in thousands):

	University	HFDC	HHA	Total Principal Required	Total Interest	Total Amount Required
Fiscal year:						
1996	$4,485	$ 35	$ -	$4,520	$ 435	$ 4,955
1997	632	35	-	667	273	940
1998	675	36	-	711	224	935
1999	609	36	-	645	170	815
2000	647	36	-	683	117	800
Thereafter	944	567	171	1,682	264	1,946
	$7,992	$745	$171	$8,908	$1,483	$10,391

9. 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 Enterprise Funds and Component Unit - University and is recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues except Series BL, issued December 6, 1988, $31,110,160 of Series BQ, issued November 28, 1989, Series BW and BX, issued March 1, 1992, Series BY and BZ, issued October 1, 1993, Series CA and CB, issued January 1, 1993, $263,105,000 of Series CC, issued February 1, 1993, Series CD, issued February 1, 1993, Series CF, issued July 1, 1993, Series CH and CI, issued November 1, 1993, and $119,120,000 of Series CJ issued January 1, 1995, contain call provisions (call prices range from 103 to 100). Stated interest rates range from 3.25% to 8.70%.

At June 30, 1995, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable		$ 987,985
Noncallable		1,946,980
Total general obligation bonds outstanding		2,934,965
Less amount recorded as a liability of:		
Enterprise Funds, including $1,343 payable from restricted assets	(9,948)	
Component Unit - University	(23,366)	
		(33,314)
Amount recorded in the General Long-Term Obligations Account Group		$2,901,651

Proceeds of certain general obligation bonds have been contributed as capital to Component Unit - HFDC. Those bonds are recorded in the General Long-Term Obligations Account Group since principal repayments are funded through the General Fund. Component Unit - HFDC reimbursed the General Fund approximately $405,000 for the interest portion of the debt service in fiscal 1995.

A summary of debt service requirements to maturity follows (amounts expressed in thousands):

Fiscal year	Principal	Interest
1996	$ 256,480	$ 152,021
1997	267,661	138,830
1998	262,374	126,112
1999	245,195	113,314
2000	235,886	105,581
2001	199,160	90,559
2002	195,560	81,497
2003	187,540	71,866
2004	130,654	63,791
2005	125,176	58,332
2006	$ 133,854	$ 62,252
2007	125,475	57,737
2008	125,565	53,720
2009	117,035	49,739
2010	89,140	30,681
2011	81,990	12,273
2012	59,060	8,270
2013	53,505	4,935
2014	28,770	2,190
2015	14,885	930
	$2,934,965	$1,284,630

In prior fiscal years, the State defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's general purpose financial statements.

At June 30, 1995, $797,035,000 of bonds outstanding are considered defeased.

The State issued the following general obligation bond in fiscal 1995 to be used to construct, extend or improve various public improvement projects:

Date of Issue	Series	Interest Rates	Maturity Date	Amount
January 1, 1995	CJ	5.50 - 6.25%	January 1, 1998/2015	$268,000,000

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 30,1995, was $168,492,000.

At June 30, 1995, general obligation bonds authorized but unissued consisted of the following (amounts expressed in thousands):

Purpose	Amount
General government	$ 486,455
Public safety	48,629
Highways	209,921
Conservation of natural resources	25,725
Health	99,184
Welfare	79,516
Education	304,474
Culture and recreation	149,277
Urban redevelopment and housing	50,552
Economic development and assistance	418,576
Airports	457
Water transport and terminals	100,378
Veteran services	40,817
Issued, unallocated bond proceeds	(1,359,684)
General obligation bonds authorized but unissued	$ 654,277

Unallocated bond issue proceeds represent general obligation bond proceeds which have not been allocated to a specific purpose as of June 30, 1995.

10. Revenue Bonds and Liabilities Collateralized by HUD Annual Contributions

Primary Government

The Department of Hawaiian Home Lands (DHHL) issued $18,000,000 of revenue bonds, 1991 Series, in October 1991. These bonds are payable from and secured by DHHL's revenues from available lands and are due in annual installments through July 1, 2011. Interest on these bonds increases from 5.50% to 7.65% and is payable semi-annually on January 1 and July 1. The bonds maturing on or after July 1, 2002 will be subject to redemption prior to their stated maturities at the option of DHHL.

On September 1, 1993, the Department of Transportation - Highways Division (Highways) issued $75,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1993. The bonds bear interest at rates ranging from 2.60% to 5.00% and mature in increasing annual installments through 2013. The proceeds from the bonds will be used to finance certain highway improvements and other related projects for the State Highways system. 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.

Debt service requirements to maturity on DHHL's and Highway's revenue bonds are summarized below (amounts expressed in thousands):

	DHHL	Highways	Total
Fiscal year ending June 30:			
1996	$ 540	$ 2,535	$ 3,075
1997	580	2,620	3,200
1998	610	2,710	3,320
1999	655	2,815	3,470
2000	700	2,930	3,630
Thereafter	13,605	58,365	71,970
	$16,690	$71,975	$88,665

Enterprise Funds and Component Unit - HFDC

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. Certain Component Unit - HHA liabilities are collateralized solely by rental receipts and annual debt service contributions made by HUD.

At June 30, 1995, revenue bonds payable (net of unamortized bond discount and loss on refunding) for the Enterprise Funds and Component Unit - HFDC consisted of the following (amounts expressed in thousands):

	Current (Payable From Restricted Assets)	Noncurrent	Total
Enterprise Funds			
Airports system revenue bonds	$84,405	$1,239,632	$1,324,037
Airports special facility revenue bonds	4,010	25,745	29,755
Harbors capital improvement revenue bonds and Harbors revenue bonds	7,264	174,486	181,750
Harbors special facility revenue bonds	-	16,500	16,500
	95,679	1,456,363	1,552,042
Component Unit			
HFDC revenue bonds	2,368	585,520	587,888
	$98,047	$2,041,883	$2,139,930

Airports System Revenue Bonds

The Airports system revenue bonds are payable solely from and collateralized by Airports revenue, which includes all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Director of Transportation and the State during specific years at prices ranging from 102-1/2% to 100%.

The following is a summary of the outstanding Airports system revenue bonds at June 30, 1995 (amounts expressed in thousands):

	Final Maturity Date	Interest Rates	Original Amount Of Issue	Outstanding
Series:				
1970	1996	6.60 - 8.000%	$ 20,000	$ 1,665
1970, second	1996	7.25 - 8.250	25,000	2,190
1971	1997	6.25 - 7.250	30,000	5,005
1971, second	1997	5.30 - 6.300	20,000	3,280
1972	1998	5.25 - 6.250	25,000	5,770
1977	2004	5.25 - 6.750	20,000	10,785
1986	2005	6.25 - 7.700	35,000	34,250
1990	2021	6.45 - 7.375	100,000	97,460
1990, second	2021	6.60 - 7.500	200,000	195,075
1991	2021	5.70 - 7.000	200,000	200,000
1991, second	2022	5.40 - 7.000	400,000	400,000
1992, refunding	2000	2.80 - 5.250	19,400	16,390
1993, refunding	2008	4.00 - 6.450	131,035	130,520
1994, first refunding	2004	4.15 - 5.600	63,455	63,455
1994, second refunding	2004	4.40 - 5.850	79,070	79,070
1994, third refunding	2009	3.75 - 5.750	94,045	94,045
			$1,462,005	1,338,960
Less unamortized bond discount				(14,923)
				1,324,037
Less current portion (payable from restricted assets), net of unamortized bond discount				(84,405)
				$1,239,632

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provide reserves for maturing debt principal, interest, sinking fund and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation and public liability. At June 30, 1995, $154,531,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Airports Special Facility Revenue Bonds

Airports has four special facility lease agreements with Pan American World Airways, Inc. in 1972 (assigned to United Airlines, Inc. in 1989), with Western Airlines, Inc. in 1975 (merged with Delta Airlines, Inc. in 1987), with Continental Airlines, Inc. in July 1990 and with Caterair International Corporation in December 1990. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $6,800,000, $2,300,000, $20,000,000 and $6,600,000, respectively. These bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities.

The following is a summary of pertinent information on Airports special facility revenue bonds at June 30, 1995:

$6,800,000 Issue

The bonds have a stated maturity date of April 1, 2002 and bear interest at 8% per annum. The bonds are subject to early redemption at the option of Airports, at prices ranging from 101 to 100 plus interest depending on the dates of redemption. On October 1, 1995, all remaining bonds were redeemed at a redemption price of 101% as allowed by the indenture.

$2,300,000 Issue

The bonds have a stated maturity date of June 1, 2005 and bear interest at 6.5% per annum. The bonds are subject to early redemption at the option of Airports, at 100.

$20,000,000 Issue

The bonds bear interest at rates ranging from 9.6% to 9.7% and are subject to redemption on or after June 1, 2000, at the option of Airports, upon the request of Continental Airlines, Inc., at prices ranging from 102 to 100, depending on the dates of redemption, or at 100 plus interest if the facilities are destroyed or damaged extensively.

$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2000, at the option of Airports, upon the request of Caterair International Corporation, at prices ranging from 103 to 100, depending on the dates of redemption, or at 100 plus interest if the facilities are destroyed or damaged extensively.

The special facility leases are accounted for and recorded as direct financing leases. 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.

Debt service requirements to maturity on Airports special facility revenue bonds for fiscal years ending June 30 are summarized below (amounts expressed in thousands):

Fiscal year:	
1996	$ 4,010
1997	730
1998	660
1999	595
2000	630
Thereafter	23,130
	$29,755

Harbors Capital Improvement Revenue Bonds and Harbors Revenue Bonds

The Harbors capital improvement revenue bonds and 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 bonds are subject to redemption at the option of the Director of Transportation and the State during specific years at prices ranging from 102-1/2 to 100.

On September 15, 1994, Harbors issued $54,010,000 in revenue bonds, 1994 Series, at an average interest rate of 6.248%, which will mature through 2024. A portion of the 1994 Series, $19,545,000, was issued at an average interest rate of 6.026% to refund $21,865,000 of Harbors capital improvement revenue bonds, 1986 Series. The remaining portion of the 1994 Series was issued for the construction of certain new facilities and the improvement of certain existing facilities of the Commercial Harbors system.

Although the refunding resulted in the recognition of a deferred loss of $702,116, Harbors in effect reduced its aggregate debt service payments by approximately $2,523,000 over the next 16 years and obtained an economic gain of approximately $1,270,000.

The following is a summary of the outstanding Harbors capital improvement revenue bonds and Harbors revenue bonds at June 30, 1995 (amounts expressed in thousands):

Year of Issue	Final Maturity Date	Interest Rates	Original Amount of Issue	Outstanding
1967	1997	5.200%	$ 20,000	$ 5,100
1989	2013	6.600 - 8.600	21,200	20,420
1990	2017	6.100 - 7.250	57,890	57,110
1992	2019	5.100 - 6.500	19,450	19,450
1992, refunding	2008	4.750 - 6.200	13,195	13,195
1993, refunding	2008	4.500 - 6.400	16,525	16,525
1994	2024	5.500 - 6.250	54,010	54,010
			$202,270	185,810
Less unamortized bond discount				(3,412)
Less unamortized loss on refunding				(648)
				181,750
Less current portion (payable from restricted assets), net of unamortized bond discount				(7,264)
				$174,486

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provide reserves for maturing debt principal, interest, sinking fund and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation and public liability. At June 30, 1995, $6,175,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Harbors Special Facility Revenue Bonds

In 1980, the State Legislature authorized the issuance of special facility revenue bonds for the construction, acquisition, remodeling, furnishing and equipping of State-owned special facilities for lease to parties engaged in maritime operations.

Pursuant to this authorization, $15,700,000 of 8-1/2% special facility revenue bond anticipation notes were issued in 1981 to finance the construction of container terminal facilities on Sand Island for the exclusive use of Matson Terminals, Inc. In 1983, special facility revenue bonds of $16,750,000 were issued to refund the notes and to provide additional funds for construction. On April 15, 1994, special facility revenue bonds of $16,500,000 were issued to refund the outstanding 1983 Series bonds. The bonds, which bear interest at 5.75% per annum, mature on March 1, 2013, subject to optional redemption on or after March 1, 2003 at prices ranging from 102 to 100. Payment of the principal and interest on the bonds has been guaranteed by Matson Navigation Company, Inc., parent company of the lessee.

Component Unit - HFDC Revenue Bonds

The State Legislature has enacted various acts which authorized the issuance of revenue bonds. Through June 30, 1995, $1,406,380,000 of revenue bonds have been issued. The revenue bonds are payable solely from and collateralized by HFDC (comprised principally of investments and mortgage loans receivable aggregating $646,553,000), which are pledged under the indentures.

At June 30, 1995, such HFDC serial and term revenue bonds payable were comprised of the following (amounts expressed in thousands):

	Year of Issue	Final Maturity Date	Interest Rates	Original Amount of Issue	Outstanding
Single-family mortgage purchase revenue bonds:					
Series A	1985	2018	7.90 - 9.250%	$ 30,000	$ 5,195
Series A	1986	2017	6.80 - 8.000	40,300	20,180
Series B	1986	2017	5.75 - 7.375	52,900	25,495
Series A	1988	2020	7.00 - 8.125	70,000	25,960
Series A	1989	2030	6.65 - 7.800	120,145	12,290
Series A	1990	2024	6.60 - 8.000	50,000	13,265
Series A	1991	2024	4.00 - 7.100	57,105	19,420
Series B	1991	2032	6.90 - 7.000	62,415	34,510
Series A	1994	2027	4.10 - 6.000	184,380	178,630
Series B	1994	2028	5.70 - 5.900	87,285	87,285
Multi-family housing revenue bonds:					
Series A	1985	2011	Variable	32,000	32,000
1985 issue	1985	1997	10.350%	3,800	3,543
Rental housing system revenue bonds:					
Series A	1989	2025	Variable	16,500	16,500
Series A	1990	2026	Variable	33,500	33,500
Series B	1990	2026	Variable	35,700	35,700
Series A	1993	2019	2.75 - 5.700%	14,025	13,715
State of Hawaii affordable rental housing program revenue bonds:					
Series A	1993	2027	Variable	30,700	30,700
				$920,755	587,888
Less current portion (payable from restricted assets)					(2,368)
					$ 585,520

Component Unit - HHA Liabilities Collateralized by HUD Annual Contributions

At June 30, 1995, liabilities collateralized by HUD annual contributions consisted of the following (amounts expressed in thousands):

U.S. Government loans, bearing interest at the existing rates charged to HUD by the U.S. Department of the Treasury (6.63% to 10% at June 30, 1995), maturing during the fiscal year ending June 30, 1996	$42,193
Federal Financing Bank note, due in decreasing annual payments, maturing at various dates through 2016 and bearing interest at 6.6%	10,526
USGI, Inc. mortgage note, bearing interest at 7.5%, principal and interest due monthly, maturing January 1, 2018, collateralized by the Banyan Street Manor Project	1,483
State of Michigan Department of Treasury mortgage note, bearing interest at 7.5%, principal and interest due monthly, maturing September 2018, collateralized by the Wilikina Apartments Project	3,051
Housing bonds payable	20,391
	$77,644

Project costs are refinanced periodically to provide long-term financing on the low-rent programs. Property, rental receipts and HUD annual contributions are pledged as collateral.

On August 17, 1988, pursuant to certain provisions of the "Consolidated Omnibus Budget Reconciliation Act of 1985," HUD issued a policy statement stating that U. S. Government loans meeting certain criteria would be forgiven.

As of June 30, 1995, approximately $42,193,000 of outstanding U. S. Government loans meet the criteria to be forgiven by HUD. Although HHA expects that this debt will be forgiven upon action by HUD, HHA continues to recognize the outstanding principal balance due on U. S. Government loans until such time that the debt is actually forgiven. Related interest is accrued and expensed in the period incurred. Accrued interest directly related to the outstanding U.S. Government loans amounted to approximately $29,659,000 as of June 30, 1995.

HHA issued housing bonds pursuant to HRS Chapter 356 to provide permanent financing for low-income housing projects. The first five issues are callable after 10 years and the remaining issues are callable after 15 years from the date of issue. The housing bonds require annual level debt service payments. HUD's annual contributions for debt service and the excess of project revenues over project expenses are pledged as collateral.

Housing bonds payable at June 30, 1995 were comprised of the following (amounts expressed in thousands):

	Year of Issue	Final Maturity Date	Interest Rates	Original Amount of Issue	Outstanding
Housing bonds -					
HRS Chapter 356:					
3rd issue	1955	1996	2.375%	$ 1,345	$ 105
4th issue	1957	1998	3.000	1,195	176
5th issue	1958	1998	3.500	2,085	334
6th issue	1959	1998	3.500	2,025	346
7th issue	1961	2002	3.125	525	165
8th issue	1964	2005	3.375	8,235	3,355
9th issue	1965	2006	3.625	1,600	680
10th issue	1966	2007	3.625	3,355	1,555
11th issue	1966	2007	3.625	1,805	875
12th issue	1966	2007	4.500	3,605	1,850
13th issue	1968	2009	5.125	2,855	1,745
14th issue	1970	2009	5.750	14,595	9,205
				$43,225	$20,391

Principal maturities of the Enterprise Funds (excluding Airports special facility revenue bonds) and Component Unit - HFDC revenue bonds and liabilities collateralized by HUD annual contributions of Component Unit - HHA were as follows (amounts expressed in thousands):

	Revenue Bonds					Liabilities Collateralized By HUD Annual Contributions
	Enterprise Funds			Component Unit - HFDC	Total	
	Airports	Harbors	Total			
Fiscal year ending June 30:						
1996	$ 84,405	$ 7,505	$ 91,910	$ 2,368	$ 94,278	$44,013
1997	43,275	4,885	48,160	6,075	54,235	1,924
1998	45,585	3,785	49,370	5,615	54,985	1,959
1999	40,795	4,000	44,795	6,150	50,945	2,001
2000	45,660	4,235	49,895	6,440	56,335	1,849
Thereafter	1,079,240	177,900	1,257,140	561,240	1,818,380	25,898
	1,338,960	202,310	1,541,270	587,888	2,129,158	77,644
Less unamortized bond discount	(14,923)	(3,412)	(18,335)	-	(18,335)	-
Less unamortized loss on refunding	-	(648)	(648)	-	(648)	-
	$1,324,037	$198,250	$1,522,287	$587,888	$2,110,175	$77,644

Component Unit - University Funds

University revenue bonds are collateralized by current funds revenues and are not supported by the full faith and credit of the State. At June 30, 1995, revenue bonds were comprised of the following (amounts expressed in thousands):

	Series	Interest Rates	Outstanding
Faculty housing program	A	2.875%	$ 129
Student housing system at Manoa	B, C, D	3.000 - 3.500	1,583
Telecommunications system at Manoa	G	2.400 - 5.700	15,525
Onizuka Center for International Astronomy	H	2.950 - 4.200	1,315
Student housing system at Manoa	I	3.400 - 5.500	5,000
			$23,552

At June 30, 1995, principal and interest maturities of the revenue bonds payable were as follows (amounts expressed in thousands):

	Principal	Interest
Fiscal year ending June 30:		
1996	$ 908	$ 1,193
1997	798	1,162
1998	774	1,132
1999	701	1,103
2000	656	1,075
Thereafter	19,715	11,535
	$23,552	$17,200

The Onizuka Center for International Astronomy revenue bonds are further secured by separate agreements between the UH and three major users of the facility. The agreements provide that those three participants shall pay the UH their proportionate share of the principal and interest payments due on the bond indebtedness along with any other costs associated with the bonds. The agreements further provide that the participants shall continue to pay their share of the scheduled payments, or pay in full the outstanding balance of their proportionate share of the indebtedness, including any loan fees and accrued interest, in the event the participants discontinue their involvement with the facility prior to the liquidation of the bond indebtedness.

In April 1986, one of the participants paid in full the outstanding balance (approximately $1,442,000) of its proportionate share of the Onizuka Center for International Astronomy revenue bond indebtedness. This amount is held in trust in the University to provide for the future retirement of the participant's proportionate share of those revenue bonds outstanding as it becomes due.

All of the revenue bond obligations of the University have provisions for early redemption at the option of the UH Board of Regents. The premiums on bond redemption, as a percentage of the bond principal amount redeemed, range from 0.5% to 2.5%.

Revenue Bonds Authorized But Unissued

At June 30, 1995, revenue bonds authorized but unissued consisted of the following (amounts expressed in thousands):

Purpose	Amount
Highways	$ 109,742
Welfare	330,125
Higher education	297
Urban redevelopment and housing	1,178,636
Economic development and assistance	242,800
Airports	441,035
Water transport and terminals	65,518
Revenue bonds authorized but unissued	$2,368,153

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 general purpose financial statements. Bonds outstanding at June 30, 1995 amounted to $992,955,000. At June 30, 1995, special purpose revenue bonds of $980,390,000 were authorized but unissued.

Improvement District Bonds

The Hawaii Community Development Authority 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 general purpose financial statements. Bonds outstanding as of June 30, 1995 amounted to $10,215,000.

11. Fund Balances

Governmental Fund Types and Expendable Trust Funds

Changes in the State's fund balances during the fiscal year ended June 30, 1995 were as follows (amounts expressed in thousands):

	Governmental Fund Types				Expendable Trust Funds
	General	Special Revenue	Debt Service	Capital Projects	
Fund balances (deficit), July 1, 1994, as restated:					
Reserved	$ 262,850	$354,576	$ 46	$ 862,798	$333,130
Unreserved:					
Designated for future expenditures	16,081	28,004	-	-	-
Undesignated	506,453	390,810	-	(393,804)	-
	785,384	773,390	46	468,994	333,130
Residual equity transfer in from (out to) other funds	13,450	(14,644)	-	26,597	-
Changes in reserved fund balances:					
Increase (decrease) in reserve for continuing appropriations	(59,225)	(25,036)	119	(2,794)	-
Increase in reserve for receivables and advances	367	45,214	-	-	-
Increase in reserve for Federal aid highway projects encumbrances	-	-	-	10,733	-
Decrease in reserve for unemployment compensation and other	-	(1,090)	-	-	(25,257)
	(58,858)	19,088	119	7,939	(25,257)
Increase (decrease) in unreserved - designated for future expenditures	(3,690)	64,028	-	-	-
Decrease in unreserved - undesignated fund balances	(212,601)	(29,408)	-	(125,265)	-
Fund balances, June 30, 1995	$ 523,685	$812,454	$165	$ 378,265	$307,873
Fund balances (deficit), June 30, 1995:					
Reserved	$ 203,992	$373,664	$165	$ 870,737	$307,873
Unreserved:					
Designated for future expenditures	12,391	92,032	-	-	-
Undesignated	307,302	346,758	-	(492,472)*	-
	$ 523,685	$812,454	$165	$ 378,265	$307,873

* The deficit balance of $492,472 is shown net of unreserved fund balances - designated for future expenditures totaling $797,496 at June 30, 1995. The deficit balance resulted primarily from continuing appropriations and Federal encumbrances in excess of general obligation bonds issued.

At June 30, 1995, the Expendable Trust Funds' fund balance reserved for unemployment compensation and other consisted of the following (amounts expressed in thousands):

Unemployment compensation	$258,295
Other	49,578
	$307,873

12. Changes in General Long-Term Obligations Account Group

Changes in the General Long-Term Obligations Account Group were as follows (amounts expressed in thousands):

	Claims and Judgments Payable	General Obligation Bonds Payable	Accrued Vacation Payable	Revenue Bonds Payable	Reserve for Losses and Loss Adjustment Costs	Total
Balance, July 1, 1994	$ 2,000	$2,834,234	$110,585	$92,200	$ -	$3,039,019
Bonds issued	-	268,000	-	-	-	268,000
Net decrease in accrued vacation payable	-	-	(2,144)	-	-	(2,144)
DHHL trust settlement (note 21).	365,000	-	-	-	-	365,000
Airports land purchase settlement (note 19)	64,000	-	-	-	-	64,000
Early Incentive Retirement Program (note 18)	89,500	-	-	-	-	89,500
Accrued self-insurance claims (note 22)	-	-	-	-	235,000	235,000
Bonds retired	-	(200,583)	-	(3,535)	-	(204,118)
Balance, June 30, 1995	$520,500	$2,901,651	$108,441	$88,665	$235,000	$3,854,257

13. Segment and Condensed Financial Information

Segment information and condensed financial statements for the State's Enterprise Funds and Component Units - University, HFDC, HHA and HHRF (see note 1 for individual fund descriptions) as of and for the fiscal year ended June 30, 1995 were as follows (amounts expressed in thousands):

Condensed Statements of Revenues, Expenses and Changes in Fund Equity

	Enterprise Funds				Component Units			
	Airports	Harbors	State Hospitals	Total	HFDC	HHA	HHRF	Total
Operating revenues	$ 264,711	$ 50,423	$188,650	$ 503,784	$ 100,151	$ 19,551	$64,078	$ 183,780
Operating expenses:								
Depreciation	66,924	4,968	8,862	80,754	4,641	5,502	-	10,143
Other	126,608	22,437	189,367	338,412	78,079	22,578	64,643	165,300
	193,532	27,405	198,229	419,166	82,720	28,080	64,643	175,443
Operating income (loss)	71,179	23,018	(9,579)	84,618	17,431	(8,529)	(565)	8,337
Interest income	38,425	4,741	-	43,166	-	432	407	839
Interest expense	(81,114)	(10,200)	-	(91,314)	-	(5,078)	-	(5,078)
Amortization of bond discount and bond issue costs	-	(409)	-	(409)	-	-	-	-
HUD annual contributions	-	-	-	-	-	9,245	-	9,245
Other non-operating revenues (expenses)	2,721	558	(1,005)	2,274	-	-	-	-
Operating transfers in	-	-	25,799	25,799	-	-	-	-
Income (loss) before extraordinary item	31,211	17,708	15,215	64,134	17,431	(3,930)	(158)	13,343
Extraordinary item - loss from early redemption of revenue bonds payable	-	-	-	-	(230)	-	-	(230)
Net income (loss)	31,211	17,708	15,215	64,134	17,201	(3,930)	(158)	13,113
Excess of expenditures and other financing uses over revenues and other financing sources from governmental operations	-	-	-	-	-	(5,151)	-	(5,151)
Depreciation on contributed fixed assets that reduces contributed capital	9,787	337	-	10,124	286	5,412	-	5,698
Decrease in valuation of allowance on investments in revenue bond reserve accounts	-	33	-	33	-	-	-	-
Decrease in investment in fixed assets	-	-	-	-	-	(3,169)	-	(3,169)
Fund equity, July 1, 1994	1,199,767	341,823	112,873	1,654,463	476,803	139,001	27,085	642,889
Capital contributions, net of depreciation	5,559	(337)	-	5,222	(24,994)	22,044	-	(2,950)
Fund equity, June 30, 1995	$1,246,324	$359,564	$128,088	$1,733,976	$ 469,296	$154,207	$26,927	$ 650,430

Other Segment Information

	Airports	Harbors	State Hospitals	Total	HFDC	HHA	HHRF	Total
Net working capital	$ 414,283	$ 41,186	$ 10,263	$ 465,732	$ 781,557	$ (24,362)	$16,990	$ 774,185
Total assets	$2,707,505	$581,783	$247,830	$3,537,118	$1,108,125	$268,758	$62,973	$1,439,856
Bonds and other long-term liabilities:								
Payable from operating revenues	$1,268,104	$193,835	$ 26,810	$1,488,749	$ 609,663	$ 34,666	$ -	$ 644,329
Payable from restricted assets	$ 140,241	$ 24,700	$ 62	$ 165,003	$ 2,368	$ -	$ -	$ 2,368
Property, plant and equipment:								
Additions	$ 60,538	$ 36,350	$ 10,361	$ 107,249	$ 4,451	$ 16,822	$ -	$ 21,273
Deductions	$ -	$ -	$ -	$ -	$ 224	$ 8,722	$ -	$ 8,946

Condensed Balance Sheets - Component Units

Assets	University Funds	Enterprise Funds HFDC	Enterprise Funds HHA	Enterprise Funds HHRF
Due from Primary Government	$ 29,931	$ 1,407	$ 2,966	$ -
Other current assets	199,479	806,948	52,557	53,036
Property and equipment, net	883,411	138,487	211,130	-
Other assets	86,776	161,283	2,105	9,937
Total Assets	$1,199,597	$1,108,125	$268,758	$62,973
Liabilities and Fund Equity				
Liabilities:				
Due to Primary Government	$ 6,000	$ -	$ -	$ -
Other current liabilities	121,797	26,798	79,885	36,046
Bonds payable	46,918	587,888	-	-
Other long-term liabilities	5,216	24,143	34,666	-
Total Liabilities	179,931	638,829	114,551	36,046
Fund Equity:				
Investment in fixed assets	836,276	-	26,965	-
Federal grants refundable	12,508	-	-	-
Contributed capital	-	390,316	122,501	101
Retained earnings/fund balance:				
Restricted	110,418	-	4,294	-
Unrestricted	60,464	78,980	447	26,826
Total Fund Equity	1,019,666	469,296	154,207	26,927
Total Liabilities and Fund Equity	$1,199,597	$1,108,125	$268,758	$62,973

14. Contributed Capital - Enterprise Funds and Component Units - HFDC, HHA and HHRF

During the fiscal year ended June 30, 1995, contributed capital increased (decreased) as follows (amounts expressed in thousands):

	Enterprise Funds			Component Units			
	Airports	Harbors	Total	HFDC	HHA	HHRF	Total
Contributed capital, July 1, 1994	$241,085	$172,316	$413,401	$415,310	$100,457	$101	$515,868
Federal grants	15,346	-	15,346	-	55	-	55
Residual equity transfer in from General Fund	-	-	-	1,194	-	-	1,194
Residual equity transfer out to Capital Projects Fund	-	-	-	(26,597)	-	-	(26,597)
HUD annual contributions	-	-	-	-	19,023	-	19,023
Transfer of depreciation from retained earnings	(9,787)	(337)	(10,124)	(286)	(5,412)	-	(5,698)
Other	-	-	-	695	8,378	-	9,073
	5,559	(337)	5,222	(24,994)	22,044	-	(2,950)
Contributed capital, June 30, 1995	$246,644	$171,979	$418,623	$390,316	$122,501	$101	$512,918

15. Interfund Receivables and Payables

Interfund receivables and payables consisted of the following at June 30, 1995 (amounts expressed in thousands):

	Due From	Due To	Advances To	Advances From
Primary Government				
General Fund:				
Debt Service Fund	$ -	$ 165	$ -	$ -
Capital Projects Fund	90,000	-	-	-
Enterprise Funds:				
Airports	-	-	32	-
Harbors	-	9	-	-
State Hospitals	-	-	23,489	-
Total Enterprise Funds	-	9	23,521	-
	90,000	174	23,521	-
Component Units:				
University Funds:				
Current Funds - Unrestricted	-	29,931	-	-
Current Funds - Restricted	6,000	-	-	-
	6,000	29,931	-	-
Enterprise Funds:				
HFDC	-	1,407	-	-
HHA	-	2,966	-	-
Total Enterprise Funds	-	4,373	-	-
Total Component Units	6,000	34,304	-	-
	96,000	34,478	23,521	-

	Due From	Due To	Advances To	Advances From
Special Revenue Funds:				
Trust and Agency Funds -				
Custodial and Clearance	$ 287	$ -	$ -	$ -
Debt Service Fund:				
General Fund	165	-	-	-
Capital Projects Fund:				
General Fund	-	90,000	-	-
Enterprise Funds - Harbors	1,450	-	-	-
	1,450	90,000	-	-
Enterprise Funds:				
General Fund	9	-	-	23,521
Capital Projects Fund	-	1,450	-	-
	9	1,450	-	23,521
Trust and Agency Funds:				
Special Revenue Funds - Highways	-	287	-	-
Component Units				
University Funds:				
General Fund	29,931	6,000	-	-
Internal University Funds	6,101	6,101	-	-
	36,032	12,101	-	-
Enterprise Funds:				
General Fund	4,373	-	-	-
	40,405	12,101	-	-
	138,316	138,316	23,521	23,521
Less amounts reflected as restricted assets	(9)	-	-	-
	$138,307	$138,316	$ 23,521	$ 23,521

16. Operating Transfers

Operating transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended.

For the fiscal year ended June 30, 1995, the operating transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Primary Government		
General Fund:		
Special Revenue Funds:		
Natural Resources	$ -	$ 245
Human Services	-	7,769
Economic Development	-	375
Administrative Support	-	5,920
All Other	-	355
Total Special Revenue Funds	-	14,664
Debt Service Fund	-	305,879
Enterprise Funds - State Hospitals	-	16,241
	-	336,784
Component Units:		
University Funds:		
Current Funds - Unrestricted	-	418,736
Current Funds - Restricted	-	303
Total University Funds	-	419,039
HHA	-	9,354
Total Component Units	-	428,393
	-	765,177
Special Revenue Funds:		
General Fund	14,664	-
Other Special Revenue Funds	10,453	10,453
Debt Service Fund	-	38,836
Capital Projects Fund	3,383	139,975
Enterprise Funds - State Hospitals	-	525
	28,500	189,789
Component Unit - University Funds - Current Funds - Unrestricted	1,238	-
	29,738	189,789

	Transfers In	Transfers Out
Debt Service Fund:		
General Fund	$305,879	$ -
Special Revenue Funds:		
Highways	27,244	-
Economic Development	8,267	-
Hawaiian Programs	485	-
Administrative Support	1,291	-
All Other	1,549	-
Total Special Revenue Funds	38,836	-
	344,715	-
Capital Projects Fund:		
Special Revenue Funds:		
Highways	139,975	-
Economic Development	-	902
Administrative Support	-	2,481
Total Special Revenue Funds	139,975	3,383
Enterprise Funds - State Hospitals	-	9,033
	139,975	12,416
Component Units:		
University Funds - Plant Funds - Unexpended	-	297
HHA	55	-
Total Component Units	55	297
	140,030	12,713
Enterprise Funds:		
General Fund	16,241	-
Special Revenue Funds:		
Health	17	-
Administrative Support	508	-
Total Special Revenue Funds	525	-
Capital Projects Fund	9,033	-
	25,799	-
Component Units		
University Funds:		
General Fund	419,039	-
Special Revenue Funds - Administrative Support	-	1,238
Capital Projects Fund	297	-
Total University Funds	419,336	1,238
HHA:		
General Fund	9,354	-
Capital Projects Fund	-	55
Total HHA	9,354	55
	428,690	1,293
	$968,972	$968,972

17. Leases

Governmental Fund Types and Expendable Trust Funds

The State leases office facilities and equipment under various operating leases expiring beyond 2022. Future minimum lease commitments for noncancelable operating leases as of June 30, 1995 were as follows (amounts expressed in thousands):

Fiscal year ending June 30:	
1996	$13,122
1997	12,037
1998	10,481
1999	7,601
2000	4,492
Thereafter	18,454
Total future minimum lease payments	$66,187

Rent expenditures for the fiscal year ended June 30, 1995 amounted to approximately $55,000,000.

Proprietary Fund Type - Enterprise Funds

Airports - Airport-Airline Lease Agreement

Airports had entered into an airport-airline lease agreement with 25 major airline carriers which expired on July 31, 1992. The expired lease agreement provided the lessees with the nonexclusive right to use the Airports system facilities, equipment, improvements and services, in addition to occupying certain premises and facilities. From August 1, 1992, the signatory airlines continued operations under monthly negotiated agreements with the Department of Transportation (DOT).

In January 1994, the DOT and 22 signatory airlines executed a letter agreement to extend the expired airport-airline lease agreement to June 30, 1994.

Under the terms of the letter agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges, which include landing fees, Airports system support charges, nonexclusive joint-use charges for terminal rentals (overseas terminal, new interisland terminal and the international arrivals building) and exclusive use premise rentals. The letter agreement further stipulated that the aggregate of all such rates and charges, together with aviation fuel taxes (as adjusted for aviation fuel tax credits), payable to the DOT by the signatory airlines would not exceed $84,175,000 (Airline Requirement). The foregoing rates and charges were adjusted retroactively to July 1, 1993.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the expired airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges. The nature of these charges are similar to those of the expired letter agreement; however, the lease extension agreement does not stipulate a maximum amount for aggregate Airports system charges. Instead, the lease extension agreement's residual rate-setting methodology provides for a final year-end reconciliation containing actual Airports system cost data to determine whether Airports system charges assessed to the signatory airlines were sufficient to recover Airports system costs, including debt service requirements under the certificate providing for the issuance of revenue bonds. Annual settlements based on this final reconciliation are made in accordance with the terms of the lease extension agreement. This final reconciliation resulted in a net overpayment by the signatory carriers of $9,507,000 for fiscal 1995, which is included in deferred revenue.

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees, net of aviation fuel taxes, amounted to $38,970,000 for fiscal 1995 based on a computed rate per 1,000 pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland landing fees are set at 32% of the landing fees for overseas flights.

- Airports system support charges amounted to $602,000 for fiscal 1995 and were established to recover residual costs of the Airports system in order to meet the Airline Requirement. The charges 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 are set at 32% of Airports system support charges for overseas flights.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $25,665,000 for fiscal 1995. 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 revenue passenger landing. International arrivals building charges were established to recover Airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger who uses the international arrivals area.

- Exclusive use premise charges for terminal rentals amounted to $24,835,000 for fiscal 1995 and were computed using a fixed rate per square footage.

- A subsequent agreement also extended the prepaid airport use charge fund which would consist of any excess receipts of the signatory airlines' payments over the amount required (excess of expenses over revenues) for the immediately preceding fiscal year. No excess signatory payments were received for fiscal 1995.

The following summarizes rates used to compute Airports system charges as of June 30, 1995:

Airport landing fees:	
Signatory airlines:	
Overseas flights	$ 2.237
Interisland flights	.716
Non-signatory airlines:	
Overseas flights	2.980
Interisland flights	.954
Nonexclusive joint use premise charges:	
Overseas and interisland terminal joint use charges:	
Signatory airlines:	
Overseas terminal	417.491
Interisland terminal	71.848
Non-signatory airlines:	
Overseas terminal	457.344
Interisland terminal	69.375
International arrivals building charges:	
Signatory airlines	3.395
Nonsignatory airlines	3.346
Airports system support charges:	
Signatory airlines:	
Overseas flights	-
Interisland flights	-
Non-signatory airlines:	
Overseas flights	.618
Interisland flights	.198

Certain Airports system rates and charges were modified throughout fiscal 1995.

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 30 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 1995 was approximately $22,828,000.

In July 1994, the U.S. Bankruptcy Court approved a Stipulation Respecting Claims of the State of Hawaii allowing Hawaiian Airlines, Inc. to defer payments amounting to $2,750,000 for pre-petition airport use charges and aeronautical rentals. Terms of this stipulation require Hawaiian Airlines, Inc. to make monthly payments of $100,000 commencing October 1, 1994, and continuing thereafter, until the noninterest-bearing note receivable is paid in full.

The note receivable at June 30, 1995 has been recorded at a discount which, when amortized over the term of the note receivable, results in an appropriate effective annual interest yield as follows:

Note receivable	$1,850,000
Less unamortized discount based on imputed interest rate of 10%	(142,000)
	1,708,000
Less current portion	(1,078,000)
Noncurrent note receivable	$ 630,000

Concession fees revenues from the DFS Group L.P. (DFS) concession contract accounted for approximately 68% of total concession fees revenues for the fiscal year ended June 30, 1995. The DFS concession contract, effective June 1, 1993, provides for payment of 20% of gross sales against minimum guaranty payments aggregating $401,000,000 over the four-year contract. Deferred revenue related to the DFS concession contract amounted to $16,667,000 at June 30, 1995.

During fiscal 1995, Airports received retroactive lease rentals from certain rental agencies based on a arbitration settlement agreement, including $1,910,000 relating to fiscal 1993 and 1994.

Harbors - Aloha Tower Complex Development

The Aloha Tower Development Corporation (ATDC) is a State agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement) with the developer and Harbors. Harbors continues to operate the harbor facilities at Piers 8, 9, and 10. The lease between the

ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal and to reimburse Harbors for all losses in revenues and increased expenses which may be incurred by Harbors. The ATDC and the developer have agreed that in lieu of reimbursing Harbors for losses in revenues during the construction period, the developer will perform certain work to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by Harbors. The developer is entitled to offset the cost of repairs, not to exceed $1.1 million, against its obligation to reimburse Harbors for losses in revenues.

The first phase of the Aloha Tower complex development has been completed.

The loss in revenues for fiscal 1995 amounted to $1,431,000, and has been included in Harbors' rental revenues. As of June 30, 1995, the amount due to Harbors was $2,874,000.

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 2058. Those leases generally call for rental increases every five to ten years based on independent appraisals of the fair rental value of the leased property.

Component Units - HFDC and HHA

Component Units - HFDC and HHA lease land to developers and home buyers. The leases are generally for 55 years with the last 25 years' lease rent negotiated based on the fair market value of the land.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Enterprise Funds and Component Units - HFDC and HHA as of June 30, 1995 (amounts expressed in thousands):

	Enterprise Funds			Component Units		
	Airports	Harbors	Total	HFDC	HHA	Total
Fiscal year ended June 30:						
1996	$154,627	$ 6,600	$161,227	$ 204	$ 242	$ 446
1997	138,884	6,800	145,684	217	262	479
1998	29,019	6,500	35,519	233	271	504
1999	16,936	6,600	23,536	238	271	509
2000	14,836	6,100	20,936	233	271	504
Thereafter	144,684	166,200	310,884	7,474	7,762	15,236
	$498,986	$198,800	$697,786	$8,599	$9,079	$17,678

18. Retirement Benefits

Employees' Retirement System of the State of Hawaii

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials and persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

The ERS provides basic pension benefits to individuals receiving pensions. Employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded accrued liability of the ERS. The ERS uses the frozen initial liability method to calculate the unfunded accrued liability.

Pension Benefit Obligation

The "pension benefit obligation" which follows is the actuarial present value of credited projected benefits. It is the standardized disclosure measure, prepared in accordance with GASB Statement No. 5, of the present value of pension benefits adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The pension benefit obligation is independent of the actuarial funding method used to determine contributions to the ERS. The basic purpose of the June 30, 1994 actuarial valuation was to determine the total employer contributions to the ERS, in accordance with the provisions of HRS Chapter 88.

The pension benefit obligation was determined as of June 30, 1994. The actuary employed by the ERS calculates credited projected benefits which include the following:

- Future monthly payments to pensioners who are receiving benefit payments on the valuation date and to beneficiaries, including any optional survivors' benefits.
- The potential future monthly service retirement benefits payable to inactive vested members based on their service credit and salary earned up to the date of termination.
- The portion of potential future monthly retirement and disability benefits payable to active members attributable to their service credit as of the valuation date and salary as projected to the benefit payment date plus the pro rata portion of certain death benefits.

The actuarial present value of credited projected benefits is the amount determined by the ERS' actuary by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest between the valuation date and the expected dates of payment) and the probability of benefit payments (by means of multipledecrement probability tables for death, disability, retirement and withdrawal). The pension benefit obligation was determined based on an actuarial valuation at June 30, 1994. Significant actuarial assumptions used include: (a) a rate of return on investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 6-1/2% of which 5% is attributable to inflation and 1-1/2% is attributable to seniority and merit, (c) annual post-retirement cost of living increases of 2-1/2%, and (d) assumed rates of retirement, turnover, disability and mortality based upon the ERS' experience. There were no changes in actuarial assumptions from those used in the prior year valuation.

As of June 30, 1994, the pension benefit obligation and net assets available for benefits were as follows (amounts expressed in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and inactive members not yet receiving benefits	$2,842,629
Current employees:	
Accumulated employee contributions including allocated investment income	909,988
Employer-financed:	
Vested	1,829,320
Non-vested	1,417,364
Total pension benefit obligation	6,999,301
Net assets available for benefits	5,409,623
Pension benefit obligation in excess of net assets available for benefits	$1,589,678

The following table presents covered and total payroll for all employees, employer and employee contributions (amounts expressed in thousands) as well as the percentage of covered payroll each contribution represents. The contribution requirements reported below were actuarially determined.

Payroll:	
Covered	$1,584,071
Total	$1,694,894
Employer contribution requirement:	
Determined	$ 200,505
Percentage of current year covered payroll	12.7%
Percentage of total contribution to contributions for all employers	71.5%
Contribution payments:	
Employer	$ 200,505
Employees	$ 30,581
Percentage of current year covered payroll:	
Employer	12.7%
Employees	1.9%

Net Plan Assets

The ERS' net assets available for benefits of $5,409,623,000 include investments of $5,528,181,000. Investments are reported at original cost or amortized cost. Substantially all cash is invested in short-term investments.

All cash and short-term investments are insured by Federal deposit insurance or collateralized by securities held by the ERS' agent in its name. The following table summarizes the investments held at June 30, 1994 (amounts expressed in thousands):

	Cost	Market
Cash and short-term investments	$ 408,356	$ 408,304
Corporate stocks	2,390,542	2,506,626
U.S. Government securities and corporate bonds	1,897,988	1,852,638
Real estate mortgages	270,932	270,932
Insurance contracts	9,935	9,936
Real estate less accumulated depreciation of $14,026	550,428	503,841
	$5,528,181	$5,552,277

Historical Trend Information

Ten-year historical trend information designed to provide information about the progress made by the ERS in accumulating sufficient assets to pay benefits when due is presented in the separately issued ERS comprehensive annual financial report for the fiscal year ended June 30, 1994.

Early Incentive Retirement (EIR) Program

Act 212, SLH of 1994, effective July 1, 1994, allowed up to two years of additional service credit for certain members of the ERS as an incentive to retire immediately on a service pension. In addition, no age reduction penalties would be applied to those members opting for retirement under this program. Employees of the Department of Education or the UH with at least 25 years of credited service by December 31, 1994 had to retire on June 30, 1995 under the EIR program, and other employees with at least 25 years of credited service at the time of retirement had to retire no later than December 31, 1994. There were 2,137 State employees who retired under the EIR program. Of these, 697 retired in 1994 and 1,440 retired on June 30, 1995.

Funding for the cost of the additional benefits paid under the EIR program is to be handled differently from the standard ERS funding. The costs of the additional benefits were determined as the excess of the actuarial value of the actual EIR program benefits paid at retirement over the actuarial value of the earliest retirement benefits the retiring employees could have received from the ERS if no EIR program existed. The discounted present value (8%) of $89,500,000 is included in the General Long-Term Obligations Account Group. The State's actuarially determined obligation is to be paid in five equal annual payments of $20,750,000 beginning in fiscal 1999.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees who retire from the State on or after attaining age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory option and age 55 with at least 5 years of service under the contributory option. There are currently approximately 18,500 State retirants receiving such benefits. Retirants credited with at least 10 years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirants with less than 10 years must assume a portion of the monthly premiums. All disability retirants who retired after June 30, 1984, with less than 10 years of service also qualify for free medical insurance premiums. Free life insurance coverage for retirants and free dental coverage for dependents under age 19 are also available. Retirants covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. During fiscal 1995, expenditures of $69,000,000 were recognized for post-retirement health care and life insurance benefits, approximately $12,800,000 of which is attributable to the Component Units.

19. 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. At June 30, 1995, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$168,779
Economic Development	132,513
Natural Resources	9,722
Administrative Support	6,436
All Other	7,826
	$325,276

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, 1995, accumulated sick leave approximated $813,662,000.

Deferred Compensation Plan

In 1984, the State established a deferred compensation plan which enables State employees to defer a portion of their compensation. Deferred compensation payable at June 30, 1995 amounted to $408,586,000.

Intergovernmental Expenditures

In accordance with HRS Chapter 237D, 95% of revenues generated by the transient accommodations tax are to be distributed to the counties.

Guarantees of Indebtedness

The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $152,000,000 for various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, rental assistance obligations of Component Unit - HFDC, mortgage loans for housing projects, aquacultural loans and Hawaiian Home Lands loans. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 1995.

Proprietary Fund Type - Enterprise Funds

Construction and Service Contracts

At June 30, 1995, the Enterprise Funds had commitments of approximately $102,677,000 for construction and service contracts.

Harbors - Kapalama Land Development

In 1993, the State issued a request for proposals (RFP) to have a private developer develop a portion of the former Kapalama Military Reservation. Negotiations were conducted with a developer, but were terminated and the State plans to issue another RFP. The proposed uses are undetermined, and therefore, the effect on Harbors is uncertain. The Department of Business, Economic Development and Tourism will provide suggested uses for consideration by the DOT. The previously proposed uses included a container terminal and a pier for Harbors, facilities for Airports, and possibly a Federal detention facility.

An apportionment of the property may be made to Harbors and Airports. At the time of the apportionment, a reduction to the land and land improvements balance may occur with a corresponding reduction to the contributed capital balance.

Component Units - HFDC, HHA and HHRF

Construction and Service Contracts

At June 30, 1995, HFDC and HHA had commitments of approximately $48,659,000 and $1,291,000, respectively, for construction and service contracts. In addition, HFDC has authorization to provide approximately $92,969,000 in interim construction loans relating to such contracts.

Loan Commitments and Guarantee

HFDC had outstanding commitments to purchase loans from participating lenders of approximately $180,000,000 at June 30, 1995. In addition, HFDC committed to provide maximum rental assistance subsidies of approximately $74,780,000 on various projects. HFDC also has an agreement to guarantee up to $40,000,000 of mortgage loans held by the ERS. Under the agreement, HFDC guarantees that upon the 120th day of any delinquency or default, it will either cure the arrearage of principal and interest or repurchase the delinquent loan. At June 30, 1995, approximately $6,000,000 in mortgage loans sold to the ERS were covered by the mortgage loan guarantee.

Interest Rate Swap Agreements

To reduce its exposure to fluctuations in interest rates, HFDC is a party to interest rate swap agreements. Interest rate swap transactions generally involve the exchange of fixed and floating rate payment obligations in U.S. dollars or foreign currency without the exchange of the underlying principal amounts. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the general purpose financial statements. The notional amounts of those instruments reflect the extent of HFDC's involvement in each type of financial instrument, as well as its exposure to credit loss in the event of nonperformance by the other party to the financial instrument.

HFDC uses the same credit standards in making commitments and conditional obligations as it does for balance sheet instruments. For interest rate swap transactions, the contract or notional amounts do not represent exposure to credit loss. HFDC controls the credit risk of its interest rate swap agreements through credit approvals, limits and monitoring procedures. HFDC does not anticipate nonperformance by the counterparties. For the fiscal year ended June 30, 1995, interest rate swap agreements had a notional amount of $69,200,000 with fixed pay rates of 6.472% and a variable earnings rate of 4.06% as of June 30, 1995. Had HFDC terminated the agreements as of June 30, 1995, the termination cost would have amounted to approximately $246,000. Interest expense relating to the agreements totaled $2,003,000.

Development Costs

At June 30, 1995, HFDC has approved funding of development costs for various projects of approximately $108,600,000, of which approximately $57,277,000 has been expended.

Reinsurance Agreements

In the normal course of business, the HHRF seeks to reduce the loss that may arise in the event of a hurricane that causes unfavorable underwriting results by reinsuring under contracts with reinsurers. The HHRF is currently under three excess of loss agreements with reinsurers to be indemnified with respect to the net excess liability as a result of any loss or losses which may be ascribed to hurricane coverage for property.

The HHRF's reinsurance agreements provide for a total of $500 million in annual coverage. As of June 30, 1995, these agreements included coverage of $250 million for a period of three years and $250 million for one year. The reinsurance agreements commenced on June 1, 1995. Premiums earned have been reduced for amounts ceded to reinsurers by $60,573,929 for the fiscal year ended June 30, 1995.

Standby Term Loan Facility

In December 1994, the HHRF entered into a $500 million standby term loan facility commitment with financial institutions to be drawn in the event of a covered event. The commitment expires on December 31, 1996. Loan commitment fees of $10 million were paid by the HHRF and the unamortized portion is included on the Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units. The loan commitment fees are amortized over the term of the loan commitment.

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 general purpose financial statements. Of the remaining claims (including the OHA matter disclosed in note 21), 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, 1995, 1994 and 1993 approximated $2,000,000, $5,000,000, and $2,000,000, respectively.

In the opinion of the Attorney General, the outcome of all contingencies and litigation will not have a material adverse effect on the financial position of the State.

Enterprise Funds - Airports

In an audit report dated April 28, 1995, the Office of Inspector General, U.S. Department of Transportation (OIG) concluded that airport revenues were used to purchase certain parcels of land on the island of Oahu that was not needed for airport purposes. The OIG contends that $64.0 million in airport revenues, excluding lost interest of $7.0 million, were not used for airport purposes. As such, the transaction was found not to be in compliance with grant assurances made by the DOT relating to the use of the Airport Revenue Fund. The OIG recommended that the FAA initiate procedural steps necessary to reach a final determination regarding noncompliance with grant assurances and ensure that the State returns the $64.0 million, along with the $7.0 million in lost interest, to Airports.

The State and the DOT have decided not to contest the OIG's finding and intend to restore to Airports the $64.0 million used to acquire the land. Accordingly, this amount is included in the General Long-Term Obligations Account Group. Airports has recorded the land as property, plant and equipment. The matter of the $7.0 million in lost interest has not been resolved.

20. Extraordinary Item

Component Unit - HFDC

During fiscal 1995, HFDC redeemed revenue bonds totaling $24,590,000. The related unamortized bond issue costs, bond discount and other costs of $230,000 were written off when the early redemptions were approved and is reflected as an extraordinary item in the Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance - Enterprise Funds and Discretely Presented Component Units.

21. Related Party Transactions

Office of Hawaiian Affairs

Under the Admission Act, lands ceded by the Republic of Hawaii to the United States in 1898 and subsequently to the State by the United States at or following Hawaii's admission to the Union as a state in 1959 ("ceded lands"), together with income and the proceeds and income from the sale, lease or other disposition of any ceded lands, are required to be held as a public trust for the support of the public schools and other public educational institutions, for the betterment of the conditions of native Hawaiians, for the development of farm and home ownership on as widespread a basis as possible, for the making of public improvements and for provision of lands for public use. The State Legislative Auditor has identified portions of State lands as ceded lands. In 1978, the State Constitution was amended to provide that ceded lands are to be held as a public trust for native Hawaiians and the general public, and to establish OHA to manage and administer the pro rata portion of the public trust set aside to benefit native Hawaiians.

The State Legislature subsequently enacted Act 395, SLH of 1988, the Native Hawaiian Trusts Judicial Relief Act, which (1) waived the State's sovereign immunity for a breach of the "public land trust" in the disposition of ceded lands after July 1, 1988, and granted native Hawaiians, including OHA, the right to sue the State after July 1, 1990, in the State courts to recover monetary damages for a "breach of trust," and (2) required the Governor to present a proposal to the State Legislature by the conclusion of the 1991 legislative session to resolve controversies relating to the ceded lands issues arising prior to the effective date of Act 395. The State Legislature also enacted Act 304, SLH of 1990, which: (1) clarified the ceded lands comprising the "public land trust" and limited revenues derived from the "public land trust" to proceeds, fees, rents and other income from the actual use of ceded lands, excluding income derived through the exercise of governmental powers; (2) required the Department of Budget and Finance and OHA to determine the amount equivalent to 20% of revenues computed under the formula for the period from June 16, 1980 through June 30, 1991, less monies previously received by OHA, and to propose a plan for paying this amount; (3) required the Department of Land and Natural Resources, the Office of State Planning of the Governor's Office and OHA to identify public lands to be conveyed to OHA in full or partial satisfaction of the actual amounts determined to be payable to OHA; and (4) appropriated $7.2 million for fiscal 1991 from the State's General Fund as the initial installment of revenues payable to OHA from the "public land trust", which appropriation the Director of Finance is authorized to reimburse from special funds that derive revenues from ceded lands.

The Governor and OHA have accepted the State Legislative Auditor's identification of the ceded lands. As a result of this agreement, the State Legislature enacted, as part of the Supplemental Appropriations Act of 1992 (Act 300, SLH of 1992) legislation approving approximately $135,000,000, including interest, as OHA's 20% share of revenues for the use of ceded lands of the State for the period from June 16, 1980 through June 30, 1991. The State paid the above settlement in 1993.

In each fiscal year, 20% of the gross State proprietary revenues derived from the use of ceded lands is paid to OHA. The State recorded expenses of approximately $12,000,000 in fiscal 1995 to OHA representing OHA's entitlement to revenues derived from the use of ceded lands. In 1994, OHA asserted an additional claim for its share of revenues on ceded lands from 1980 which it alleges was not covered by the previous $135,000,000 settlement. One revenue source expressly singled out in OHA's suit relates to revenues from off-site duty-free stores which thus far have been excluded from the annual prospective payment calculation. A trial date has been set for June 10, 1996. The State will vigorously defend its position and does not believe that the ultimate settlement of this matter will have a material adverse effect on the financial position of the State.

Department of Hawaiian Home Lands

The State entered into a Memorandum of Understanding (MOU) dated December 1, 1994, to resolve the remaining disputed land title and compensation claims made by the DHHL.

In fiscal 1995, Act 14, Special Session Laws of Hawaii of 1995, was enacted in order to bring the MOU to closure. Act 14 was approved by the Governor on June 29, 1995 and obligates the State to make 20 annual deposits of $30,000,000, or their discounted value equivalent, into the Hawaiian Home Lands trust fund. Act 14 further authorized and appropriated the first two $30,000,00 required deposits beginning in the fiscal year ending June 30, 1996.

Section 8 of Act 14, which takes effect on July 1, 1995, states that the $30,000,000 required deposit for the fiscal year ending June 30, 1996 is authorized and appropriated from monies on deposit in the homes revolving fund of HFDC. For the fiscal year ending June 30, 1997, Section 8 of Act 14 authorized and appropriated $30,000,000 in general obligation bond funds for deposit into the Hawaiian Home Lands trust fund.

The State's obligation of $365,000,000 is included in the General Long-Term Obligations Account Group. This amount represents the $600,000,000 settlement discounted at 6%.

22. Risk Management

During the fiscal year ended June 30, 1995, the State adopted GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues." This statement establishes accounting and financial reporting standards for risk financing and insurance related activities of state governmental entities and requires the recordation of 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. Previously, these losses were recorded on a pay-as-you-go basis. The State retains various risks and insures certain excess layers with commercial insurance companies. A summary of the State's underwriting risks are as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property damage. The deductible is $250,000 per occurrence. The annual aggregate is $100,000,000 per occurrence. This policy includes earthquake and flood coverage whose annual aggregate is $50,000,000 per occurrence with a deductible of 5% of loss subject to the $250,000 deductible. The annual aggregate per occurrence for windstorm coverage is $2,500,000 with a deductible of 2.5% of loss subject to the $250,000 deductible.

The State also has an $10,000,000 public employee faithful performance insurance policy with a $50,000 deductible. Losses not covered by property and liability insurance are paid from legislative appropriations of the State's General Fund.

General Liability (including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Attorney General. The State has a personal injury and property damage liability, including automobile and public errors and omissions, policy in force with a $2,000,000 deductible per occurrence. The annual aggregate per occurrence is $23,000,000.

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 are insured by a comprehensive hospital liability policy. The policy covers losses from personal injury, professional liability, patient property damage and employee benefits. This policy covers losses up to an aggregate limit of $10,000,000 per occurrence with no annual aggregate limit.

The maximum deductible per year is $10,000.

Self-Insured Risks

The State self-insures its automobile and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

Reserve for Losses

A liability for workers' compensation, automobile and general liability claims is established if information indicates that a loss has been incurred as of June 30, 1995 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. At June 30, 1995, the amount of the estimated loss of $235,000,000 is recorded in the General Long-Term Obligations Account Group as these losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's general fund. Historically, all of the State's losses have been adequately covered by its insurance policies.

23. Subsequent Events

General Obligation Bond Issue

Subsequent to June 30, 1995, the State issued $100,000,000 of general obligation bonds, Series CK, dated September 1, 1995, with interest rates of 5.00% to 6.00%. $44,450,000 of the bonds are non-callable. The bonds mature serially beginning September 1, 1998, and were issued to construct, extend and improve various public improvement projects.

Component Unit - HFDC

Revenue Bond Issue

On July 1, 1995, HFDC redeemed certain outstanding Single Family Mortgage Purchase revenue bonds totalling $4,595,000, of which $2,695,000 were early redemptions.

Development Project

As of June 30, 1995, HFDC was in the process of closing the sale of the Kapolei Golf Course for approximately $40,000,000. The sale was closed in late November 1995.

[THIS PAGE INTENTIONALLY LEFT BLANK]

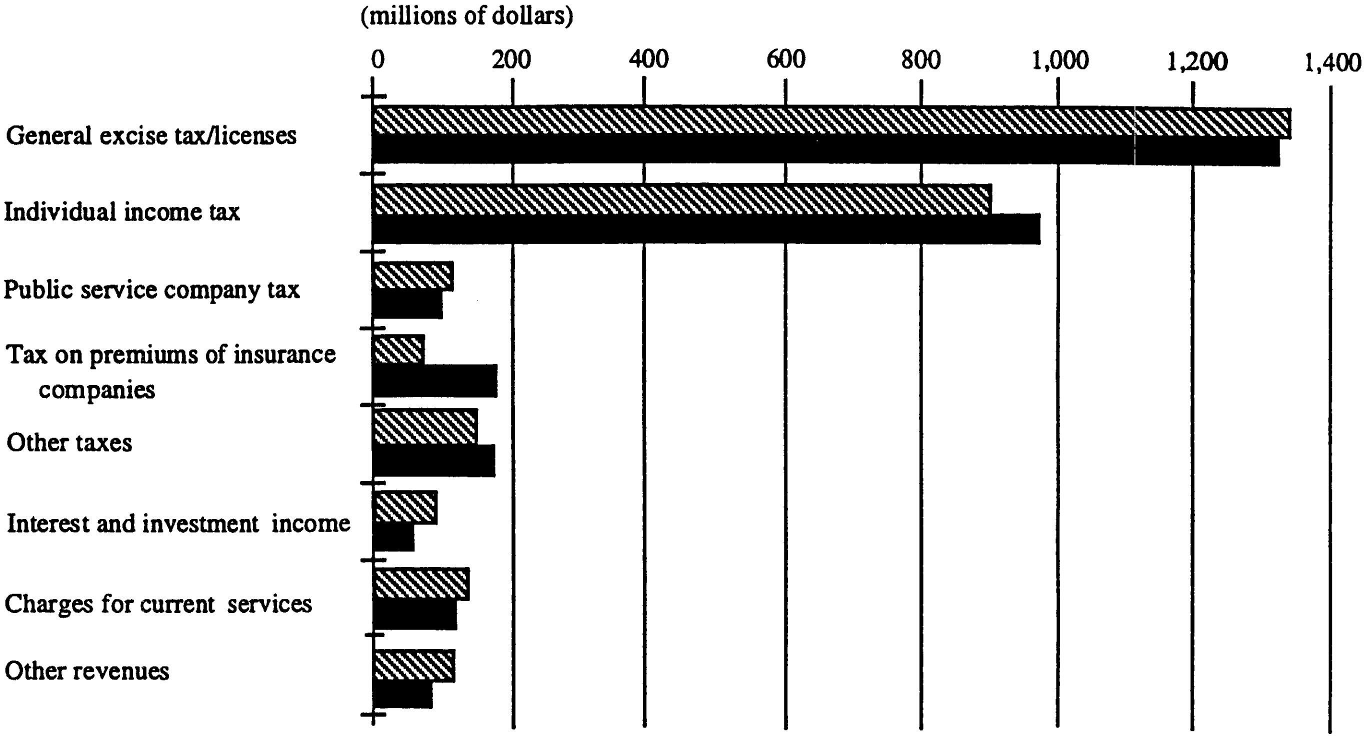
COMBINING, INDIVIDUAL FUND AND ACCOUNT GROUP FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

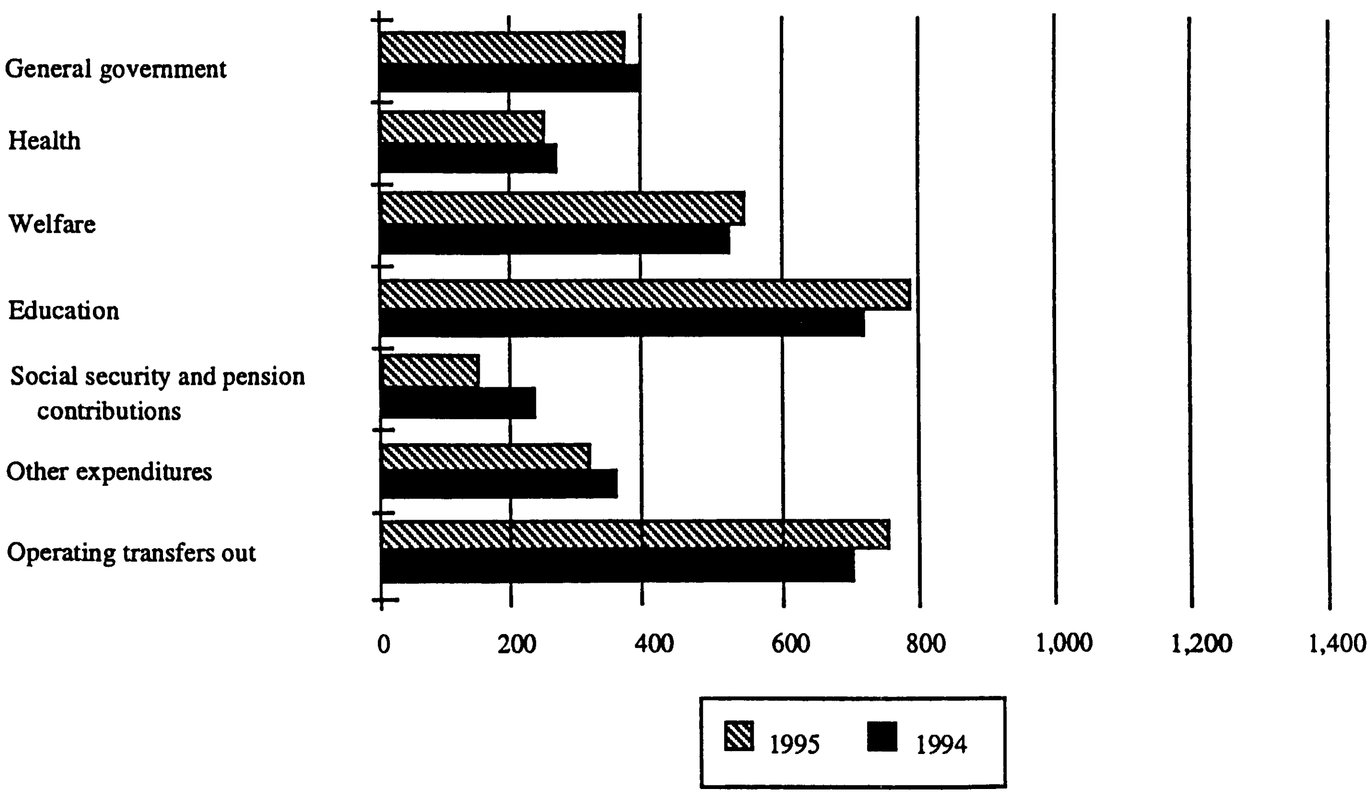
The General Fund is the general operating fund of the State. It is used to account for all financial resources except those required to be accounted for in another fund. Expenditures include those for general government, public safety, conservation of natural resources, health, welfare, education, and culture and recreation.

GENERAL FUND

Revenues and Other Financing Sources



Expenditures and Other Financing Uses



[THIS PAGE INTENTIONALLY LEFT BLANK]

General Fund
Balance Sheet

June 30, 1995

(Amounts in thousands)

ASSETS		
Cash and short-term investments		$ 91,149
Receivables:		
Taxes	266,313	
Notes	906	
Other	148	
Total receivables		267,367
Due from Capital Projects Fund		90,000
Due from Component Units		6,000
Investments		152,300
Advances to Enterprise Funds		23,521
Total Assets		$630,337
LIABILITIES AND FUND BALANCE		
Liabilities:		
Vouchers payable		$ 72,174
Due to other funds:		
Debt Service Fund	165	
Enterprise Funds	9	
Total due to other funds		174
Due to Component Units		34,304
Total Liabilities		106,652
Fund Balance:		
Reserved for continuing appropriations:		
Unencumbered allotments	7,369	
Unliquidated encumbrances	172,105	
	179,474	
Reserved for receivables and advances	24,518	
Unreserved:		
Designated for future expenditures	12,391	
Undesignated	307,302	
Total Fund Balance		523,685
Total Liabilities and Fund Balance		$630,337

General Fund
Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

Revenues:		
Taxes:		
General excise tax	$1,364,644	
Net income tax:		
Corporations	31,471	
Individuals	928,004	
Inheritance and estate tax	16,438	
Liquor permits and tax	38,362	
Public service company tax	100,504	
Tobacco tax	35,386	
Tax on premiums of insurance companies	63,872	
Franchise tax (banks and other financial institutions)	17,519	
Transient accommodations tax	4,135	
Other taxes, primarily conveyances tax	3,864	
Total taxes		2,604,199
Non-taxes:		
Interest and investment income	78,203	
Charges for current services	123,192	
Intergovernmental	17,667	
Rentals	6,479	
Fines, forfeitures and penalties	15,926	
Licenses and fees	1,289	
Revenues from private sources	6,358	
Accrued interest on general obligation bonds sold	1,319	
Other	64,055	
Total non-taxes		314,488
Total Revenues		2,918,687

STATE OF HAWAII

General Fund
Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

Expenditures:		
General government	$ 394,544	
Public safety	134,282	
Conservation of natural resources	26,864	
Health	223,277	
Welfare	533,254	
Lower education	781,600	
Other education	12,348	
Culture and recreation	41,719	
Urban redevelopment and housing	3,188	
Economic development and assistance	83,034	
Social security and pension contributions	149,875	
Intergovernmental	3,844	
Capital outlay	35,170	
Other	6,027	
Total Expenditures		2,429,026
Other Financing Uses - operating transfers out to:		
Special Revenue Funds	14,664	
Debt Service Fund	305,879	
Enterprise Funds	16,241	
Component Units	428,393	
Total Other Financing Uses		765,177
Total Expenditures and Other Financing Uses		3,194,203
Excess of Expenditures and Other Financing Uses over Revenues		(275,516)
Other Changes in Unreserved Fund Balance:		
Add:		
Continuing appropriations, July 1, 1994	238,699	
Deduct:		
Continuing appropriations, June 30, 1995	(179,474)	
Total Other Changes in Unreserved Fund Balance		59,225
Excess of Expenditures, Other Financing Uses and Other Changes in Unreserved Fund Balance over Revenues		(216,291)
Unreserved Fund Balance, July 1, 1994, as previously reported		247,227
Add:		
Prior period adjustment		275,307
Unreserved Fund Balance, July 1, 1994, as restated		522,534
Residual equity transfer in from Special Revenue Funds		14,644
Residual equity transfer out to Component Units		(1,194)
Unreserved Fund Balance, June 30, 1995		$ 319,693

General Fund
Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes:			
General excise tax	$1,387,509	$1,358,262	$ (29,247)
Net income tax:			
Corporations	29,198	30,249	1,051
Individuals	986,106	925,338	(60,768)
Inheritance and estate tax	13,455	16,438	2,983
Liquor permits and tax	43,016	38,362	(4,654)
Public service company tax	95,973	100,505	4,532
Tobacco tax	41,544	35,385	(6,159)
Tax on premiums of insurance companies	71,616	63,871	(7,745)
Franchise tax (banks and other financial institutions)	24,573	17,048	(7,525)
Transient accommodations tax	3,609	4,135	526
Other taxes, primarily conveyances tax	4,696	3,864	(832)
Total taxes	2,701,295	2,593,457	(107,838)
Non-taxes:			
Interest and investment income	81,837	78,203	(3,634)
Charges for current services	104,777	123,192	18,415
Intergovernmental	11,063	17,667	6,604
Rentals	5,452	6,479	1,027
Fines, forfeitures and penalties	16,761	15,926	(835)
Licenses and fees	4,326	1,289	(3,037)
Revenues from private sources	5,065	6,358	1,293
Accrued interest on general obligation bonds sold	700	1,319	619
Other	17,100	64,055	46,955
Total non-taxes	247,081	314,488	67,407
Total Revenues	2,948,376	2,907,945	(40,431)
Other Financing Sources - operating transfers in from Debt Service Fund	37,438	45,941	8,503
Total Revenues and Other Financing Sources	2,985,814	2,953,886	(31,928)

STATE OF HAWAII

General Fund
Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Expenditures:			
General government	$ 437,864	$ 398,758	$ 39,106
Public safety	140,250	135,157	5,093
Conservation of natural resources	28,579	26,113	2,466
Health	238,619	228,305	10,314
Welfare	531,203	519,450	11,753
Lower education	775,445	756,362	19,083
Other education	12,935	12,157	778
Culture and recreation	43,609	40,008	3,601
Urban redevelopment and housing	3,342	3,137	205
Economic development and assistance	87,900	78,709	9,191
Social security and pension contributions	166,159	149,875	16,284
Intergovernmental	3,844	3,844	-
Other	7,345	4,679	2,666
Total Expenditures	2,477,094	2,356,554	120,540
Other Financing Uses - operating transfers out to:			
Special Revenue Funds	14,654	14,654	-
Debt Service Fund	356,606	351,820	4,786
Enterprise Funds	16,774	16,241	533
Component Units	438,274	428,393	9,881
Total Other Financing Uses	826,308	811,108	15,200
Total Expenditures and Other Financing Uses	3,303,402	3,167,662	135,740
Excess of Expenditures and Other Financing Uses (over) Revenues and Other Financing Sources	$ (317,588)	$ (213,776)	$ 103,812

General Fund
Schedule of Expenditures and Other Financing Uses - Budget and Actual

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

Functions of Government	Actual (GAAP Basis)	Non-Budgeted Expenditures (Actual)	Basis of Accounting Differences	Budgeted Expenditures (Actual)
Expenditures:				
General government	$ 394,544	$ 36,741	$ 8,527	$ 366,330
Public safety	134,282	8,170	213	126,325
Conservation of natural resources	26,864	2,828	-	24,036
Health	223,277	19,824	1,679	205,132
Welfare	533,254	11,662	(13,334)	508,258
Lower education	781,600	63,234	-	718,366
Other education	12,348	1,447	-	10,901
Culture and recreation	41,719	6,153	200	35,766
Urban redevelopment and housing	3,188	141	-	3,047
Economic development and assistance	83,034	10,290	(1,326)	71,418
Social security and pension contributions	149,875	-	-	149,875
Intergovernmental	3,844	-	-	3,844
Capital outlay	35,170	35,170	-	-
Other	6,027	2,106	380	4,301
Total Expenditures	2,429,026	197,766	(3,661)	2,227,599
Other Financing Uses - operating transfers out to:				
Special Revenue Funds	14,664	10	-	14,654
Debt Service Fund	305,879	-	45,941	351,820
Enterprise Funds	16,241	-	-	16,241
Component Units	428,393	-	-	428,393
Total Other Financing Uses	765,177	10	45,941	811,108
Total Expenditures and Other Financing Uses	$3,194,203	$197,776	$ 42,280	$3,038,707

Encumbrances	Actual (Budgetary Basis)	Budget	Variance Favorable (Unfavorable)
$ 32,428	$ 398,758	$ 437,864	$ 39,106
8,832	135,157	140,250	5,093
2,077	26,113	28,579	2,466
23,173	228,305	238,619	10,314
11,192	519,450	531,203	11,753
37,996	756,362	775,445	19,083
1,256	12,157	12,935	778
4,242	40,008	43,609	3,601
90	3,137	3,342	205
7,291	78,709	87,900	9,191
-	149,875	166,159	16,284
-	3,844	3,844	-
-	-	-	-
378	4,679	7,345	2,666
128,955	2,356,554	2,477,094	120,540
-	14,654	14,654	-
-	351,820	356,606	4,786
-	16,241	16,774	533
-	428,393	438,274	9,881
-	811,108	826,308	15,200
$128,955	$3,167,662	$3,303,402	$135,740

General Fund
Supplementary Schedule of Unreserved - Undesignated Fund Balance - Statutory (Cash) Basis to GAAP Basis

For the Fiscal Year Ended June 30, 1995

(Amounts in thousands)

Revenues	$2,968,531
Expenditures	3,246,427
Excess of Expenditures over Revenues	(277,896)
Other Changes in Unreserved - Undesignated Fund Balance:	
Add:	
Continuing appropriations, July 1, 1994	309,373
Deduct:	
Continuing appropriations, June 30, 1995	232,129
	77,244
Excess of Expenditures over Revenues and Other Changes in Unreserved - Undesignated Fund Balance	(200,652)
Unreserved - Undesignated Fund Balance, July 1, 1994, on a statutory (cash) basis	290,954
Unreserved - Undesignated Fund Balance, June 30, 1995, on a statutory (cash) basis	90,302
Adjustments from statutory (cash) basis to GAAP basis:	
Accrued tax revenues	266,313
Accrued expenditures	(47,264)
Tax refund liability	(2,049)
Unreserved - Undesignated Fund Balance, June 30, 1995, on a GAAP basis	$ 307,302

APPENDIX C

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

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, and no such appropriation shall be made for a period exceeding three years. Any such appropriation or any portion of any such appropriation which 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 such appropriation or any portion of such 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.

Any appropriation for which the source is general obligation bond funds or general funds or any portion of any such appropriation which is effective on the date of ratification of this amendment and which is unencumbered on June 30, 1980 shall lapse on that date unless earlier lapsed by law; 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 such appropriation or any portion of such 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 on June 30, 1980.

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 public undertaking, improvement or system remaining after the costs of operation, maintenance and repair of such public undertaking, improvement or system and the required payments of the principal of and interest on all revenue bonds issued therefor have been made.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

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, manufacturing, processing or industrial enterprises, utilities serving the general public, health care facilities provided to the general public by not-for-profit corporations or low and moderate income government housing programs, 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. 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 under contract or from any security for such contract 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 bonds issued 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 benefitted 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 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.

APPENDIX D

GENERAL OBLIGATON FUNDED DEBT
OF THE STATE OF HAWAII

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
as of July 1, 1996
ISSUED AND OUTSTANDING

General obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due		Outstanding Principal
August 1, 1972	$ 5,125,000, Series X, callable	4.000%	August 1, 1996	@ $ 180,000.00	
		4.000%	August 1, 1997	@ 190,000.00	
		4.000%	August 1, 1998	@ 200,000.00	
		4.000%	August 1, 1999	@ 210,000.00	
		4.000%	August 1, 2000	@ 220,000.00	
		4.000%	August 1, 2001	@ 230,000.00	
		4.000%	August 1, 2002	@ 240,000.00	
		4.000%	August 1, 2003	@ 255,000.00	
		4.000%	August 1, 2004	@ 270,000.00	
		4.000%	August 1, 2005	@ 285,000.00	
		4.000%	August 1, 2006	@ 300,000.00	
		4.000%	August 1, 2007	@ 315,000.00	$ 2,895,000.00
December 1, 1976	75,000,000, Series AJ, callable	4.500%	December 1, 1996	@ 4,165,000.00	4,165,000.00
April 1, 1977	75,000,000, Series AK, callable	4.500%	April 1, 1997	@ 4,165,000.00	4,165,000.00
August 1, 1977	75,000,000, Series AL, callable	5.200%	August 1, 1996	@ 4,165,000.00	
		4.250%	August 1, 1997	@ 4,165,000.00	8,330,000.00
February 1, 1978	75,000,000, Series AM, callable	5.250%	February 1, 1997 / 1998	@ 4,165,000.00	8,330,000.00
August 1, 1986	80,000,000, Series BF, callable	6.900%	August 1, 1996	@ 4,445,000.00	4,445,000.00
November 1, 1986	252,090,000, Series BG, callable (refunding)	6.000%	November 1, 1996	@ 19,390,000.00	19,390,000.00
March 1, 1987	121,610,000, Series BI, callable (refunding)	5.500%	March 1, 1997	@ 9,355,000.00	
		5.600%	March 1, 1998	@ 9,355,000.00	
		5.700%	March 1, 1999	@ 9,355,000.00	28,065,000.00
December 1, 1987	80,000,000, Series BJ, callable	6.750%	December 1, 1996	@ 4,445,000.00	4,445,000.00
April 1, 1988	80,000,000, Series BK, callable	6.400%	April 1, 1997	@ 4,445,000.00	4,445,000.00
December 6, 1988	$ 65,000,954.43, Series BL, non-callable (compound interest bonds)	6.881%	December 1, 1996	@ 4,066,433.90	
		6.981%	December 1, 1997	@ 4,059,037.00	
		7.081%	December 1, 1998	@ 4,065,422.26	
		7.181%	December 1, 1999	@ 4,060,779.67	
		7.281%	December 1, 2000	@ 4,065,265.33	
		7.381%	December 1, 2001	@ 4,059,439.68	
		7.481%	December 1, 2002	@ 4,065,151.32	
		7.581%	December 1, 2003	@ 4,059,208.35	
		7.631%	December 1, 2004	@ 4,065,429.07	
		7.681%	December 1, 2005	@ 4,059,625.69	
		7.681%	December 1, 2006	@ 4,065,206.24	
		7.681%	December 1, 2007	@ 4,060,531.65	
		7.681%	December 1, 2008	@ $ 4,065,039.05	$ 52,816,569.21

APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
as of July 1, 1996
ISSUED AND OUTSTANDING

General obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due	Outstanding Principal
June 1, 1989	$ 160,000,000, Series BN, callable	7.000%	June 1, 1997 / 1998 @ $ 8,890,000.00	$ 17,780,000.00
August 1, 1989	74,730,000, Series BO, callable	6.200%	August 1, 1996 @ 8,305,000.00	
	(refunding)	6.250%	August 1, 1997 / 1998 @ 8,305,000.00	
		6.375%	August 1, 1999 @ 8,305,000.00	
		6.500%	August 1, 2000 / 2001 @ 8,300,000.00	
		6.600%	August 1, 2002 @ 8,300,000.00	58,120,000.00
August 1, 1989	47,355,000, Series BP, callable	6.200%	August 1, 1996 @ 2,785,000.00	
	(refunding)	6.250%	August 1, 1997 / 1998 @ 2,785,000.00	
		6.375%	August 1, 1999 @ 2,785,000.00	
		5.750%	August 1, 2006 / 2009 @ 2,785,000.00	22,280,000.00
November 28, 1989	80,005,159.73, Series BQ, callable	6.600%	December 1, 1996 @ 4,445,000.00	
	(certain maturities bear	8.250%	December 1, 1997 @ 4,445,000.00	
	compound interest,	6.750%	December 1, 1998 @ 4,445,000.00	
	non-callable)	6.800%	December 1, 1999 @ 4,444,958.56	
		7.100%	December 1, 2005 @ 4,444,706.84	
		7.100%	December 1, 2006 @ 4,444,323.52	
		7.150%	December 1, 2007 @ 4,444,776.00	
		7.150%	December 1, 2008 @ 4,444,432.49	
		7.150%	December 1, 2009 @ 4,444,540.00	40,002,737.41
June 1, 1990	100,000,000, Series BR, callable	6.500%	June 1, 1997 @ 5,560,000.00	
		6.600%	June 1, 1998 @ 5,555,000.00	
		6.700%	June 1, 1999 @ 5,555,000.00	
		6.750%	June 1, 2000 @ 5,555,000.00	22,225,000.00
September 1, 1990	150,000,000, Series BS, callable	6.700%	September 1, 1997 @ 8,335,000.00	
		6.800%	September 1, 1998 @ 8,335,000.00	
		6.850%	September 1, 1999 @ 8,335,000.00	
		6.900%	September 1, 2000 @ 8,335,000.00	33,340,000.00
February 1, 1991	250,000,000, Series BT, callable	5.500%	February 1, 1997 @ 13,890,000.00	
		5.600%	February 1, 1998 @ 13,890,000.00	
		5.700%	February 1, 1999 @ 13,890,000.00	
		8.125%	February 1, 2000 @ 13,890,000.00	
		8.000%	February 1, 2001 @ 13,890,000.00	
		6.000%	February 1, 2002 / 2003 @ 13,890,000.00	97,230,000.00
November 1, 1991	$ 100,000,000, Series BU, callable	5.300%	November 1, 1996 @ 5,555,000.00	
		5.400%	November 1, 1997 @ 5,555,000.00	
		5.600%	November 1, 1998 @ 5,555,000.00	
		5.700%	November 1, 1999 @ 5,555,000.00	
		7.250%	November 1, 2000 @ 5,555,000.00	
		5.850%	November 1, 2001 @ 5,555,000.00	
		6.000%	November 1, 2002 @ 5,555,000.00	
		6.100%	November 1, 2003 @ $ 5,555,000.00	$ 44,440,000.00

APPENDIX D
GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
as of July 1, 1996
ISSUED AND OUTSTANDING

General obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due	Outstanding Principal
November 1, 1991	$ 92,180,000, Series BV, callable (refunding)	5.300%	November 1, 1996 @ $ 7,090,000.00	
		5.400%	November 1, 1997 @ 7,090,000.00	
		5.600%	November 1, 1998 @ 7,090,000.00	
		5.700%	November 1, 1999 @ 7,090,000.00	
		7.250%	November 1, 2000 @ 7,090,000.00	
		5.850%	November 1, 2001 @ 7,090,000.00	
		6.000%	November 1, 2002 @ 7,090,000.00	
		6.100%	November 1, 2003 @ 7,090,000.00	
		6.000%	November 1, 2004 @ 7,090,000.00	
		6.300%	November 1, 2005 @ 7,090,000.00	$ 70,900,000.00
March 1, 1992	100,000,000, Series BW, noncallable	5.150%	March 1, 1997 @ 5,555,000.00	
		5.300%	March 1, 1998 @ 5,555,000.00	
		5.500%	March 1, 1999 @ 5,555,000.00	
		5.750%	March 1, 2000 @ 5,555,000.00	
		5.875%	March 1, 2001 @ 5,555,000.00	
		5.900%	March 1, 2002 @ 5,555,000.00	
		6.000%	March 1, 2003 @ 5,555,000.00	
		6.100%	March 1, 2004 @ 5,555,000.00	
		6.200%	March 1, 2005 @ 5,555,000.00	
		6.300%	March 1, 2006 @ 5,555,000.00	
		6.400%	March 1, 2007 / 2010 @ 5,555,000.00	
		6.375%	March 1, 2011 @ 5,555,000.00	
		6.250%	March 1, 2012 @ 5,555,000.00	88,880,000.00
March 1, 1992	30,690,000, Series BX, noncallable (refunding)	5.150%	March 1, 1997 @ 3,410,000.00	
		5.300%	March 1, 1998 @ 3,410,000.00	
		5.500%	March 1, 1999 @ 3,410,000.00	
		5.750%	March 1, 2000 @ 3,410,000.00	
		5.875%	March 1, 2001 @ 3,410,000.00	
		5.900%	March 1, 2002 @ 3,410,000.00	20,460,000.00
October 1, 1992	120,000,000 Taxable Series BY, noncallable	5.500%	October 1, 1996 @ 24,000,000.00	
		5.900%	October 1, 1997 @ 24,000,000.00	
		6.300%	October 1, 1998 @ 24,000,000.00	
		6.500%	October 1, 1999 @ 24,000,000.00	96,000,000.00
October 1, 1992	$ 200,000,000 Series BZ, noncallable	5.500%	October 1, 1997 / 1998 @ 12,500,000.00	
		5.000%	October 1, 1999 @ 12,500,000.00	
		5.250%	October 1, 2000 @ 12,500,000.00	
		5.400%	October 1, 2001 @ 12,500,000.00	
		6.250%	October 1, 2002 @ 12,500,000.00	
		5.600%	October 1, 2003 @ 12,500,000.00	
		5.700%	October 1, 2004 @ 12,500,000.00	
		5.800%	October 1, 2005 @ 12,500,000.00	
		5.900%	October 1, 2006 @ 12,500,000.00	
		6.000%	October 1, 2007 / 2012 @ $12,500,000.00	$ 200,000,000.00

APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII

as of July 1, 1996

ISSUED AND OUTSTANDING

General obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due	Outstanding Principal
January 1, 1993	$ 90,000,000 Series CA, noncallable	4.600%	January 1, 1997 @ $ 5,000,000.00	
		4.500%	January 1, 1998 @ 5,000,000.00	
		5.000%	January 1, 1999 / 2000 @ 5,000,000.00	
		5.125%	January 1, 2001 @ 5,000,000.00	
		5.250%	January 1, 2002 @ 5,000,000.00	
		5.375%	January 1, 2003 @ 5,000,000.00	
		5.500%	January 1, 2004 / 2006 @ 5,000,000.00	
		5.750%	January 1, 2007 / 2008 @ 5,000,000.00	
		6.000%	January 1, 2009 @ 5,000,000.00	
		5.750%	January 1, 2010 / 2011 @ 5,000,000.00	
		5.500%	January 1, 2012 @ 5,000,000.00	
		8.000%	January 1, 2013 @ 5,000,000.00	$ 85,000,000.00
33,970.00	107,845,000 Series CB, noncallable (refunding)	4.600%	January 1, 1997 @ 8,300,000.00	
		4.800%	January 1, 1998 @ 8,295,000.00	
		5.000%	January 1, 1999 / 2000 @ 8,295,000.00	
		5.125%	January 1, 2001 @ 8,295,000.00	
		5.250%	January 1, 2002 @ 8,295,000.00	
		5.375%	January 1, 2003 @ 8,295,000.00	
		5.500%	January 1, 2004 / 2006 @ 8,295,000.00	
		5.750%	January 1, 2007 / 2008 @ 8,295,000.00	99,545,000.00
February 1, 1993	334,860,000 Series CC, callable (refunding)	4.100%	February 1, 1997 @ 23,920,000.00	
		4.300%	February 1, 1998 @ 23,920,000.00	
		4.400%	February 1, 1999 @ 23,920,000.00	
		4.600%	February 1, 2000 @ 23,920,000.00	
		4.700%	February 1, 2001 @ 23,920,000.00	
		7.750%	February 1, 2002 @ 23,920,000.00	
		5.000%	February 1, 2003 / 2005 @ 23,920,000.00	
		5.125%	February 1, 2006 / 2009 @ 23,915,000.00	310,940,000.00
February 1, 1993	137,935,000 Series CD, noncallable (refunding)	4.100%	February 1, 1997 @ 17,245,000.00	
		4.300%	February 1, 1998 @ 17,245,000.00	
		4.400%	February 1, 1999 @ 17,240,000.00	
		4.600%	February 1, 2000 @ 17,240,000.00	
		4.700%	February 1, 2001 @ 17,240,000.00	
		4.900%	February 1, 2002 @ 17,240,000.00	
		5.000%	February 1, 2003 @ 17,240,000.00	120,690,000.00
June 1, 1993	$ 130,245,000 Series CE, callable	4.200%	June 1, 1997 @ 7,240,000.00	
		4.400%	June 1, 1998 @ 7,240,000.00	
		4.600%	June 1, 1999 @ 7,235,000.00	
		4.750%	June 1, 2000 @ 7,235,000.00	
		4.500%	June 1, 2001 @ 7,235,000.00	
		5.100%	June 1, 2002 @ 7,235,000.00	
		8.000%	June 1, 2003 @ 7,235,000.00	
		5.200%	June 1, 2004 @ 7,235,000.00	
		5.250%	June 1, 2005 / 2007 @ 7,235,000.00	
		5.500%	June 1, 2008 / 2010 @ 7,235,000.00	
		5.250%	June 1, 2011 / 2013 @ $ 7,235,000.00	$ 123,005,000.00

APPENDIX D
GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
as of July 1, 1996
ISSUED AND OUTSTANDING

General obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
July 1, 1993	**$ 157,735,000 Series CF, noncallable (refunding)**	3.800%	July 1, 1997	@	$17,525,000.00	
		4.100%	July 1, 1998	@	17,525,000.00	
		4.250%	July 1, 1999	@	17,525,000.00	
		4.400%	July 1, 2000	@	17,525,000.00	
		5.500%	July 1, 2001	@	17,525,000.00	
		4.600%	July 1, 2002	@	17,525,000.00	$ 105,150,000.00
July 1, 1993	**21,500,000 Series CG, callable (refunding)**	3.800%	July 1, 1997	@	985,000.00	
		4.100%	July 1, 1998	@	1,025,000.00	
		4.250%	July 1, 1999	@	1,065,000.00	
		4.400%	July 1, 2000	@	1,115,000.00	
		4.500%	July 1, 2001	@	1,165,000.00	
		4.600%	July 1, 2002	@	1,220,000.00	
		4.700%	July 1, 2003	@	1,280,000.00	
		4.800%	July 1, 2004	@	1,340,000.00	
		4.900%	July 1, 2005	@	1,405,000.00	
		5.000%	July 1, 2006	@	1,475,000.00	
		5.000%	July 1, 2007	@	1,555,000.00	
		5.000%	July 1, 2008	@	1,630,000.00	
		5.000%	July 1, 2009	@	1,715,000.00	
		5.000%	July 1, 2010	@	1,800,000.00	18,775,000.00
November 1, 1993	**250,000,000, Series CH, noncallable**	3.400%	November 1, 1996	@	13,890,000.00	
		3.600%	November 1, 1997	@	13,890,000.00	
		4.750%	November 1, 1998 / 1999	@	13,890,000.00	
		4.000%	November 1, 2000	@	13,890,000.00	
		4.100%	November 1, 2001	@	13,890,000.00	
		4.200%	November 1, 2002	@	13,890,000.00	
		4.300%	November 1, 2003	@	13,890,000.00	
		4.400%	November 1, 2004	@	13,890,000.00	
		6.000%	November 1, 2005 / 2009	@	13,890,000.00	
		6.000%	November 1, 2010	@	13,885,000.00	
		4.750%	November 1, 2011 / 2013	@	13,885,000.00	250,000,000.00
November 1, 1993	**$ 316,915,000, Series CI, noncallable (refunding)**	5.000%	November 1, 1996 / 1999	@	21,130,000.00	
		4.000%	November 1, 2000	@	21,130,000.00	
		4.100%	November 1, 2001	@	21,130,000.00	
		4.200%	November 1, 2002	@	21,130,000.00	
		4.300%	November 1, 2003	@	21,130,000.00	
		4.400%	November 1, 2004	@	21,125,000.00	
		4.500%	November 1, 2005	@	21,125,000.00	
		4.600%	November 1, 2006	@	21,125,000.00	
		4.700%	November 1, 2007	@	21,125,000.00	
		4.750%	November 1, 2008 / 2009	@	21,125,000.00	
		4.900%	November 1, 2010	@	$21,125,000.00	$ 316,915,000.00

APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
as of July 1, 1996
ISSUED AND OUTSTANDING

General obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due	Outstanding Principal
January 1, 1995	$ 268,000,000, Series CJ, callable	5.500%	January 1, 1998 / 2000 @ $14,890,000.00	
		5.600%	January 1, 2001 @ 14,890,000.00	
		5.625%	January 1, 2002 @ 14,890,000.00	
		5.700%	January 1, 2003 @ 14,890,000.00	
		5.750%	January 1, 2004 @ 14,890,000.00	
		5.800%	January 1, 2005 @ 14,890,000.00	
		5.900%	January 1, 2006 @ 14,890,000.00	
		6.000%	January 1, 2007 @ 14,890,000.00	
		6.050%	January 1, 2008 @ 14,890,000.00	
		6.100%	January 1, 2009 @ 14,890,000.00	
		6.150%	January 1, 2010 @ 14,890,000.00	
		6.200%	January 1, 2011 @ 14,890,000.00	
		6.200%	January 1, 2012 @ 14,885,000.00	
		6.250%	January 1, 2013 / 2015 @ 14,885,000.00	$ 268,000,000.00
September 1, 1995	100,000,000, Series CK, callable	5.000%	September 1, 1998 / 1999 @ 5,560,000.00	
		5.000%	September 1, 2000 5,555,000.00	
		6.000%	September 1, 2001 / 2004 @ 5,555,000.00	
		5.000%	September 1, 2005 / 2006 @ 5,555,000.00	
		5.100%	September 1, 2007 / 2008 @ 5,555,000.00	
		5.250%	September 1, 2009 / 2010 @ 5,555,000.00	
		5.500%	September 1, 2011 / 2012 @ 5,555,000.00	
		5.600%	September 1, 2013 / 2014 @ 5,555,000.00	
		5.250%	September 1, 2015 5,555,000.00	100,000,000.00
March 1, 1996	$ 100,000,000, Series CL, callable	4.250%	March 1, 1999 @ 5,560,000.00	
		4.375%	March 1, 2000 @ 5,560,000.00	
		4.500%	March 1, 2001 @ 5,555,000.00	
		5.000%	March 1, 2002 / 2003 @ 5,555,000.00	
		4.900%	March 1, 2004 @ 5,555,000.00	
		5.000%	March 1, 2005 @ 5,555,000.00	
		5.100%	March 1, 2006 @ 5,555,000.00	
		6.000%	March 1, 2007 / 2011 @ 5,555,000.00	
		5.250%	March 1, 2012 / 2016 @ $ 5,555,000.00	$ 100,000,000.00

Total of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding $2,851,169,306.62

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$150,000,000
State of Hawaii
General Obligation Bonds of 1996
Series CM

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") in connection with the issuance of $150,000,000 State of Hawaii General Obligation Bonds of 1996, Series CM (the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Finance of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to Section 403 of the Bond Certificate, the State covenants and agrees as follows:

Section 1. ***Purpose of Disclosure Certificate.*** This Disclosure Certificate is being executed and delivered by the State for the benefit of the Holders and Beneficial Owners of the Bonds and to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. ***Definitions.*** In addition to the definitions set forth in the Bond Certificate, 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 State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean the Director of Finance or any successor Dissemination Agent designated in writing by the State and which has filed with the State a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Repository*" shall mean each National Repository and each State Repository.

"*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.

"*State*" shall mean the State of Hawaii.

"*State Repository*" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. ***Provision of Annual Reports***. (a) The State shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the 1996 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and 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 State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection 5(c).

(b) Not later than 15 Business Days prior to said date, the State shall provide the Annual Report to the Dissemination Agent (if other than the State). If the State is unable to provide to the Repositories an Annual Report by the date required in subsection (a) above, the State shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the State), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. ***Content of Annual Reports***. The State's Annual Report shall contain or include by reference information of the type included in Appendix B to the final Official Statement (the "Official Statement"), dated December 11, 1996, relating to the Bonds.

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 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 of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so included by reference.

Section 5. ***Reporting of Significant Events***. (a) Pursuant to the provisions of this Section 5, the State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. optional, contingent or unscheduled bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on the credit enhancements reflecting financial difficulties;

10. substitution of the credit or liquidity providers or their failure to perform; or

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the State obtains knowledge of the occurrence of a Listed Event, the State shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the State determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the State shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Certificate.

Section 6. ***Termination of Reporting Obligation***. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 7. ***Dissemination Agent***. The State 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 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 State pursuant to this Disclosure Certificate.

Section 8. ***Amendment; Waiver***. Notwithstanding any other provision of this Disclosure Certificate, the State 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 subsection 3(a), Section 4 or subsection 5(a), 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 Bonds, 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 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State 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 State. 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 the same manner as for a Listed Event under subsection 5(c), 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 9. ***Additional Information.*** Nothing in this Disclosure Certificate shall be deemed to prevent the State 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 of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. ***Default.*** In the event of a failure of the State to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State 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 Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. ***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 State 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 wilful misconduct. The obligations of the State under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. ***Beneficiaries.*** This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Dated: December 19, 1996.

[Seal of Department
of Budget and Finance]

STATE OF HAWAII

By ______________________________

E. I. Anzai
Director of Finance of
the State of Hawaii

EXHIBIT A

[FORM OF]
NOTICE TO REPOSITORIES OF
FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Hawaii
Name of Bond Issue:	$150,000,000 State of Hawaii General Obligation Bonds of 1996, Series CM
Date of Issuance:	

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated   , 1996. [The State anticipates that the Annual Report will be filed by   .]

Dated:

STATE OF HAWAII

By ______________________________
Title ______________________________

EXHIBIT B

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of **December 1996**:

Bloomberg Municipal Repository
Post Office Box 840
Princeton, NJ 08542-0840
Internet address: MUNIS@bloomberg.doc
(609) 279-3200
FAX (609) 279-5962 (609) 279-5963
Contact: Dave Campbell

Disclosure, Inc.
Document Augmentation/Municipal Securities
5161 River Road
Bethesda, MD 20816
(301) 951-1450
FAX (301) 718-2329
Contact: Barry Sugarman (301) 215-6015

Donnelley Financial
Municipal Security Disclosure Archive
559 Main Street
Hudson, MA 01749
Internet address: http://www.municipal.com
(800) 580-3670
FAX (508) 562-1969

JJ Kenny Information Services
The Repository
65 Broadway, 16th Floor
New York, NY 10006
(212) 770-4568
FAX (212) 797-7994
Contact: Joan Horai, Repository

Moody's NRMSIR
Public Finance Information Center
99 Church Street
New York, NY 10007-2796
(800) 339-6306
FAX (212) 553-1460
Contact: Claudette Stephenson (212) 553-0345

Thomson NRMSIR
Secondary Market Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
Internet address: Disclosure@muller.com
(212) 807-3826
FAX (212) 989-2078
Contact: Thomas Garske

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Kutak Rock]

December , 1996

Honorable E. I. Anzai
Director of Finance
Department of Budget and Finance
State of Hawaii
250 South Hotel Street
Honolulu, HI 96813

$150,000,000
State of Hawaii
General Obligation Bonds of 1996
Series CM

Dear Mr. Anzai:

At the request of the State of Hawaii (the "State"), we have acted as Bond Counsel in connection with the issuance and sale of the State of its $150,000,000 State of Hawaii General Obligation Bonds of 1996, Series CM (the "Bonds"). The Bonds are dated December 1, 1996, in the denomination of $5,000 or any integral multiple thereof, are numbered with the prefix HAW/CM and mature serially on December 1 in each of the years and in the respective principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable semiannually each June 1 and December 1, commencing June 1, 1997 at the rate per annum set opposite such year, as follows:

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
1999	$8,335,000	5.00	2008	$8,335,000	6.00
2000	8,335,000	5.00	2009	8,335,000	6.00
2001	8,335,000	5.00	2010	8,335,000	6.00
2002	8,335,000	5.50	2011	8,330,000	6.00
2003	8,335,000	5.50	2012	8,330,000	6.00
2004	8,335,000	5.50	2013	8,330,000	6.50
2005	8,335,000	6.00	2014	8,330,000	6.50
2006	8,335,000	6.00	2015	8,330,000	6.50
2007	8,335,000	6.00	2016	8,330,000	6.50

The Bonds are not subject to redemption at the option of the State prior to the respective stated maturities thereof. The Bonds are transferable and exchangeable upon the terms and conditions set forth therein and recite that they have been authorized and issued pursuant to the laws of the State of Hawaii. We have examined the Constitution and laws of the State of Hawaii, certificates and documents of the Governor and of the Director of Finance of the State authorizing the issuance of the Bonds, such other proceedings as we have considered necessary or advisable and a certified specimen Bond of said issue.

The State has covenanted in its proceedings authorizing the Bonds to comply with all necessary provisions of the Internal Revenue Code of 1986, as amended (the "Code"), to preserve the tax exemption of interest on the Bonds.

In our opinion, the Bonds have been authorized and issued in accordance with the Constitution and laws of the State of Hawaii and constitute valid general obligations of the State to the punctual payment of the principal and interest of which the full faith and credit of the State are pledged, and under the Constitution of the State the interest and principal payments of general obligation bonds of the State shall be a first charge on the general fund of the State.

The rights of the owners of the Bonds and the enforceability thereof may be subject to valid bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors.

It is also our opinion that under the existing laws of the State of Hawaii the Bonds and the income therefrom are exempt from all taxation by the State or any county or any political subdivision thereof, except inheritance, transfer, estate taxes and the franchise tax imposed on banks and other financial institutions.

It is also our opinion that, assuming compliance by the State with the covenant referred to in the third paragraph of this letter, under existing laws, regulations, rulings and judicial decisions, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for certain corporations, interest on the Bonds is included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code), and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

Although the interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations, foreign corporations operating branches in the United States and corporations subject to the environmental tax imposed by Section 59A of the Code), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits or individuals who itemize deductions are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Bonds.

Very truly yours,

APPENDIX G

FORM OF MUNICIPAL BOND NEW ISSUE INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

Financial Guaranty Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

Municipal Bond New Issue Insurance Policy

Issuer:

Policy Number:

Control Number:

Bonds:

Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

Municipal Bond
New Issue Insurance Policy

Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

FGIC.

A GE Capital Company

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:**

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent