NEW ISSUES **RATINGS: See "Ratings" herein.**
FULL BOOK-ENTRY ONLY

In the opinion of Kutak Rock LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series DQ Bonds and the Series DR Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Series DQ Bonds, and the Series DR Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. In the further opinion of Bond Counsel, interest on the Series DQ Bonds and the Series DR Bonds is not a specific preference item or, in the case of the interest on the Series DQ Bonds, included in adjusted current earnings for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest on the Series DR Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.

STATE OF HAWAII

$500,000,000
General Obligation Bonds
of 2009, Series DQ

$225,410,000
General Obligation Refunding
Bonds of 2009, Series DR

(Base CUSIP: 419787)

Dated: Date of Delivery Due: As shown on inside cover

The General Obligation Bonds of 2009, Series DQ, and the General Obligation Refunding Bonds of 2009, Series DR (individually, the "Series DQ Bonds" and the "Series DR Bonds" and, collectively, the "Bonds"), will be issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may be made in the denomination of $5,000 or any integral multiple thereof. See Appendix H—"Book-Entry System" herein.

The Bonds of each issue bear interest payable on June 1 and December 1 of each year, commencing December 1, 2009. The Series DQ Bonds are subject to optional redemption prior to their stated maturities as and to the extent described herein. The Series DR Bonds are not subject to optional redemption prior to their respective stated maturities.

The Bonds are being issued for the purpose of financing, or reimbursing the State of Hawaii for, the Hawaiian Home Lands Settlement, and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and for other public purposes or for the purpose of refunding outstanding general obligation bonds of the State previously issued for such purposes. See "AUTHORITY AND PURPOSE" and "PLAN OF REFUNDING" herein. The Bonds are general obligations of the State of Hawaii. The interest and principal payments on 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.

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

MATURITY SCHEDULE—See Inside Cover Page

The Bonds of each issue are offered when, as and if issued and received by the Underwriters, and are subject to the approval of validity by Kutak Rock LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about June 23, 2009.

Citi **Merrill Lynch & Co.**

Dated: June 9, 2009

State of Hawaii

$500,000,000 General Obligation Bonds of 2009, Series DQ
Dated: Date of Delivery
Due: June 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419787)
2013	$10,480,000	3.000%	102.620%	419787 EQ5
2013	9,245,000	4.000	106.365	419787 ER3
2014	8,265,000	4.000	106.162	419787 ES1
2014	12,140,000	5.000	110.761	419787 ET9
2015	21,345,000	5.000	111.321	419787 EU6
2016	22,410,000	5.000	111.514	419787 EV4
2017	23,535,000	5.000	111.416	419787 EW2
2018	24,710,000	5.000	111.020	419787 EX0
2019	25,945,000	5.000	110.551	419787 EY8
2020	1,330,000	3.600	97.608	419787 EZ5
2020	25,910,000	5.000	109.247*	419787 FA9
2021	2,015,000	3.750	97.643	419787 FB7
2021	26,570,000	5.000	108.132*	419787 FC5
2022	475,000	4.000	98.803	419787 FD3
2022	29,515,000	5.000	107.114*	419787 FE1
2023	2,105,000	4.000	97.491	419787 FF8
2023	29,380,000	5.000	106.109*	419787 FG6
2024	1,950,000	4.125	97.544	419787 FH4
2024	31,090,000	5.000	105.197*	419787 FJ0
2025	34,670,000	5.000	104.539*	419787 FK7
2026	36,405,000	5.000	103.887*	419787 FL5
2027	38,225,000	5.000	103.401*	419787 FM3
2028	40,140,000	5.000	102.917*	419787 FN1
2029	8,070,000	4.500	97.174	419787 FP6
2029	34,075,000	5.000	102.197*	419787 FQ4

$225,410,000 General Obligation Refunding Bonds of 2009, Series DR
Dated: Date of Delivery
Due: June 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419787)
2014	$13,960,000	3.000%	101.562%	419787 FR2
2014	19,715,000	4.000	106.162	419787 FS0
2015	3,785,000	3.000	100.486	419787 FT8
2015	7,460,000	4.000	105.904	419787 FU5
2015	23,640,000	5.000	111.321	419787 FV3
2016	2,275,000	3.500	102.227	419787 FW1
2016	5,075,000	4.000	105.323	419787 FX9
2016	29,130,000	5.000	111.514	419787 FY7
2017	1,085,000	3.000	97.576	419787 FZ4
2017	1,435,000	4.000	104.496	419787 GA8
2017	35,700,000	5.000	111.416	419787 GB6
2018	3,435,000	4.000	103.419	419787 GC4
2018	36,655,000	5.000	111.020	419787 GD2
2019	3,805,000	4.000	102.306	419787 GE0
2019	15,195,000	4.250	104.367	419787 GF7
2019	23,060,000	5.000	110.551	419787 GG5

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*Priced to first call date, June 1, 2019.

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Linda Lingle
Governor

James R. Aiona, Jr.
Lieutenant Governor

Georgina K. Kawamura
Director of Finance

Mark J. Bennett
Attorney General

Russ K. Saito
Comptroller

BOND COUNSEL

Kutak Rock LLP

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The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. 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 representations, other than those contained in this Official Statement, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

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

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OFFICIAL STATEMENT

State of Hawaii

$500,000,000	**$225,410,000**
General Obligation Bonds of 2009, Series DQ	**General Obligation Refunding Bonds of 2009, Series DR**

The purpose of this Official Statement, which includes the cover page and the inside 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 $500,000,000 aggregate principal amount of General Obligation Bonds of 2009, Series DQ (the "Series DQ Bonds"), and its $225,410,000 aggregate principal amount of General Obligation Refunding Bonds of 2009, Series DR (the "Series DR Bonds" and, together with the Series DQ Bonds, 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 of the Hawaii Revised Statutes, as amended ("HRS"), and pursuant to the authority of certain acts of the Legislature (the "Legislature") of the State and a Certificate of the Director of Finance of the State (the "Bond Issuance Certificate").

The proceeds from the sale of the Bonds will be used (i) in the case of the Series DQ Bonds, to finance, or to reimburse the State for, certain expenditures for public purposes for which appropriations have been made in certain Acts of the State Legislature and which the Legislature may from time to time approve, including the Hawaiian Home Lands Settlement effected by Act 14, Session Laws of Hawaii ("SLH") 1995 (Special Session), and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and certain other public purposes, including payment of up to $30 million during each of fiscal year 2009 and fiscal year 2010 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 178, SLH 2005, and House Bill No. 200 of the 2009 Legislature, (ii) in the case of the Series DR Bonds, to refund certain outstanding general obligation bonds previously issued for such purposes, as described below under "PLAN OF REFUNDING," in order to reduce the debt service payable on the State's general obligation bonds in certain years, and (iii) to pay costs of issuance of the Bonds. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Part I of Appendix A.

PLAN OF REFUNDING

Upon delivery of the Bonds, the State and Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), will enter into an Escrow Deposit Agreement (the "Escrow Agreement") to provide for the refunding of the State of Hawaii General Obligation Bonds specified by the Bond Issuance Certificate (the "Refunded Bonds"). The final payment dates of the Refunded Bonds will be their respective stated maturity dates. The Refunded Bonds are as follows:

Schedule of Refunded Bonds

Refunded Bonds	Principal Amount	Stated Maturity	CUSIP
1992 Series BZ	$12,500,000	10/01/2009	419779JH7
	12,500,000	10/01/2010	419779JJ3
	9,460,000	10/01/2011	419779JK0
	10,050,000	10/01/2012	419779JL8
1993 Series CH	6,745,000	11/01/2010	419779NX7
1993 Series CI	10,260,000	11/01/2009	419779NU3
	10,260,000	11/01/2010	419779NW9
1996 Series CM	4,125,000	12/01/2010	419787EM4
1999 Series CT	15,080,000	09/01/2009	419780PT2
2000 Series CU	6,110,000	10/01/2009	419780SJ1
	6,980,000	10/01/2010	419780SK8
	1,025,000	10/01/2009	419780RU7
	575,000	10/01/2010	419780RV5
2001 Series CV	13,745,000	08/01/2009	419780TA9
	14,520,000	08/01/2010	419780TB7
2002 Series CX	6,840,000	02/01/2010	419780VG3
	370,000	02/01/2011	419780VH1
	3,995,000	02/01/2010	419780WE7
	6,595,000	02/01/2011	419780WF4
2002 Series CZ	4,315,000	07/01/2009	419780XD8
	3,340,000	07/01/2010	419780XF3
	9,520,000	07/01/2009	419780XE6
	11,065,000	07/01/2010	419780XG1
2003 Series DA	$10,270,000	09/01/2009	419780ZB0
	3,570,000	09/01/2010	419780ZC8
	7,060,000	09/01/2010	419780ZD6

Refunded Bonds	Principal Amount	Stated Maturity	CUSIP
2003 Series DB	1,385,000	09/01/2009	419780A76
	4,065,000	09/01/2010	419780A92
	2,415,000	09/01/2009	419780A84
2004 Series DE	2,960,000	10/01/2009	419780H79
	5,090,000	10/01/2010	419780H95
	5,050,000	10/01/2010	419780H87
2005 Series DF	9,340,000	07/01/2010	419780N64

The Escrow Agreement creates an irrevocable trust fund (the "Escrow Fund") which is to be held by the Escrow Agent, and the moneys and securities held therein are to be applied to the payment of principal of and interest on the Refunded Bonds. Immediately upon the issuance and delivery of the Series DR Bonds, the State will deposit, or cause to be deposited, with the Escrow Agent, a portion of the proceeds derived from the sale of the Series DR Bonds. Moneys deposited in the Escrow Fund will be invested, at the direction of the State, in noncallable direct obligations of the United States (the "Escrow Securities") which, together with cash held uninvested in the Escrow Fund, will be sufficient, without reinvestment, and will be applied to pay the principal of and interest on the Refunded Bonds of each particular series and maturity due on and prior to the stated maturity date of such Refunded Bonds. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Fund, in the amounts needed to pay the principal of and interest on the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. The Escrow Securities will be purchased from the Treasury Department of the United States of America or in the open market, in either case at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, not to exceed the applicable yield permitted by such provisions. See "VERIFICATION."

THE BONDS

Details of the Bonds

The Bonds will be dated their date of delivery, and will be issued in fully registered form without coupons, in the denomination of $5,000 or any integral multiple of $5,000. The Bonds will mature serially on June 1 of the years, 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 inside cover page hereof, payable on June 1 and December 1 of each year, commencing December 1, 2009 (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 under the Book-Entry system described herein (the "Book-Entry System"), in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interests 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 "Book-Entry System" in Appendix G hereto. 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.

Optional Redemption of Bonds

The Series DQ Bonds maturing after June 1, 2019 will be subject to redemption at the option of the State at any time on and after June 1, 2019, in whole or in part, in any order of maturity selected by the State and by lot within a maturity, at a price equal to the principal amount thereof plus accrued interest to the redemption date. The Series DR Bonds are not subject to optional redemption by the State prior to their respective stated maturities.

In selecting such Bonds for redemption by lot, each Bond in a denomination of $5,000 and each $5,000 principal portion of a Bond in a denomination in excess of $5,000 will have equal probability of being selected for redemption. If any Bond is of a denomination in excess of $5,000, portions of the principal sum thereof in installments of $5,000 or any integral multiple thereof may be redeemed.

If any Bond (or any portion of the principal sum thereof) shall be redeemable and shall have been duly called for redemption and notice of such redemption shall have been duly given as provided in the Bond Issuance Certificate, and if on or before the date fixed for such redemption the State shall have duly made or provided for the payment of the principal sum thereof to be redeemed, the premium, if any, payable upon such redemption and the interest accrued on the principal sum to be redeemed to the date fixed for such redemption, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed.

Notice of redemption will be mailed, not fewer than 30 days prior to the fixed date for redemption, to each holder of a Bond in whose name such bond is registered upon the Bond Register as of the close of business on the forty-fifth day (whether or not a business day) next preceding the date fixed for redemption at such Holder's address as shown on such Bond Register. Failure of the Holder of a Bond to receive such notice by mail or any defect in such notice will not affect the sufficiency of the proceedings for the redemption of any Bond.

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the payments of principal of and interest on 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, including the Bonds. The special reserve account is used to pay the debt service on such general obligation bonds, including the 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, 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 may 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 of the Union (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (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 of the State.

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 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, 2008. The Underwriters (as hereinafter defined) 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 assumption that the information is indicative of the current financial position or future financial performance of the State.

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, 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. The State has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations, which are not expected to have a material adverse effect on the State's financial position at July 1, 2008.

Described in the following paragraphs under this heading and in Appendix E are certain other lawsuits and claims that, if ultimately resolved against the State, could have a material adverse effect on the State's financial condition or as to which the State is unable to predict the magnitude of its potential liability, if any. Such lawsuits and claims include those involving (i) the Office of Hawaiian Affairs ("OHA") and certain lands (the "Ceded Lands") transferred in 1898 by the Republic of Hawaii to the United States and in 1959, upon the State's admission to the Union, by the United States to the State (as to, among other things, the adequacy of State payments to OHA from the income and sales of Ceded Lands and whether the State may alienate Ceded Lands and extinguish the rights Hawaiians may have in the Ceded Lands); (ii) the Hawaiian Home Lands Trust and the Department of Hawaiian Home Lands (as to certain alleged breaches of trust and fiduciary duties and related individual claims by beneficiaries of the Hawaiian Homes Commission Act of 1920, referred to herein as the "Individual Claims Cases" and "*Nelson*"); (iii) the Employees' Retirement System ("ERS") (as to the constitutionality of certain 1999 legislation ("Act 100") relating to employer contributions into the ERS); (iv) the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") (as to the alleged rights of retirees and their dependents to health care benefits equivalent to those provided to active employees and their dependents) and (v) the Insurance Division of the Department of Commerce and Consumer Affairs (as to whether certain assessments of insurers deposited into a special fund were unlawful taxes rather than regulatory fees).

The State intends to defend vigorously against all of the claims referred to in clause (i) of the second paragraph under this caption, and as such claims and related proceedings are further described in Appendix E–Office of Hawaiian Affairs and Ceded Lands. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of the claims in favor of OHA and its beneficiaries could have a material adverse effect on the State's financial condition.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson* referred to in clause (ii) of the second paragraph under this caption, and as such claims and related proceedings are further described in Appendix E–Department of Hawaiian Home Lands. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

The case relating to the ERS referred to in clause (iii) of the second paragraph under this caption has been remanded by the Hawaii Supreme Court to the circuit court for disposition in accordance with the Supreme Court's direction, as described in Appendix E–Employees' Retirement System. A description of the ERS and Act 100 is provided under "EMPLOYEE RELATIONS: STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix A.

The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to the matter referred to in clause (iv) of the second paragraph under this caption, as such claims and related proceedings are further described in Appendix E–Hawaii Employer-Union Health Benefits Trust Fund. The State is currently considering an appeal of the circuit court's decision described in Appendix E.

The State is currently unable to predict with reasonable certainty the magnitude of the impact of the ruling referred to in clause (v) of the second paragraph under this caption, as further described in Appendix E–Insurance Division, on its specially funded State programs, if any.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series DQ Bonds and the Series DR Bonds (including original issue discount treated as interest, if any) (i) is excluded from gross income for federal income tax purposes and (ii) is not a specific item of tax preference or, in the case of interest on the Series DQ Bonds, included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series DR 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 Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series DQ Bonds and the Series DR Bonds. The State has covenanted to comply with certain restrictions, conditions and requirements designed to assure that interest on the Series DQ Bonds and the Series DR Bonds will not become includible in gross income. Failure to comply with these covenants may result in interest on such Bonds being included in gross income retroactively from the date of issue of such Series DQ Bonds and Series DR Bonds. The opinion of Bond Counsel assumes compliance with such covenants.

Although Bond Counsel has rendered an opinion that interest on the Series DQ Bonds and the Series DR Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Series DQ Bonds and the Series DR 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. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series DQ Bonds and the Series DR Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or owning the Series DQ Bonds and the Series DR Bonds.

In the further opinion of Bond Counsel, under the existing laws of the State, the Series DQ Bonds and the Series DR Bonds and the income therefrom are exempt from all taxation in the State of Hawaii or any county or any other political subdivision thereof, except inheritance, transfer and estate taxes, provided that no opinion is expressed with respect to the franchise tax imposed on banks and other financial institutions.

Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

A copy of the proposed form of opinion of Bond Counsel with respect to the Bonds is attached as Appendix G to this Official Statement.

Tax Treatment of Original Issue Discount

Certain of the Series DQ Bonds and of the Series DR Bonds are being sold at a discount (collectively, the "Discounted Obligations"), i.e., the yields on such Series DQ Bonds and Series DR Bonds are greater than their stated interest rates. The difference between the initial public offering prices, as set forth on the inside cover page hereof, of the Discounted Obligations and their stated amounts to be paid at maturity or upon prior redemption, constitutes original issue discount treated as interest which is not includible in gross income for federal income tax purposes and is exempt from all taxation in the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate taxes, and the franchise tax imposed on banks and other financial institutions, subject to the caveats and provisions described above.

In the case of an owner of a Discounted Obligation, the amount of original issue discount which is treated as having accrued with respect to such Discounted Obligation is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of a Discounted Obligation (including its sale, redemption or payment at maturity). Amounts received upon disposition of a Discounted Obligation which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discounted Obligation, on days which are determined by reference to the maturity date of such Discounted Obligation. The amount treated as original issue discount on a Discounted Obligation for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discounted Obligation (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discounted Obligation at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discounted Obligation during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discounted Obligation the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If a Discounted Obligation is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The Code contains additional provisions relating to the accrual of original issue discount in the case of owners of a Discounted Obligation who purchase such Discounted Obligations after the initial offering. Owners of Discounted Obligations including purchasers of the Discounted Obligations in the secondary market should consult their own tax advisors with respect to the determination for federal income tax purposes of original issue discount accrued with respect to such obligations as of any date and with respect to the state and local tax consequences of owning a Discounted Obligation.

Tax Treatment of Original Issue Premium

Certain of the Series DQ Bonds and of the Series DR Bonds are being sold at a premium (collectively, the "Premium Obligations"), i.e., the yields on such Series DQ Bonds and Series DR Bonds are less than their stated interest rates. An amount equal to the excess of the issue price of a Premium Obligation over its stated redemption price at maturity constitutes premium on such Premium Obligation. An initial purchaser of such Premium Obligation must amortize any premium over such Premium Obligation's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Obligations callable prior to their maturity, by amortizing the premium to the call date, based upon the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, it offsets the interest allocable to the corresponding payment period and the purchaser's basis in such Premium Obligation is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such

Premium Obligation prior to maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of Premium Obligations should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning such Premium Obligation.

Future Legislation

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Treasury Circular 230

Any federal tax advice contained in this Official Statement was written to support the marketing of the Bonds and is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any penalties that may be imposed under the Code. All taxpayers should seek advice based on such taxpayer's particular circumstances from an independent tax advisor. This disclosure is provided to comply with Treasury Circular 230.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Kutak Rock LLP, Bond Counsel to the State. The form of the opinion Bond Counsel proposes to render is set forth in Appendix G hereto. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have given the Bonds the ratings of "AA," "Aa2" and "AA," respectively, based on the credit of the State. The State furnished the rating agencies with certain information and materials relating to the Bonds and the State which have not been included in this Official Statement. Generally, a rating agency bases its rating on the information and materials so furnished and on investigations, studies and assumptions made by such rating agency. 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 any 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 downward revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus a net original issue premium of $51,381,831.45 and less an aggregate underwriting discount of $3,440,910.38. 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 inside cover, and the public offering prices may be changed from time to time.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., one of the underwriters of the Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

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

CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Certificate (the "Disclosure Certificate") in the form set forth in Appendix F hereto, for the benefit of the holders and Beneficial Owners of the Bonds, agreeing 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 F—FORM OF 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.

VERIFICATION

Causey Demgen & Moore Inc. (the "Verification Agent") will verify from the information provided by Citigroup Global Markets Inc. the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the schedules provided by Citigroup Global Markets Inc. to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in escrow will be sufficient to pay when due the principal, interest and any call premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Escrow Securities and the Bonds contained in the schedules provided to Bond Counsel for use in its determination that the interest on the Bonds is excluded from gross income for federal income tax purposes. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Bonds will be paid as described in the schedules provided to them, or the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

INDEPENDENT AUDITORS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2008, included as Part II of Appendix B, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein, which is based in part on the reports of other auditors. There can be no assurance that the information in Part II of Appendix B is indicative of the current financial position or future financial performance of the State.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement, nor any statement that 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.

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix A is the most current 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 slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. Based on the 2000 U.S. Census, approximately 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

State Government

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

The Counties and Their Relationship to the State

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

DEBT STRUCTURE

Types of Bonds Authorized by the Constitution

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

Outstanding Indebtedness and Debt Limit

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

In order to carry out the provisions contained in the Constitution, the Legislature enacted Part IV of Chapter 39, HRS ("Part IV"), to require the Director of Finance to prepare statements of the total outstanding indebtedness of the State and the exclusions therefrom and of the debt limit of the State evidencing the power of the State to issue general obligation bonds and, prior to the issuance of any general obligation bonds, to find that the issuance of such bonds will not cause the debt limit of the State to be exceeded. Part IV provides that such statements shall be prepared as of July 1 of each year and submitted to the Legislature no later than December 1 of such year. The July 1, 2008 statement is the most recent such statement prepared and submitted to the Legislature. 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, 2008, 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 "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, 2006, 2007 and 2008 and the net General Fund revenues after required exclusions, the average of the said three fiscal years, and the limit of total principal and interest which may be payable in any fiscal year. See "SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII" in Part I of Appendix B. The greatest amount of principal and interest payable in any fiscal year on the outstanding general obligation indebtedness as of June 1, 2009 and on the Bonds, after exclusions therefrom permitted by the Constitution, is $563,266,297 in the fiscal year ending June 30, 2013. A summary of debt service on all general obligation bonded indebtedness of the State is set forth in the under "SUMMARY OF DEBT SERVICE" 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.

As calculated from the State Comptroller's Bond Fund report as of February 28, 2009, the amount of authorized but unissued general obligation bonds (including the Series DQ Bonds) is $2,720,702,113. Such amount does not include general obligation refunding bonds such as the Series DR Bonds. These authorized but unissued general obligation bonds are scheduled to be issued prior to June 30, 2013.

Exclusions

The Constitution contains nine general provisions excluding certain types of bonds (including certain general obligation bonds) when determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision. Six of these exclusions are described below. As stated above, the limitation on indebtedness of the State under the Constitution applies only to the power to issue general obligation bonds, and the limitation is measured by the debt service on general obligation bonds against the three year average of General Fund revenues. The three exclusions relating to revenue bonds, special purpose revenue bonds, and bonds issued under special improvement statutes for which the only security is the properties benefited or assessments thereon are chiefly of concern to counties when computing the funded debt of 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 moneys or securities have been irrevocably set aside.

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

Two other exclusionary provisions exclude (a) reimbursable general obligation bonds of the State issued for any political subdivision, but only if reimbursement by the political subdivision to the State for the payment of the principal and interest is required by law and (b) 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 bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% of the principal amount of outstanding general obligation bonds not otherwise excluded by the exclusionary provisions of the Constitution and subject to the condition that the State shall establish a reserve in an amount in a reasonable proportion to outstanding loans guaranteed by the State. This exclusion is intended to permit the exclusion of such items as general obligation guarantees of loans under State loan programs to the extent the principal amount of such items does not exceed 7% of the outstanding principal amount of general obligation bonds not otherwise excluded. At such time as the principal amount of such items exceeds 7% of the outstanding principal amount of general obligation bonds not otherwise excluded, the potential debt service on all such items in excess of 7% of the outstanding principal amount of general obligation bonds not otherwise excluded would be included in determining the power of the State to incur indebtedness.

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

Other Constitutional and Statutory Provisions

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

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

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

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

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

Set forth in Appendix 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.

Financing Agreements (Including Leases)

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

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 and airport facilities, land development, economic development projects, university projects, parking facilities and housing programs. Of the bonds referred to in this paragraph: (a) reimbursement to the General Fund of general obligation bonds issued for highways is made exclusively from the tax on motor fuel and does not include any revenues such as toll revenue; and (b) reimbursement to the General Fund of general obligation bonds issued for airports is made from the aviation fuel tax as well as from airports system revenues. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL—Special 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 because they are not issued for the type of public undertaking, improvement or system to which the constitutional provisions for such exclusion pertain. See "DEBT STRUCTURE—Exclusions." See "GENERAL OBLIGATION BONDS OUTSTANDING" in Part I of Appendix B for a tabular summary of reimbursable and non-reimbursable general obligation bonds.

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

Introduction

The State 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 action by the Legislature with respect to the recommendations as submitted. The Legislature has the option of accepting or rejecting all or portions of the commission's findings. The fifth tax review commission convened on July 26, 2005, and issued its report in final form on December 1, 2006, in which it concluded that the Hawaiian tax system is "basically sound."

The taxes described below account for substantially all of the tax revenues of the State and are subject in all cases to subsequent legislation. 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 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. The Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. Because the fiscal year 2006 and 2007 fund balances exceeded 5% of General Fund revenues for those years, the two-successive-fiscal-year criterion was met and the 2008 Legislature passed Act 58, SLH 2008 to provide for a tax credit in the aggregate amount of approximately $1,000,000. The preliminary, unaudited fund balance for fiscal year 2008 also exceeded 5% of General Fund revenues and the 2009 Legislature passed House Bill No. 35 to provide for a tax credit in the aggregate amount of approximately $1,100,000.

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—General Fund Financial Plan" in Part I of Appendix B for further information.

Taxes and Other Amounts Deposited in General Fund

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

Individual and corporate income taxes, general excise and use taxes, public service company taxes, estate and certain transfer taxes, a franchise tax on financial corporations, liquor and tobacco taxes, and certain insurance premium taxes, which for fiscal year 2008 represented approximately 91% of all tax revenues of the State, are deposited to the General Fund. The individual income tax rates for married individuals, including qualifying surviving spouses, and unmarried individuals, including qualifying heads of households, range from 1.4% to 11.0% of taxable income. The income tax rates for estates and trusts range from 1.4% to 8.25%. Corporate income tax rates range from 4.4% to 6.4%. The general excise (gross income) tax is a business privilege tax measured by the application of rates against values of products, gross proceeds of sales or gross income. The use tax is an excise tax levied on tangible personal property, contracting, or services imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. Effective January 1, 2007, the City and County of Honolulu surcharge of ½ of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the costs of assessment, collections and disposition incurred by the State. The Public Service Company tax is a tax measured by the gross income from public utility business of public utilities. The estate and transfer tax is a tax on the transfer of a taxable estate and a generation skipping transfer equal to the federal credit for state death taxes allowed by Section 2011 of the Code and a federal credit for state taxes allowed by Section 2604 of the Code. From January 1, 2005 to December 31, 2010, the federal credit was repealed and replaced with a deduction for state death taxes. Hawaii's estate and transfer tax is currently not effective for decedents dying after December 31, 2004 and before December 31, 2010. The franchise tax is a tax measured by the taxable income of banks and other financial corporations. There is an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. In fiscal year 2008, these non-tax revenues comprised approximately 12% of total deposits to the General Fund.

In addition, transient accommodations, conveyance and fuel taxes are allocated among various funds and to the counties. The transient accommodations tax of 7.25% is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units. For the period beginning July 1, 2009, and ending June 30, 2010, 1.0% will be assessed in addition to the existing 7.25% transient accommodations tax (total of 8.25%). For the period beginning July 1, 2010, and ending June 30, 2015, 2.0% will be assessed in addition to the existing 7.25% transient accommodations tax (total of 9.25%). These additional amounts are to be deposited into the General Fund.

Special Fund

The Special Fund, which for accounting purposes is actually composed of many 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, certain programs in the area of public education and the University of Hawaii, business regulation, consumer protection, environmental management and tourism and other economic development. The types of revenues credited to the various 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—Actual Tax Collections and Distributions" in Part I of Appendix B.

Fuel taxes, rental motor vehicle and tour vehicle surcharge taxes, motor vehicle taxes and unemployment insurance taxes are deposited into the Special Fund. In fiscal year 2008 those taxes were 5.9% of the total tax revenues of the State. Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways. There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle surcharge tax for each tour vehicle in the over 25-passenger seat category and for each tour vehicle in the 8- to 25-passenger seat category. The tax is levied on the tour vehicle operator. The State has a vehicle weight tax that varies from \$0.0075 per pound to \$0.0125 per pound, depending on the net weight of the vehicle; vehicles over ten thousand pounds net weight are taxed at a flat rate of $150.00. The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. There is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%.

Federal Grants

State departments, agencies, and institutions annually receive federal grants. 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 54% of the federal grants are awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 28% of such federal funds are used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 9% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 3% of such federal receipts. Other programs account for the balance of such receipts. In fiscal year 2004, the State received a one-time federal grant of $50 million from the Jobs and Growth Tax Relief Reconciliation Act of 2003. The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

Fiscal Year Ended June 30	**Grant Amount (in millions)**
2000	$1,142.3
2001	1,213.4
2002	1,382.2
2003	1,590.8
2004	1,724.9
2005	1,830.6
2006	1,877.4
2007	2,009.8
2008	1,999.0

Source: State of Hawaii—Department of Accounting and General Services.

The State of Hawaii expects to receive more than $2 billion in federal stimulus funds, including $192 million of State Fiscal Stabilization Funds, $385 million for FMAP and $246 million for infrastructure improvements ($125.7 million for highways, $76.5 million for airports and $43.8 million for county bus transit).

Budget System

Pursuant to the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the 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 and the Governor may modify or withhold planned expenditures if such expenditures would be in excess of authorized levels of service or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels.

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

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

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

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

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

Emergency and Budget Reserve Fund

HRS Chapter 328L, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve ("EBR") Fund, a special fund for emergency and "rainy day" purposes. Subject to the change in distribution described by the following paragraph, the EBR Fund receives 24½% of the moneys from the tobacco settlement. All interest earned from moneys in the EBR Fund is credited to the General Fund. Appropriations from the EBR Fund require a two-thirds majority vote of each house of the Legislature. The EBR Fund balance was $54.0 million as of June 30, 2004, $54.1 million as of June 30, 2005, $53.5 million as of June 30, 2006, $61.5 million as of June 30, 2007, and $74.0 million as of June 30, 2008. The State will draw on the EBR Fund balance pursuant to existing appropriations. Projected fund balances, after such appropriations, are $66.2 million, $78.5 million, and $90.8 million for fiscal years 2009, 2010 and 2011, respectively. Act 67, passed by the 2009 Legislature, appropriated $22,100,000 from the EBR Fund for fiscal year 2009 and will result in projected EBR Fund balances of $44.1 million, $56.4 million and $68.6 million for fiscal years 2009, 2010 and 2011, respectively.

The 2009 Legislature also passed Senate Bill No. 292 that changes the distribution of the tobacco settlement moneys, including reducing the percentage that the EBR Fund receives from 24½ % to 15% and adding an allocation to the General Fund of 25½%. The change in distribution will be in effect for six years, from July 1, 2009 to June 30, 2015. Under this bill, the EBR Fund will receive $4.8 million less each year beginning in fiscal year 2010 and projected fund balances will be $51.6 million and $59.1 million in fiscal years 2010 and 2011, respectively. The General Fund will receive $12.8 million each year beginning in fiscal year 2010.

The annual proceeds from the tobacco settlement were $38.8 million for fiscal year 2004, $38.4 million for fiscal year 2005, $35.2 million for fiscal year 2006, $36.9 million for fiscal year 2007 and $56.1 million for fiscal year 2008. PricewaterhouseCoopers LLP, independent auditor for the Tobacco Master Settlement Agreement, has estimated that the State will receive annual proceeds from the tobacco settlement ranging from $48 to $63 million a year for fiscal years 2009 to 2027. Under the Tobacco Master Settlement Agreement, the State's proceeds are estimated to total $1.4 billion. The amount of future annual proceeds is not guaranteed and is subject to adjustment.

Of the tobacco settlement moneys received by the State each fiscal year, $350,000 is deposited in the Tobacco Enforcement Special Fund to enforce the provisions of the Tobacco Master Settlement Agreement.

HRS Chapter 328L, in addition to the aforesaid allocation of tobacco settlement moneys to the EBR Fund, allocates 35% of the tobacco settlement funds to the Department of Health for health promotion and disease prevention programs (including up to 10% for the Department of Human Services to provide health insurance for needy children); and allocates 28% to the university revenue-undertakings fund to be applied to finance the University of Hawaii ("UH") Health and Wellness Center and to cover annual operating expenses of the new medical school facility; provided that to the extent such 28% is greater than the amount needed, 80% of the excess will be transferred to the EBR Fund and 20% of the excess will be transferred to the Hawaii Tobacco Prevention and Control Trust Fund. The remaining 12½% is allocated to the Hawaii Tobacco Prevention and Control Trust Fund to reduce cigarette smoking and tobacco use. The allocations contained in Chapter 328L are subject to change by the Legislature at any time.

In addition to reducing the allocation to the EBR Fund from 24½% to 15% and adding an allocation to the General Fund of 25½%, Senate Bill No. 292 also reduces the allocation to the Department of Health from 35% to 25% and the Hawaii Tobacco Prevention and Control Trust Fund from 12½% to 6½%. The allocation to the University of Hawaii remains the same.

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 appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed General Fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the ceiling amount. Appropriations for recent fiscal years, except fiscal year 2007, have not exceeded the expenditure ceiling. Appropriations for fiscal year 2008 did not exceed the expenditure ceiling and current and projected appropriations for 2009 are not expected to exceed the expenditure ceiling.

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

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

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

State Educational Facilities Improvement Special Fund

The State has established a State Educational Facilities Improvement Special Fund (SEFISF). The amounts in the SEFISF are to be used solely for capital improvements and facilities under the jurisdiction of the State Department of Education, except public libraries. The fund is capitalized by annual appropriations of at least $45 million in general obligation bonds or by annual transfers of at least $45 million from the General Excise Tax if no general obligation bond appropriations are authorized. Act 304, SLH 2006, temporarily increased the minimum amount of appropriations from $45 million to $90 million for fiscal years 2007 and 2008 to provide additional funds to address a backlog of repair and maintenance projects.

Act 213, SLH 2007 as amended by Act 158, SLH 2008, provides for expenditures of $292.0 million for fiscal year 2008 and $540.6 million for fiscal year 2009 from the SEFISF.

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. HRS Chapter 89 provides for 13 recognized bargaining units for all public employees throughout the State including State and county employees. Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. In the case of bargaining units for nonsupervisory blue collar positions, supervisory blue collar positions, nonsupervisory white collar positions, supervisory white collar positions, registered professional nurses, institutional health and correctional workers and professional and scientific employees, the Governor of the State shall have six votes, and the mayors of each of the counties, the Chief Justice of the State Judiciary and the Hawaii Health Systems Corporation Board shall each have one vote. In the case of bargaining units for police officers and fire fighters, the Governor shall have four votes and the mayors shall each have one vote. In the case of bargaining units for teachers and educational officers, the Governor shall have three votes, the State Board of Education shall have two votes and the state superintendent of education shall have one vote. In the case of bargaining units for UH faculty and UH administrative professional and technical staff, the Governor shall have three votes, the UH Board of Regents shall have two votes and the UH president shall have one vote. Decisions by the employer representatives shall be on the basis of simple majority, except when a bargaining unit includes county employees from more than one county. In such case, the simple majority shall include at least one county.

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

Negotiations for the period from July 1, 2007 to June 30, 2009 resulted in the following settlements for the following bargaining units, providing for the following increases over that two-year period:

Unit 1 (blue collar workers): 11.09%
Unit 2 (blue collar supervisors): 10.36%
Unit 3 (white collar workers): 10.64%
Unit 4 (white collar supervisors): 9.68%
Unit 5 (teachers): 11.17%
Unit 6 (educational officers): 12.55%
Unit 8 (University of Hawaii administrative professional technical staff): 12.45%
Unit 10 (institutional health and correctional workers): 10.82%
Unit 13 (professional and scientific employees): 10.82%

Arbitrated decisions (which are not subject to ratification) were reached for the following bargaining units, providing for the following increases:

Unit 9 (registered professional nurses) from July 1, 2007 to June 30, 2009: 15.84%
Unit 11 (firefighters) from July 1, 2007 to June 30, 2011: 27.20%

A negotiated settlement was reached in 2003 with Unit 7 (UH faculty) for a six-year contract expiring June 30, 2009, providing for a 34.8% increase over six years. (The State has no employees in Unit 12, which is police officers.)

Negotiations for wages and health benefits for the period from July 1, 2009 through June 30, 2011 are currently in progress for all units with the exception of Unit 11 (firefighters) whose contract runs through June 30, 2011.

State Employees' Health Benefits

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

Act 245, SLH 2005 (partially codified as HRS Chapter 87D), temporarily authorizes employee organizations to establish voluntary employees beneficiary association ("VEBA") trusts to provide health benefits to state and county employees in their bargaining units outside of the Trust Fund. Each VEBA trust is to provide health benefits to State and county employees who retire after establishment of the VEBA trust ("future retirees") and is to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("existing retirees") a one-time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees are to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees are to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 is to allow the temporary establishment of a VEBA trust pilot program so as to enable a thorough analysis of the costs and benefits of VEBA trusts against the Trust Fund to determine what actual savings could be realized by the State through the VEBA trust mechanism. The Hawaii State Teachers Association implemented a VEBA trust for its active employees on March 1, 2006 and for retirees on January 1, 2007. Act 245 was amended by Act 294, SLH 2007 to extend the repeal date to July 1, 2009 for any VEBA implemented in March 2006. Act 5, First Special Session 2008, amended Act 245, SLH 2005, to extend the sunset date to July 1, 2010. This Act also requires the state auditor to conduct an analysis of the cost and financial impact of Act 245, SLH 2005, and to submit a report of findings and recommendations to the legislature no later than twenty days prior to the convening of the regular session of 2010.

Other Post Employment Benefits

The Government Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans ("OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 was implemented by the employers (except for the County of Kauai) for fiscal year ending June 30, 2008. The Trust Fund will separately track employer contributions and has prepared Trust Fund financial statements as an Agent Multiple Employer Plan under GASB 43.

The State has received the draft State of Hawaii Employer Union Trust Fund ("Trust Fund") July 1, 2007 Actuarial Valuation Study (the "Trust Fund Report") of the Trust Fund's Other Postemployment Benefits and the draft State of Hawaii Voluntary Employee's Beneficiary Association ("HSTA VEBA") Trust for the Hawaii State Teachers Association July 1, 2007 Actuarial Valuation Study (the "VEBA Report," and, together with the Trust Fund Report, the "Reports") of the HSTA VEBA's OPEBs. The Reports were prepared by the State's professional actuarial advisors, Aon Consulting Inc. The Reports quantify the Actuarial Accrued Liabilities ("AAL") of the respective employers under GASB 45 and develop Annual Required Contributions ("ARC") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year ending June 30, 2008. The Reports' results (based on stated actuarial assumptions) provide costs under two scenarios: (i) no prefunding of the ARC and (ii) full prefunding of the ARC. The draft Trust Fund Report states that the State's AALs for the two scenarios as of July 1, 2007 are $7,192.5 million and $4,716.1 million, respectively. The draft Trust Fund Report estimates that the corresponding ARCs for the fiscal year ending June 30, 2008 would be $517.6 million and $383.4 million, respectively. The estimated Trust Fund pay-as-you-go funding amount for such fiscal year is $200.1 million. The draft VEBA Report states that the HSTA VEBA AALs for the two scenarios as of July 1, 2007 are $1,596.6 million and $928.6 million, respectively. The draft VEBA Report estimates that the corresponding ARCs for the fiscal year ending June 30, 2008 would be $139.0 million and $85.5 million, respectively. The estimated HSTA VEBA pay-as-you-go funding amount for such fiscal year is $14.0 million. The draft Reports will be finalized upon completion of prefunding determinations for the fiscal year ending June 30, 2008 by the respective employers. The State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis until the completion of the analysis and any necessary determinations and approvals regarding the future funding of OPEB costs by the executive and legislative branches.

State Employees' Retirement System

The Employees' Retirement System of the State of Hawaii (the "System") began operation on January 1, 1926. The System is a cost-sharing, multiple-employer defined benefit pension plan. The System covers all regular employees of the State and each of its counties, including judges and elected officials. On June 30, 2008, the System's membership was comprised of approximately 66,589 active employees, 5,847 inactive vested members and 36,260 pensioners and beneficiaries. The total assets of the System on a market value basis amounted to approximately $11.5 billion as of June 30, 2007, and $10.8 billion as of June 30, 2008. Actuarial certification of assets as of June 30, 2007 was $10.6 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B hereto). The June 30, 2008 actuarial certification of assets was $11.4 billion, and its unfunded actuarial accrued liability was $5.17 billion. The actuarial value of assets is based on a four-year smoothed valuation that recognizes the excess or shortfall of investment income over or under the 8% actuarial investment assumption. In 1998, Act 151, SLH 1998, was passed modifying the administration of the System, including its actuarial valuation methods and actuarial assumptions. Since the System is a cost-sharing, multiple-employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties.

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

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

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

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers will contribute 15.75% for their police officers and firefighters and 13.75% for other employees. Employer contributions beginning July 1, 2008 will increase to 19.70% for police officers and firefighters and 15.00% for all others pursuant to Act 256, SLH 2007. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan.

On July 1, 2006, a new defined benefit contributory plan was established pursuant to Act 179, SLH 2004. The new plan provides certain current and new employees with the opportunity to participate in a defined benefit contributory plan. It provides portability for shorter-term employees and is expected to improve recruitment for and retention of public sector employees. The System's actuary has determined that the new plan is cost neutral, an important factor given the escalating costs of the retirement program.

As of March 31, 2008, the Contributory Plan covered 7,745 active employees or 11.6% of all active members of the System, the Noncontributory Plan covered approximately 24,289 active employees or 36.5% , and the Hybrid Plan covered 34,555 active members or 51.9%. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

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

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Second Quarter 2009 Quarterly Statistical and Economic Reports ("QSER") or otherwise prepared by DBEDT, some of which may be found at http://www.hawaii.gov/dbedt/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are to calendar years and calendar quarters, respectively. 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."

DBEDT's latest forecast for the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") growth in 2009 is 0.1%. In real terms (adjusting for inflation), DBEDT predicts the 2009 State's GDP growth to be negative 1.6% over 2008.

State of the Economy

Hawaii's economy continued to slow through the first quarter of 2009, primarily the result of worsening national economic conditions and the decline of visitor industry activity in the state. Wage and salary jobs in the first quarter decreased from the year before, as gains in government jobs were more than offset by job losses in the private sectors. Among the private sectors, only Health Care and Social Assistance, and Educational Services showed positive job growth in the first quarter of 2009. Total civilian employment also decreased significantly in the first quarter of 2009 from the year before; combined with a much lower decrease in civilian labor force, resulted in an increase in the number of unemployed and the unemployment rate from the same quarter in 2008. Visitor arrivals, visitor expenditures, new private building authorizations, government contracts awarded, and total tax collections distributed to the State general fund revenues all declined for the quarter.

According to the most recent data available, in the fourth quarter of 2008, total personal income before adjusting for inflation increased $1,289 million or 2.5% from the same quarter of 2007. The sharpest growth was in Personal Current Transfer Receipts (11.6%), followed by Supplements to Wages and Salaries (4.0%), and Wage and Salary Disbursements (1.6%). Proprietors' income decreased 3.5%, and Dividends, Interest, and Rent also decreased 1.0%. Contributions for Government Social Insurance, which is subtracted from personal income, increased 2.1%.

In the second half of 2008, Honolulu's consumer price index ("CPI") increased 3.6%, 1.3 percentage points lower than the increase in the first half of 2008. In 2008, Honolulu's CPI increased 4.3% from the previous year, which was lower than a 4.9% increase in 2007, but higher than a 3.8% rise for the U.S. CPI in 2008.

In the first quarter of 2009, total tax collections distributed to the State general fund totaled $954.1 million, a $184.5 million or 16.2% decrease over the first quarter of 2008. For the first 10 months of the current fiscal year, General Fund revenue collections decreased by $254.1 million or 6.8% when compared to the same period in fiscal year 2008. General Excise and Use Tax (GET) revenues in the first quarter of 2009 totaled $589.9 million, a decrease of $88.6 million or 13.1% from the first quarter of 2008. GET revenues for the first 10 months of fiscal year 2009 have decreased by 7.4% from the same period of fiscal year 2008. Net Individual Income Tax revenues increased $70.9 million or 21.1% to $265.5 million during the first quarter of 2009, but are down 5.1% for year-to-date fiscal year 2009 from the same period of fiscal year 2008. Transient Accommodations Tax (TAT) revenues were down $9.7 million or 15.7% for the first quarter of 2009 and were down 9.4% for the first 10 months of fiscal year 2009 in comparison with the same period of fiscal year 2008. In 2008, State general fund tax revenues totaled $4,611.2 million, down $71.8 million or 1.5% from 2007.

In the first quarter of 2009, total number of visitors arriving by air to Hawaii decreased 14.4%; the overall, average daily census decreased 12.6%; and the nominal visitor expenditures by air decreased 17.9%, compared to the same quarter last year. Average hotel occupancy rate was down 10.4 percentage points to 66.9% in the first quarter from a year earlier.

The indicators of Hawaii's construction industry were mostly negative. In the first quarter of 2009, construction jobs showed a significant decline from the previous year's comparable quarter, down 10.3% or 4,000 jobs. The value of private building authorizations decreased $199.0 million or 26.8% compared to the same quarter of 2008. The value of government contracts awarded also decreased $28.9 million or 14.8% in the first quarter.

In the existing housing market, for both single-family and condominium units, the median resale prices and the numbers of units resold were down in the first quarter of 2009 compared to the same quarter last year.

Outlook for the Economy

Based on sharper declines now forecast for the national and international economies in the year of 2009, DBEDT has lowered its forecast for Hawaii's economy in 2009 and 2010. Assuming national growth turns positive in 2010, Hawaii's economy is also expected to stabilize in 2010 and modest growth by 2011. Real personal income, total wage and salary jobs, and State real GDP are all forecast to show negative growth in 2009. Visitor arrivals are expected to decrease 5.9% in 2009 and to increase 1.2% in 2010.

Nominal personal income growth rates for 2009 and 2010 are forecast at 0.1% and 1.5%, respectively. Real personal income growth rates for 2009 and 2010 are expected to be negative 1.1% and 0.0%, respectively, after deflating the nominal values by the Honolulu's CPI-U. Honolulu's CPI is expected to rise 1.2% in 2009 and 1.5% in 2010.

In 2008, Hawaii's GDP is estimated to increase 3.0% in nominal terms and 0.3% in real terms. Real GDP growth is projected to be negative 1.6% and positive 0.4%, respectively, in 2009 and 2010.

The future outlook for Hawaii's economy is linked to the U.S. and Japanese economies. According to the May 2009 Blue Chip Economic Consensus Forecasts, U.S. real GDP growth is expected to be negative 2.8% in 2009 and positive 1.9% in 2010. For Japan, real GDP growth is projected to be negative 5.9% in 2009 and positive 0.8% in 2010. The latest forecast for U.S. consumer price inflation is negative 0.8% for 2009 and positive 1.7% for 2010.

Based on latest data and the outlook in coming months, in 2009 total visitor arrivals, total visitor days, and total nominal (current dollar) visitor expenditures are expected to decline 5.9%, 3.4%, and 7.9%, respectively. For 2010, visitor arrivals, visitor days, and visitor expenditures are predicted to increase 1.2%, 0.2%, and 5.2%, respectively, from 2009.

Major indicators of construction activity for 2008 and the first quarter of 2009 suggest slower construction activity in Hawaii in the near future. Increases in the value of government contracts awarded in 2008 were more than countered by declines in the value of private building authorizations. In the first quarter of 2009, the value of government contracts awarded also decreased compared to the same quarter of 2008.

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Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	1st QUARTER 2008	1st QUARTER 2009	1st QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2008	YEAR-TO-DATE 2009	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	651,050	647,000	-0.6	651,050	647,000	-0.6
Civilian employed, NSA	632,400	604,950	-4.3	632,400	604,950	-4.3
Civilian unemployed, NSA	18,650	42,050	125.5	18,650	42,050	125.5
Unemployment rate, NSA (%) 1/ 2/	2.9	6.5	3.6	2.9	6.5	3.6
Total wage and salary jobs, NSA	631,750	612,550	-3.0	631,750	612,550	-3.0
Total non-agric. wage & salary jobs	625,350	606,750	-3.0	625,350	606,750	-3.0
Nat. Resources, Mining, Constr.	38,950	34,950	-10.3	38,950	34,950	-10.3
Manufacturing	15,050	14,350	-4.7	15,050	14,350	-4.7
Wholesale Trade	18,800	18,350	-2.4	18,800	18,350	-2.4
Retail Trade	70,350	68,200	-3.1	70,350	68,200	-3.1
Transp., Warehousing, Util.	32,150	28,000	-12.9	32,150	28,000	-12.9
Information	10,000	9,450	-5.5	10,000	9,450	-5.5
Financial Activities	29,550	28,800	-2.5	29,550	28,800	-2.5
Professional & Business Services	76,050	73,600	-3.2	76,050	73,600	-3.2
Educational Services	14,550	14,700	1.0	14,550	14,700	1.0
Health Care & Social Assistance	58,800	59,400	1.0	58,800	59,400	1.0
Arts, Entertainment & Recreation	11,750	10,950	-6.8	11,750	10,950	-6.8
Accommodation	39,250	35,850	-8.7	39,250	35,850	-8.7
Food Services & Drinking Places	58,350	56,200	-3.7	58,350	56,200	-3.7
Other Services	27,200	26,900	-1.1	27,200	26,900	-1.1
Government	124,500	127,050	2.0	124,500	127,050	2.0
Federal	31,700	32,550	2.7	31,700	32,550	2.7
State	74,750	75,900	1.5	74,750	75,900	1.5
Local	18,100	18,600	2.8	18,100	18,600	2.8
Agriculture wage and salary jobs	6,400	5,800	-9.4	6,400	5,800	-9.4
State general fund revenues ($1,000)	379,515	318,025	-16.2	379,515	318,025	-16.2
General excise and use tax revenues	226,163	196,630	-13.1	226,163	196,630	-13.1
Income-individual	112,118	88,501	-21.1	112,118	88,501	-21.1
Declaration estimated taxes	33,939	20,234	-40.4	33,939	20,234	-40.4
Payment with returns	4,562	5,366	17.6	4,562	5,366	17.6
Withholding tax on wages	121,764	115,653	-5.0	121,764	115,653	-5.0
Refunds ('-' indicates relative to State)	-48,147	-52,752	9.6	-48,147	-52,752	9.6
Transient accommodations tax	20,651	17,404	-15.7	20,651	17,404	-15.7
Honolulu County Surcharge 3/	14,808	14,636	-1.2	14,808	14,636	-1.2
Visitor Days - by air	17,689,965	15,290,038	-13.6	17,689,965	15,290,038	-13.6
Domestic visitor days - by air	13,897,788	11,732,277	-15.6	13,897,788	11,732,277	-15.6
International visitor days - by air	3,792,177	3,557,762	-6.2	3,792,177	3,557,762	-6.2
Visitor arrivals by air - by air	1,831,135	1,567,132	-14.4	1,831,135	1,567,132	-14.4
Domestic flight visitors - by air	1,345,192	1,106,464	-17.7	1,345,192	1,106,464	-17.7
International flight visitors - by air	485,943	460,668	-5.2	485,943	460,668	-5.2
Hotel occupancy rates (%) 2/	72.0	63.7	-8.3	72.0	63.7	-8.3
Visitor expend. - arrivals by air ($Mil.)	2,602	3,171	-17.9	2,602	3,171	-17.9

1/ Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.
2/ Change represents absolute change in rates rather than percentage change in rates.
3/ 0.5% added to the general excise tax to pay for O'ahu's mass transit system and took effect January 1, 2007.
Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.
Source: Hawaii State Department of Business, Economic Development, & Tourism <http://www.hawaii.gov/dbedt/inf>,
Hawaii State Department of Labor & Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>;
Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC.

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2007 TO 2012

Economic Indicators	2007	2008	2009	2010	2011	2012
	(Actual)		(Forecast)			
Total population (thousands)	1,277	1,288	1,298	1,309	1,319	1,329
Visitor arrivals (thousands) 1/	7,628	6,807	6,407	6,482	6,758	7,122
Visitor days (thousands) 1/	70,075	63,913	61,747	62,330	64,908	68,428
Visitor expenditures (million dollars) 1/	12,811	11,347	10,448	10,991	11,800	12,773
Honolulu CPI-U (1982-84=100)	219.5	228.9	231.7	235.2	239.9	245.4
Personal income (million dollars)	50,126	52,159	52,211	53,005	54,606	56,517
Real personal income (millions of 2000$) 2/	40,260	40,180	39,731	39,737	40,134	40,605
Total wage & salary jobs (thousands)	630.1	625.4	612.4	612.4	615.6	620.8
Gross domestic product (million dollars) 3/	61,532	63,398	63,484	64,627	66,501	68,984
Real gross domestic product (millions of 2000$) 3/	49,860	49,995	49,212	49,414	49,850	50,599
Gross domestic product deflator (2000=100)	123.4	126.8	129.0	130.8	133.4	136.3
Annual Percentage Change						
Total population	0.2	0.8	0.8	0.8	0.8	0.8
Visitor arrivals 1/	0.0	-10.8	-5.9	1.2	4.3	5.4
Visitor days 1/	0.3	-8.8	-3.4	0.9	4.1	5.4
Visitor expenditures 1/	2.6	-11.4	-7.9	5.2	7.4	8.2
Honolulu CPI-U	4.9	4.3	1.2	1.5	2.0	2.3
Personal income	5.9	4.1	0.1	1.5	3.0	3.5
Real personal income 2/	1.0	-0.2	-1.1	0.0	1.0	1.2
Total wage & salary jobs	1.0	-0.7	-2.1	0.0	0.5	0.8
Gross domestic product 3/	4.9	3.0	0.1	1.8	2.9	3.7
Real gross domestic product 3/	3.0	0.3	-1.6	0.4	0.9	1.5
Gross domestic product deflator	1.9	2.8	1.7	1.4	2.0	2.2

1/ Visitors who came to Hawaii by air or by cruise ship.

2/ DBEDT calculated using BEA estimate of nominal personal income deflated by U.S. Bureau of Labor Statistics Honolulu CPI-U.

3/ The 2008 value is estimated by DBEDT.

Source: Hawaii State Department of Business, Economic Development & Tourism, May 15, 2009.

Labor Force and Jobs

In the first quarter of 2009, Hawaii's civilian labor force totaled 647,000 people, a decrease of 4,050 people or 0.6% from the same quarter of 2008. In 2008, civilian labor force grew 1.3% from 2007.

In the first quarter of 2009, Hawaii's total civilian employment averaged 604,950 people, which is 27,450 people or 4.3% less than that in the first quarter of 2008. For the year of 2008, total civilian employment decreased 0.1% from the previous year.

The slight decrease in labor force and rapid decrease in civilian employment contributed to the increase in the number of unemployed. The number of civilian unemployed averaged 42,050 in the first quarter of 2009, a 125.5% increase from the first quarter of 2008. In 2008, the number of unemployed averaged 25,850, 51.6% greater than that of the 2007. Due to a rapid increase in the number of unemployed, the unemployment rate (not seasonally adjusted) increased from 2.9% in the first quarter of 2008 to 6.5% in the first quarter of 2009. In 2008, unemployment rate averaged 3.9%, significantly higher than that of 2007.

In the first quarter of 2009, Hawaii's civilian wage and salary jobs averaged 612,550 jobs, a decrease of 19,200 jobs or 3.0% from the same quarter of 2008. In 2008, wage and salary jobs decreased 1.0% from 2007.

During the first quarter of 2009, government added 2,550 jobs compared to the same quarter of 2008. Federal government added 850 jobs; State government added 1,150 jobs; and Local government added 500 jobs in the first quarter of 2009 compared with the first quarter of 2008.

There were only two private sectors experienced small job growth in the first quarter of 2009 compared to the first quarter of 2008. Transportation, Warehousing, and Utilities lost 4,150 jobs compared to the same quarter of 2008; Natural Resources, Mining and Construction lost 4,000 jobs; Accommodation lost 3,400 jobs; Professional and Business Services lost 2,450 jobs; Food Services and Drinking Places lost 2,150 jobs; and Retail Trade also lost 2,150 jobs.

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(Number of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	616,300	1.2	592,450	1.4	3.9
2004	618,150	0.3	598,200	1.0	3.2
2005	630,600	2.0	613,350	2.5	2.7
2006	642,900	2.0	627,050	2.2	2.5
2007	645,950	0.5	628,900	0.3	2.6
2008	654,250	1.3	628,450	-0.1	3.9

Income and Prices

Hawaii nominal personal income (i.e., not adjusted for inflation) continued to increase but at a slower pace during the fourth quarter of 2008 (the period for which the latest data are available from the U.S. Bureau of Economic Analysis) over the same quarter of 2007. The rate of increase was the highest for Personal Current Transfer Receipts. Earnings increased but at a much lower rate compared to previous quarters. Earnings increases in the government sector were partially offset by earnings losses in the private sector. Proprietors' Income and Dividends, Interest, and Rent both decreased in the fourth quarter of 2008.

In the fourth quarter of 2008, total nominal personal income increased $1,289 million or 2.5% from the fourth quarter of 2007. For the year of 2008, total personal income increased 4.1% from 2007.

During the fourth quarter of 2008, Wage and Salary Disbursements, the largest component of personal income, increased $467 million or 1.6% from the fourth quarter of 2007. For 2008, Wage and Salary Disbursements grew 3.2% from 2007, lower than the 5.6% growth between 2006 and 2007. Wage and Salary Disbursements comprised about 57% of total personal income

Supplements to Wages and Salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased $323 million or 4.0% in the fourth quarter of 2008 compared to the same quarter of 2007. For 2008, Supplements to Wages and Salaries increased 4.7%, slightly lower than the 4.8% annual increase between 2006 and 2007.

Proprietors' Income, the income most closely related to entrepreneurial activity, decreased 3.5% in the fourth quarter of 2008 over that of 2007. For 2008, Proprietors' Income was down 1.9% from 2007, compared to 5.5% decrease between 2006 and 2007.

Dividends, Interest, and Rent decreased $82 million or 1.0% in the fourth quarter of 2008 from the same quarter of 2007. For the year of 2008, Dividends, Interest, and Rent were up 3.0% from 2007, compared to 8.7% growth between 2006 and 2007.

Personal Current Transfer Receipts grew by $771 million or 11.6% in the fourth quarter of 2008 from the same quarter of 2007. For 2008, Personal Current Transfer Receipts grew at a rate of 10.3% compared to a 9.7% growth in 2007.

In the fourth quarter of 2008, Contributions to Government Social Insurance, which is subtracted from total personal income, increased $85 million or 2.1% compared to the fourth quarter of 2007. For 2008, Contributions to Government Social Insurance grew 3.1% from 2007.

In the fourth quarter of 2008, total non-farm private sector earnings decreased $260 million or 1.0% from the fourth quarter of 2007. In dollar terms, the largest decrease occurred in Construction, followed by Transportation and Warehousing, Retail Trade, Information, and Real Estate and Rental and Leasing. The largest increase occurred in Health Care and Social Assistance, followed by Professional and Technical Services, Finance and Insurance, and Educational Services. During the fourth quarter of 2008, total government earnings increased $980 million or 7.4% from the fourth quarter of 2007.

In the second half of 2008, Honolulu's consumer price index (CPI) increased 3.6% from the same period last year, compared to the U.S. average CPI increase of 3.4% for the same period. The Honolulu CPI increase in the second half of 2008 was primarily due to increases in Food and Beverages, Other Goods and Services, Education and Communication, and Transportation components, which increased 6.7%, 5.2%, 3.5%, and 3.3%, respectively in the second half of 2008 compared to the second half of 2007.

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Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(In millions of dollars at seasonally adjusted annual rates)

						Percentage change from		
						2008 From		*Ann*
Series	*Fourth Quarter 2007*	*Third Quarter 2008*	*Fourth Quarter 2008*	*AnnAver 2007*	*AnnAver 2008*	*Fourth Quarter 2007*	*Third Quarter 2008*	*2008 from 2007*
PERSONAL INCOME	50,999	52,317	52,288	50,126	52,159	2.5	-0.1	4.1
Earnings By Place of Work	40,081	40,805	40,766	39,524	40,763	1.7	-0.1	3.1
Wage and salary disbursements	29,005	29,478	29,472	28,561	29,483	1.6	0.0	3.2
Supplements to wages and salaries	8,104	8,381	8,427	7,993	8,366	4.0	0.5	4.7
Emp'er contrib. for emp'ee pension & ins. funds	6,157	6,396	6,448	6,050	6,378	4.7	0.8	5.4
Employer contributions for gov't social ins.	1,946	1,985	1,978	1,943	1,987	1.6	-0.4	2.3
Proprietors' income	2,972	2,946	2,868	2,970	2,915	-3.5	-2.6	-1.9
Farm proprietors' income	-8	-46	-51	-6	-45	(1/)	(1/)	(1/)
Nonfarm proprietors' income	2,980	2,993	2,918	2,976	2,959	-2.1	-2.5	-0.6
Dividends, interest, and rent	8,325	8,447	8,243	8,096	8,341	-1.0	-2.4	3.0
Personal current transfer receipts	6,650	7,217	7,421	6,538	7,212	11.6	2.8	10.3
State unemployment insurance benefits	125	272	358	108	241	186.4	31.6	122.6
Personal current transfer receipts exc State U.I.	6,525	6,945	7,063	6,429	6,971	8.2	1.7	8.4
Less: Contributions for gov't social insurance	4,057	4,152	4,142	4,032	4,156	2.1	-0.2	3.1
Personal contributions for gov't social insurance	2,110	2,167	2,164	2,089	2,169	2.6	-0.1	3.9
Employer contributions for gov't social insurance	1,946	1,985	1,978	1,943	1,987	1.6	-0.4	2.3
Earnings By Industry	40,081	40,805	40,766	39,524	40,763	1.7	-0.1	3.1
Farm Earnings	213	180	178	213	181	-16.4	-1.1	-15.0
Nonfarm Earnings	39,868	40,625	40,589	39,312	40,583	1.8	-0.1	3.2
Private earnings	26,886	26,831	26,626	26,544	26,905	-1.0	-0.8	1.4
Forestry, fishing, related activities, and other 6/	41	62	60	42	59	46.3	-3.2	42.2
Mining	56	63	64	55	62	14.3	1.6	12.7
Utilities	311	324	330	306	326	6.1	1.9	6.5
Construction	3,252	3,121	3,017	3,188	3,156	-7.2	-3.3	-1.0
Manufacturing	994	1,020	990	1,003	1,012	-0.4	-2.9	0.9
Durable goods	385	399	391	387	394	1.6	-2.0	1.7
Nondurable goods	609	622	599	616	619	-1.6	-3.7	0.4
Wholesale trade	1,189	1,203	1,187	1,150	1,202	-0.2	-1.3	4.5
Retail trade	2,528	2,540	2,482	2,506	2,540	-1.8	-2.3	1.4
Transportation and warehousing	1,643	1,433	1,448	1,620	1,514	-11.9	1.0	-6.6
Information	775	737	730	759	744	-5.8	-0.9	-1.9
Finance and insurance	1,284	1,310	1,330	1,291	1,320	3.6	1.5	2.3
Real estate and rental and leasing	981	972	939	1,018	971	-4.3	-3.4	-4.6
Professional and technical services	2,458	2,551	2,589	2,380	2,534	5.3	1.5	6.4
Management of companies and enterprises	632	663	666	655	655	5.4	0.5	0.0
Administrative and waste services	1,589	1,616	1,606	1,583	1,616	1.1	-0.6	2.1
Educational services	570	606	606	552	596	6.3	0.0	8.0
Health care and social assistance	3,418	3,589	3,622	3,362	3,550	6.0	0.9	5.6
Arts, entertainment, and recreation	485	481	490	471	481	1.0	1.9	2.1
Accommodation and food services	3,427	3,268	3,199	3,373	3,297	-6.7	-2.1	-2.3
Other services, except public administration	1,252	1,271	1,271	1,232	1,271	1.5	0.0	3.2
Government and government enterprises	12,982	13,794	13,962	12,768	13,677	7.5	1.2	7.1
Federal	7,834	8,383	8,436	7,745	8,291	7.7	0.6	7.1
Federal, civilian	2,971	3,177	3,234	2,974	3,142	8.9	1.8	5.6
Military	4,863	5,206	5,202	4,771	5,150	7.0	-0.1	7.9
State and local	5,147	5,411	5,526	5,023	5,386	7.4	2.1	7.2

Source data for 2005Q1 to 2008Q3 have been revised.
1/ Percentage changes involving zero or negative values are not meaningful.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, March 24, 2009 <http://www.bea.doc.gov/bea/regional/sqpi/>.

Table 5

PERSONAL INCOME
(In millions of dollars at seasonally adjusted annual rates)

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,122	0.7
1997	31,002	2.9
1998	31,757	2.4
1999	32,646	2.8
2000	34,451	5.5
2001	35,126	2.0
2002	36,370	3.5
2003	37,837	4.0
2004	41,027	8.4
2005	44,111	7.9
2006	47,334	6.9
2007	50,126	5.9
2008	52,159	4.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Annual Personal Income, March 26, 2008 <http://www.bea.doc.gov/bea/regional/sqpi/>.

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Table 6.

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

Period	U.S.	Honolulu								
		All Items	Food & Beverages	Housing	Apparel	Transpor- tation	Medical Care	Recre- ation 1/	Educ. & Comm. 1/	Other Goods & Services
1990	130.7	138.1	137.8	141.5	107.0	131.1	154.2	(NA)	(NA)	160.4
1991	136.2	148.0	145.9	152.8	110.5	139.3	171.3	(NA)	(NA)	175.7
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	2/	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	2/	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	2/	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	2/	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	2/	101.1	114.0	332.1
2007	207.342	219.504	204.942	238.428	104.145	205.027	2/	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	318.0	105.290	117.118	365.441
1995H1	151.5	166.9	156.5	173.4	118.1	160.0	207.8	(NA)	(NA)	214.4
H2	153.2	169.4	157.1	176.0	116.9	164.9	211.8	(NA)	(NA)	219.2
1996H1	155.8	170.5	156.9	176.8	120.0	166.3	214.9	(NA)	(NA)	220.6
H2	157.9	171.0	156.3	176.8	116.9	167.7	215.0	(NA)	(NA)	232.4
1997H1	159.9	172.1	159.4	177.3	119.8	167.8	215.6	(NA)	(NA)	232.5
H2	161.2	171.8	159.0	177.0	114.8	164.6	219.1	(NA)	(NA)	245.5
1998H1	162.3	172.0	160.0	176.3	116.4	163.2	222.5	101.4	98.9	254.3
H2	163.7	171.0	158.2	175.7	108.0	161.8	229.8	100.3	99.3	258.0
1999H1	165.4	172.7	162.4	175.5	106.0	162.3	231.0	101.3	102.6	273.9
H2	167.8	173.8	163.5	176.0	104.9	162.0	231.5	102.5	106.4	277.3
2000H1	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
H2	173.6	176.7	164.1	178.5	102.6	171.5	243.8	102.6	105.6	281.9
2001H1	176.6	178.1	168.3	178.8	99.7	176.0	246.1	102.1	103.5	287.5
H2	177.5	178.7	170.7	179.3	102.3	173.0	2/	101.1	105.8	291.1
2002H1	178.9	180.1	172.3	180.5	106.2	171.7	2/	99.9	106.9	299.1
H2	180.9	180.4	171.6	181.9	99.1	170.1	266.5	99.2	108.7	305.3
2003H1	183.3	183.2	173.7	184.7	99.2	175.2	2/	99.3	111.1	307.0
H2	184.6	185.7	176.0	187.7	97.8	177.7	2/	101.5	113.8	308.2
2004H1	187.6	189.2	179.5	192.2	102.6	180.2	274.8	102.6	113.5	309.6
H2	190.2	191.9	180.9	196.3	99.9	184.6	277.0	102.0	113.6	315.2
2005H1	193.2	195.0	184.7	199.9	104.9	188.2	2/	98.5	115.8	318.6
H2	197.4	200.6	187.1	210.5	100.0	195.1	2/	97.0	112.8	323.3
2006H1	200.6	206.4	191.6	216.9	104.1	201.6	2/	100.9	114.3	329.5
H2	202.6	212.3	196.8	228.0	104.7	202.6	2/	101.3	113.7	334.7
2007H1	205.709	216.620	202.952	233.606	102.648	204.402	2/	102.058	112.887	343.703
H2	208.976	222.388	206.932	243.250	105.642	205.652	309.195	103.087	115.047	351.295
2008H1	214.429	227.334	212.390	246.676	105.917	215.519	317.380	105.600	115.126	361.286
H2	216.177	230.387	220.859	250.725	104.637	212.477	318.531	104.979	119.110	369.596

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.

NA Not available.

1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.

Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 20, 2009.

Table 6.

HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)
[Percentage change from the same period last year]

Period	U.S.	Honolulu								
		All Items	Food & Beverages	Housing	Apparel	Transpor-tation	Medical Care	Recre-ation 1/	Educ. & Comm. 1/	Other Goods & Services
Percentage Change from the Same Period in Previous Year										
1991	4.2	7.2	5.9	8.0	3.3	6.3	11.1	(NA)	(NA)	9.5
1992	3.0	4.8	1.8	5.8	3.3	5.8	6.6	(NA)	(NA)	7.6
1993	3.0	3.2	3.0	3.0	2.0	2.1	8.1	(NA)	(NA)	5.9
1994	2.6	2.7	0.3	3.1	1.9	3.9	4.4	(NA)	(NA)	4.7
1995	2.8	2.2	2.2	1.8	-1.0	3.8	1.8	(NA)	(NA)	3.4
1996	3.0	1.5	-0.1	1.2	0.9	2.8	2.5	(NA)	(NA)	4.5
1997	2.3	0.7	1.7	0.2	-1.0	-0.5	1.1	(NA)	(NA)	5.5
1998	1.6	-0.2	-0.1	-0.6	-4.3	-2.2	4.0	(NA)	(NA)	7.2
1999	2.2	1.0	2.4	-0.1	-6.1	-0.2	2.3	1.1	5.4	7.6
2000	3.4	1.7	1.2	1.2	-1.8	4.6	3.7	0.9	1.9	1.5
2001	2.8	1.2	2.9	0.7	-2.4	2.9	2/	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	2/	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	2/	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	2/	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	2/	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	2/	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	2/	1.5	0.0	4.6
2008	3.8	4.3	5.7	4.3	1.1	4.4	2/	2.6	2.8	5.2
1996H1	2.8	2.2	0.3	2.0	1.6	3.9	3.4	(NA)	(NA)	2.9
H2	3.1	0.9	-0.5	0.5	0.0	1.7	1.5	(NA)	(NA)	6.0
1997H1	2.6	0.9	1.6	0.3	-0.2	0.9	0.3	(NA)	(NA)	5.4
H2	2.1	0.5	1.7	0.1	-1.8	-1.8	1.9	(NA)	(NA)	5.6
1998H1	1.5	-0.1	0.4	-0.6	-2.8	-2.7	3.2	(NA)	(NA)	9.4
H2	1.6	-0.5	-0.5	-0.7	-5.9	-1.7	4.9	(NA)	(NA)	5.1
1999H1	1.9	0.4	1.5	-0.5	-8.9	-0.6	3.8	-0.1	3.7	7.7
H2	2.5	1.6	3.4	0.2	-2.9	0.1	0.7	2.2	7.2	7.5
2000H1	3.3	1.9	1.9	1.0	-1.4	3.3	2.1	1.8	4.6	1.3
H2	3.5	1.7	0.4	1.4	-2.2	5.9	5.3	0.1	-0.8	1.7
2001H1	3.4	1.3	1.7	0.8	-4.6	4.9	4.3	-1.0	-3.5	3.6
H2	2.2	1.1	4.0	0.4	-0.3	0.9	2/	-1.5	0.2	3.3
2002H1	1.3	1.1	2.4	1.0	6.5	-2.4	2/	-2.2	3.3	4.0
H2	1.9	1.0	0.5	1.5	-3.1	-1.7	2/	-1.9	2.7	4.9
2003H1	2.5	1.7	0.8	2.3	-6.6	2.0	2/	-0.6	3.9	2.6
H2	2.0	2.9	2.6	3.2	-1.3	4.5	2/	2.3	4.7	0.9
2004H1	2.3	3.3	3.3	4.1	3.4	2.9	2/	3.3	2.2	0.8
H2	3.0	3.3	2.8	4.6	2.1	3.9	2/	0.5	-0.2	2.3
2005H1	3.0	3.1	2.9	4.0	2.2	4.4	2/	-4.0	2.0	2.9
H2	3.8	4.5	3.4	7.2	0.1	5.7	2/	-4.9	-0.7	2.6
2006H1	3.8	5.8	3.7	8.5	-0.8	7.1	2/	2.4	-1.3	3.4
H2	2.6	5.8	5.2	8.3	4.7	3.8	2/	4.4	0.8	3.5
2007H1	2.5	5.0	5.9	7.7	-1.4	1.4	2/	1.1	-1.2	4.3
H2	3.1	4.8	5.1	6.7	0.9	1.5	2/	1.8	1.2	5.0
2008H1	4.2	4.9	4.7	5.6	3.2	5.4	2/	3.5	2.0	5.1
H2	3.4	3.6	6.7	3.1	-1.0	3.3	3.0	1.8	3.5	5.2

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 20, 2009.

Tourism

In the first quarter of 2009, Hawaii's tourism sector continued the negative growth started in the second quarter of 2008. Domestic arrivals and international arrivals both decreased significantly. In the first quarter of 2009, average daily visitor census, visitor expenditures, total air capacity, and hotel occupancy also decreased substantially.

The total number of visitors arriving by air to Hawaii decreased 264,003 people or 14.4% in the first quarter of 2009 compared to the same quarter of 2008. Similarly, total average daily census was down 24,506 or 12.6% in the quarter. For the year of 2008, total visitor arrivals by air decreased 797,396 people or 10.9% from that of 2007, while average daily census decreased 17,539 or 8.1% from 2007.

The decrease was more severe in domestic arrivals. Total visitor arrivals on domestic flights decreased 238,728 or 17.7% in the first quarter of 2009 from the first quarter in 2008. In 2008, domestic arrivals were down 680,260 or 12.2% from that in 2007. Arrivals on international flights decreased 25,275 or 5.2% in the first quarter of 2009 compared to the first quarter of 2008. In 2008, international arrivals were down 117,136 or 6.1% from 2007.

In terms of major market areas, from the first quarter of 2008 to the first quarter of 2009, arrivals from the U.S. West decreased 127,722 or 17.7%, the fourth largest quarter-over-quarter decrease since 1990 for this market; while arrivals from the U.S. East decreased 84,260 or 17.0%. This was the seventh consecutive quarterly decline in the U.S. East Market. Similarly, arrivals from Japan decreased 17,657 or 5.9%. In the fifteen quarters from the first quarter of 2005 to the first quarter of 2009, only one quarter had a quarter-over-quarter increase in the Japanese market. For the year of 2008, arrivals from U.S. West were down 457,784 or 14.7% from that of 2007; arrivals from the U.S. East were down 218,829 or 11.5%; and Japanese arrivals were down 135,691 or 10.5% from 2007.

The total average daily visitor census was down 12.6% or 24,506 visitors per day in the first quarter of 2009 over the same quarter of 2008. Domestic average daily census decreased 14.6% or 22,364 visitors per day, while international average daily census decreased 5.1% or 2,142 visitors per day. In 2008, domestic average daily census decreased 15,700 or 10.4% from that of 2007; international average daily census decreased 1,838 or 4.8% from the previous year.

Nominal visitor expenditures by air totaled $2,602.3 million in the first quarter of 2009, down 17.9% from the same quarter of 2008. In 2008, visitor expenditures decreased $1,242.4 million or 9.9% from 2007.

Total airline capacity, as measured in terms of the number of available seats flown to Hawaii, decreased substantially in the first quarter of 2009 compared to the same quarter of 2008. A 20.7% or 403,285 decrease in domestic seats combined with a 10.4% or 71,452 decrease in international seats led to an 18.0% or 474,737 seats decrease in the number of total available seats for the quarter. For the year of 2008, the number of total available seats decreased 10.2% or 1,064,855 seats from 2007.

In the first quarter of 2009, statewide hotel occupancy rate averaged 66.9%, down 10.4 percentage points from the same quarter of 2008. For all of 2008, occupancy rate averaged 70.4%, down 4.6 percentage points from 2007. In the first quarter of 2009, hotel occupancy rate decreased the most in Hawaii County (lost 14.5 percentage points to 58.9%), followed by Kauai (lost 12.0 percentage points to 65.1%), Maui (lost 11.5 percentage points to 69.2%), and Honolulu (lost 6.9 percentage points to 72.6%).

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Table 7

VISITOR ARRIVALS BY AIR
Average Length of Stay, Visitor Days, Average Daily Census

	2006	2007	2008	% Change 2006-2007	% Change 2007-2008
Total Arrivals					
Total	7,528,106	7,496,820	6,699,424	-0.4	-10.6
Domestic	5,550,125	5,582,530	4,902,270	0.6	-12.2
International	1,977,981	1,914,290	1,797,154	-3.2	-6.1
Average Length of Stay					
Total	9.2	9.2	9.4	0.4	1.8
Domestic	9.8	9.9	10.1	0.4	2.3
International	7.4	7.3	7.5	-0.4	1.7
Visitor Days					
Total	69,145,854	69,135,310	62,905,608	0.0	-9.0
Domestic	54,584,048	55,100,441	49,505,107	0.9	-10.2
International	14,561,806	14,034,869	13,400,502	-3.6	-4.5
Average Daily Census					
Total	189,441	189,412	172,344	0.0	-9.0
Domestic	149,545	150,960	135,630	0.9	-10.2
International	39,895	38,452	36,714	-3.6	-4.5

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Table 8

HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
In Percent					
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008 1/	77.3	69.0	70.6	63.7	70.4
2009	66.9	(NA)	(NA)	Year-to-Date	66.9

Quarterly averages are computed by Hawaii State Department of Business, Economic Development & Tourism from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly averages from February 1995.

1/ Source revised months and 1st Quarter.

Source: Hawaii State Department of Business, Economic Development & Tourism, PKF-Hawaii and Hospitality Advisors LLC.

Construction

In the first quarter of 2009, the indicators of Hawaii's construction industry were mostly negative. Both the value of government contracts awarded and the value of private building authorizations decreased in the first quarter of 2009 compared to the same quarter last year. Only the State Government Capital Improvement Project (CIP) expenditures increased slightly in the quarter. Reflecting the decrease in private construction, construction jobs also decreased substantially in the quarter.

In the first quarter of 2009; however, the Natural Resources, Mining and Construction sector lost 4,000 jobs, a decrease of 10.3% compared with the same quarter last year. This is the fourth negative quarter-over-quarter growth since the first quarter of 2002. In 2008, construction jobs decreased 0.1% or 50 jobs compared to 2007.

In the first quarter of 2009, total value of private building authorizations decreased $199.0 million or 26.8% compared with the first quarter of 2008. In the first quarter of 2009, the value of new residential permits was down $76.9 million or 21.8%; that of new commercial and the industrial permits was down $55.1 million or 58.7%; and that of additions and alternations permits was down $67.0 million or 22.8%, compared to the same quarter last year. In 2008, total private building authorizations decreased $678.9 million or 18.9% compared with that of 2007.

In the first quarter of 2009, the value of total private building permits decreased in all counties except the Kauai County, from the same quarter of 2008. In dollar terms, Hawaii County decreased the most at $163.0 million or 66.9%, followed by Honolulu at $61.8 million or 20.0%, and Maui County at $35.3 million or 32.8%; Kauai County increased $61.2 million or 76.7%.

Government contracts awarded also decreased $28.9 million or 14.8% in the first quarter of 2009 compared to the same quarter of 2008. In 2008, government contracts awarded increased $83.3 million or 9.6% compared with that of 2007. State Government CIP expenditures; however, increased $8.4 million or 2.3% in the first quarter of 2009 from the same quarter in 2008. In 2008, CIP expenditures increased $72.1 million or 4.9% from 2007.

The single-family unit authorizations decreased 19.5% in the first quarter of 2009. In 2008, the single-family unit authorizations decreased 36.4% from 2007. The value of multi-family units authorized was up 412.1% in the first quarter of 2009 compared to the same quarter last year. In 2008, the number of multi-family units authorized was down 17.4% compared to 2007.

The Honolulu Construction Cost Index ("CCI") for Single Family Residences increased 2.6% in the first quarter of 2009 over that of 2008, while the comparable index for High-Rise Buildings rose 2.8%. For the year of 2008, the Honolulu Single Family Residence CCI and High-Rise Building CCI increased 5.6% and 5.9%, respectively from that of 2007.

In the first quarter of 2009, Honolulu's median price for single family resales was $570,000, decreased 8.1%; the median price for condominium resales decreased 9.1% to $300,000 compared to the same quarter in 2008. In the first quarter of 2009, the numbers of single-family unit and condominium unit resales were down 34.8% and 45.3%, respectively, from the first quarter of 2008.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED - CONTINUED
(Percentage Change from the Same Period in Previous Year)

Year	Contracting tax base 1/	Private Building Authorization 4/				Government Contracts Awarded
		Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	
Percentage Change from the Same Period in Previous Year						
1996	4.8	-27.0	-34.7	-31.4	-9.5	80.6
1997	-10.4	5.5	11.4	4.6	-1.5	-30.5
1998	2.4	-10.6	-10.5	-22.3	-2.4	11.3
1999	-0.8	25.2	29.5	48.9	6.1	-14.6
2000 3/	20.8	14.6	27.3	-19.6	21.0	38.7
2001	4.2	4.8	10.3	33.7	-19.7	-11.7
2002 4/	13.5	11.7	26.1	-22.8	8.2	7.3
2003 4/	6.1	32.7	20.0	100.3	25.3	-17.6
2004 4/	8.5	15.9	32.4	-40.4	29.2	118.6
2005 4/	18.9	28.1	27.8	43.0	21.9	-47.6
2006 4/	23.5	8.0	-19.8	68.8	53.4	17.8
2007 4/	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008 4/	-26.2	-18.9	-25.5	-39.3	7.0	9.6
2006 4/ 1 Qtr.	28.5	8.4	14.5	25.6	-5.7	39.1
4/ 2 Qtr.	17.5	24.7	0.2	55.4	69.6	65.3
4/ 3 Qtr.	21.6	0.1	-30.5	-6.2	128.4	-29.8
4/ 4 Qtr.	26.5	3.8	-42.3	394.5	47.1	76.6
2007 4/ 1 Qtr.	16.1	-3.8	-14.3	-2.3	18.4	-39.4
4/ 2 Qtr.	24.1	19.6	48.1	38.6	-34.4	82.1
4/ 3 Qtr.	0.2	-14.8	-10.5	-30.1	-11.6	15.7
4/ 4 Qtr.	8.6	-17.0	-13.4	-8.7	-29.5	-27.9
2008 4/ 1 Qtr.	-5.3	0.5	-14.3	57.4	10.8	8.9
4/ 2 Qtr.	-5.0	-3.4	-22.6	-30.5	93.8	-58.2
4/ 3 Qtr.	8.9	-23.0	-15.9	-8.3	-37.8	37.9
4/ 4 Qtr.	-2.3	-50.7	-54.6	-83.3	-4.7	133.4
2009 4/ 1 Qtr.	(NA)	-26.8	-21.8	-58.7	-22.8	-14.8

NA Not available.

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in *Building Industry*.

1/ Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.

2/ Includes hotels.

3/ Kauai data for November consist of residential data only.

4/ Beginning in 2002 Kauai data available for residential only.

Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; *Building Industry*.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED - CONTINUED
(Percentage Change from the Same Period in Previous Year)

Year	Contracting tax base 1/	Private Building Authorization 4/				Government Contracts Awarded
		Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	
1996	4.8	-27.0	-34.7	-31.4	-9.5	80.6
1997	-10.4	5.5	11.4	4.6	-1.5	-30.5
1998	2.4	-10.6	-10.5	-22.3	-2.4	11.3
1999	-0.8	25.2	29.5	48.9	6.1	-14.6
2000 3/	20.8	14.6	27.3	-19.6	21.0	38.7
2001	4.2	4.8	10.3	33.7	-19.7	-11.7
2002 4/	13.5	11.7	26.1	-22.8	8.2	7.3
2003 4/	6.1	32.7	20.0	100.3	25.3	-17.6
2004 4/	8.5	15.9	32.4	-40.4	29.2	118.6
2005 4/	18.9	28.1	27.8	43.0	21.9	-47.6
2006 4/	23.5	8.0	-19.8	68.8	53.4	17.8
2007 4/	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008 4/	-26.2	-18.9	-25.5	-39.3	7.0	9.6
2006 4/ 1 Qtr.	28.5	8.4	14.5	25.6	-5.7	39.1
4/ 2 Qtr.	17.5	24.7	0.2	55.4	69.6	65.3
4/ 3 Qtr.	21.6	0.1	-30.5	-6.2	128.4	-29.8
4/ 4 Qtr.	26.5	3.8	-42.3	394.5	47.1	76.6
2007 4/ 1 Qtr.	16.1	-3.8	-14.3	-2.3	18.4	-39.4
4/ 2 Qtr.	24.1	19.6	48.1	38.6	-34.4	82.1
4/ 3 Qtr.	0.2	-14.8	-10.5	-30.1	-11.6	15.7
4/ 4 Qtr.	8.6	-17.0	-13.4	-8.7	-29.5	-27.9
2008 4/ 1 Qtr.	-5.3	0.5	-14.3	57.4	10.8	8.9
4/ 2 Qtr.	-5.0	-3.4	-22.6	-30.5	93.8	-58.2
4/ 3 Qtr.	8.9	-23.0	-15.9	-8.3	-37.8	37.9
4/ 4 Qtr.	(NA)	-50.7	-54.6	-83.3	-4.7	133.4

NA Not available.

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in *Building Industry*.

1/ Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.

2/ Includes hotels.

3/ Kauai data for November consist of residential data only.

4/ Beginning in 2002 Kauai data available for residential only.

Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; *Building Industry* .

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY
(In thousands of dollars)

Year	*State*	*% Change*	*City & County of Honolulu*	*% Change*	*Hawaii County*	*% Change*	*Kauai County*	*% Change*	*Maui County*	*% Change*
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,226	-19.2	178,220	14.4	88,196	-9.8	163,638	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
1/ 2000	1,512,601	14.6	694,224	-1.7	321,705	31.9	141,313	0.3	355,361	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
2/ 2002	1,772,027	11.7	876,051	28.3	449,600	18.2	172,662	-17.8	273,717	-12.5
2/ 2003	2,351,762	32.7	1,109,568	26.7	619,675	37.8	153,242	-11.2	469,277	71.4
2/ 2004	2,726,537	15.9	1,320,552	19.0	826,494	33.4	130,660	-14.7	448,830	-4.4
2/ 2005	3,491,965	28.1	1,364,029	3.3	1,008,388	22.0	288,132	120.5	831,416	85.2
2/ 2006	3,770,051	8.0	1,625,328	19.2	926,019	-8.2	239,294	-17.0	979,412	17.8
2/ 2007	3,585,447	-4.9	1,676,232	3.1	912,529	-1.5	268,915	12.4	727,772	-25.7
2/ 2008	2,906,578	-18.9	1,481,272	-11.6	704,317	-22.8	277,149	3.1	443,840	-39.0
2/ 2006 1 Qtr.	766,238	8.4	299,983	-1.6	257,258	54.0	28,616	-77.3	180,380	66.7
2/ 2 Qtr.	908,136	24.7	406,075	18.4	217,061	13.5	70,557	-18.1	214,443	98.1
2/ 3 Qtr.	1,051,476	0.1	473,556	53.6	254,057	-31.9	91,856	117.7	232,007	-29.0
2/ 4 Qtr.	1,044,202	3.8	445,714	9.3	197,642	-28.6	48,265	44.3	352,582	22.3
2/ 2007 1 Qtr.	737,121	-3.8	353,732	17.9	209,681	-18.5	58,575	104.7	115,132	-36.2
2/ 2 Qtr.	1,085,692	19.6	540,310	33.1	306,363	41.1	41,091	-41.8	197,928	-7.7
2/ 3 Qtr.	896,293	-14.8	469,854	-0.8	188,762	-25.7	102,612	11.7	135,064	-41.8
2/ 4 Qtr.	866,342	-17.0	312,336	-29.9	207,722	5.1	66,637	38.1	279,648	-20.7
2/ 2008 1 Qtr.	741,141	0.5	309,828	-12.4	243,855	16.3	79,728	36.1	107,730	-6.4
2/ 2 Qtr.	1,048,550	-3.4	528,685	-2.2	186,956	-39.0	91,645	123.0	241,264	21.9
2/ 3 Qtr.	690,037	-23.0	379,567	-19.2	175,904	-6.8	88,683	-13.6	45,883	-66.0
2/ 4 Qtr.	426,849	-50.7	263,191	-15.7	97,602	-53.0	17,094	-74.3	48,963	-82.5
2/ 2009 1 Qtr.	542,152	-26.8	247,996	-20.0	80,818	-66.9	140,896	76.7	72,440	-32.8

1/ Kauai County data for November consist of residential data only.

2/ Beginning with 2002, Kauai data available for residential only. Values shown for 2001 are all private authorizations however, percentage change 2001-2002 is based on residential only or 2001Q1 of 32,006; 2001Q2 of 22,290; 2001Q3 of 26,613; 2001Q4 of 53,344 and 2001 of 134,253

Source: County building departments.

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Federal Government Expenditures in Hawaii

According to the most recent data available, total federal direct expenditures or obligations in Hawaii reached $14.1 billion in the federal fiscal year ending September 30, 2007, an increase of 4.2% over the previous year. Between federal fiscal years 1997 and 2007, the annual average growth rate for federal expenditures was about 5.6%. In 2008, total federal government compensation of employees in Hawaii reached $8,291.5 million, an increase of 7.1% from 2007. Between 1998 and 2008, the annual average growth rate for federal government compensation of employees in Hawaii was 6.8%. According to the most recent data available, federal government accounted for about 13.6% of State GDP in Hawaii in 2006, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the fourth quarter of 2008 increased 7.7% compared to the same quarter of 2007. Total military earnings and total federal civilian earnings increased 7.0% and 8.9%, respectively for the quarter.

Military spending for construction in Hawaii for the federal fiscal year 2009 which begins on October 1, 2008 would total $544 million under the $3.1 trillion budget request President Bush unveiled on February 4, 2008 and is about the same as the federal fiscal year 2008 allotment. Appropriations for federal fiscal year 2008 defense projects in Hawaii total nearly $742 million. This includes a military construction program of $533.6 million, and $208 million for defense-related projects. In addition, $5.5 million is to be provided to improve infrastructure and educational programs for Hawaii's public schools with high enrollments of military children. Further, the federal education budget includes $48.2 million in impact aid funding for Hawaii's public schools. Ongoing programs to privatize construction, renovation and operation of military housing will contribute an estimated $3 billion over the next decade.

Banks and Other Financial Institutions

As of December 31, 2008, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $29.89 billion, a 0.82% increase from December 31, 2007. The five State-chartered banks accounted for $29.20 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.

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Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2005, 2006, 2007 and 2008 amounted to 20.2 million short tons, 20.7 million short tons, 21.5 million short tons and 21.1 million short tons respectively.

The Harbors System is comprised of eleven commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, Kalaeloa Barbers Point Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System managed Kewalo Basin for its landowner, the Hawaii Community Development Authority (HDCA). Effective March 1, 2009, HCDA assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System will cease on June 30, 2009. Act 200, SLH 2008, authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System, effective July 1, 2008.

The State uses nine harbors, with the exception of Kewalo Basin and Hana Harbor, to facilitate the movement of goods from and between the mainland, foreign and inter-island ports. The number of commercial vessels entering all ports was 9,714 in fiscal year 2005, 10,465 in fiscal year 2006, 10,541 in fiscal year 2007 and 11,005 in fiscal year 2008.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 9.8 million short tons in fiscal year 2006, 10.2 million short tons in fiscal year 2007 and 10.1 million short tons in fiscal year 2008. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Hawaii has experienced growth in cruise ship passenger volumes in recent years. The number of cruise ship visitor arrivals has increased from 415,967 in 2006 to 501,698 in 2007, a 20.6% increase. However, as described in the next paragraph, two cruise ships were redeployed away from the Hawaii market during the first half of 2008.

Norwegian Cruise Lines America ("NCLA") homeported three cruise ships, the Pride of Hawaii, the Pride of America and the Pride of Aloha, providing the State with year-round inter-island service. In February 2008, NCLA withdrew the Pride of Hawaii from Hawaii service to operate in Europe as the Norwegian Jade. In May, 2008, NCLA deployed the Pride of Aloha to Asia, leaving the Pride of America to serve the Hawaii market. NCLA and other foreign cruise ships utilize the new cruise passenger terminal constructed at Pier 2, Honolulu Harbor.

Hawaii Superferry, Inc. ("HSF"), a private ferry operator, operated for approximately two years until March 19, 2009 a large-capacity roll on/roll off high-speed daily ferry service for the transport of passengers and vehicles, including cars, trucks and commercial vehicles between Honolulu and Kahului Harbors. After HSF commenced service in 2007, the Hawaii Supreme Court ruled that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. On March 16, 2009, the Hawaii Supreme Court held unconstitutional a law enacted in 2007 subsequent to the 2007 Hawaii Supreme Court decision that allowed large-capacity ferry vessel companies, such as HSF, to operate under certain conditions while the required environmental reviews are conducted. HSF halted operations as of March 19, 2009, and it removed its vessel from Hawaii. On May 30, 2009, HSF and its parent, HSF Holding Inc., filed Chapter 11 bankruptcy petitions in the United States Bankruptcy Court, District of Delaware, and announced their plan to liquidate.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan (HMP) to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation as the entity responsible for the management and implementation of the Harbors Plan under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the HMP is estimated at $618 million.

Air Transportation. The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls increasing from 4,579 to 6,379 vehicles as a result of a new parking structure opened in February, 2009 at HNL. HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

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

In fiscal year 2008, HNL recorded 304,839 aircraft operations as compared to 320,112 for fiscal year 2007. In addition, HNL passenger counts for fiscal year 2008 decreased from 20,908,614 in fiscal year 2007 to 20,808,838.

Until March 31, 2008, inter-island air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. In June 2006, Mesa Air Group began inter-island service as go! Airlines. On March 20, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On March 31, 2008, Aloha Airlines ceased all passenger operations. On April 29, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's inter-island air cargo, ceased all air cargo operations and well as maintenance cleaning services. Almost immediately thereafter, such operations were taken over by Aeko Kula, Inc. (cargo) and Aloha Contract Services LLC (maintenance services). Both the bankruptcy of Aloha Airlines and the rising cost of fuel have led to decreased statewide enplanement activities of 10%, comparing May 2007 and 2008. In October 2008, Mokulele Airlines expanded its inter-island service utilizing a portion of the former Aloha Airlines hold rooms and baggage areas.

In October 2007, the Airports Division and a majority of the airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the Airport-Airline Lease were amended to reflect a rate-making methodology that recovers costs of specific Airports System facilities from the airlines that directly use them. An Airport System Support Charge Cost Center is set up to serve as the residual cost center to ensure Airport System operating revenues are sufficient to cover Airport System operating costs.

The Airports Division is in the process of implementing a modernization program which will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost in excess of $2.0 billion through 2021 and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,234.75 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 932.27 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The following table shows the motor vehicle registrations in the State for the years 2001 and 2008, inclusive.

Table 11

MOTOR VEHICLE REGISTRATION

YEAR	VEHICLES
2001	967,146
2002	987,598
2003	1,030,845
2004	1,072,211
2005	1,119,838
2006	1,127,467
2007	1,134,542
2008	1,160,643

Source: HPMS database DOT and State of Hawaii Data Book

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2008-2009 school year, system enrollment decreased from a total of 178,369 in the 2007-2008 school year to a total of 177,871 in 285 K-12 public schools. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in Department of Education schools has decreased, while the number of charter school students has increased.

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

a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law and medicine;

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

a baccalaureate institution at West Oahu, offering degrees in the liberal arts and professional studies; and

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

In the fall of 2007, 50,454 students attended the University of Hawaii system, 20,051 of them on the Manoa Campus. In the fall of 2008, 53,526 students attended the University of Hawaii system, 20,169 of them on the Manoa Campus.

State Housing Programs

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

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

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

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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, 2008 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-19)

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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 as of July 1, 2008, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit.

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS
As of July 1, 2008

General obligation bonds outstanding		$4,433,564,012
Less excludable reimbursable general obligation bonds [1]		
Highways	$ 52,631,079	
Airports	28,275	
Harbors	37,419,438	
University of Hawaii	2,915,842	
Parking facilities	260,693	
Hawaiian Home Lands	680,049	
Subtotal excludable reimbursable general obligation bonds	$ 93,935,376	
Less all general obligation bonds maturing in the current year	$315,935,671	$ 409,871,047
Net general obligation bonds outstanding		$4,023,692,965

REVENUE BOND INDEBTEDNESS [2]
As of July 1, 2008

Revenue bonds outstanding:		
Airports:		
Airports system	$589,740,000	
Airports special facility	35,855,000	$ 625,595,000
Housing:		
Single family mortgage purchase	200,145,000	
Multifamily	187,687,416	387,832,416
Harbors:		
Revenue		248,350,000
Highway:		
Revenue		252,930,000
University revenue projects		276,865,000
Health Systems		11,000,000
Total revenue bonds outstanding		$1,802,572,416

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [3]
As of July 1, 2008

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 676,031,336
Utilities serving the general public	857,900,000
Industrial enterprises	17,437,500
Processing enterprises	7,700,000
Not-for-profit secondary schools, colleges and university serving the general public	50,095,000
Total special purpose revenue bonds outstanding	$1,609,163,836

[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.*
[2] *All revenue indebtedness is payable solely from the revenues derived from rates, rentals, fees and charges except for the revenue bonds issued for the airports system, which are payable from both the revenues of the airports system derived from rates, rentals, fees and charges and from the aviation fuel tax, and except for a portion of the revenue bonds issued for the University of Hawaii, which is payable from both the revenues of the University derived from tuition, fees and charges and from tobacco settlement funds.*
[3] *All special purpose revenue indebtedness is payable solely from receipts derived from payments by special purpose entities or persons under contract or from any security for such contract or special purpose revenue bonds.*

The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2008.

SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII

NET GENERAL FUND REVENUES FOR THE STATE OF HAWAII FOR THE PRECEDING THREE FISCAL YEARS	**2005-2006**	**2006-2007**	**2007-2008**
Total General Fund revenues exclusive of Grants from the federal government	$4,924,971,473	$5,142,064,701	$5,244,786,944
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	20,952,143	19,444,433	22,047,325
Net General Fund revenues	$4,904,019,330	$5,122,620,268	$5,222,739,619
Sum of net General Fund revenues for preceding three fiscal years	$15,249,379,217		
Average of preceding three fiscal years	$5,083,126,406		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2006, 2007, and 2008	$940,378,385[1]		

[1] *The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2008, and on the Bonds, after exclusions permitted by the Constitution, is $540,347,691 in the fiscal year ending June 30, 2010.*

GENERAL OBLIGATION BONDS OUTSTANDING
AS OF MARCH 31, 2009

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1]			
From State Special Funds for			
Highways	$ 43,714,022		
Commercial Harbors	$ 38,328,584		
Small Boat Harbors [2]	$ 3,978,769		
Hawaiian Home Lands	$ 662,627		
University of Hawaii	$ 2,797,676		
Parking Facilities	$ 196,759		
Waiahole Water System [2]	$ 7,491,287		
Convention Center [2]	$ 289,590,289		
Total for Special Funds	$ 386,760,015		
Total Reimbursable General Obligation Bonds		$ 386,760,015	8.82%
Non Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$ 3,996,414,526		
Total Non-reimbursable General Obligation Bonds		$ 3,996,414,526	91.18%
Total General Obligation Bonds Issued and Outstanding		$ 4,383,174,540	100%

[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.*

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SUMMARY OF DEBT SERVICE
As of March 31, 2009

The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii as of March 31, 2009, including the Refunded Bonds, and on the Bonds. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

							Debt Service on Series DQ and DR[3]		
Fiscal Year Ending June 30	Total Remaining Principal Amount[1]	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund[2]	Net Debt Service Payable	Total Principal Payable	Total Interest Payable	Total Debt Service Payable
2010	$ 4,323,764,540	$ 333,369,540	$ 225,331,103	$ 558,700,643	$ 38,913,427	$ 519,787,216	$ –	$ 32,696,658	$ 552,483,874
2011	3,990,395,000	355,565,000	194,047,259	549,612,259	42,271,555	507,340,704	–	34,824,843	542,165,547
2012	3,634,830,000	349,575,000	176,635,515	526,210,515	39,256,594	486,953,921	–	34,824,843	521,778,764
2013	3,285,255,000	368,440,000	159,057,821	527,497,821	35,754,302	491,743,519	19,725,000	34,824,843	546,293,362
2014	2,916,815,000	340,600,000	140,876,605	481,476,605	34,829,953	446,646,652	54,080,000	34,140,643	534,867,295
2015	2,576,215,000	337,020,000	123,771,692	460,791,692	34,524,735	426,266,956	56,230,000	31,995,643	514,492,599
2016	2,239,195,000	270,825,000	107,396,885	378,221,885	32,939,391	345,282,495	58,890,000	29,334,443	433,506,938
2017	1,968,370,000	297,345,000	93,437,529	390,782,529	32,543,666	358,238,864	61,755,000	26,474,818	446,468,682
2018	1,671,025,000	237,605,000	79,914,144	317,519,144	31,300,424	286,218,721	64,800,000	23,423,118	374,441,839
2019	1,433,420,000	203,350,000	69,280,749	272,630,749	30,232,447	242,398,302	68,005,000	20,217,468	330,620,770
2020	1,230,070,000	175,260,000	59,921,499	235,181,499	30,233,255	204,948,244	27,240,000	16,969,230	249,157,474
2021	1,054,810,000	185,285,000	51,039,206	236,324,206	30,235,720	206,088,487	28,585,000	15,625,850	250,299,337
2022	869,525,000	193,575,000	41,563,618	235,138,618	30,233,230	204,905,388	29,990,000	14,221,788	249,117,176
2023	675,950,000	161,065,000	32,157,563	193,222,563	30,232,543	162,990,020	31,485,000	12,727,038	207,202,058
2024	514,885,000	160,440,000	24,212,426	184,652,426	30,233,207	154,419,219	33,040,000	11,173,838	198,633,057
2025	354,445,000	126,740,000	16,617,761	143,357,761	30,237,997	113,119,763	34,670,000	9,538,900	157,328,663
2026	227,705,000	112,370,000	10,784,124	123,154,124	30,239,709	92,914,415	36,405,000	7,805,400	137,124,815
2027	115,335,000	67,110,000	5,632,300	72,742,300	28,095,807	44,646,493	38,225,000	5,985,150	88,856,643
2028	48,225,000	39,605,000	2,242,513	41,847,513	1,365,184	40,482,328	40,140,000	4,073,900	84,696,228
2029	8,620,000	8,620,000	237,050	8,857,050	428,556	8,428,494	42,145,000	2,066,900	52,640,394

[1] Remaining principal amount, as of commencement of fiscal year, of all general obligation bonded indebtedness of the State that was outstanding as of July 1, 2009.

[2] These figures show debt service on outstanding general obligation bonds of the State issued for certain activities, undertakings, improvements and systems of the State where the payment of such debt service from the General Fund is required by statute to be reimbursed to the General Fund from the respective income, revenues or user taxes pertaining to the particular activity, undertaking, improvement or system and regardless of whether excludable under the provisions of the Constitution when determining the power of the State to incur indebtedness. Consequently, the amount of reimbursement to the General Fund in the table above is greater than the excludable reimbursement under the Constitution. For example, of the $38,913,427 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2010, only $11,186,157 is an excludable reimbursement for purposes of the debt limit calculation under the Constitution. See "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for the sources of reimbursement, including taxes.

[3] As of the date of delivery thereof.

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

Fiscal Year	Population [1]	General Obligation Bonded Debt [2&3]	Less Debt Service Moneys Available [2]	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
2004	1,262	$3,954,192	$72	$3,954,120	$3,133
2005	1,273	$4,256,633	$184	$4,256,449	$3,344
2006	1,285	$4,322,964	$7,226	$4,315,738	$3,359
2007	1,299	$4,079,714	$21,704	$4,058,010	$3,124
2008	1,292	$4,408,572	$22,002	$4,386,570	$3,395

[1] *Source: Hawaii State Department of Business, Economic Development and Tourism.*
[2] *Source: Hawaii State Department of Accounting and General Services, Accounting Division.*
[3] *Excludes Enterprise Funds and Component Unit-UH General Obligation Bonds.*

Certificates of Participation

In November 1998, the State executed a Lease Purchase Agreement related to the issuance of $54,850,000 in certificates of participation ("COPS"), the proceeds of which were used to purchase a state office building in Kapolei; in December 2000, the State executed a second Lease Purchase Agreement for the issuance of $23,140,000 in COPS, the proceeds of which were used to purchase the No. 1 Capitol District State Office Building in Honolulu, and in December 2006, the State executed a Facility Lease Agreement related to the issuance of $24,500,000 of COPS, the proceeds of which were used to construct a headquarters office and conference center building for the Department of Hawaiian Homelands in Kapolei. Each building is located on the island of Oahu. The COPS are secured by rental payments payable from lawfully available funds of the State, including the State's General Fund. The rental payments do not constitute an obligation for which the State has levied any form of taxation. The COPS do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State. The State does not anticipate that it will issue COPS during the current fiscal year, and would require legislative authorization to do so.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

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

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities 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 deposit 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; (f) student loan resource securities with a triple-A rating; (g) commercial paper with at least an A1/P1 rating; (h) bankers' acceptances with at least an A1/P1 rating; and (i) 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, HRS, prohibits the State from investing in securities which require the State to make any swap, counter or other payments other than the original purchase price plus accrued interest.

In the investment of State funds, it is the policy of the State to give due regard to depositories doing business within the State. 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 April 30, 2009, 19% of the State's investment portfolio consisted of repurchase agreements with banks, 21% consisted of time certificates with banks, 38% consisted of student loan resource securities, and 22% consisted of Federal Agency Securities. The State has made portfolio adjustments sufficient in its view to address liquidity concerns relating to its student loan resource 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, the valuation policy for securities pledged as collateral for the protection of State deposits is 90% 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, 100% of letters of credit issued by the Federal Home Loan Bank, and 95% 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 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 that move inversely to the general level of interest rates. Collateralized mortgage obligations that 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 daily basis. Approximately 70% of the securities used to collateralize repurchase agreements are marked to market regularly.

The State utilizes a uniform repurchase agreement in all such transactions. Such form requires sellers to mark purchased securities to market on a monthly basis, or more frequently at the State's request. Such form further requires sellers to increase the collateral 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 maximum length or term of an investment is five years and is determined by the cash flow requirements of the particular program and the general direction of interest rates.

As of June 30, 2008, $27.6 million was credited to the General Fund as investment earnings. The $27.6 million represents the net earnings to the General Fund after adjustments to reflect a $42.1 million write-down to record Student Loan Auction Rate securities at fair market value. The total investment income, prior to adjustments, represents an average return on investment for the General Fund of 4.08%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2004 to 2008. Following thereafter is the statement of revenues and expenditures of the General Fund for each such fiscal year including the statement of revenues and expenditures for each such fiscal year. See also the schedules relating to the General Fund accompanying the General Purpose Financial Statements from the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008, 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. Revenues for which receivables have been recorded (and other noncash assets generally) are fully reserved until such time as they are converted to cash.

Expenditures are recorded at the time vouchers for 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.

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BALANCE SHEET OF THE GENERAL FUND
OF THE STATE OF HAWAII
As of June 30

(AMOUNTS IN THOUSANDS)

	2004	2005	2006	2007	2008
ASSETS:					
Cash	$310,117	$153,227	$ 272,209	$ 171,720	$ 318,708
Due from other funds	135,100	131,168	162,000	154,083	90,886
Due from Component Units	20,000	20,000	19,300	33,830	28,958
Receivables					
Taxes	304,900	338,300	333,900	388,100	370,055
Notes	423	6,324	4,700	4,175	3,834
Other	71	5,179	6,565	9,514	5,327
Total receivables	305,394	349,803	345,165	401,789	379,216
Investments	16,585	478,199	719,624	832,645	514,026
TOTAL ASSETS	$787,196	$1,132,397	$1,518,298	$1,594,067	$1,331,794
LIABILITIES AND FUND BALANCE					
Liabilities:					
Vouchers payable	$99,545	$85,918	$157,063	$76,367	$129,527
Other accrued liabilities	55,861	57,899	65,018	153,408	150,293
Due to other funds	72	184	83	42	42
Due to Component Units	5,121	9,026	7,965	41,558	54,243
Deferred revenue	7,500	13,800	24,600	26,482	23,331
TOTAL LIABILITIES	$168,099	$166,827	$254,729	$297,857	$357,436
FUND BALANCE:					
Reserves:					
Unrealized receivables	$ 435	$ 6,336	$4,712	$4,185	$3,834
Encumbrances	208,114	201,362	231,306	327,739	384,520
Unencumbered allotments	9,208	12,102	13,563	82,975	18,530
Total reserves	217,757	219,800	249,581	414,899	406,884
Unreserved fund balance:					
Designated for future expenditures	19,600	30,701	78,841	224,260	103,557
Undesignated	381,740	715,069	935,147	657,051	463,917
Total fund equity	619,097	965,570	1,263,569	1,296,210	974,358
TOTAL LIABILITIES AND FUND BALANCE	$787,196	$1,132,397	$1,518,298	$1,594,067	$1,331,794

REVENUES AND EXPENDITURES OF THE GENERAL FUND OF THE STATE OF HAWAII (FOR THE FISCAL YEARS SHOWN) (AMOUNTS IN THOUSANDS)

	2003-2004	% of Total	2004-2005	% of Total	2005-2006	% of Total	2006-2007	% of Total	2007-2008	% of Total
REVENUES:										
General excise tax	$1,893,916	51.06	$2,139,798	50.97	$2,359,316	50.83	$2,632,485	54.24	$2,597,121	53.59
Income tax-corporation	60,653	1.64	90,304	2.15	115,660	2.49	75,151	1.55	88,713	1.83
Income tax-individual	1,193,688	32.18	1,394,360	33.22	1,548,671	33.37	1,543,419	31.80	1,548,552	31.96
Service companies tax	99,505	2.68	108,686	2.59	120,678	2.60	124,017	2.56	127,481	2.63
Liquor licenses and taxes	41,250	1.11	43,737	1.04	45,955	0.99	46,034	0.95	45,620	0.94
Tobacco licenses and taxes	78,383	2.11	84,068	2.00	86,827	1.87	84,247	1.74	83,443	1.72
Insurance premiums tax	78,142	2.11	83,077	1.98	88,068	1.90	94,377	1.94	94,587	1.95
Inheritance and estate tax	9,830	0.27	12,712	0.30	4,017	0.09	162	0.00	164	0.00
Banks and financial corporation tax	(533)	(0.01)	36,520	0.87	16,324	0.35	17,012	0.35	18,213	0.38
Transient accommodations tax[1]	6,028	0.15	12,689	0.30	16,129	0.35	6,382	0.13	15,756	0.33
Conveyance tax	9,851	0.27	12,585	0.30	20,160	0.43	7,749	0.16	6,156	0.13
Total taxes	3,470,713	93.57	4,018,536	95.72	4,421,805	95.27	4,631,035	95.43	4,625,806	95.46
Charges for current services and other revenues	238,595	6.43	179,587	4.28	219,590	4.73	221,977	4.57	220,089	4.54
TOTAL REVENUES	$3,709,308	100.00	$4,198,123	100.00	$4,641,395	100.00	$4,853,012	100.00	$4,845,895	100.00
EXPENDITURES:										
General government	$315,781	9.39	$384,203	10.52	$366,761	9.26	$355,090	7.96	$407,147	8.51
Public safety	187,401	5.57	204,390	5.59	222,855	5.63	256,072	5.74	280,962	5.87
Conservation of natural resources	27,151	0.81	26,841	0.73	32,936	0.83	38,445	0.86	46,489	0.97
Health	368,315	10.95	389,984	10.67	455,388	11.50	558,748	12.53	573,929	11.99
Welfare	565,325	16.81	623,599	17.07	652,371	15.80	702,526	15.76	744,547	15.56
Education:										
Higher	459,640	13.67	510,194	13.96	574,836	14.52	660,336	14.81	697,333	14.57
Lower and others	1,367,845	40.67	1,439,059	39.39	1,593,538	40.25	1,781,873	39.96	1,889,035	39.47
Culture-recreation	34,386	1.02	38,485	1.05	40,574	1.02	42,259	0.95	53,805	1.12
Urban redevelopment & housing	8,333	0.25	7,246	0.20	14,486	0.37	28,060	0.63	52,035	1.09
Economic development and assistance	29,332	0.86	29,791	0.82	32,162	0.81	35,586	0.80	39,752	0.83
Other	-	0.00	-	0.00	-	0.00	-	0.00	528	0.01
TOTAL EXPENDITURES	$3,363,509	100.00	$3,653,792	100.00	$3,985,907	100.00	$4,458,995	100.00	$4,785,562	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	15,355	-	68,225	-	11,485	-	50,558	-	37,470	-
Transfers out	(259,843)	-	(296,458)	-	(386,559)	-	(432,737)	-	(438,530)	-
Other	14,958	-	30,375	-	17,585	-	20,803	-	18,875	-
TOTAL OTHER FINANCING SOURCES (USES)	$(229,530)	-	$(197,858)	-	$(357,489)	-	$(361,376)	-	$(382,185)	-

[1] *Act 156, SLH 1998 distributed the Transient Accommodations Tax (TAT) revenues: 44.8% to the counties, 17.3% to the Convention Center Special Fund and 37.9% to the Tourism Special Fund. On June 30, 2000, the Convention Center Capital and Operations Special Fund ceased to exist, leaving the 17.3% Convention Center share to be distributed to the general fund. On July 1, 2002, Act 253, SLH 2002 redirected these deposits to a Convention Center Special Fund; provided that beginning January 1, 2002 TAT Convention Center Special Fund revenues in excess of $31 million a calendar year shall be deposited into the general fund. Act 250, SLH 2002 redirected a portion of the Tourism Special Fund deposits to other tourism-related special funds as follows: 5.3% to the Trust Fund and 32.6% to the Tourism Special Fund; provided that beginning on July 1, 2002 the TAT collected for the Tourism Special Fund in excess of $62.29 million for the fiscal year shall be deposited into the following funds: 90% of the first $1 million shall be deposited into the state parks special fund, 10% of the first $1 million shall be deposited into the Hawaii statewide trail and access program; provided that the total amount deposited into the state parks special fund and to the Hawaii statewide trail and access program shall not exceed $ million in any fiscal year. Act 113, SLH 2003, Section 2(b)(2)(A) redirected the TAT: from the first $1 million in revenues deposited in excess of $62.292 million, 10% of the first $1 million shall be deposited into the special land and development fund; provided that the total amount deposited into the state parks special fund and to the special land and development fund for the Hawaii statewide trail and access program shall not exceed $1 million in any fiscal year. Act 235, SLH 2005 increases allocation to tourism special fund to 34.2% and repeals TAT trust fund, effective July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to $33 million. Effective on July 1, 2006.*

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

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

Provided by the following paragraphs is a summary of the Council's actions from March 2007 through May 2009, inclusive.

In March 2007, the Council retained its earlier projections of the General Fund tax revenues growth rate of 6.0% for each of fiscal year 2007 and fiscal year 2008, as well as its projections for fiscal years 2009 to 2013.

In May 2007, based on actual collections for the first ten months of the fiscal year, the Council reduced its General Fund tax growth rates for fiscal year 2007 from 6.0% to 4.0%, but retained its growth rate projections for fiscal years 2008 to 2013.

Actual fiscal year 2007 General Fund tax revenues increased by 3.7% (as reported by the Department of Accounting and General Services) as compared to the Council's forecast of 4.0%.

In August 2007, the Council reduced its General Fund tax revenue growth rate from 6.0% to 5.7% for fiscal year 2008 and from 4.1% to 3.8% for fiscal year 2009, while slightly increasing its projections for fiscal years 2010 to 2012. There were no significant changes in the Council's economic outlook.

In January 2008, with the continued slowing of the economy, the Council reduced its General Fund tax revenue growth rate from 5.7% to 4.9% for fiscal year 2008, but increased it from 3.8% to 4.1% for fiscal year 2009.

In March 2008, based on actual tax revenue collections for the first eight months of the fiscal year and the continuing slowdown in the visitor and construction industries, the Council reduced its General Fund tax revenue growth rate from 4.9% to 3.9% for fiscal year 2008, but retained its growth rate projections for the other fiscal years.

In May 2008, based on actual tax revenue collections for the first ten months of the fiscal year and the continuing slowdown in the economy, the Council reduced its growth rate to 3.3% for fiscal year 2008 and 2.0% for fiscal year 2009.

In light of the Council's reduced projections and lower than projected fiscal year 2008 tax collections being reported by the Department of Taxation and the impact that a significant reduction in revenues would have on the State's budget and spending plans, the Governor requested in July 2008 that the Council update its projections before its next required reporting date of September 10. Accordingly, in August 2008, the Council, in view of actual tax collections for fiscal year 2008 (1.1% growth as reported by the Department of Accounting Services) and the declining economy, revised its growth rate for fiscal year 2009 from 2.0% to 1.0% and for fiscal year 2010 from 4.4% to 4.0%. The Council expects a strengthening of the economy in fiscal year 2010 and kept its projected growth rate for fiscal year 2011 at 3.9% and increased the growth rates for fiscal year 2012, fiscal year 2013 and fiscal year 2014 from 4.4% to 4.6%, from 5.5% to 5.6% and from 5.5% to 6.0% respectively.

At the conclusion of its regularly scheduled September 2008 meeting, the Council retained its August 2008 forecast of general fund tax revenues.

In October 2008, because of the crisis in the national and global financial markets, the Legislature requested that the Council update its projections before its next required reporting date of January 10, 2009. The Council met on October 29, 2008, and with the further deterioration of the economy - the decline in tourism, higher unemployment and lower inflation - reduced its growth rate from 1.0% to negative 0.5% for fiscal year 2009 and from 4.0% to 3.5% for fiscal year 2010. With an improvement in tourism expected in the first half of fiscal year 2010, the Council raised its forecast slightly for fiscal years 2011 through 2018.

In January 2009, with the continuing deterioration of Hawaii's economic outlook, the Council reduced its growth rate from negative 0.5% to negative 3.0% for fiscal year 2009, from 3.5% to 1.0% for fiscal year 2010, and from 3.5% to 1.0% for fiscal year 2011. The Council was concerned that tourism may not recover until the second half of fiscal year 2010 and construction may continue to decline for the next several years. The Council kept its growth rates for fiscal years 2012 through 2015.

In March 2009, while believing that the downturn in Hawaii's economy may be nearing a bottom to be followed by a gradual strengthening over several years, the Council continued to be concerned about Hawaii's increasing unemployment, the global recession and the uncertainty regarding the impact of the federal fiscal stimulus on Hawaii's economy. Accordingly, the Council reduced its growth rate from negative 3.0% to negative 5.0% for fiscal year 2009 and from 1.0% to 0.5% for fiscal year 2010. The Council raised its growth rate from 3.5% to 5.0% for fiscal year 2011, made slight revisions to its forecast for fiscal years 2012 through 2014 and reduced its growth rate from 6.5% to 4.9% for fiscal year 2015.

In May 2009, the Council further reduced its forecasted growth rate from negative 5.0% to negative 9.0% for fiscal year 2009 and from a positive 0.5% to 0% for fiscal year 2010. See "General Fund Financial Plan" in this Appendix B regarding the State's proposals to address its budgetary shortfalls.

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

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

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General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal year ended June 30, 2008, and estimates for the fiscal years ending June 30, 2009 through June 30, 2013, inclusive.

GENERAL FUND FINANCIAL PLAN 2008-2013
(Millions of Dollars)

	Actual* FY 08	Estimated FY 09	Estimated FY 10	Estimated FY 11	Estimated FY 12	Estimated FY 13
REVENUES						
Executive Branch:						
Tax revenues[1]	$4,640.8	$4,224.1	$4,224.1	$4,460.7	$4,692.6	$4,974.2
Nontax revenues	569.8	502.1	475.9	490.1	502.9	512.2
Judicial Branch Revenues	34.2	32.7	35.2	35.9	36.7	37.4
Other Revenue Sources / Adjustments[2]		123.1	163.1	174.9	178.4	130.4
TOTAL REVENUES	$5,244.8	$4,882.0	$4,898.3	$5,161.6	$5,410.6	$5,654.2
EXPENDITURES						
Executive Branch:						
Operating	$5,185.8	$5,318.2	$5,144.2	$5,267.6	$5,633.5	$5,741.9
Capital Investment	50.0	12.5				
Specific appropriations	206.3	232.6	17.5	5.2	5.0	5.0
Other		(507.3)	(363.4)	(267.5)	(295.1)	(205.1)
Subtotal - Executive Branch	5,442.1	5,056.0	4,798.3	5,005.3	5,343.4	5,541.8
Legislative Branch	37.5	34.0	34.0	34.0	34.0	34.0
Judicial Branch	143.8	150.4	139.0	139.0	139.0	139.0
OHA and counties	3.1	3.1	2.5	2.5	2.5	2.5
Appropriation Lapses[3]	(219.6)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	$5,406.9	$5,178.5	$4,908.8	$5,115.8	$5,453.9	$5,652.3
REVENUES OVER EXPENDITURES	(162.2)	(296.5)	(10.5)	45.8	(43.3)	1.9
CARRY-OVER BALANCE (DEFICIT)						
Beginning Balance	493.4	331.2	34.7	24.2	70.0	26.7
Ending Balance	331.2	34.7	24.2	70.0	26.7	28.6

1 *Reflects actual fiscal year 2008 tax revenue collections as reported by the Department of Accounting and General Services.*
2 *Includes revenue measures passed by the 2009 Legislature.*
3 *Not included as an item in the financial statements under "FINANCIAL STATEMENTS" in Part 1 of this Appendix B nor in the projections of the Council on Revenues.*

Note: Totals may not add due to rounding.
Sources: General Purpose Financial Statements of the State of Hawaii as of June 30, 2008; Department of Budget and Finance, May 2009.

The preceding General Fund financial plan is based on actions taken by the Legislature during the recent 2009 regular session and revised revenue projections adopted by the Council on Revenues on May 28, 2009. With respect to revenues, it incorporates various permanent tax revisions as well as temporary increases in the cigarette tax, conveyance tax, income tax and transient accommodation tax along with temporary reallocation of revenues from the conveyance tax and transient accommodations tax. It also reflects transfers from various special funds and repeal of certain exemptions from central services and departmental administrative assessments, and temporary redirection of interest earnings of various special funds. With respect to expenditures, it reflects budget reductions, debt restructuring, use of the EBR Fund, and use of federal stimulus funds for education and Medicaid.

The State's General Fund financial plan was initially balanced upon close of the 2009 regular session, but a budget gap developed when the Council on Revenues reduced its projections on May 28, 2009. Based on the May 28th projections and after giving effect to measures already taken by the State to address the shortfall, the State's cumulative budget shortfall for the period from fiscal year 2009 through fiscal year 2011 is approximately $730 million. On June 1, 2009, Governor Lingle proposed a three-point "comprehensive budget plan" to close this shortfall: (1) delay the payment of certain large health insurance and retirement fund and Medicare reimbursement bills from June 2009 annually for the next two fiscal years; (2) reduce free Medicaid benefits to low income adults; and (3) require every employee of the State to take three furlough days each month starting July 1, 2009 through the conclusion of fiscal year 2011. The latter measure alone will reduce State expenditures by an estimated $688 million over the two-year period.

The Governor may impose the foregoing measures on her own executive authority without action by the Legislature. While the Department of Education, the University of Hawaii, and the Hawaii Health Systems Corporation are part of the Executive Branch, these entities are governed by their respective boards. The Governor will be restricting the appropriations for these entities in amounts equivalent to three furlough days per month. The boards of these entities would have to decide how to allocate the reduction from their appropriation. In addition, Governor Lingle noted that she does not exercise control over the Judiciary, the Legislature and the Office of Hawaiian Affairs. She has requested that these entities follow her policy regarding the three furlough days per month. Litigation may arise with respect to the three furlough day measure.

In addition to the actions proposed by Governor Lingle, further restrictions will be imposed during the biennium period and a concerted budget review will be initiated to identify lower priority programs for reduction and/or elimination.

In the General Fund financial plan, fiscal year revenues are recognized based on receipt while fiscal year expenditures are recognized when appropriations are expended in that year or encumbered. At the end of the fiscal year, encumbrances are not lapsed but are considered to be expenditures. Additionally, the Department of Education, by law, is allowed to carry over all of its unencumbered appropriations to the following fiscal year. For example, $41.0 million carried over from fiscal year 2008 to fiscal year 2009 by the Department of Education did not lapse and was considered to be expended in fiscal year 2008.

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General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2008, and represent about 91% of the total General Fund revenues. Set forth below are the actual General Fund tax revenues for the fiscal year ended June 30, 2008, and estimated tax revenues for the fiscal years ending June 30, 2009, and June 30, 2010, based on the Council on Revenues' May 2009 projection.

GENERAL FUND TAX REVENUES

(Thousands of Dollars)

	Actual 2007-2008	**Estimated 2008-2009**	**Estimated 2009-2010**
General Excise and Use	$2,618,787	$2,346,153	$2,279,116
Income—Individual	1,544,307	1,361,177	1,351,678
Income—Corporation	85,081	75,565	59,919
Public Service Company	127,481	134,789	141,057
Insurance Premiums	95,742	128,138	163,797
Tobacco & Licenses	83,443	93,254	115,754
Liquor & Permits	45,620	44,509	45,295
Banks & Other Financial Corp.	18,212	14,022	12,147
Conveyance	6,513	13,853	17,578
Transient Accommodation Tax	15,935	12,054	37,174
Miscellaneous	751	590	589
TOTAL BEFORE ADJUSTMENTS	$4,641,872	$4,224,104	$4,224,104
GROWTH RATE	1.2%	-9.0%	0.0%

Sources: General Purpose Financial Statements of the State of Hawaii as of June 30, 2008; Council on Revenues' report dated June 1, 2009.

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for the first nine months of fiscal years 2008 and the first nine months of fiscal year 2009, reported by the State Director of Taxation. The collections from all sources for the nine-month period ending in March 2009 have amounted to $3.7 billion. Cumulative General Fund accruals for this nine-month period are down 7.4% from the previous nine-month period.

	July through March	
	2008-2009	**2007-2008**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial corporations[1]	$23,162	$14,7
Conveyances[1]	13,089	32,
Employment security contributions	28,185	68,
Fuel	123,291	125,3
General excise, license and registration fees	331	
General excise and use[2]	1,840,745	1,977,638
Honolulu County Surcharge[3]	133,053	139,1
Income—corporations:		
Declaration of estimated taxes	60,726	87,209
Payment with returns	15,509	14,336
Refunds	(46,971)	(58,410)
Income—individuals[1]:		
Declaration of estimated taxes	156,586	230,465
Payment with returns	55,647	46,743
Withholding tax on wages	1,056,245	1,045,878
Refunds	(233,662)	(237,290)
Inheritance and estate	267	63
Insurance premiums	72,064	78,634
Liquor and permits	35,522	35,176
Motor Vehicle Tax/Fees, Etc.[4]	74,634	85,140
Public Service companies	84,897	94,862
Tobacco and licenses[1]	80,221	76,273
Transient Accommodations Fees/Time Share Occupation fees	6	7
Transient Accommodations Tax/Time Share Occupation Tax[1]	159,552	174,549
All other[5]	52	
TOTAL	$3,733,151	$4,031,264

1 *Gross collection — does not reflect allocation to Special Funds.*
2 *May also contain some revenue from the Honolulu County Surcharge.*
3 *Allocated as of March 31, 2009. Taxpayers whose businesses are located outside of Oahu, but have business activities on Oahu may be subject to Honolulu County Surcharge tax.*
4 *Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Vehicle Registration Fees and Rental Vehicle Surcharge Tax.*
5 *Includes fuel retail dealer permits, penalties and interest on fuel tax..*

	July through March	
	2008-2009	**2007-2008**
State Tax Collections—Distribution	(Thousands of Dollars)	
State General Fund	$3,194,908	$3,410,010
State Highway Fund	138,865	149,889
State Airport Fund	2,713	3,232
Boating Special Fund	1,194	1,208
Environmental Fund	1,168	1,283
Cigarette Stamp Administrative Fund	155	146
Cigarette Stamp Enforcement Fund	1,161	1,095
Compliance Resolution Fund	-	-
Election Campaign Fund	14	24
Employment Security Fund	28,185	68,251
Rental Housing Fund	3,927	16,089
Natural Area Reserve Fund	3,272	8,044
Convention Center Enterprise Fund	21,829	22,967
Land Conservation Fund	1,309	3,218
Tourism Special Fund	54,567	59,478
School Minor Repairs and Maintenance Fund	47	51
Public Libraries Fund	40	43
Domestic Violence/Child Abuse Neglect Funds	82	96
Cancer Research Fund	14,614	11,205
Trauma System Fund	3,293	1,386
Emergency Medical Service Fund	2,008	1,386
Community Health Centers Fund	1,284	-
Subtotal	$3,474,635	$3,759,101
Honolulu County Surcharge	$133,053	$139,132
Distributions to Counties*:		
Fuel tax	53,986	54,832
Transient Accommodation Tax	71,479	78,198
Counties Total	$125,465	$133,030
TOTAL	$3,733,153	$4,031,263

Refers to distributions received by the Counties from the specified taxes.
Source: State Department of Taxation: Tax Research and Planning.

STATE EMPLOYEES' RETIREMENT SYSTEM

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

Employer Contribution Rate

The schedule which follows shows the 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)	Funding Period (Years)
2003	14.55	26.0
2004	13.95[1]	22.6
2005	13.95[1]	25.7
2006	13.95[1]	35.2
2007	13.95[1]	25.5
2008	13.95[1]	22.6

[1] *Reflects Act 181, SLH 2004, which amended HRS Sections 88-105,88-122,88-123, 88-124, 88-125 & 88-126.*

The decrease in 2004 was due to the new level percentage of pay approach enacted by Act 181, SLH 2004.

As seen above, the funding period (the number of years necessary to amortize the unfunded actuarial accrued liability of the System) was decreasing until 2005. In 2005 the funding period increased due to recognition of large actuarial losses. In 2006 the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions. The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008 pursuant to Act 256, SLH 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases.

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Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2007 and 2008 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2007 and 2008
(Includes all counties)

ASSETS	2007	2008
Total current assets	$10,589,772,857	$11,380,961,003
Present value of future employee contributions	1,178,598,532	1,321,322,095
Present value of future employer normal cost contributions	1,455,940,229	1,567,124,012
Unfunded actuarial accrued liability	5,106,773,175	5,168,108,050
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$18,331,084,793	$19,437,515,160
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	7,856,088,714	8,230,338,790
Present value of future benefits to active employees and inactive members	10,474,996,079	11,207,176,371
TOTAL LIABILITIES	$18,331,084,793	$19,437,515,161

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2008, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $5.168 billion. The System's funded ratios-assets divided by the actuarial accrued liability increased during fiscal year 2008 as shown below:

FUNDED RATIOS

June 30, 2007	June 30, 2008
67.5%	68.8%

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PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2008 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, 2008 ("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..

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HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2008

RUSS K. SAITO
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

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PART II: FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2008, which collectively comprise the State of Hawaii's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, and the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority, which are discretely presented component units. These financial statements reflect the following percentages of total assets and program revenues or additions for the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues / Additions
Governmental Activities	0%	0%
Business-Type Activities	87%	82%
Aggregate Discretely Presented Component Units	91%	69%
Fiduciary Funds	34%	100%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority (which contains a qualification as to the amounts due to the State of Hawaii, the effect of which, in our opinion, is not material in relation to the basic financial statements), the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority, is based solely on the reports of the other auditors. The reports on the Employer-Union Health Benefits Trust Fund, and the Hawaii Community Development Authority contain an explanatory paragraph relating to the restatement of the fiscal year 2007 financial statements. The reports on the Department of Transportation – Airports Division, the University of Hawaii, and the Hawaii Tourism Authority contain an explanatory paragraph relating to the adoption of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 basic financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2008, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, on pages 16 to 32, as well as the Schedules of Revenue and Expenditures – Budget and Actual (Budgetary Basis) and Schedules of Funding Progress for the Hawaii Employer-Union Health Benefits Trust Fund and the Hawaii State Teachers Association Voluntary Employees Beneficiary Association Trust, on pages 120 to 125, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii’s management. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective basic financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the State of Hawaii’s management. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 11 to the financial statements, the State of Hawaii adopted the provisions of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, on July 1, 2007.

As discussed in Note 15 to the financial statements, net assets and fund balance at June 30, 2007 have been restated.

Deloitte + Touche LLP

May 29, 2009

As management of the State of Hawaii (the "State"), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 7 of this report.

Restatements

Adjustments were made to the beginning net assets of the Government-Wide financial statements and the beginning fund balances of the Governmental Funds financial statements because of various misstatements. The restated balances have not been used for comparative purposes within this section.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2008, by $8.2 billion (net assets). Of this amount, $1.2 billion (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities and business-type activities decreased by $726.0 million and $36.4 million respectively for a combined decrease of $762.4 million to the State from the prior fiscal year.

Fund Highlights

At June 30, 2008, the State's Governmental Funds reported combined ending fund balances of $1.9 billion, a decrease of $443.4 million from the prior fiscal year. Of this amount, $974.4 million, or 50.2%, of total fund balances was in the General Fund, and the remaining $966.9 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2008, of $3.2 billion, a decrease of $36.4 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to $6.4 billion, an increase of $660.3 million. During fiscal 2008, the State issued $400 million in general obligation bonds for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects. The State also implemented Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for the fiscal year ended June 30, 2008 which resulted in a liability of $362.5 million.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

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

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

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

The Government-Wide financial statements can be found on pages 34 – 36 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

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

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 37 – 39 of this report.

Proprietary Funds

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

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

The basic Proprietary Funds financial statements can be found on pages 41 – 45 of this report.

Fiduciary Funds

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

The basic Fiduciary Funds financial statements can be found on pages 46 – 47 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 54 – 118 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

Government-Wide Financial Analysis

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

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $8.2 billion as of June 30, 2008, and decreased $762.4 million, or 8.5%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $726.0 million, or 12.6%, and business-type activities had a decrease of $36.4 million, or 1.1%. The following table was derived from the Government-Wide statement of net assets (2007 amounts have not been adjusted for restatements).

Summary Schedule of Net Assets

June 30, 2008 and 2007
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	$ 3,263,330	$ 3,346,955	$ 2,070,238	$ 2,187,257	$ 5,333,568	$ 5,534,212
Capital assets, net	8,459,905	8,382,521	2,233,007	2,145,259	10,692,912	10,527,780
Total assets	11,723,235	11,729,476	4,303,245	4,332,516	16,026,480	16,061,992
Liabilities:						
Long-term liabilities	5,460,530	4,802,431	957,246	955,032	6,417,776	5,757,463
Other liabilities	1,244,104	1,182,453	144,186	139,235	1,388,290	1,321,688
Total liabilities	6,704,634	5,984,884	1,101,432	1,094,267	7,806,066	7,079,151
Net assets:						
Invested in capital assets, net of related debt	3,987,244	3,597,174	1,458,305	1,278,608	5,445,549	4,875,782
Restricted	909,877	569,006	730,061	655,055	1,639,938	1,224,061
Unrestricted	121,480	1,578,412	1,013,447	1,304,586	1,134,927	2,882,998
Total net assets	$ 5,018,601	$ 5,744,592	$ 3,201,813	$ 3,238,249	$ 8,220,414	$ 8,982,841

Analysis of Net Assets

By far the largest portion of the State's net assets ($5.4 billion or 66.2%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.6 billion or 20.0%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets ($1.1 billion or 13.8%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2008, the State is able to report positive balances in all three categories of net assets for both governmental activities and business-type activities.

Changes in Net Assets

The State's net assets decreased by $762.4 million, or 8.5%, during the fiscal year ended June 30, 2008. Approximately 60.9% of the State's total revenues came from taxes, while 26.3% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 10.7% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and general government.

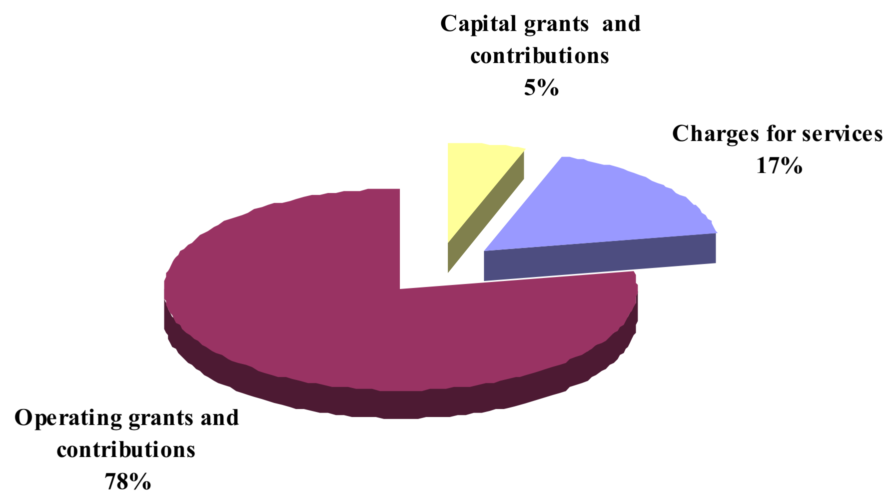
The following financial information was derived from the Government-Wide statement of activities and reflects how the State's net assets changed during the fiscal year (2007 amounts have not been adjusted for restatements).

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007
(Amounts in thousands)

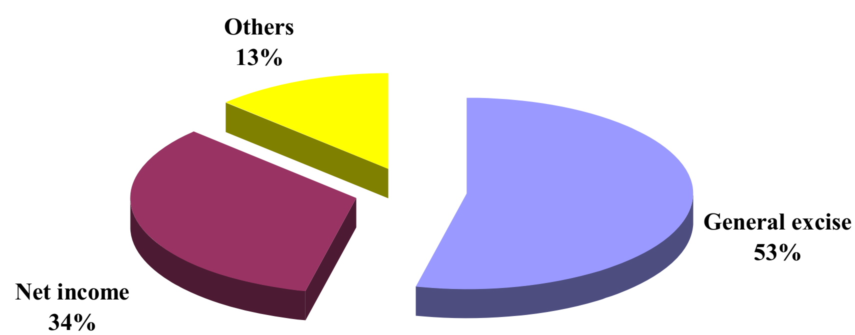
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 406,758	$ 378,500	$ 449,319	$ 488,564	$ 856,077	$ 867,064
Operating grants and contributions	1,887,298	1,820,886	—	—	1,887,298	1,820,886
Capital grants and contributions	130,643	75,697	81,967	148,597	212,610	224,294
General revenues:						
Taxes	4,854,216	4,882,003	—	—	4,854,216	4,882,003
Interest and investment income	112,024	102,295	48,893	82,046	160,917	184,341
Other	106	—	—	—	106	—
Total revenues	7,391,045	7,259,381	580,179	719,207	7,971,224	7,978,588
Expenses:						
General government	548,439	541,889	—	—	548,439	541,889
Public safety	414,463	378,409	—	—	414,463	378,409
Highways	490,754	385,267	—	—	490,754	385,267
Conservation of natural resources	74,411	68,745	—	—	74,411	68,745
Health	895,413	833,669	—	—	895,413	833,669
Welfare	1,877,188	1,773,505	—	—	1,877,188	1,773,505
Lower education	2,385,056	2,288,641	—	—	2,385,056	2,288,641
Higher education	815,116	759,777	—	—	815,116	759,777
Other education	23,206	21,127	—	—	23,206	21,127
Culture and recreation	107,676	92,444	—	—	107,676	92,444
Urban redevelopment and housing	187,861	73,991	—	—	187,861	73,991
Economic development and assistance	157,421	148,164	—	—	157,421	148,164
Interest expense	140,032	118,708	—	—	140,032	118,708
Airports	—	—	354,554	329,942	354,554	329,942
Harbors	—	—	80,344	76,831	80,344	76,831
Unemployment compensation	—	—	159,098	112,411	159,098	112,411
Nonmajor proprietary fund	—	—	22,619	4,871	22,619	4,871
Total expenses	8,117,036	7,484,336	616,615	524,055	8,733,651	8,008,391
Change in net assets	(725,991)	(224,955)	(36,436)	195,152	(762,427)	(29,803)
Net assets – beginning of year – as previously reported	5,744,592	6,262,975	3,238,249	2,640,090	8,982,841	8,903,065
Adjustments		(293,428)		403,007		109,579
Net assets – beginning of year – as restated	5,744,592	5,969,547	3,238,249	3,043,097	8,982,841	9,012,644
Net assets – end of year	$ 5,018,601	$ 5,744,592	$ 3,201,813	$ 3,238,249	$ 8,220,414	$ 8,982,841

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

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2008



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2008



Analysis of Changes in Net Assets

The State's net assets decreased by $762.4 million during the current fiscal year. This decrease is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of $726.0 million with decreases in net assets of Airports of $16.7 million and the Unemployment Compensation Fund of $44.6 million, offset by increases in net assets of Harbors and Nonmajor Proprietary Funds of $11.4 million and $13.6 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by $726.0 million. The key elements of this decrease are a result of higher expenses for health, lower and higher education, and urban redevelopment and housing.

	Governmental Activities (Amounts in thousands)	
	2008	**2007**
General revenues:		
Taxes	$ 4,854,216	$ 4,882,003
Interest and investment income and other	112,130	102,295
Total general revenues	4,966,346	4,984,298
Expenses, net of program revenues:		
General government	219,930	300,506
Public safety	336,401	299,561
Highways	280,535	266,934
Conservation of natural resources	15,821	15,183
Health	624,714	597,832
Welfare	720,468	600,891
Lower education	2,126,429	2,009,821
Higher education	815,116	759,777
Other education	22,665	20,725
Culture and recreation	105,579	82,260
Urban redevelopment and housing	151,283	7,831
Economic development and assistance	133,364	129,224
Interest expense	140,032	118,708
Total governmental activities expenses, net of program revenues	5,692,337	5,209,253
Decrease in governmental activities net assets	$ (725,991)	$ (224,955)

Tax revenues decreased by $27.8 million, or .6%, from the previous fiscal year. The decrease was primarily due to a decrease in general excise taxes of $62.2 million, an increase in individual and corporate income taxes of $13.7 million, and an increase in transient accommodations taxes of $10.4 million collected by the Hawaii Tourism Authority.

Health net expenses increased by $26.9 million, or 4.5%, from the previous fiscal year due to an increase in expenditures for medical services programs, including public health services, and adult and adolescent behavioral health services.

Lower education net expenses increased by $116.6 million or 5.8% from the previous fiscal year due primarily to higher fixed costs, including debt service and fringe benefits, higher payroll costs, increase in repairs and maintenance expenses and the federal No Child Left Behind Act requirements.

Higher education net expenses increased by $55.3 million or 7.3% due mainly to a $134.4 million increase in compensation and benefits because of scheduled pay rate increases and addition of new faculty and administrative employees, which included an increase in expense related to post-retirement health and life insurance benefits due to the impact of GASB Statement No. 45, offset by decreases in supplies and material expenses and scholarships and fellowship expenses.

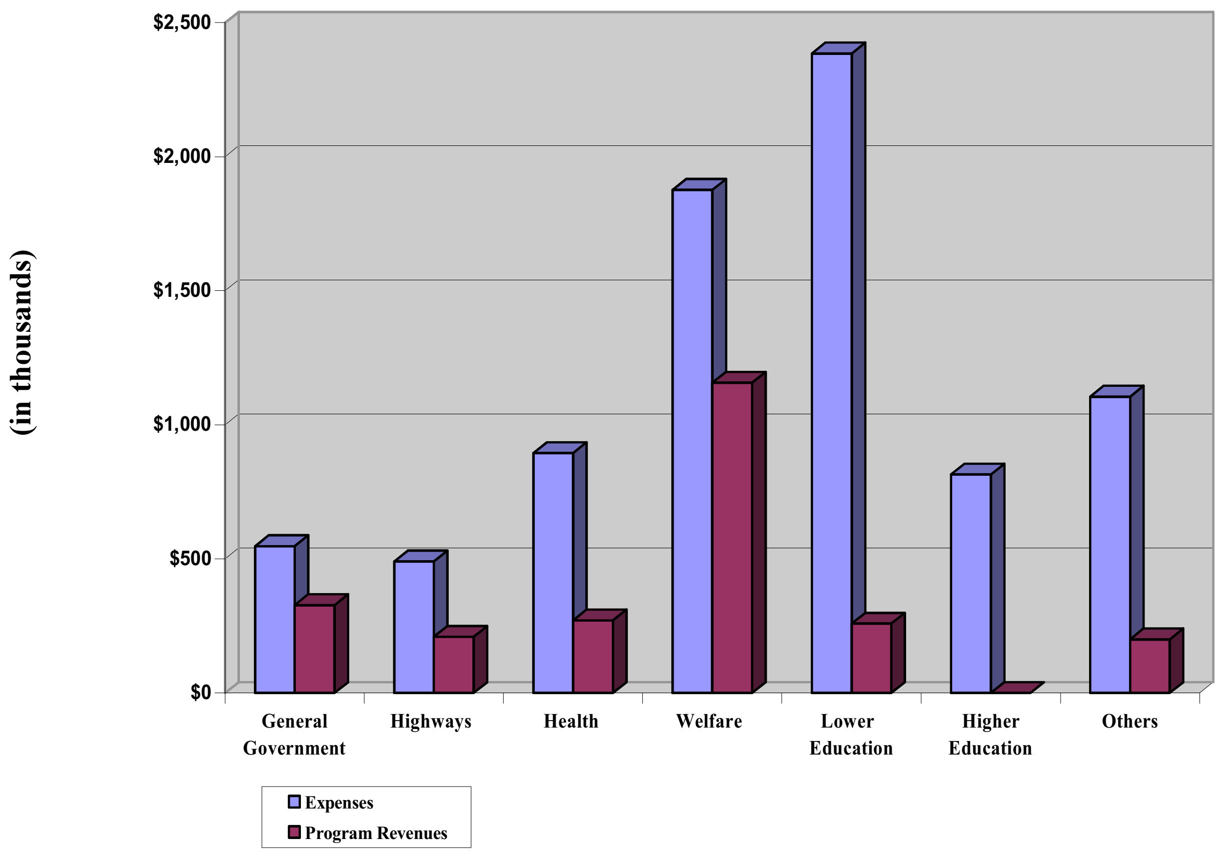
Welfare net expenses increased by $119.6 million, or 19.9%, from the previous fiscal year due to an increase in health care program costs administered by DHS, which is principally due to the transfer of the Home and Community Based Services program from the child welfare and adult community care services program to the health care programs of approximately $174.1 million, retroactive increases in the Medicaid fee schedule of $24.8 million and for the Disproportionate Share Hospital payments of $17.7 million.

Urban redevelopment and housing net expenses increased by $143.5 million, or over 18-fold from the previous fiscal year due to an increase in housing and rental expenses for Hawaii Housing Finance and Development Corporation of $28.8 million, increase of $8 million in Hawaiian Home Administration Account, and an increase of $25 million for the acquisition and financing of a portion of the land and improvements of Kukui Gardens.

Public safety net expenses increased by $36.8 million, or 12.3% from the previous fiscal year due to increases in collective bargaining costs, inmate health care costs and mainland prison expenses.

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

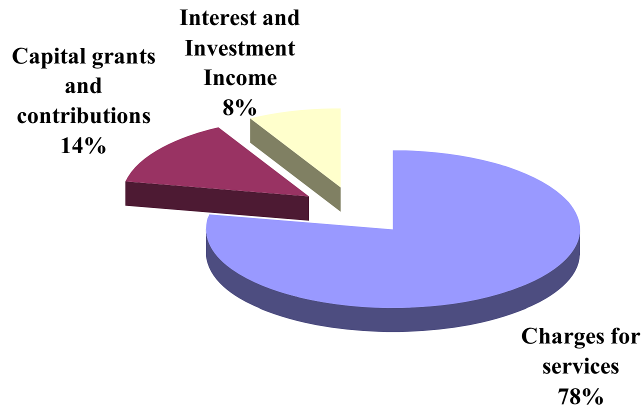
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2008



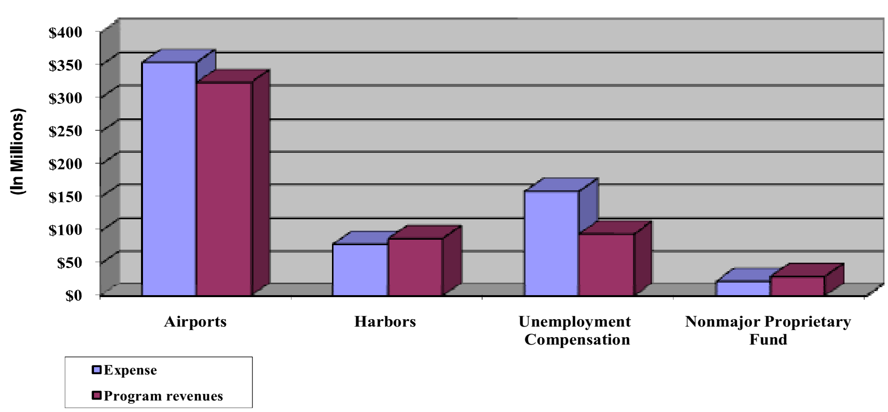
Business-Type Activities

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

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2008



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2008



Business-type activities decreased the State's net assets by $36.4 million in fiscal 2008, compared to an increase of $195.2 million in fiscal 2007. Key elements of this decrease are as follows:

- Airport's net assets decreased $16.7 million compared to an increase of $34.1 million in the prior fiscal year. Capital contributions decreased $19.4 million and operating expenses increased $29.4 million, primarily attributed to higher personnel services and airport operating expenses. Interest income decreased $21.8 million primarily due to a decrease in fair value of investments in the State's Investment Pool of $20.0 million.

- Harbor's net assets increased $11.4 million in fiscal 2008 compared to an increase of $25.0 million in fiscal 2007. This change was primarily due to higher operating expenses of $8.8 million and a decrease in interest income of $9.1 million mainly attributed to a decrease in fair value of investments in the State's Investment Pool of $8.1 million.

- The Unemployment Compensation Fund's net assets decreased $44.6 million compared to an increase of $50.9 million in the prior fiscal year. The change was primarily due to a decrease in unemployment tax revenues of $50.6 million and an increase in unemployment benefits paid of $46.7 million.

- Nonmajor Proprietary Fund's net assets increased $13.6 million in fiscal 2008 compared to an increase of $85.2 million in fiscal 2007. This large decrease was attributed to decreases in capital contributions in the Water Pollution control Revolving Fund of $39.6 million and in the Drinking Water Treatment Revolving Fund of $11.8 million. The Employer Union Trust Fund incurring benefit claims expense in excess of contributions for active employees healthcare benefits of $40.8 million also contributed to the decrease.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2008 and 2007 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues: Charges for Services 2008	Charges for Services 2007	Operating/Capital Grants and Contributions 2008	Operating/Capital Grants and Contributions 2007	Total 2008	Total 2007	Expenses 2008	Expenses 2007	Program Revenues Net of Expenses 2008	Program Revenues Net of Expenses 2007
Airports	$ 266,820	$ 256,843	$ 56,931	$ 71,363	$ 323,751	$ 328,206	$ 354,554	$ 329,942	$ (30,803)	$ (1,736)
Harbors	85,447	85,663	3,616	4,372	89,063	90,035	80,344	76,830	8,719	13,205
Unemployment compensation	87,486	138,070	—	—	87,486	138,070	159,098	112,411	(71,612)	25,659
Nonmajor proprietary funds	9,566	7,987	21,420	72,862	30,986	80,849	22,619	4,871	8,367	75,978
Total	$ 449,319	$ 488,563	$ 81,967	$ 148,597	$ 531,286	$ 637,160	$ 616,615	$ 524,054	$ (85,329)	$ 113,106

Financial Analysis of the State's Individual Funds

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

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of $1.9 billion, a decrease of $407.7 million from the prior fiscal year (as restated). Unreserved fund balance, normally a positive amount, was a negative $810.6 million at fiscal year end. This deficit was the result of a negative unreserved fund balance of $1.8 billion in the Capital Projects Fund which was attributed to outstanding encumbrances exceeding the cash available in the fund. Encumbrances can be incurred as long as there is sufficient appropriation or authorization balances. The unreserved fund balance excluding the Capital Projects Fund was $977.7 million, which represents the amount available for spending at the State's discretion in the coming fiscal year. The remainder of the fund balance is reserved to indicate that it is not available for spending because it has been already been committed (1) to liquidate contacts and purchase orders of the prior period or are legally segregated for a specific future use ($2.2 billion), (2) for notes and loans receivable, advances, and investments ($69.9 million), (3) for federal aid highway projects encumbrances ($302.0 million), or (4) for a variety of other restricted purposes ($163.3 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was $567.5 million, a decrease of $313.8 million, or 35.6% from the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.9% of total General Fund expenditures, a decrease of 7.9% from the prior fiscal year, while total fund balance represents 20.4% of the same amount, a decrease of 8.7% from the prior fiscal year.

The fund balance of the State's General Fund decreased by $321.9 million during the current fiscal year, which was due primarily to increases in expenditures in general government, welfare, lower education and higher education of $55.5 million, $42.0 million, $106.5 million and $37.0 million, respectively. The fund balance of the State's Capital Projects Fund decreased by $182.8 million during the current fiscal year. Because of adequate cash reserves, the State issued less general obligation bonds this fiscal year, which along with increased expenditures were the primary reasons for the decrease in fund balance. The fund balance of the Med-Quest Special Fund decreased $15.9 million. The fund balance of the State's other nonmajor Governmental Funds increased by $112.8 million during the current fiscal year. The increase was primarily due to an increase in intergovernmental revenues.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had a decrease in net assets of $16.7 million, Harbors had an increase in net assets of $11.4 million, the Unemployment Compensation Fund had a decrease in net assets of $44.6 million, and the Nonmajor Proprietary Funds had an increase in net assets of $13.6 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $24.0 million, or 0.5%, less than the final budget. The decrease was primarily attributed to lower corporate and individual net income taxes of $62.2 million, general excise taxes of $60.2 million, other taxes of $7.8 million, offset by higher investment and investment income, charges for current services, fines, forfeitures and penalties, and other revenues of $20.2 million, $17.6 million, $22.9, million and $50.3 million, respectively.

The General Fund expenditure budget increased by $251.1 million from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Amounts that were not part of this original budget include: $110.4 million in employees' salary adjustments, $37.3 million for the State Legislature, $15.4 million for various health programs, including adult mental health, and community hospitals disability, $9.6 million for housing programs, $7.6 million for upper education programs. $17.0 million for welfare programs, including Medicaid fee schedule increases, and $21.5 million for subsidies.

The difference between the final budget and actual expenditures on a budgetary basis was $138.6 million. The positive variance in general government is primarily attributed to $18.5 million of appropriations made to the State Legislature that can be carried over to the next fiscal year and $7.6 million appropriated for employees' salary adjustments that lapsed. The positive variance in general government was also due to a reduction in health benefit premiums of approximately $10.9 million because of lower actual premium rates for actives and retirees and a reduction of $15.2 million in various welfare programs and the postponement of the Medicaid fee schedule rate increase to fiscal 2009 resulted in the positive variance in welfare. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $41.0 million of unencumbered appropriations into the next fiscal year. By law, the Department of Education is allowed to carry over up to 5% of its unencumbered appropriations

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to $10.7 billion (net of accumulated depreciation of $7.5 billion), an increase of $165.1 million from fiscal 2007. The increase is primarily due to $194.2 million of additional projects under construction at the end of fiscal 2008. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2008, included the following:

- $36.5 million for air conditioning system improvements at the Honolulu International Airport
- $58.3 million for inline baggage system improvements at the Honolulu International Airport
- $36.6 million for loading bridge modernization at airports, statewide
- $33.5 million for additional cargo facilities at Hilo International Airport
- $30.0 million for barge terminal improvements at Hilo harbor

- $66.8 million for the Ewa Makai Middle School in Oahu, Hawaii
- $39.7 million for the Wailuku II Elementary School in Maui
- $170.3 million of various capital improvement projects for public school facilities throughout the State

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

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $5.6 billion. Of this amount, $4.4 billion comprises debt backed by the full faith and credit of the State and $1.2 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt

June 30, 2008 and 2007

(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2008	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**
General obligation bonds	$ 4,408,572	$ 4,079,714	$ 38,357	$ 37	$ 4,446,929	$ 4,079,751
Revenue bonds	268,425	283,310	894,299	939,349	1,162,724	1,222,659
Total	$ 4,676,997	$ 4,363,024	$ 932,656	$ 939,386	$ 5,609,653	$ 5,302,410

The State's total long-term debt increased by $307.2 million, or 5.8%, during the current fiscal year. The key factors for this increase was the reporting of $276.9 million of general obligation bonds payable that was previously reported by the Hawaii Tourism Authority, a discretely presented component unit, and the issuance of $400 million of general obligation bonds for financing the Hawaiian Home Lands Trust settlement (see Note 10 to the basic financial statements) and public improvement projects.

As of June 30, 2008, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2008 was $400 million.

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

Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for fiscal year ended June 30, 2008.

Actuarial valuation studies were completed as of July 1, 2007 for the Employer-Union Health Benefits Trust Fund (EUTF), Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA), and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $8.8 billion. The State's combined annual required contribution for fiscal 2008 was $656.7 million and its OPEB contributions were $198.1 million, resulting in a net OPEB liability at the end of the fiscal year of $458.6 million. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

Unemployment is at higher levels with the statewide seasonally adjusted unemployment rate being 6.5% for the month of February 2009. One year ago, the State's seasonally adjusted unemployment rate stood at 3.1%, while the seasonally adjusted national unemployment rate was 4.8%.

Cumulative tax collections for the first nine months of fiscal 2009 exceeded $3.2 billion, or $214.1 million less than the corresponding period last year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, decreased 6.9% in the same period.

The Council on Revenues in March 2009, estimated a decline of 5.0% in General Fund tax revenues in fiscal 2009 and an increase of .5% for fiscal 2010. Actual General Fund tax collections are down by 5.3% in the first nine months of fiscal 2009 over the corresponding 2008 period. Lower general excise and use tax collections were the primary factors underlying this weak performance. In January 2009, the Council on Revenues forecast the State's growth at 1.0% in 2009 total personal income. The projected decrease in revenues and increasing fixed costs led the Governor to impose a 4% restriction in August 2008 and an additional 2% restriction in January 2009 on all General Fund discretionary expenditures on all Executive Branch departments and agencies for fiscal year 2009. Consultant and personal services contracts and equipment purchases greater than $10,000 and the filling of vacant positions require the approval of the Governor. Other expenditure controls implemented in fiscal year 2008 continue to be in force.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
CASH AND CASH EQUIVALENTS	$ 915,294	$ 1,297,161	$ 2,212,455	$ 430,411
RECEIVABLES:				
Taxes	370,055	13,495	383,550	-
Accounts and accrued interest — net	9,426	25,536	34,962	163,052
Notes, loans, mortgages, and contributions — net	75,051	-	75,051	218,330
Federal government	96,686	10,838	107,524	4,076
Other — net	48,273	35,833	84,106	31,551
Total receivables	599,491	85,702	685,193	417,009
DUE FROM COMPONENT UNITS	320,061	-	320,061	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	368,978
INVESTMENTS	1,355,670	-	1,355,670	760,106
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	22,061
Materials and supplies	-	509	509	28,832
Total inventories	-	509	509	50,893
NET INVESTMENT IN FINANCING LEASE	-	-	-	15,032
RESTRICTED ASSETS	-	423,420	423,420	324,043
OTHER ASSETS:				
Prepaid expenses	6,038	9,351	15,389	16,634
Bond issue and deferred costs — net	66,775	5,958	72,733	1,987
Promissory note receivable	-	248,137	248,137	-
Other	1	-	1	28,407
Total other assets	72,814	263,446	336,260	47,028
CAPITAL ASSETS:				
Land and land improvements	2,037,485	585,015	2,622,500	433,191
Infrastructure	8,062,695	-	8,062,695	117,986
Construction in progress	840,989	291,795	1,132,784	278,918
Buildings, improvements, and equipment	3,414,693	2,955,001	6,369,694	3,012,684
Accumulated depreciation	(5,895,957)	(1,598,804)	(7,494,761)	(1,531,042)
Total capital assets — net	8,459,905	2,233,007	10,692,912	2,311,737
TOTAL	$11,723,235	$ 4,303,245	$16,026,480	$ 4,725,237

(Continued)

STATEMENT OF NET ASSETS

JUNE 30, 2008

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 395,838	$ 37,898	$ 433,736	$ 149,223
Other accrued liabilities	159,704	54,564	214,268	143,243
Prepaid airport use charge fund	-	464	464	-
Due to Component Units	368,978	-	368,978	-
Due to Primary Government	-	-	-	320,061
Due to federal government	-	-	-	20
Deferred revenue	-	3,997	3,997	-
Estimated future costs of land sold	-	-	-	32,759
Unamortized bond premium	220,965	-	220,965	-
Premiums payable	-	47,263	47,263	-
Other	98,619	-	98,619	33,959
Long-term liabilities:				
Due within one year:				
Payable from restricted assets:				
Revenue bonds payable — net	-	33,158	33,158	-
General obligation bonds payable	342,395	9	342,404	-
Notes, mortgages, and installment contracts payable	-	-	-	16,031
Accrued vacation and retirement benefits payable	64,459	3,239	67,698	39,036
Revenue bonds payable — net	15,495	-	15,495	20,153
Reserve for losses and loss adjustment costs	43,214	1,216	44,430	22,613
Capital lease obligations	3,795	-	3,795	8,435
Deferred commitment fees	-	-	-	339
Due in more than one year:				
General obligation bonds payable	4,066,177	38,348	4,104,525	-
Notes, mortgages, and installment contracts payable	-	-	-	35,072
Accrued vacation and retirement benefits payable	131,162	7,052	138,214	60,019
Revenue bonds payable — net	252,930	861,141	1,114,071	643,003
Reserve for losses and loss adjustment costs	112,089	3,550	115,639	8,265
Capital lease obligations	71,685	-	71,685	45,357
Premiums on bonds payable	-	-	-	1,864
Other postemployment benefit liability	353,936	8,580	362,516	95,669
Other	3,193	953	4,146	59,730
TOTAL LIABILITIES	6,704,634	1,101,432	7,806,066	1,734,851
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,987,244	1,458,305	5,445,549	1,623,933
RESTRICTED FOR:				
Capital maintenance projects	188,826	-	188,826	-
Health and welfare	124,147	-	124,147	-
Natural resources	126,438	-	126,438	-
Hawaiian programs	207,324	-	207,324	-
Budget stabilization	73,954	-	73,954	-
Other purposes	167,186	-	167,186	-
Bond requirements and other	22,002	730,061	752,063	977,522
UNRESTRICTED	121,480	1,013,447	1,134,927	388,931
TOTAL NET ASSETS	$5,018,601	$3,201,813	$8,220,414	$2,990,386

See accompanying notes to basic financial statements. (Concluded)

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	$ 548,439	$203,336	$ 125,173	$ -	$ (219,930)	$ -	$ (219,930)	
Public safety	414,463	28,124	49,938	-	(336,401)	-	(336,401)	
Highways	490,754	5,958	73,618	130,643	(280,535)	-	(280,535)	
Conservation of natural resources	74,411	27,006	31,584	-	(15,821)	-	(15,821)	
Health	895,413	102,032	168,667	-	(624,714)	-	(624,714)	
Welfare	1,877,188	979	1,155,741	-	(720,468)	-	(720,468)	
Lower education	2,385,056	31,032	227,595	-	(2,126,429)	-	(2,126,429)	
Higher education	815,116	-	-	-	(815,116)	-	(815,116)	
Other education	23,206	-	541	-	(22,665)	-	(22,665)	
Culture and recreation	107,676	-	2,097	-	(105,579)	-	(105,579)	
Urban redevelopment and housing	187,861	684	35,894	-	(151,283)	-	(151,283)	
Economic development and assistance	157,421	7,607	16,450	-	(133,364)	-	(133,364)	
Interest expense	140,032	-	-	-	(140,032)	-	(140,032)	
Total governmental activities	8,117,036	406,758	1,887,298	130,643	(5,692,337)	-	(5,692,337)	
Business-Type Activities:								
Airports	354,554	266,820	-	56,931	-	(30,803)	(30,803)	
Harbors	80,344	85,447	-	3,616	-	8,719	8,719	
Unemployment compensation	159,098	87,486	-	-	-	(71,612)	(71,612)	
Nonmajor proprietary funds	22,619	9,566	-	21,420	-	8,367	8,367	
Total business-type activities	616,615	449,319	-	81,967	-	(85,329)	(85,329)	
TOTAL PRIMARY GOVERNMENT	8,733,651	856,077	1,887,298	212,610	(5,692,337)	(85,329)	(5,777,666)	
COMPONENT UNITS:								
University of Hawaii	1,350,459	276,886	379,364	-				(694,209)
Hawaii Housing Finance and Development Corporation	48,808	50,828	61,830	-				63,850
Hawaii Public Housing Authority	125,428	21,940	61,777	9,521				(32,190)
Hawaii Health Systems Corporation	523,559	392,902	1,356	11,393				(117,908)
Hawaii Tourism Authority	121,007	14,036	-	-				(106,971)
Hawaii Community Development Authority	16,424	8,618	-	-				(7,806)
Hawaii Hurricane Relief Fund	220	-	-	-				(220)
TOTAL COMPONENT UNITS	2,185,905	765,210	504,327	20,914				(895,454)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,597,121	-	2,597,121	-
Net income tax — corporations and individuals					1,634,117	-	1,634,117	-
Public service companies tax					127,481	-	127,481	-
Transient accommodations tax					17,756	-	17,756	-
Tobacco and liquor taxes					134,886	-	134,886	-
Liquid fuel tax					90,123	-	90,123	-
Tax on premiums of insurance companies					96,332	-	96,332	-
Vehicle weight and registration tax					60,842	-	60,842	-
Rental motor/tour vehicle surcharge tax					49,196	-	49,196	-
Franchise tax					20,213	-	20,213	-
Other tax					26,149	-	26,149	-
Interest and investment income					112,024	48,893	160,917	25,151
Payments from the State — net					-	-	-	978,319
Other					106	-	106	54,994
Total general revenues					4,966,346	48,893	5,015,239	1,058,464
CHANGE IN ACCOUNTING PRINCIPLE (Note 1)					-	-	-	30,815
CHANGE IN NET ASSETS					(725,991)	(36,436)	(762,427)	193,825
NET ASSETS — Beginning of year — as previously reported					5,744,592	3,238,249	8,982,841	2,873,536
ADJUSTMENTS (Note 15)					-	-	-	(76,975)
NET ASSETS — Beginning of year — as restated					5,744,592	3,238,249	8,982,841	2,796,561
NET ASSETS — End of year					$ 5,018,601	$3,201,813	$ 8,220,414	$2,990,386

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 318,708	$ 30,361	$ 2,625	$ 563,600	$ 915,294
RECEIVABLES:					
Taxes	370,055	-	-	-	370,055
Accrued interest	5,259	-	-	4,167	9,426
Notes and loans — net	3,834	-	-	71,217	75,051
Federal government	-	-	96,686	-	96,686
Other	68	-	-	20,652	20,720
DUE FROM OTHER FUNDS	90,886	-	-	41,432	132,318
DUE FROM COMPONENT UNITS	28,958	-	-	-	28,958
INVESTMENTS	514,026	242,946	-	598,698	1,355,670
OTHER ASSETS	-	-	-	1	1
TOTAL	$1,331,794	$ 273,307	$ 99,311	$1,299,767	$ 3,004,179
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 129,527	$ 44,009	$ 97,780	$ 124,522	$ 395,838
Other accrued liabilities	150,293	98	-	9,313	159,704
Due to other funds	42	128,928	-	3,348	132,318
Due to Component Units	54,243	294,325	-	-	348,568
Deferred revenue	23,331	-	-	-	23,331
Payable from restricted assets — matured bonds and interest payable	-	-	-	3,193	3,193
Total liabilities	357,436	467,360	97,780	140,376	1,062,952
FUND BALANCES:					
Reserved for:					
Continuing appropriations	403,050	1,292,319	17,482	503,832	2,216,683
Receivables and advances	3,834	-	-	66,034	69,868
Federal aid highway projects encumbrances	-	301,985	-	-	301,985
Bond redemption and other	-	-	-	163,309	163,309
Unreserved for major funds:					
Designated for future expenditures	103,557	-	-	-	103,557
Undesignated	463,917	(1,788,357)	-	-	(1,324,440)
Unreserved for nonmajor Special Revenue Funds:					
Designated for future expenditures	-	-	-	124,154	124,154
Undesignated	-	-	(15,951)	302,062	286,111
Total fund balances	974,358	(194,053)	1,531	1,159,391	1,941,227
TOTAL	$1,331,794	$ 273,307	$ 99,311	$1,299,767	$ 3,004,179

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 1,941,227
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,037,485
Infrastructure	8,062,695
Construction in progress	840,989
Buildings, improvements, and equipment	3,414,693
Accumulated depreciation	(5,895,957)
	8,459,905
Accrued interest and other payables are not recognized in Governmental Funds	(319,584)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in Governmental Funds, such as accrued interest and settlement receivables	123,697
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds payable	(4,408,572)
Accrued vacation payable	(195,621)
Revenue bonds payable	(268,425)
Reserve for losses and loss adjustment costs	(155,303)
Other postemployment benefit liability	(353,936)
Long term transactions with component units	270,693
Capital lease obligations	(75,480)
	(5,186,644)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 5,018,601

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$2,597,121	$ -	$ -	$ -	$2,597,121
Net income tax — corporations and individuals	1,637,265	-	-	-	1,637,265
Public service companies tax	127,481	-	-	-	127,481
Transient accommodations tax	15,756	-	-	2,000	17,756
Tobacco and liquor taxes	129,063	-	-	5,823	134,886
Liquid fuel tax	-	-	-	90,123	90,123
Tax on premiums of insurance companies	94,587	-	-	1,745	96,332
Vehicle weight and registration tax	-	-	-	60,842	60,842
Rental motor/tour vehicle surcharge tax	-	-	-	49,196	49,196
Franchise tax	18,213	-	-	2,000	20,213
Other	6,320	-	-	19,829	26,149
Total taxes	4,625,806	-	-	231,558	4,857,364
Interest and investment income	27,639	-	212	87,396	115,247
Charges for current services	112,644	-	184	228,543	341,371
Intergovernmental	4,634	-	707,560	1,095,182	1,807,376
Rentals	462	-	-	19,690	20,152
Fines, forfeitures, and penalties	23,508	-	-	9,110	32,618
Licenses and fees	1,510	-	-	30,221	31,731
Revenues from private sources	2,317	-	-	57,191	59,508
Other	47,375	-	14,385	69,531	131,291
Total revenues	4,845,895	-	722,341	1,828,422	7,396,658
EXPENDITURES:					
Current:					
General government	407,147	83,000	-	47,394	537,541
Public safety	280,962	14,692	-	115,498	411,152
Highways	-	201,353	-	205,442	406,795
Conservation of natural resources	46,489	3,369	-	53,738	103,596
Health	573,929	14,537	-	275,448	863,914
Welfare	744,547	27,777	684,723	400,426	1,857,473
Lower education	1,882,742	134,726	-	184,433	2,201,901
Higher education	697,333	117,783	-	-	815,116
Other education	6,293	-	-	16,913	23,206
Culture and recreation	53,805	15,908	-	40,691	110,404
Urban redevelopment and housing	52,035	25,395	-	178,353	255,783
Economic development and assistance	39,752	24,814	-	84,509	149,075
Other	528	-	-	5,352	5,880
Debt service	-	-	-	478,735	478,735
Total expenditures	4,785,562	663,354	684,723	2,086,932	8,220,571
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	60,333	(663,354)	37,618	(258,510)	(823,913)
OTHER FINANCING SOURCES (USES):					
Issuance of general obligation and refunding general obligation bonds — par	-	397,302	-	29,010	426,312
Issuance of general obligation and refunding general obligation bonds — premium	18,875	-	-	500	19,375
Payment to refunded bond escrow agent	-	-	-	(29,510)	(29,510)
Transfers in	37,470	136,312	-	629,674	803,456
Transfers out	(438,530)	(53,092)	(53,497)	(258,337)	(803,456)
Total other financing sources (uses)	(382,185)	480,522	(53,497)	371,337	416,177
NET CHANGE IN FUND BALANCES	(321,852)	(182,832)	(15,879)	112,827	(407,736)
FUND BALANCES — Beginning of year — as previously reported	1,296,210	24,410	17,410	1,046,564	2,384,594
ADJUSTMENTS (Note 15)	-	(35,631)	-	-	(35,631)
FUND BALANCES — Beginning of year — as restated	1,296,210	(11,221)	17,410	1,046,564	2,348,963
FUND BALANCES — End of year	$ 974,358	$(194,053)	$ 1,531	$1,159,391	$1,941,227

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ (407,736)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay — net of disposals	430,586
Depreciation expense	(353,202)
Excess of capital outlay over depreciation expense	77,384
Bond proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.	(456,524)
Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	395,456
Capital lease payments	3,610
Total long-term debt repayment	399,066
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	5,369
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	(4,056)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds:	
Change in postemployment liability	(353,936)
Change in accrued vacation payable	(11,754)
Change in HHFDC long term liability	5,990
Change in reserve for losses and loss adjustment costs	20,206
	(339,494)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (725,991)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 451,011	$ 118,875	$ 527,459	$ 199,816	$ 1,297,161
Restricted assets — cash and short-term investments	186,732	17,746	-	-	204,478
Receivables:					
Taxes	-	-	13,495	-	13,495
Accounts and accrued interest (net of allowance for doubtful accounts of $7,843)	15,516	7,785	-	2,235	25,536
Promissory note receivable (net of allowance for doubtful accounts of $10,299)	325	43	-	21,630	21,998
Federal government	10,259	579	-	-	10,838
Restricted assets — passenger facility charges	1,523	-	-	-	1,523
Other	1,915	568	-	1,469	3,952
Premiums	-	-	-	31,881	31,881
Restricted assets — investments — repurchase agreements and certificates of deposit	75,252	-	-	-	75,252
Materials and supplies inventory	268	241	-	-	509
Prepaid expenses and other assets	-	24	-	9,327	9,351
Total current assets	742,801	145,861	540,954	266,358	1,695,974
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	334,921	250,094	-	-	585,015
Construction in progress	219,131	70,670	-	1,994	291,795
Buildings and improvements	2,208,347	521,211	-	-	2,729,558
Equipment	174,420	47,509	-	3,514	225,443
	2,936,819	889,484	-	5,508	3,831,811
Less accumulated depreciation	(1,401,205)	(194,580)	-	(3,019)	(1,598,804)
Net capital assets	1,535,614	694,904	-	2,489	2,233,007
Bond issue costs — net	2,925	3,033	-	-	5,958
Promissory note receivable	123	-	-	226,016	226,139
Restricted assets — net direct financing leases	36,095	-	-	-	36,095
Restricted assets — other, cash and investments	-	106,072	-	-	106,072
Total noncurrent assets	1,574,757	804,009	-	228,505	2,607,271
TOTAL	$ 2,317,558	$ 949,870	$ 540,954	$ 494,863	$ 4,303,245

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 28,488	$ 6,253	$ 2,583	$ 574	$ 37,898
Payable from restricted assets — contracts payable, accrued interest, and other	33,326	16,020	-	-	49,346
Other accrued liabilities	5,023	-	-	195	5,218
Prepaid airport use charge fund	464	-	-	-	464
Deferred revenue	3,997	-	-	-	3,997
General obligation bonds payable, current portion	9	-	-	-	9
Reserve for losses and loss adjustment costs	1,120	96	-	-	1,216
Accrued vacation, current portion	2,639	575	-	25	3,239
Payable from restricted assets — revenue bonds payable	22,240	10,918	-	-	33,158
Premiums payable	-	-	-	47,263	47,263
Total current liabilities	97,306	33,862	2,583	48,057	181,808
NONCURRENT LIABILITIES:					
General obligation bonds payable	19	38,329	-	-	38,348
Accrued vacation	5,120	1,663	-	269	7,052
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	621,607	239,534	-	-	861,141
Reserve for losses and loss adjustment costs	3,180	370	-	-	3,550
Other postemployment benefit liability	6,940	1,451	-	189	8,580
Other	953	-	-	-	953
Total long-term liabilities	637,819	281,347	-	458	919,624
TOTAL LIABILITIES	735,125	315,209	2,583	48,515	1,101,432
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	955,901	499,915	-	2,489	1,458,305
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	230,217	66,359	-	433,485	730,061
UNRESTRICTED	396,315	68,387	538,371	10,374	1,013,447
TOTAL NET ASSETS	$ 1,582,433	$ 634,661	$ 538,371	$ 446,348	$ 3,201,813

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 121,917	$ -	$ -	$ -	$ 121,917
Unemployment compensation tax	-	-	87,486	-	87,486
Aviation fuel tax	4,452	-	-	-	4,452
Airport use charges	36,953	-	-	-	36,953
Rentals	75,740	25,263	-	-	101,003
Services and others	617	57,782	-	-	58,399
Administrative fees	-	-	-	6,039	6,039
Other	4,698	2,402	-	3,527	10,627
Total operating revenues	244,377	85,447	87,486	9,566	426,876
OPERATING EXPENSES:					
Personnel services	123,580	15,188	-	1,022	139,790
Depreciation	80,571	17,227	-	142	97,940
Repairs and maintenance	52,815	11,470	-	209	64,494
Airports operations	49,170	-	-	-	49,170
Harbors operations	-	15,648	-	-	15,648
Fireboat operations	-	1,941	-	-	1,941
General administration	15,738	8,309	-	4,579	28,626
Unemployment compensation	-	-	159,098	-	159,098
Other	384	-	-	35	419
Total operating expenses	322,258	69,783	159,098	5,987	557,126
Operating income (loss)	(77,881)	15,664	(71,612)	3,579	(130,250)
NONOPERATING REVENUES (EXPENSES):					
Interest income	14,061	2,680	26,964	5,188	48,893
Interest expense	(31,863)	(13,518)	-	-	(45,381)
Federal grants	24,958	-	-	-	24,958
Loss on disposal of capital assets	(10)	(46)	-	-	(56)
Passenger facility charges	22,443	-	-	-	22,443
Other	(423)	3,003	-	(16,632)	(14,052)
Total nonoperating revenues (expenses)	29,166	(7,881)	26,964	(11,444)	36,805
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(48,715)	7,783	(44,648)	(7,865)	(93,445)
CAPITAL CONTRIBUTIONS	31,973	3,616	-	21,420	57,009
CHANGE IN NET ASSETS	(16,742)	11,399	(44,648)	13,555	(36,436)
NET ASSETS — Beginning of year	1,599,175	623,262	583,019	432,793	3,238,249
NET ASSETS — End of year	$ 1,582,433	$ 634,661	$ 538,371	$ 446,348	$ 3,201,813

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 245,764	$ 86,521	$ -	$ -	$ 332,285
Cash received from taxes	-	-	106,194	-	106,194
Cash received from employees	-	-	-	289,019	289,019
Cash paid to suppliers	(167,865)	(39,781)	-	(2,692)	(210,338)
Cash paid to employees	(64,386)	(13,647)	-	(2,638)	(80,671)
Cash paid for unemployment compensation	-	-	(158,012)	-	(158,012)
Cash paid for premiums	-	-	-	(324,806)	(324,806)
Reserves returned by insurance carriers	-	-	-	141	141
Interest income from notes receivable	-	-	-	3,614	3,614
Administrative loan fees	-	-	-	2,872	2,872
Principal repayments on notes receivable	-	-	-	17,753	17,753
Disbursement of note receivable proceeds	-	-	-	(35,453)	(35,453)
Net cash provided by (used in) operating activities	13,513	33,093	(51,818)	(52,190)	(57,402)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net advances to other funds	-	-	-	393	393
State capital contributions	-	-	-	2,666	2,666
Proceeds from federal operating grants	20,515	-	-	18,831	39,346
Net cash provided by noncapital financing activities	20,515	-	-	21,890	42,405
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Cash received from bond issuance	-	52,960	-	-	52,960
Proceeds from debt payable to Department of Budget and Finance	-	2,700	-	-	2,700
Acquisition and construction of capital assets	(98,992)	(50,538)	-	(2,191)	(151,721)
Proceeds from sale of capital assets	17	3,003	-	-	3,020
Repayment of general obligation and revenue bonds principal	(32,259)	(65,158)	-	-	(97,417)
Interest paid on bonds	(36,973)	(15,489)	-	-	(52,462)
Proceeds from passenger facility charges program	24,220	-	-	-	24,220
Payments from passenger facility charges program	(19,394)	-	-	-	(19,394)
Proceeds from federal, state, and capital grants	24,963	185	-	-	25,148
Net cash used in capital and related financing activities	(138,418)	(72,337)	-	(2,191)	(212,946)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	107,742	-	-	-	107,742
Proceeds from sales and maturities of investments	(107,742)	-	-	-	(107,742)
Interest from investments	14,159	5,082	26,964	6,139	52,344
Net cash provided by investing activities	14,159	5,082	26,964	6,139	52,344
NET DECREASE IN CASH AND CASH EQUIVALENTS	(90,231)	(34,162)	(24,854)	(26,352)	(175,599)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as previously reported)	727,974	276,855	552,313	228,984	1,786,126
Adjustments (Note 15)	-	-	-	(2,816)	(2,816)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as restated)	727,974	276,855	552,313	226,168	1,783,310
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 637,743	$ 242,693	$ 527,459	$ 199,816	$ 1,607,711

(Continued)

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ (77,881)	$ 15,664	$ (71,612)	$ 3,579	$ (130,250)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	736	-	-	736
Depreciation	80,571	17,227	-	141	97,939
Bad debt expense	3,971	-	-	-	3,971
Reserves provided by operating activites	-	-	-	4,250	4,250
Premium reserves held by insurance companies	-	-	-	(24,000)	(24,000)
Decrease (increase) in assets:					
Receivables	(2,224)	257	18,707	(18,230)	(1,490)
Inventory of materials and supplies	(23)	(5)	-	-	(28)
Prepaid expenses	-	-	-	(2)	(2)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	3,090	(2,420)	1,087	(49)	1,708
Other accrued liabilities	6,693	1,634	-	(17,966)	(9,639)
Prepaid airport use charge fund	(1,070)	-	-	-	(1,070)
Deferred revenue	386	-	-	-	386
Accrued interest on loans receivable	-	-	-	87	87
Net cash provided by (used in) operating activities	$ 13,513	$ 33,093	$ (51,818)	$ (52,190)	$ (57,402)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	789	278	-	-	1,067
Principal payments relating to special facility revenue bonds	1,040	-	-	-	1,040
Interest payments relating to special facility revenue bonds	2,343	-	-	-	2,343

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Employer - Union Trust Fund	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 73,296	$ 126,407
Receivables:		
Taxes	-	10,238
Accrued interest	79	-
Premium - trust	43,077	-
Medicare reimbursements - trust	16	-
Total receivables	43,172	10,238
Due from individuals, businesses, and counties	-	36,305
Investments	-	74,177
Deposits and other assets - trust	10,104	-
Capital assets - trust	1,441	-
Total assets	128,013	247,127
LIABILITIES AND NET ASSETS:		
Vouchers payable	96	73,906
Due to individuals, businesses, and counties	-	173,221
Retrospective premium payable - trust	983	-
Premium payable - trust	14,404	-
Compensated absences, accrued wages, and employee benefits payable - trust	175	-
Total liabilities	15,658	247,127
Net assets — held in trust	$ 112,355	$ -

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer - Union Trust Fund
ADDITIONS:	
Interest and investment income	$ 1,861
Contributions - employer and plan member	296,659
Increase in premium reserves	37,295
Total additions	335,815
DEDUCTIONS:	
Benefits	248,049
Administrative expenses	1,610
Total deductions	249,659
CHANGE IN NET ASSETS	86,156
NET ASSETS — held in trust — Beginning of year	26,199
NET ASSETS — held in trust — End of year	$ 112,355

See accompanying notes to basic financial statements.

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

ASSETS	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
CASH AND CASH EQUIVALENTS	$ 105,545	$ 202,295	$ 21,570	$ 33,838
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $138,712)	93,459	8,666	1,335	57,479
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	47,354	170,550	426	-
Federal government	-	-	4,076	-
Other	-	5,628	1,126	12,778
DUE FROM PRIMARY GOVERNMENT	274,143	21,614	45,186	25,877
INVESTMENTS	540,616	6,548	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	22,061	-	-
Materials and supplies	13,416	-	558	14,858
NET INVESTMENT IN FINANCING LEASE	-	15,032	-	-
PREPAID EXPENSES AND OTHER ASSETS	9,645	205	1,472	4,874
	1,084,178	452,599	75,749	149,704
RESTRICTED ASSETS:				
Cash and cash equivalents	138	308,006	-	2,490
Investments	-	6	-	-
Deposits, funded reserves, and other	-	590	7,944	-
Total restricted assets	138	308,602	7,944	2,490
CAPITAL ASSETS:				
Land and land improvements	92,189	43,454	25,346	7,140
Infrastructure	74,888	-	-	-
Construction in progress	211,866	-	35,398	28,446
Buildings, improvements, and equipment	1,619,014	147,475	547,186	469,637
Less accumulated depreciation	(809,322)	(83,131)	(298,291)	(221,080)
Total capital assets — net	1,188,635	107,798	309,639	284,143
OTHER ASSETS	28,407	1,987	-	-
TOTAL	$ 2,301,358	$ 870,986	$ 393,332	$ 436,337

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 11,853	$ 48,399	$ 6,911	$ 430,411
-	435	1,678	163,052
-	-	-	218,330
-	-	-	4,076
12,019	-	-	31,551
-	2,158	-	368,978
27,347	-	185,595	760,106
-	-	-	22,061
-	-	-	28,832
-	-	-	15,032
-	438	-	16,634
51,219	51,430	194,184	2,059,063
4,869	-	-	315,503
-	-	-	6
-	-	-	8,534
4,869	-	-	324,043
131,497	133,565	-	433,191
-	43,098	-	117,986
-	3,208	-	278,918
211,581	17,791	-	3,012,684
(82,716)	(36,502)	-	(1,531,042)
260,362	161,160	-	2,311,737
-	-	-	30,394
$ 316,450	$ 212,590	$ 194,184	$ 4,725,237

(Continued)

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 52,786	$ 2,478	$ 9,016	$ 79,792
Other accrued liabilities	126,984	15,670	391	-
Due to Primary Government	8,916	-	-	13,300
Due to federal government	-	-	20	-
Estimated future costs of land sold	-	32,759	-	-
Notes, mortgages, and installment contracts payable	-	50	-	15,981
Accrued vacation and retirement benefits payable	23,766	145	522	14,409
Revenue bonds payable	4,415	15,738	-	-
Reserve for losses and loss adjustment costs	4,314	-	-	18,299
Capital lease obligations	460	-	-	7,975
Deferred commitment fees	-	339	-	-
Other liabilities	-	30,760	1,693	563
Total current liabilities	221,641	97,939	11,642	150,319
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	316	5,798	507	28,451
Accrued vacation and retirement benefits payable	37,832	448	1,577	19,606
Revenue bonds payable	258,630	384,373	-	-
Reserve for losses and loss adjustment costs	8,265	-	-	-
Premium on bonds payable	1,864	-	-	-
Capital lease obligations	13,360	-	-	31,997
Other postemployment benefit liability	62,851	423	1,765	30,250
Other liabilities	7,356	3,658	1,577	21,484
Total noncurrent liabilities	390,474	394,700	5,426	131,788
TOTAL	612,115	492,639	17,068	282,107
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	967,717	4,179	309,132	198,283
RESTRICTED	569,678	308,596	7,917	2,116
UNRESTRICTED (DEFICIT)	151,848	65,572	59,215	(46,169)
TOTAL	1,689,243	378,347	376,264	154,230
TOTAL LIABILITIES AND NET ASSETS	$ 2,301,358	$ 870,986	$ 393,332	$ 436,337

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 4,723	$ 428	$ -	$ 149,223
94	104	-	143,243
288,187	-	9,658	320,061
-	-	-	20
-	-	-	32,759
-	-	-	16,031
121	73	-	39,036
-	-	-	20,153
-	-	-	22,613
-	-	-	8,435
-	-	-	339
656	287	-	33,959
293,781	892	9,658	785,872
-	-	-	35,072
306	250	-	60,019
-	-	-	643,003
-	-	-	8,265
-	-	-	1,864
-	-	-	45,357
214	166	-	95,669
-	25,655	-	59,730
520	26,071	-	948,979
294,301	26,963	9,658	1,734,851
(16,538)	161,160	-	1,623,933
38,687	50,528	-	977,522
-	(26,061)	184,526	388,931
22,149	185,627	184,526	2,990,386
$ 316,450	$ 212,590	$ 194,184	$ 4,725,237

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,350,459	$ 48,808	$ 125,428	$ 523,559
PROGRAM REVENUES:				
Charges for services	276,886	50,828	21,940	392,902
Operating grants and contributions	379,364	61,830	61,777	1,356
Capital grants and contributions	-	-	9,521	11,393
Total program revenues	656,250	112,658	93,238	405,651
Net program revenues (expenses)	(694,209)	63,850	(32,190)	(117,908)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	10,662	-	-	1,031
Payments from (to) the State	740,638	100	58,682	79,895
Other	53,881	-	-	1,113
Net general revenues	805,181	100	58,682	82,039
Change in accounting principle (Note 1)	-	-	-	30,815
Change in net assets	110,972	63,950	26,492	(5,054)
NET ASSETS — Beginning of year — as previously reported	1,578,271	314,397	348,404	159,284
ADJUSTMENTS (Note 15)	-	-	1,368	-
NET ASSETS — Beginning of year — as restated	1,578,271	314,397	349,772	159,284
NET ASSETS — End of year	$ 1,689,243	$ 378,347	$ 376,264	$ 154,230

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 121,007	$ 16,424	$ 220	$ 2,185,905
14,036	8,618	-	765,210
-	-	-	504,327
-	-	-	20,914
14,036	8,618	-	1,290,451
(106,971)	(7,806)	(220)	(895,454)
1,846	795	10,817	25,151
110,907	(4,155)	(7,748)	978,319
-	-	-	54,994
112,753	(3,360)	3,069	1,058,464
-	-	-	30,815
5,782	(11,166)	2,849	193,825
16,367	275,136	181,677	2,873,536
-	(78,343)	-	(76,975)
16,367	196,793	181,677	2,796,561
$ 22,149	$ 185,627	$ 184,526	$ 2,990,386

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the "State") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The State's significant accounting policies are described below.

Reporting Entity — The accompanying basic financial statements present the financial activity of the State ("Primary Government") and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

Primary Government — The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:
- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human 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 basic financial statements includes 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 Governor of the State ("Governor"). The discretely presented Component Units are as follows:

University of Hawaii — The State's public institutions of higher education provide instruction and conduct research in, and disseminate knowledge of, agriculture, economics, history, languages, literature, mathematics, mechanical arts, natural sciences, philosophy, political and social sciences, physics, 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 12 members who are appointed and may be removed by the Governor.

Hawaii Housing Finance and Development Corporation — Effective July 1, 2006, the Hawaii Housing Finance and Development Corporation (HHFDC) was established as a corporate body to be placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. Effective July 1, 2006, the HHFDC is the second agency created with the splitting of the Housing and Community Development Corporation of Hawaii (HCDCH) by Act 196, Session Laws of Hawaii (SLH) of 2005, as amended by Act 180, SLH of 2006. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
    - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
        - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
        - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.

- The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
  - Two members to be appointed for four years;
  - Two members to be appointed for three years; and
  - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — The Hawaii Public Housing Authority (HPHA) was established as a corporate body to be placed within the Department of Human Services for administrative purposes. Effective July 1, 2006, Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, split the HCDCH into two agencies, one of which was the HPHA. The HPHA is charged with managing federal and state public housing programs, including Section 8 and senior housing.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor's Office, as an Ex Officio voting member.

Hawaii Health Systems Corporation — The Hawaii Health Systems Corporation (HHSC) was established as a corporate body to be placed within the Department of Health for administrative purposes. The HHSC, consisting of the state hospitals, was created to provide quality health care for all of the people in the State, including those serviced by small rural facilities, by freeing the facilities from unwarranted bureaucratic oversight.

HRS Chapter 323F states that the HHSC shall be a public body corporate and politic and an instrumentality and agency of the State. The HHSC commenced operations on July 1, 1996. The statute provides that the HHSC shall be governed by a board of directors. In June 2007, the State Legislature enacted Act 290, SLH of 2007. The Act, which became effective on July 1, 2007, required the establishment of a seven to 15-member regional system board of directors for each of the five regions of the HHSC. Each regional board of directors was given custodial control and responsibility for management of the facilities and other assets in their respective regions. Act 290 also restructured the 13-member HHSC board of directors to 15 members, consisting of the following:

- Ten members appointed by the Governor, from nominees submitted by Legislative leadership;
- Two at-large members, appointed by the Governor;
- Two physicians with active medical staff privileges at one of the HHSC's health facilities, who are elected by HHSC's board of directors; and
- The Director of Health, as an Ex Officio voting member.

In June 2007, the State Legislature enacted Act 113, SLH of 2007. The Act, amends HRS Chapter 323F to allow for the assimilation of Kahuku Hospital into the HHSC in a manner and to an extent to be negotiated between Kahuku Hospital and the HHSC. The Act appropriated $3,900,000 to pay for the costs of assimilating Kahuku Hospital into the HHSC and to operate the facility. On March 14, 2008, the asset purchase was completed for a purchase price of approximately $2,652,000 in cash, including transaction costs of $197,000, and the facility is now operating as Kahuku Medical Center. The results of operations of Kahuku Medical Center are included in the HHSC's financial statements commencing on March 14, 2008.

The State provides significant operating subsidies to the HHSC. Accordingly, a financial benefit/burden relationship exists between the State and the HHSC.

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 have not been finalized as of June 30, 2008. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying consolidated statements of net assets may be significantly different from those eventually included in the final settlement.

The HHSC is divided into five regions and currently operates the following facilities:

East Hawaii Region:
Hilo Medical Center
Hale Hoʻola Hamakua
Kaʻu Hospital
Yukio Okutsu Veterans Care Home

West Hawaii Region:
Kona Community Hospital
Kohala Hospital

Kauai Region:
Kauai Veterans Memorial Hospital
Samuel Mahelona Memorial Hospital

Maui Region:
Maui Memorial Medical Center
Kula Hospital
Lanai Community Hospital

Oahu Region:
Leahi Hospital
Maluhia
Kahuku Medical Center

Hawaii Tourism Authority — The Hawaii Tourism Authority (HTA) was established on January 1, 1999 by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the "Center") was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 13 voting and two nonvoting members. The governor appoints 12 voting members. In addition, the Director of DBEDT or a designated representative is a voting member and the director of the Department of Transportation and the chairperson of the board of directors of the Department of Land and Natural Resources or designated representatives are nonvoting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a corporate body to be placed within DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka`ako and Kalaeloa Community Development Districts.

HRS Chapter 206E states that the HCDA shall be a body corporate and a public instrumentality of the State. The HCDA is composed of 18 voting members, 13 of whom vote on issues related to Kaka`ako and Kalaeloa, and five of whom vote only on Kalaeloa matters. The 18 members consist of the following:

- Thirteen members that vote on issues related to Kaka`ako and Kalaeloa:
    - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
    - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
    - Four at-large members appointed by the Governor;
    - The Director of Budget and Finance, as an Ex Officio voting member;
    - The Director of DBEDT, as an Ex Officio voting member;
    - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and

    - The Director of Transportation, as an Ex Officio voting member.

- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
    - The Chairperson of the Hawaiian Homes Commission;
    - The Director of the City and County of Honolulu Department of Planning and Permitting;
    - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
    - One member who is a Hawaiian Cultural Specialist.

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.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

In conjunction with the HHRF's cessation of providing hurricane property insurance coverage, servicing carriers are exempted from the 3.75% assessment of their gross direct written premiums for property and casualty insurance in Hawaii, once they begin to offer their own policies. All remaining carriers are exempted effective September 30, 2001. Further, the collection of the special mortgage recording fees from mortgagers has also been suspended as of July 1, 2001.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; 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.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

Government-Wide and Fund Financial Statements — The Government-Wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation —

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

Governmental Funds Financial Statements — The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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 fiscal year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus, and report only assets and liabilities.

In accordance with the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Accounting — The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

Governmental Fund Types — The State reports the following major Governmental Funds:

- General Fund — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- Capital Projects Fund — This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.

- Med-Quest Special Revenue Fund – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations.

Proprietary Fund Type — Enterprise Funds — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division ("Airports") — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division (“Harbors”) — Harbors maintains and operates the State’s commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Revolving Treatment Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- EUTF — The EUTF accounts for retiree healthcare benefits, which includes medical, dental, and life insurance coverage.

- Agency Funds — Agency Funds account for various taxes, deposits, and property held by the State pending distribution to other governments and individuals.

Component Units — Component Units are comprised of (1) the UH, which is comprised of the State’s public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State’s convention center as well as markets the State’s visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Receivables and Payables — Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Investments — Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

Inventories — Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

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

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets — Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

Capital Assets — Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the Government-Wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Compensated Absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations — In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Equity — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Portions of fund balances are reserved in the fund financial statements 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 Governmental Funds' balance sheet date.

- Federal aid highway projects encumbrances.

- Bond redemption and other.

- Fiduciary Fund balances which are restricted to the purpose of the accounts.

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.

Nonexchange Transactions — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Effective July 1, 2007, HHSC changed its accounting policy to comply with the State's accounting policy to recognize general operating and capital appropriations at the time allotments are made available to HHSC for expenditure. Prior to that date, general operating appropriations were recognized on a monthly basis over the year that the appropriations pertained to, and capital appropriations were recognized at the time the State reimbursed HHSC for the expenditures incurred. The effect of the change was to increase net assets in 2008, by $30,815,000.

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

Risk Management — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1 million per occurrence of property losses, the first $4 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $175 million, except for flood and earthquake, which individually is a $175 million aggregate loss, and terrorism which is $50 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of $25 million per occurrence and $29 million in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Use of Estimates — The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 49 — The Government Accounting Standards Board (the "GASB") issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), effective for periods beginning after December 15, 2007. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The State is currently evaluating the impact that GASB 49 will have on its financial statements.

GASB Statement No. 50 — The GASB issued Statement No. 50, *Pension Disclosures* (GASB 50), effective for periods beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. Adoption of GASB 50 resulted in additional disclosures and RSI included in the State's basic financial statements for the fiscal year ended June 30, 2008. See Note 11.

GASB Statement No. 51 — The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), effective for periods beginning after June 15, 2009. This statement establishes accounting and financial reporting requirements for intangible assets. The State is currently evaluating the impact that GASB 51 will have on its financial statements.

GASB Statement No. 52 — The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* (GASB 52), effective for periods beginning after June 15, 2008. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The State is currently evaluating the impact that GASB 52 will have on its financial statements.

GASB Statement No. 53 — The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), effective for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are complex financial arrangements used by governments to manage specific risks or to make investments. The Statement will require governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. The State is currently evaluating the impact that GASB 53 will have on its financial statements.

GASB Statement No. 54 — The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), effective for periods beginning after June 15, 2010, with early adoption is encouraged. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources in governmental funds. The Statement provides for classification of fund balances as nonspendable, restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent. The State is currently evaluating the impact that GASB 54 will have on its financial statements.

GASB Statement No. 55 — The GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 55), effective upon issuance in March 2009. This Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The State believes that this Statement will make it easier to identify and apply all relevant guidance when preparing future financial statements.

GASB Statement No. 56 — The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56), effective upon issuance in March 2009. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards. The three issues not included in the authoritative literature that establishes accounting principles are: related party transactions, going concern considerations, and subsequent events. The GASB believes that presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. The State believes that the Statement will improve financial reporting by bringing the authoritative accounting and financial reporting literature together in one place.

2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

Cash — The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2008, was \$2,212,455,000 and \$423,420,000, respectively, for the Primary Government and \$199,703,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the

Primary Government and Fiduciary Funds amounted to $1,827,069,000 at June 30, 2008. Of that amount, $1,826,709,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $527,459,000 represents deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments — The State holds investments both for its own benefit and as an agent for other parties. 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 and maturities at June 30, 2008 (amounts expressed in thousands).

		Maturity (in years)		
	Fair Value	Less than 1	1–5	>5
Investments — Primary Government:				
Student loan auction rate securities	$ 610,052	$ -	$ -	$ 610,052
Certificates of deposit	94,897	94,897	-	-
U.S. government securities	637,164	152,920	484,244	-
Repurchase agreements	13,557	13,150	407	-
	$ 1,355,670	$ 260,967	$ 484,651	$ 610,052
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 28,925	$ -	$ -	$ 28,925
Certificates of deposit	4,499	4,499	-	-
U.S. government securities	40,110	9,626	30,484	-
Repurchase agreements	643	623	20	-
	$ 74,177	$ 14,748	$ 30,504	$ 28,925

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk — The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. In 2008, auctions have failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2008, the State recorded an impairment adjustment of $114,043,000 to reduce the carrying value of the State's auction rate securities to their fair value at June 30, 2008.

Custodial Risk — For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk — The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2008, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance, July 1,2007	Additions	Deletions	Balance, June 30,2008
Capital assets not being depreciated:				
Land and land improvements	$ 2,014,376	$ 23,244	$ (135)	$ 2,037,485
Construction in progress	733,327	407,046	(299,384)	840,989
Total capital assets not being depreciated	2,747,703	430,290	(299,519)	2,878,474
Capital assets being depreciated:				
Infrastructure	7,923,678	139,412	(395)	8,062,695
Buildings and improvements	2,958,918	134,270	(6,497)	3,086,691
Equipment	306,412	28,030	(6,440)	328,002
Total capital assets being depreciated	11,189,008	301,712	(13,332)	11,477,388
Less accumulated depreciation:				
Infrastructure	(3,767,261)	(232,186)	46	(3,999,401)
Buildings and improvements	(1,556,083)	(90,207)	5,624	(1,640,666)
Equipment	(230,846)	(30,809)	5,765	(255,890)
Total accumulated depreciation	(5,554,190)	(353,202)	11,435	(5,895,957)
Total capital assets	$ 8,382,521	$ 378,800	$ (301,416)	$ 8,459,905

	Business-Type Activities			
	Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008
Capital assets not being depreciated:				
Land and land improvements	$ 575,191	$ 9,824	$ -	$ 585,015
Construction in progress	205,223	166,053	(79,481)	291,795
Total capital assets not being depreciated	780,414	175,877	(79,481)	876,810
Capital assets being depreciated:				
Buildings and improvements	2,649,372	80,186	-	2,729,558
Equipment	243,070	9,184	(26,811)	225,443
Total capital assets being depreciated	2,892,442	89,370	(26,811)	2,955,001
Less accumulated depreciation:				
Buildings and improvements	(1,361,082)	(88,795)	-	(1,449,877)
Equipment	(166,515)	(9,144)	26,732	(148,927)
Total accumulated depreciation	(1,527,597)	(97,939)	26,732	(1,598,804)
Total capital assets	$ 2,145,259	$ 167,308	$ (79,560)	$ 2,233,007

Depreciation expense for the fiscal year ended June 30, 2008 was charged to functions/programs of the Primary Government as follows:

	2008
Governmental activities:	
Highways	$ 230,328
Lower education	57,955
General government	18,593
Public safety	11,861
Urban redevelopment and housing	10,871
Conservation of natural resources	10,382
Health	6,414
Economic development and assistance	2,952
Welfare	2,892
Culture and Recreation	954
Total depreciation expense — governmental activities	$ 353,202
Business-type activities:	
Airports	$ 80,571
Harbors	17,227
DWTRF	83
EUTF	48
WPCRF	10
Total depreciation expense — business-type activities	$ 97,939

4. GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt are being retired from the resources of the Proprietary Funds — Airports and Harbors and are 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; certain maturities of Series BQ, issued November 28, 1989; Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA, issued January 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CS, issued April 1, 1998; Series CY, issued February 15, 2002; and Series DL and DM, issued May 20, 2008, contain call provisions (call prices range from $100 to $101). Stated interest rates range from 2.800% to 6.000%.

In fiscal year 2008, the State issued general obligation bonds, Series DK and DM dated May 20, 2008, for the amounts of $375,000,000 and $25,000,000, respectively. Interest rates range from 3% to 5%. The series DK bonds maturing after May 1, 2018, will be subject to redemption at the option of the State at any time on and after May 1, 2018, at a price equal to the principal amount thereof plus accrued interest to the redemption date. The bonds were issued for the purpose of financing the Hawaiian Home

Lands Trust settlement and various public improvement projects. The series DM bonds are not subject to optional redemption by the State prior to their respective stated maturities. All bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

On May 20, 2008, the State issued $29,010,000 of general obligation refunding bonds, Series DL, with an interest rates ranging between 3.00% to 5.00% to advance refund $28,805,000 of general obligation bonds series, CP. The net proceeds of $29,408,000 (including a premium of $500,000 and after payment of $103,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. As a result of the advance refunding, the State reduced its total debt service payments over the next 10 years by $5,798,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $5,439,000. The series DL bonds are not subject to optional redemption by the State prior to their respective stated maturities. The series DL bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2008, $605,610,000 of bonds outstanding is considered defeased.

At June 30, 2008, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 3,603,485
Noncallable	843,444
Total general obligation bonds outstanding	4,446,929
Less amount recorded as a liability of:	
Proprietary Funds — Harbors	38,329
Proprietary Funds — Airports	28
	38,357
Amount recorded in the governmental activities of the Primary Government	$ 4,408,572

A summary of general obligation bonds outstanding by series as of June 30, 2008, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BL	December 6, 1988	7.681%	December 1, 2008	$ 65,001	$ 4,065
BQ	November 28, 1989	7.150%	December 1, 2008–2009	80,005	8,889
BW	March 1, 1992	6.250%–6.375%	March 1, 2011–2012	100,000	11,015
BZ	October 1, 1992	6.000%	October 1, 2008–2012	200,000	62,500
CA	January 1, 1993	5.500%–8.000%	January 1, 2009–2013	90,000	25,000
CC	February 1, 1993	5.125%	February 1, 2009	334,860	23,915
CH	November 1, 1993	4.750%–6.000%	November 1, 2008–2013	250,000	83,320
CI	November 1, 1993	4.750%–4.900%	November 1, 2008–2010	316,915	63,375
CL	March 1, 1996	6.000%	March 1, 2009–2010	100,000	11,110
CM	December 1, 1996	6.000%–6.500%	December 1, 2008–2016	150,000	74,985
CN	March 1, 1997	6.000%	March 1, 2009	350,000	20,045
CO	March 1, 1997	6.000%	September 1, 2008–2010, March 1, 2009–2011	231,755	73,705
CP	October 1, 1997	5.500%	October 1, 2008–2017	200,000	33,140
CS	April 1, 1998	5.000%	April 1, 2009	336,620	55,575
CT	September 15, 1999	5.250%–5.625%	September 1, 2008–2012	300,000	34,705
CU	October 15, 2000	4.750%–5.750%	October 1, 2008–2012	150,000	37,520
CV	August 1, 2001	4.800%–5.500%	August 1, 2008–2021	300,000	219,685
CW	August 1, 2001	4.000%–5.500%	August 1, 2008–2015	156,750	116,980
CX	February 15, 2002	4.000%–5.500%	February 1, 2009–2022	250,000	179,555
CY	February 15, 2002	4.000%–5.750%	February 1, 2009–2015	319,290	258,840
CZ	November 26, 2002	2.900%–5.500%	July 1, 2008–2022	300,000	158,060
DA	September 16, 2003	2.800%–5.250%	September 1, 2008–2023	225,000	217,885
DB	September 16, 2003	2.800%–5.250%	September 1, 2008–2016	188,650	188,650
DD	May 13, 2004	3.500%–5.250%	May 1, 2011–2024	225,000	182,825
DE	November 10, 2004	2.625%–5.000%	October 1, 2009–2024	225,000	225,000
DF	June 15, 2005	3.000%–5.000%	July 1, 2009–2025	225,000	225,000
DG	June 15, 2005	5.000%	July 1, 2009–2017	722,575	722,575
DI	March 23, 2006	3.500%–5.500%	March 1, 2010–2026	350,000	350,000
DJ	April 12, 2007	3.625%–5.000%	April 1, 2011–2027	350,000	350,000
DK	May 20, 2008	5.000%	May 1, 2012–2028	375,000	375,000
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	29,010
DM	May 20, 2008	3.330%–4.670%	May 1, 2009–2014	25,000	25,000
					$ 4,446,929

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2008 is as follows (amounts expressed in thousands):

Balance — July 1, 2007	$ 229,082
Additions — Series DK & DL	19,375
Current-year amortization	(27,492)
Balance — June 30, 2008	$ 220,965

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2009	$ 342,395	$ 242,903	$ 585,298
2010	336,769	211,894	548,663
2011	358,625	181,703	540,328
2012	333,141	164,513	497,654
2013	347,451	147,662	495,113
2014—2018	1,368,631	503,280	1,871,911
2019—2023	862,996	233,221	1,096,217
2024—2028	458,564	50,606	509,170
	$ 4,408,572	$ 1,735,782	$ 6,144,354

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2009	$ 9	$ 1,832	$ 1,841
2010	976	1,859	2,835
2011	1,150	1,819	2,969
2012	1,609	1,772	3,381
2013	1,679	1,702	3,381
2014-2018	9,679	7,225	16,904
2019-2023	12,289	4,615	16,904
2024-2028	10,966	1,350	12,316
	$ 38,357	$ 22,174	$ 60,531

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, 2008, was $400,030,000.

At June 30, 2008, general obligation bonds authorized but unissued were approximately $1,094,586,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — On March 15, 2005, the Department of Transportation — Highways Division (Highways) issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 3% to 5.25% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

On October 25, 2001, Highways issued $70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 3.75% to 5.25% and are payable semiannually on January and July 1 through July 2022.

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of $45,360,000. The bonds bear interest at rates ranging from 4.8% to 5.5% and mature in annual installments through July 2010.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates ranging from 4.5% to 5.5% and mature in annual installments through July 2018.

On September 1, 1996, Highways issued $55,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1996. The bonds bear interest at 6% and mature in increasing annual installments through July 2009.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B, the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 2003, Department of Hawaiian Homelands' (DHHL) revenue bonds, Refunding Series of 1999, and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above), were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2008, bonds outstanding considered defeased amounted to $102,570,000.

The following is a summary of Highways' revenue bonds issued and outstanding at June 30, 2008 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways:					
1996	September 1, 1996	6.00%	July 1, 2008–July 1, 2009	$ 55,000	$ 5,830
1998	July 1, 1998	4.50%–5.50%	July 1, 2008–July 1, 2018	94,920	30,290
2000	October 31, 2000	4.80%–5.50%	July 1, 2008–July 1, 2010	50,000	6,690
2001	October 25, 2001	3.75%–5.25%	July 1, 2008–July 1, 2022	70,000	16,975
2003	April 15, 2003	3.00%–5.25%	July 1, 2008–July 1, 2013	44,940	28,905
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2008–July 1, 2025	60,000	55,820
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2010–July 1, 2021	123,915	123,915
					$268,425

Debt service requirements to maturity on Highways' revenue bonds are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2009	$ 15,495	$ 12,597	$ 28,092
2010	16,150	11,880	28,030
2011	16,935	11,156	28,091
2012	17,570	10,445	28,015
2013	18,305	9,646	27,951
2014-2018	106,495	33,770	140,265
2019-2023	64,685	9,646	74,331
2024-2026	12,790	924	13,714
	$ 268,425	$ 100,064	$ 368,489

Business-Type Activities — Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

Airports System Revenue Bonds — The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from $102 to $100.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2008 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000A, refunding	5.50%-6.00%	2021	$ 26,415	$ 26,415
2000B, refunding	5.00%-8.00%	2020	261,465	219,125
2001, refunding	4.00%-5.75%	2021	423,255	365,340
			$ 711,135	610,880
Add unamortized premium				8,991
Less:				
Unamortized discount				(679)
Deferred loss on refunding				(11,200)
Current portion				(21,140)
				$ 586,852

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2008, bonds outstanding considered defeased amounted to $61,130,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverage for fire, workers' compensation, and public liability. At June 30, 2008, $180,018,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Airports Special Facility Revenue Bonds — Airports entered into three special facility lease agreements, two with Continental Airlines, Inc. (Continental) in November 1997 and July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. (Sky Chefs) effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $35,855,000 at June 30, 2008.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2008:

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental, at prices ranging from $101 to $100, depending on the dates of redemption, or at $100 plus interest if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part, refund $18,225,000 of its outstanding Series of 1990 bonds (Continental), with interest rates ranging from 9.60% to 9.70%. The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2003, at the option of Airports, upon the request of Sky Chefs, 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.

Special facility revenue bonds payable at June 30, 2008 consisted of the following (amounts expressed in thousands):

	Continental		Sky Chefs	Total
Current portion	$ 700	$ -	$ 400	$ 1,100
Noncurrent portion	11,630	21,725	1,400	34,755
	$ 12,330	$ 21,725	$ 1,800	$ 35,855

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 in the accompanying basic financial statements.

Harbors Revenue Bonds — The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from $102.50 to $100.

The following is a summary of the Harbors revenue bonds as of June 30, 2008 (amounts expressed in thousands):

				Current			
Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2008	Principal Due January 1, 2009	Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ 2,500	$ -	$ 2,500	$ 59,020
2002	July 1, 2019	3.00%–5.50%	24,420	2,320	-	2,320	11,665
2004	January 1, 2024	2.50%–6.00%	52,030	-	3,425	3,425	30,715
2006	January 1, 2031	4.00%-5.25%	96,570	-	2,200	2,200	90,305
2007	July 1, 2027	3.95%–5.75%	56,290	625	-	625	51,020
			$ 308,715	5,445	5,625	11,070	242,725
Add unamortized premium				-	-	349	2,507
Less:							
Unamortized discount				-	-	(8)	(84)
Unamortized deferred loss on refunding				-	-	(493)	(5,614)
				$ 5,445	$ 5,625	$ 10,918	$ 239,534

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2009	$ 33,380	$ 48,126	$ 81,506
2010	34,055	46,333	80,388
2011	36,235	44,197	80,432
2012	35,825	41,944	77,769
2013	58,565	39,750	98,315
2014-2018	336,300	144,148	480,448
2019-2023	235,670	46,085	281,755
2024-2028	51,380	13,158	64,538
2029-2031	22,125	2,116	24,241
	$ 843,535	$ 425,857	$ 1,269,392

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not include debt service reserves as of June 30, 2008, which are held in anticipation of principal and interest payments due on July 1, 2008, and January 1, 2009.

Revenue Bonds Authorized but Unissued — At June 30, 2008, revenue bonds authorized but unissued were approximately $3,310,492,000.

Special Purpose Revenue Bonds — HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2008, amounted to $1,609,164,000. At June 30, 2008, special purpose revenue bonds of $1,732,800,000 were authorized but unissued.

Improvement District Bonds — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2008.

6. CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities						
	Balance — July 1, 2007 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2007 (restated)	Additions	Deductions	Balance — June 30, 2008	Due Within One Year
General obligation bonds payable — net	$ 4,079,714	$ 255,167	$ 4,334,881	$ 426,312	$ (352,621)	$ 4,408,572	$ 342,395
Accrued vacation payable	183,868	-	183,868	83,329	(71,576)	195,621	64,459
Revenue bonds payable	283,310	-	283,310	-	(14,885)	268,425	15,495
Reserve for losses and loss adjustment costs	175,509	-	175,509	13,032	(33,238)	155,303	43,214
Other postemployment benefits liability	-	-	-	353,936	-	353,936	-
Capital lease obligations	79,090	-	79,090	-	(3,610)	75,480	3,795
Total	$ 4,801,491	$ 255,167	$ 5,056,658	$ 876,609	$ (475,930)	$ 5,457,337	$ 469,358

	Business-Type Activities						
	Balance — July 1, 2007 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2007 (restated)	Additions	Deductions	Balance — June 30, 2008	Due Within One Year
General obligation bonds payable — net	$ 37	$ 35,631	$ 35,668	$ 2,698	$ (9)	$ 38,357	$ 9
Accrued vacation and retirement benefits payable	10,035	-	10,035	5,365	(5,109)	10,291	3,239
Revenue bonds payable	942,810	-	942,810	53,318	(98,486)	897,642	33,310
Reserve for losses and loss adjustment costs	4,658	-	4,658	1,350	(1,242)	4,766	1,216
Other postemployment benefits liability	-	-	-	8,580	-	8,580	-
Other	953	-	953	-	-	953	-
	958,493	35,631	994,124	71,311	(104,846)	960,589	37,774
Add unamortized premium	2,232	-	2,232	929	(305)	2,856	349
Less:							
Unamortized net discount	(2,001)	-	(2,001)	-	1,909	(92)	(8)
Deferred loss on refunding	(3,692)	-	(3,692)	(2,478)	63	(6,107)	(493)
	$ 955,032	$ 35,631	$ 990,663	$ 69,762	$ (103,179)	$ 957,246	$ 37,622

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 85%, 14%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2008.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2008 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Capital Projects Fund	$ 89,900	$ -
Nonmajor Governmental Funds	986	42
	90,886	42
Capital Projects Fund:		
General Fund	-	89,900
Nonmajor Governmental Funds	-	39,028
	-	128,928
Nonmajor Governmental Funds:		
General Fund	42	986
Capital Projects Fund	39,028	-
Nonmajor Proprietary Fund	2,362	2,362
	41,432	3,348
	$ 132,318	$ 132,318

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

8. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2008, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 37,470	$ 438,530
Capital Projects Fund — Nonmajor Governmental Funds	136,312	53,092
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	-	53,497
Nonmajor Governmental Funds:		
General Fund	7,037	37,470
Capital Projects Fund	53,092	136,312
Other Nonmajor Governmental Funds	516,048	84,555
Med Quest Special Revenue Fund	53,497	-
	629,674	258,337
	$ 803,456	$ 803,456

The General Fund transferred approximately $431,493,000 to the Nonmajor Governmental Funds for debt service payments and approximately $7,037,000 to subsidize various Special Revenue Funds programs. Approximately $136,312,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal 2023. Future minimum lease commitments for noncancelable operating leases as of June 30, 2008, were as follows (amounts expressed in thousands):

Fiscal Year	
2009	$ 16,616
2010	13,259
2011	10,119
2012	6,534
2013	2,824
2014-2018	4,644
2019-2023	2,751
Total future minimum lease payments	$ 56,747

Rent expenditures for operating leases for the fiscal year ended June 30, 2008, amounted to approximately $47,655,000.

In November 1998, the State issued $54,850,000 in Certificates of Participation (COPS) to purchase the Kapolei State Office Building (Kapolei Building). The proceeds of the COPS were remitted to the Kapolei Building's developer. The holders of the COPS are the current owners of the Kapolei Building. Accordingly, the State's rental payments for the use of the Kapolei Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 1999, and continue through May 1, 2018, with interest rates ranging from 3.10% to 5.25%. Title to the Kapolei Building will transfer to the State upon the payment of all required rents.

In December 2000, the State issued $23,140,000 in COPS to purchase the No. 1 Capitol District State Office Building ("Capitol District Building"). The proceeds of the COPS were remitted to the former owners of the Capitol District Building. Accordingly, the State's rental payments for the use of the Capitol District Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2002, and continue through May 1, 2020, with interest rates ranging from 4.50% to 5.375%. Title to the Capitol District Building will transfer to the State upon the payment of all required rents.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal Year	
2009	$ 7,427
2010	8,061
2011	8,063
2012	8,062
2013	8,062
2014-2018	40,320
2019-2023	12,454
2024-2028	8,556
2029-2032	6,845
Total future minimum lease payments	107,850
Less amount representing interest	(32,370)
Present value of net minimum lease payments	75,480
Less current portion	(3,795)
Noncurrent portion	$ 71,685

Lease Rentals

Airports — Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system (“signatory airlines”) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the “lease extension agreement”). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. As of the date hereof, the lease extension agreement remains in effect, with annual ad-hoc adjustments to Airports system rates and charges and related terms.

Under the lease extension agreement, the Airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of $100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The Airports system rates and charges consist of the following: (1) exclusive use terminal charges based on appraisal and recovered on a per square foot basis, (2) joint use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units), and (5) system support charges based on an Airports system residual rate setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units).

Airports — Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal 1996 through 2008 have been transferred to the PAUCF.

Airports — Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to $4,452,000 for fiscal 2008.

Airports — System Rates and Charges

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

- Landing fees, net of aviation fuel tax credits, amounted to $36,953,000 for fiscal 2008, based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 36% of the Airports landing fees for overseas flights.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $29,162,000 for fiscal 2008. 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.

- Exclusive use premise charges amounted to $33,914,000 for fiscal 2008, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $16,980,000 for fiscal 2008.

- Airports system support charges amounted to $617,000 for fiscal 2008. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

- The affected signatory airlines underpaid their airport system rates and charges by $12,257,000. The Airports Division granted the signatory airlines a waiver for the entire underpayment for the fiscal year ended June 30, 2008.

Airports — Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2008 was approximately $59,123,000.

In fiscal 2006, Airports converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 7 months to 13 years. The balance of $2,939,000 at June 30, 2008, is due as follows: 2009 — $2,816,000, 2010 — $12,000, 2011 — $12,000, and $99,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 39% of total concession fees revenues for the fiscal year ended June 30, 2008.

DFS was originally awarded a five-year lease agreement for the in-bond concession in February 2001. By 2003, DFS had been in significant arrears in rents due to Airports as a result of financial difficulties arising from the downturn in Hawaii's economy due to the decrease in international visitor travel. As a result, in August 2003, Airports and DFS entered into a Withdrawal and Settlement Agreement, which provided DFS with certain relief for past due rents, and which allowed Airports to withdraw and recapture all of the leased premises and to terminate the in-bond lease early.

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for the minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was $37,311,000, and the percentage rent was as follows: (1) for total concession receipts greater than $165 million, but less than $200 million, 22.5% for on-airport sales and 18.5% for off-airport sales; and (2) for total concession receipts greater than $200 million, 30% for on-airport sales, and 22.5% for off-airport sales.

Effective June 1, 2006, the lease was extended for a period of one year pursuant to a holdover clause in the lease agreement. During the holdover period, DFS had a month-to-month tenancy, with rents and terms the same as those in effect immediately prior to the holdover.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. The lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2012, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first five years of the lease term.

In February 2001, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on March 15, 2001, and terminating on March 14, 2006. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term.) In December 2005, the lease agreement was amended, whereby the lease period was extended for an additional 36 months, commencing on March 15, 2006. The lease rent remained the same as that which was in effect during the lease year ended March 14, 2006.

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. The Operations Agreement allows Harbors 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, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March of 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punch list have yet to be completed and are being pursued with the new operator.

An amendment of the lease executed in fiscal 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay $225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005, onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity participation payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC's revenues increase.

Revenues for the fiscal year ended June 30, 2008 amounted to $25,263,000 and have been included in rental revenues.

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 fiscal 2059. 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.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2008 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2009	$ 67,760	$ 9,787	$ 77,547
2010	59,183	8,806	67,989
2011	57,877	8,928	66,805
2012	52,510	8,833	61,343
2013	13,256	8,682	21,938
2014-2018	34,049	32,681	66,730
2019-2023	15,406	24,598	40,004
2024-2028	9,693	21,356	31,049
2029-2033	2,351	17,253	19,604
2034-2038	1,025	10,932	11,957
2039-2043	-	7,141	7,141
2044-2048	-	2,793	2,793
2049-2053	-	2,792	2,792
2054-2058	-	2,420	2,420
2059	-	86	86
	$ 313,110	$ 167,088	$ 480,198

Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2008, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 62,488
Less amount representing interest	(30,722)
	31,766
Cash with trustee and other	4,329
	$ 36,095

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2008, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2009	$ 3,357
2010	3,398
2011	3,716
2012	2,765
2013	2,777
2014 - 2018	13,890
2019 - 2023	9,207
2024 - 2028	26,774
	$ 65,884

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $20,410,000 of amounts due from the State related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $2.2 million payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using and imputed interest rate. As of June 30, 2008, amounts due from the State included approximately $20,038,000 of principal, net of approximately $3,861,000 of imputed interest, and approximately $372,000 of accrued interest receivable.

Hawaii Health Systems Corporation

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2008, the full amount was not yet repaid to the State.

Hawaii Tourism Authority

In October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Hawaii Convention Center, which is managed by the HTA. In 1999, the State and HTA agreed on a reimbursement schedule whereby HTA's repayments to the State for debt service are to be funded by an allocated portion of the HTA's transient accommodation tax revenue collections and revenue generated from the operation of the Hawaii Convention Center. The terms of the repayment plan requires the HTA to reimburse the State for principal and interest payments at an imputed interest rate of 6% through January 1, 2025. At June 30, 2008, the outstanding principal and aggregate interest amounts required to be reimbursed by the HTA was $276,900,000 and $172,387,000, respectively. For the year ended June, 30 2008, the HTA was required to reimburse the

State $26,435,000 for principal and interest. HTA's scheduled repayments to the State for each of the next five years and thereafter in five-year are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2009	$ 9,815	$ 16,614	$ 26,429
2010	10,405	16,025	26,430
2011	11,030	15,400	26,430
2012	11,690	14,739	26,429
2013	12,390	14,037	26,427
2014-2018	74,035	58,104	132,139
2019-2023	99,080	33,063	132,143
2024-2025	48,455	4,405	52,860
	$ 276,900	$ 172,387	$ 449,287

Subsequent to June 30, 2005, the HTA was informed by the State that it was required to meet its debt service payments for the period from July 1, 2000 to June 30, 2002. The HTA strongly disagreed and is currently in discussions with the State. If the HTA does not prevail, its liability to the State will increase by $52,873,000, consisting of principal and interest of $12,690,000, and 40,183,000, respectively.

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2008, interest earned and transferred into the State General Fund amounted to $7,748,000. At June 30, 2008, amounts due to the State General Fund related to the interest transfer amounted to $7,658,000.

11. RETIREMENT BENEFITS

Employee Retirement System

Plan Description

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 defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan 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 plan. The noncontributory plan 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 plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2008, 2007, and 2006, were approximately \$377,475,000, \$341,896,000, and \$318,144,000, respectively. The State contributed 100% of its required contribution for those years. Covered payroll for the fiscal year ended June 30, 2008 was approximately \$2,657,906,000.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees and their dependents. Both the EUTF and the HSTA VEBA plans currently provide medical, prescription drug, dental, vision, chiropractic, and group life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

The eligibility requirements for retiree health benefits are the same for both plans as follows:

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years of more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

Effective July 1, 2006, the EUTF and HSTA VEBA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retire healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions* (GASB 45), which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State's base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, the net OPEB liability, and the funding status for each of the plans for each of the plans for the fiscal year ended June 30, 2008 (amounts in thousands):

	EUTF	HSTA VEBA
Annual required contribution — annual OPEB cost	$ 429,195	$ 138,954
Contributions made	(160,404)	(12,396)
Increase in net OPEB obligation	268,791	126,558
Net OPEB obligation — beginning of year	-	-
Net OPEB obligation — end of year	317,703	126,558
Annual OPEB Cost	517,755	138,954
Percentage of Annual OPEB Cost Cost Paid	38.6%	8.9%
Net OPEB Obligation	268,791	126,558
Actuarial accrued liability (AAL) July 1, 2007	7,192,331	1,596,561
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2007	7,192,331	1,596,561
Funded ratio	0%	0%
Covered payroll	1,782,000	680,000
UAAL as percentage of covered payroll	404%	235%

During fiscal 2007, expenditures of $242,697,000 were recognized for post-retirement health care and life insurance benefits, approximately $34,079,000 of which was attributable to the Component Units. During fiscal year 2006, expenditures of $178,675,000 were recognized for post-retirement health care and life insurance benefits, approximately $38,193,000 of which was attributable to the Component Units.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF	HSTA VEBA
Actuarial valuation date	July 1, 2007	July 1, 2007
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years (closed)	30 years (closed)
Asset valuation method	N/A	N/A
Actuarial assumptions:		
Investment rate of return	5%	5%
Projected salary increases	3.5%	3.5%
Healthcare inflation rate	9.5% initial	9.5% initial
Medical & Rx Pre-65	5% ultimate 10.0% initial	5% ultimate 10.0% initial
Medical & Rx Post-65	5% ultimate	5% ultimate

12. COMMITMENTS AND CONTINGENCIES

Commitments

General Obligation Bonds — The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2008, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 52,631
Agriculture	7,692
Natural Resources	4,484
All Other	941
	$ 65,748

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, 2008, accumulated sick leave was approximately $1,393,741,000.

Intergovernmental Expenditures — In accordance with Act 250, SLH of 2002, 45% 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 $191,000,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2008.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2008, the Enterprise Funds had commitments of approximately $317,482,000 for construction and service contracts.

Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2008, 2007, and 2006, approximated $6,106,000, $12,462,000, and $20,700,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $56,063,000 during the fiscal year ended June 30, 2008. As of June 30, 2008, the State expects to receive $27,554,000 for the first six months of fiscal 2009.

Office of Hawaiian Affairs

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State and Ceded Lands to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki"*), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of moneys which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 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.) ("*OHA I"*)), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter 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-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively , the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court 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, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's 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 was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justiciability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in *OHA I* was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report (IG Report) concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues.

In May 1997, the Acting Administrator of the FAA concurred in writing (FAA Memorandum) with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5 and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass two bills for such purpose during its 2007 Session.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC", since succeeded by the HHFDC, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on

June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States … and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate," and allowed the parties until July 17, 2009 to inform the court "whether there is any effective settlement of [the] matter."

Also, OHA filed suit against the Hawaii Housing Authority (the "HHA", since succeeded by the HPHA, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*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 HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the panel's recommendations until all claims had been reviewed and forwarded to it.

Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the State Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel unseated on December 31, 1999. As of September 30, 1999, The Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the State Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima, et al. v. Cayetano,* Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special, and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 99-4771-12VSM (1st Cir.) *("Kalima I").* Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.,* Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.,* Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.,* Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.,* Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.,* Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the State circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 00-1-1041-03 (1st Cir.) *("Kalima II").* All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II.*

On August 30, 2000, the circuit court entered an order in *Kalima I* granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the circuit court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no-cause of action defenses, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trail. By an opinion issued on June 30, 2006, the Supreme Court affirmed the plaintiffs were entitled to pursue their claims for damages under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case to the back to trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly *ultra vires* rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first. Trial on the waiting subclass' claims is schedule to begin on August 4, 2009.

Nelson et al., v. Hawaiian Homes Commission

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007 but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director of Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the DHHL and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in article XII, section 1 of the Hawaii Constitution.

The plaintiffs also ask the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson.* The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346,900,000 plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervener defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervener defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervener defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346,900,000 of employer contributions for 1997, 1998 , and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims. The State intends to defend vigorously against the claims against the State in the above case.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the “Defendants”). Plaintiffs’ First Amended Complaint alleges that Defendants have violated constitutional, contractual and statutory rights of Plaintiffs under article XVI, section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs’ action claims that Defendants’ conduct constitutes a breach of contract and negligence. Plaintiffs’ action seeks declaratory and injunctive relief, damages, prejudgment interest and attorneys’ fees and costs. Under the doctrine of primary jurisdiction, Plaintiffs’ action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs’ claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that: (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003 to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed that decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court’s order held that: (a) ”accrued benefits” under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) the State Legislature is not precluded from changing health benefits for prospective employees; (d) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (e) certain of the health benefits provided to retirees and their dependents by the EUTF are not reasonably approximate to those provided to active employees and their dependents. The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to this matter. The State is currently considering an appeal of the circuit court’s decision.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 – June 30, 2005. The case is currently on appeal, with both the State and Plaintiffs filing appeals. The appeal and cross-appeal have been fully briefed and argued and are pending decision. The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to this matter. The State intends to defend vigorously against the claims against the DOE in the above case.

Other

On April 14, 2008, in *Hawaii Insurers Council v. Lingle*, 184 P.3d 769 (Haw. App. 2008), the Hawaii Intermediate Court of Appeals ruled that past assessments of insurers by the Insurance Division of the Department of Commerce and Consumer Affairs were unlawful taxes rather than regulatory fees. This ruling may impact other specially funded state programs. The State is currently unable to predict with reasonable certainty the magnitude of the impact of this ruling on its specially funded State programs, if any. The Hawaii Supreme Court has taken the matter up on appeal. No hearing has yet been scheduled. The State intends to defend vigorously against the claims against the State in the above case.

13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler & machinery coverage. The limit of loss per occurrence is $175,000,000, except for flood and earthquake which individually is a $175,000,000 aggregate loss and terrorism which is $50,000,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by 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 Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $10,000,000.

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 included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $25,000,000 per occurrence and $29,000,000 in aggregate.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2008 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2008 and 2007 (amounts expressed in thousands):

	2008	2007
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 175,509	$ 77,500
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	21,162	117,948
Increase/(decrease) in provision for insured events of prior fiscal years	(8,129)	2,251
Total incurred losses and loss adjustment costs	13,033	120,199
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(9,531)	(2,506)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(23,708)	(19,684)
Total payments	(33,239)	(22,190)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 155,303	$ 175,509

14. SUBSEQUENT EVENTS

University of Hawaii

In the first half of fiscal year 2009, over $68,500,000 in capital improvements program funds were released by the Governor for UH projects. In July 2008, $1,200,000 was released for the Clarence T.C. Ching (Cooke) field improvements, which was dedicated on February 2, 2009. The turf replacement project is in the first phase of the Clarence T.C. Ching Athletics Complex. In August 2008, $60,000,000 was released for plans, designs and construction for the capital renewal, deferred maintenance, health and safety, and infrastructure projects at UH campuses. In September 2008, $3,500,000 was released for the plans, design and construction of the upgrade of the existing air conditioning and ventilation systems at Bilger Addition and the renovation of existing facilities at Hawaii Community College Manono Campus. In November 2008, $3,800,000 was released for plans and design for an information Technology and Emergency Operations Center Building.

In October 2008, the UH Board of Regents approved a reduced operating budget for fiscal years 2010 and 2011. The UH reduced the base budget by $13,500,000, as requested by the Governor. Due to the current economic conditions, further restrictions are highly likely and may affect the 2009 fiscal year appropriated funds.

In January 2009, the UH had groundbreaking ceremonies for the new West Oahu campus in the City of Kapolei. Also that month, the lease negotiations with the HCDA were successfully concluded for the site of the UH Cancer Research Center of Hawaii research and clinical trials facility.

Hawaii Housing Finance and Development Corporation

On July 1, 2008, the HHFDC redeemed $5,075,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund.

Hawaii Public Housing Authority

Subsequent to year-end, the HPHA was named as a defendant in a lawsuit regarding the living conditions at Kuhio Park Terrace. The lawsuit is in its discovery stage as such its outcome is not determinable.

Hawaii Health Systems Corporation

In September 2008, HHSC sold its interest in a lab partnership to Sonic Healthcare USA. According to the terms of the sale, the majority of the sales proceeds were distributed to each of the partners in the partnership according to their ownership percentage in the partnership, with a certain portion being held in escrow to cover unanticipated compliance claims, to be distributed to the partners at certain dates in the future. HHSC's share of the sale proceeds was $8,484,000, which was used to pay down HHSC's accounts payable to the partnership as stated in the sale agreement.

In February 2009, the Kauai Regional Board directed management to cease work on the design and building of a new hospital building and renovation of the existing hospital and medical office buildings located at Kauai Veterans Memorial Hospital (KVMH), based on the results of an independent third-party financial feasibility study. The total architectural and design fees incurred for this project was approximately $3,900,000 at June 30, 2008, and the total fees incurred as of the date of this report was $7,200,000. Management is evaluating the architectural and design work performed to date to determine if there are any portions of that work that can be used in future projects on the KVMH campus.

15. RESTATEMENTS

Subsequent to the issuance of the State's fiscal year 2007 financial statements, management determined that the financial statements were misstated. As a result, certain amounts in the Government-Wide financial statements, Fund financial statements, Component Units' financial statements, and supplementary information have been restated from the amounts previously reported. The restatements are summarized below and are recorded as adjustments to the beginning net assets of the Government-Wide and Component Units' financial statements, and beginning fund balance in the Governmental Funds financial statement.

Government-Wide Financial Statements:

- Subsequent to the issuance of the fiscal year 2007 financial statements, management determined that general obligation bonds issued in prior periods should have been reported as long-term debt of the Harbors Enterprise Fund, a business-type activity, and not as an obligation of the governmental-type activities. Correction of the error resulted in a $35,631,000 beginning fund balance reduction adjustment to the Capital Projects Fund, but did not have an effect on the overall beginning net assets of the Government-Wide financial statements.

- Subsequent to the issuance of the fiscal year 2007 financial statements, management determined that loans made in prior periods to Component Units, HTA and UH in the amounts of $286,165,000 and $4,633,000, respectively, should be reported as intra-entity loan receivable rather than general obligation debt of the Component Units. Correction of the error did not have an effect on the overall beginning net assets of the Government-Wide financial statements.

Component Units:

- Subsequent to the issuance of HPHA's fiscal year 2007 financial statements, management determined that the financial statements were misstated for erroneously expensed capital assets of $579,000, unrecorded appropriations allotted by the State of $556,000, unrecorded litigation settlement of $530,000, offset by unrecorded accrued expenses of $297,000. As a result of these misstatements, HPHA's net assets as of June 30, 2007, were increased by $1,368,000.

- Subsequent to the issuance of HCDA's fiscal year 2007 financial statements, management determined that the financial statements were misstated for capital assets previously transferred to other governmental jurisdictions and utility companies upon completion of improvement district projects and not recognized as dispositions in the Government-Wide financial statements. These capital assets were primarily infrastructure networks constructed on lands owned by others and completed at various dates between 1988 and 2004. Accordingly, HCDA's net assets as of June 30, 2007, were decreased by $78,343,000.

The effect of the abovementioned restatements and accounting changes on the Statement of Net Assets is as follows (amounts expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
NET ASSETS — Beginning of year — as previously reported	$ 5,744,592	$ 3,238,249	$ 8,982,841	$ 2,873,536
ADJUSTMENTS:				
Overstatement of beginning capital assets	-	-	-	(77,764)
Unrecorded State allotted appropriations	-	-	-	556
Accrued litigation settlement	-	-	-	530
Accrued expenses	-	-	-	(297)
Reversal of interfund receivable	(35,631)	35,631	-	-
Reversal of Harbors long-term debt	35,631	(35,631)	-	-
Reversal of component unit long-term debt	290,798	-	290,798	-
Recording of component unit loan receivable	(290,798)	-	(290,798)	-
Total adjustments	-	-	-	(76,975)
NET ASSETS — Beginning of year — as restated	$ 5,744,592	$ 3,238,249	$ 8,982,841	$ 2,796,561

Governmental Funds:

- Subsequent to the issuance of the fiscal year 2007 financial statements, management determined that general obligation bonds issued in prior periods should have been reported as long-term debt of the Harbors Enterprise Fund and not as an obligation of the governmental-type activities. Correction of the error resulted in a $35,631,000 beginning fund balance adjustment to the Capital Projects Fund to reverse amounts previously reported as an interfund receivable from the Harbors Enterprise Fund. The effects of the abovementioned restatements on the governmental fund balance is as follows (amounts expressed in thousands):

	Governmental Funds	
	Capital Projects Fund	Total Governmental Funds
NET ASSETS — Beginning of year — as previously reported	$ 24,410	$ 2,384,594
ADJUSTMENTS:		
Reversal of interfund receivable	(35,631)	(35,631)
NET ASSETS — Beginning of year — as restated	$ (11,221)	$ 2,348,963

Proprietary Funds:

- Subsequent to the issuance of the Harbors Enterprise Fund fiscal year 2007 financial statements, management determined that general obligation bonds issued in prior periods should have been reported as long-term debt of the Harbors Enterprise Fund and not as an obligation of the governmental-type activities. Correction of the error resulted in a $35,631,000 adjustment to the Harbors Enterprise Fund to reclassify amounts previously reported as an interfund liability to general obligation bonds liability at June 30, 2007.

- Subsequent to the issuance of the EUTF's fiscal year 2007 financial statements, management determined that the cash and cash equivalents and the premiums receivable from State of Hawaii and counties decreased and increased by $2,816,000, respectively. Accordingly, cash and cash equivalents and premiums receivable from the State of Hawaii and counties balances as previously reported of $56,384,000 and $4,551,000, were restated to $53,568,000 and $7,366,000, respectively. The restatement had no effect on net asset balance at June 30, 2007.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,760,790	$ 2,679,774	$ 2,619,595	$ (60,179)
Net income tax:				
Corporations	129,768	89,620	85,081	(4,539)
Individuals	1,667,437	1,602,316	1,544,645	(57,671)
Inheritance and estate tax	-	-	164	164
Liquor permits and tax	48,489	47,094	45,620	(1,474)
Public service companies tax	140,844	129,975	127,481	(2,494)
Tobacco tax	91,144	87,093	83,443	(3,650)
Tax on premiums of insurance companies	88,000	94,000	94,587	587
Franchise tax (banks and other financial institutions)	19,334	17,804	18,213	409
Transient accommodations tax	15,227	15,227	15,717	490
Other taxes, primarily conveyances tax	15,213	13,923	6,156	(7,767)
Total taxes	4,976,246	4,776,826	4,640,702	(136,124)
Non-taxes:				
Interest and investment income	61,374	48,893	69,101	20,208
Charges for current services	171,160	190,826	208,428	17,602
Intergovernmental	5,347	5,536	4,634	(902)
Rentals	1,925	738	461	(277)
Fines, forfeitures, and penalties	534	566	23,508	22,942
Licenses and fees	1,002	1,007	1,510	503
Revenues from private sources	2,800	2,800	2,259	(541)
Debt service requirements	47,357	47,357	49,621	2,264
Other	146,169	154,242	204,523	50,281
Total non-taxes	437,668	451,965	564,045	112,080
Total revenues	5,413,914	5,228,791	5,204,747	(24,044)
EXPENDITURES:				
General government	722,431	754,448	706,696	47,752
Public safety	257,592	255,641	250,870	4,771
Conservation of natural resources	38,364	52,838	49,103	3,735
Health	443,068	464,114	461,946	2,168
Hospitals	53,612	86,295	79,556	6,739
Welfare	728,949	762,672	746,593	16,079
Lower education	2,070,094	2,117,359	2,074,358	43,001
Higher education	670,485	682,548	676,553	5,995
Other education	5,435	5,482	5,176	306
Culture and recreation	41,721	46,142	45,731	411
Urban redevelopment and housing	1,169	1,208	980	228
Economic development and assistance	31,328	39,966	38,110	1,856
Housing	38,505	48,707	43,474	5,233
Social security and pension contributions	222,440	253,521	253,521	-
Other	-	5,318	4,947	371
Total expenditures	5,325,193	5,576,259	5,437,614	138,645
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	88,721	(347,468)	(232,867)	114,601
OTHER FINANCING SOURCES — Transfers in	20,946	40,279	40,040	(239)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ 109,667	$ (307,189)	$ (192,827)	$ 114,362

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	$ -	$ -	$ -	$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	-	-	-	-
Non-taxes:				
Interest and investment income	-	-	212	212
Charges for current services	-	-	184	184
Intergovernmental	594,108	594,108	720,028	125,920
Rentals	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	32,000	14,385	(17,615)
Total non-taxes	626,108	626,108	734,809	108,701
Total revenues	626,108	626,108	734,809	108,701
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	784,650	784,650	739,379	45,271
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	-	-	-	-
Total expenditures	784,650	784,650	739,379	45,271
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (158,542)	$ (158,542)	$ (4,570)	$ 153,972

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION − 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 periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2007 (Act 213, SLH of 2007) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2007 — 2009 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the 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, 2008, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's 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 are presented in the General Fund statement of revenues and expenditures — budget and actual (budgetary basis). 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 difference) and (2) the accounting for transfers of debt service payments through the General Fund (perspective difference), which represent departures from GAAP.

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2008, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and over expenditures — actual (budgetary basis)	$ (232,867)	$ (4,570)
Reserve for encumbrances at fiscal year-end *	320,475	13,092
Expenditures for liquidation of prior fiscal year encumbrances	(340,405)	(17,568)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(25,178)	-
Expenditures and operating transfers	40,042	47,679
Tax refunds payable	2,057	-
Accrued liabilities	(27,797)	(54,512)
Accrued revenues	(58,179)	-
Net change in fund balance — GAAP basis	$ (321,852)	$ (15,879)

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

SCHEDULES OF FUNDING PROGRESS

(Amounts in millions)

Primary Government:

EUTF

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/07	$0	$6,056	$6,056	0%	$1,442	420.0%

HSTA-VEBA

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/07	$0	$1,597	$1,597	0%	$714	223.7%

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways — Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources — Accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

Health — Accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

Human Services — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education — Accounts for programs related to instructional education, school food services, and student driver education.

Economic Development — Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment — Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory — Accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs — Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support — Accounts for programs of certain administrative agencies.

All Other — Accounts for programs related to water recreation, inmate stores, and driver training and education.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 99,002	$ 55,586	$ 66,603	$ 30,032	$ 38,727	$ 11,056	$ 10,788
RECEIVABLES:							
Accrued interest	1,259	346	732	4	138	136	125
Notes and loans — net	-	14,023	-	-	-	33	-
Other	20,654	-	-	-	-	-	-
DUE FROM OTHER FUNDS	41,390	-	-	-	-	-	-
INVESTMENTS	91,377	57,944	105,660	414	37,322	21,835	19,194
OTHER ASSETS	-	1	-	-	-	-	-
TOTAL	$ 253,682	$ 127,900	$ 172,995	$ 30,450	$ 76,187	$ 33,060	$ 30,107
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 26,487	$ 9,413	$ 35,466	$ 4,112	$ 10,539	$ 2,064	$ 5,278
Other accrued liabilities	334	849	1,700	166	1,989	275	934
Due to other funds	-	-	-	-	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	26,821	10,262	37,166	4,278	12,528	2,339	6,212
FUND BALANCES:							
Reserved for:							
Continuing appropriations	188,125	31,004	50,930	54,721	41,383	11,443	8,215
Receivables and advances	-	15,039	-	-	-	40	-
Bond redemption and other	-	20,219	-	-	-	-	-
Unreserved for Special Revenue Funds:							
Designated for future expenditures	11,922	60,176	-	-	859	4,000	225
Undesignated	26,814	(8,800)	84,899	(28,549)	21,417	15,238	15,455
Total fund balances	226,861	117,638	135,829	26,172	63,659	30,721	23,895
TOTAL	$ 253,682	$ 127,900	$ 172,995	$ 30,450	$ 76,187	$ 33,060	$ 30,107

		Special Revenue Funds					
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 15,658	$ 89,088	$ 96,827	$ 22,718	$ 536,085	$ 27,515	$ -	$ 563,600
185	852	299	91	4,167	-	-	4,167
-	57,161	-	-	71,217	-	-	71,217
-	-	-	-	-	-	-	-
-	(2)	-	-	20,652	-	-	20,652
-	-	-	-	41,390	42	-	41,432
32,839	114,321	102,719	15,073	598,698	-	-	598,698
-	-	-	-	1	-	-	1
$ 48,682	$ 261,420	$ 199,845	$ 37,882	$ 1,272,210	$ 27,557	$ -	$ 1,299,767
$ 2,903	$ 8,612	$ 11,834	$ 7,814	$ 124,522	$ -	$ -	$ 124,522
1,062	212	1,192	600	9,313	-	-	9,313
-	-	-	985	985	2,363	-	3,348
-	-	-	-	-	3,193	-	3,193
3,965	8,824	13,026	9,399	134,820	5,556	-	140,376
4,386	4,866	66,499	20,556	482,128	21,704	-	503,832
-	50,955	-	-	66,034	-	-	66,034
-	143,090	-	-	163,309	-	-	163,309
-	8,414	30,136	8,422	124,154	-	-	124,154
40,331	45,271	90,184	(495)	301,765	297	-	302,062
44,717	252,596	186,819	28,483	1,137,390	22,001	-	1,159,391
$ 48,682	$ 261,420	$ 199,845	$ 37,882	$ 1,272,210	$ 27,557	$ -	$ 1,299,767

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	13,443	1,695	-	-	-	4,691
Transient accommodations tax	-	2,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	4,158	-	-	-	-
Liquid fuel tax	88,233	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	55,552	-	5,290	-	-	-	-
Rental motor/tour vehicle surcharge tax	49,196	-	-	-	-	-	-
Total taxes	192,981	15,693	11,143	-	-	-	4,691
Interest and investment income	5,143	2,157	2,124	13	434	511	475
Charges for current services	2,188	18,711	67,987	272	30,038	4,773	13,491
Intergovernmental	186,653	22,766	106,269	427,774	218,033	11,751	38,901
Rentals	-	3,844	-	-	50	2,008	-
Fines, forfeitures, and penalties	1,454	81	1,905	-	-	-	721
Licenses and fees	2,043	590	45	133	776	-	-
Revenues from private sources	-	4	55,798	85	114	-	18
Other	17,607	4,438	1,445	487	8,785	1,612	461
Total revenues	408,069	68,284	246,716	428,764	258,230	20,655	58,758
EXPENDITURES:							
Current:							
General government	-	4,102	191	-	-	-	-
Public safety	-	2,007	-	-	-	250	1,713
Conservation of natural resources	-	53,597	134	-	-	-	-
Health	-	-	275,448	-	-	-	-
Welfare	-	-	-	387,042	-	-	-
Lower education	-	-	-	-	177,894	-	-
Other education	-	-	-	16,913	-	-	-
Culture and recreation	-	7,772	-	-	3,360	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Economic development and assistance	-	4,893	-	-	-	15,660	63,932
Other	-	-	-	-	-	-	-
Highways	205,379	63	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	205,379	72,434	275,773	403,955	181,254	15,910	65,645
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	202,690	(4,150)	(29,057)	24,809	76,976	4,745	(6,887)
OTHER FINANCING SOURCES (USES):							
Issuance of GO Refunding Bonds - Par	-	-	-	-	-	-	-
Issuance of GO Refunding Bonds - Premium	-	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-	-
Transfers in	32	3,680	54,159	6,322	1,577	50	374
Transfers out	(187,979)	(1,888)	(16,420)	(26,221)	(206)	-	(884)
Total other financing sources (uses)	(187,947)	1,792	37,739	(19,899)	1,371	50	(510)
NET CHANGE IN FUND BALANCES	14,743	(2,358)	8,682	4,910	78,347	4,795	(7,397)
FUND BALANCES — Beginning of year	212,118	119,996	127,147	21,262	(14,688)	25,926	31,292
FUND BALANCES — End of year	$ 226,861	$ 117,638	$ 135,829	$ 26,172	$ 63,659	$ 30,721	$ 23,895

Special Revenue Funds							
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
-	-	-	-	19,829	-	-	19,829
-	-	-	-	2,000	-	-	2,000
-	-	1,665	-	5,823	-	-	5,823
-	-	-	1,640	90,123	-	-	90,123
1,745	-	-	-	1,745	-	-	1,745
-	-	-	-	60,842	-	-	60,842
-	-	-	-	49,196	-	-	49,196
3,745	-	1,665	1,640	231,558	-	-	231,558
636	73,918	1,646	339	87,396	-	-	87,396
15,047	684	56,055	19,297	228,543	-	-	228,543
-	13,469	21,574	47,992	1,095,182	-	-	1,095,182
-	10,652	1,039	2,097	19,690	-	-	19,690
2,187	-	296	2,466	9,110	-	-	9,110
10,321	-	15,863	450	30,221	-	-	30,221
-	-	1,087	85	57,191	-	-	57,191
44	11,772	5,782	17,008	69,441	90	-	69,531
31,980	110,495	105,007	91,374	1,828,332	90	-	1,828,422
-	-	33,570	9,531	47,394	-	-	47,394
33,967	-	13,181	64,380	115,498	-	-	115,498
-	-	7	-	53,738	-	-	53,738
-	-	-	-	275,448	-	-	275,448
-	-	13,002	382	400,426	-	-	400,426
-	-	6,539	-	184,433	-	-	184,433
-	-	-	-	16,913	-	-	16,913
-	-	11,851	17,708	40,691	-	-	40,691
-	178,353	-	-	178,353	-	-	178,353
-	-	24	-	84,509	-	-	84,509
-	-	5,352	-	5,352	-	-	5,352
-	-	-	-	205,442	-	-	205,442
-	-	-	-	-	478,735	-	478,735
33,967	178,353	83,526	92,001	1,608,197	478,735	-	2,086,932
(1,987)	(67,858)	21,481	(627)	220,135	(478,645)	-	(258,510)
-	-	-	-	-	29,010	-	29,010
-	-	-	-	-	500	-	500
-	-	-	-	-	(29,510)	-	(29,510)
2,904	50,000	18,323	13,312	150,733	478,941	-	629,674
(2,401)	-	(18,221)	(4,117)	(258,337)	-	-	(258,337)
503	50,000	102	9,195	(107,604)	478,941	-	371,337
(1,484)	(17,858)	21,583	8,568	112,531	296	-	112,827
46,201	270,454	165,236	19,915	1,024,859	21,705	-	1,046,564
$ 44,717	$ 252,596	$ 186,819	$ 28,483	$ 1,137,390	$ 22,001	$ -	$ 1,159,391

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negati
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	84,937	87,885	2,948	230	250	20
Boating	-	-	-	-	-	-
Vehicle registration fee tax	20,351	21,156	805	-	-	-
State vehicle weight tax	29,032	34,010	4,978	-	-	-
Rental/tour vehicle surcharge tax	38,626	49,196	10,570	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	17,400	13,443	(3,957)
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	1,900	2,000	100
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	172,946	192,247	19,301	19,530	15,693	(3,837)
Non-taxes:						
Interest and investment income	8,900	15,901	7,001	2,362	4,202	1,840
Charges for current services	24,584	2,188	(22,396)	18,969	18,711	(258)
Intergovernmental	99,301	186,653	87,352	11,173	20,787	9,614
Rentals	1	-	(1)	2,823	3,844	1,021
Fines, forfeitures and penalties	1,133	1,445	312	64	81	17
Licenses and fees	1,886	2,043	157	650	590	(60)
Revenues from private sources	-	-	-	1	4	3
Other	-	48,521	48,521	2,770	5,481	2,711
Total non-taxes	135,805	256,751	120,946	38,812	53,700	14,888
Total revenues	308,751	448,998	140,247	58,342	69,393	11,051
EXPENDITURES:						
General government	-	-	-	4,233	4,203	30
Public safety	-	-	-	5,255	2,334	2,921
Highways	302,065	249,385	52,680	-	-	-
Conservation of natural resources	-	-	-	83,850	49,946	33,904
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	10,596	7,322	3,274
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	1,174	1,016	158
Other	-	-	-	-	-	-
Total expenditures	302,065	249,385	52,680	105,108	64,821	40,287
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 6,686	$ 199,613	$ 192,927	$ (46,766)	$ 4,572	$ 51,338

Health			Education		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negativ
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,031	5,290	259	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	4,158	4,158	-	-	-
-	-	-	-	-	-
1,800	1,695	(105)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,831	11,143	4,312	-	-	-
1,880	6,251	4,371	424	1,250	826
80,270	104,345	24,075	31,585	30,038	(1,547)
96,539	106,269	9,730	204,197	218,033	13,836
-	-	-	32	50	18
947	1,905	958	-	-	-
789	888	99	732	776	44
53,497	55,798	2,301	10	114	104
93	55,604	55,511	1,780	10,405	8,625
234,015	331,060	97,045	238,760	260,666	21,906
240,846	342,203	101,357	238,760	260,666	21,906
205	199	6	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
389,380	335,773	53,607	-	-	-
-	-	-	-	-	-
-	-	-	434,268	255,655	178,613
-	-	-	-	-	-
-	-	-	4,885	3,761	1,124
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
389,585	335,972	53,613	439,153	259,416	179,737
$ (148,739)	$ 6,231	$ 154,970	$ (200,393)	$ 1,250	$ 201,643

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negati
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	-	-
Non-taxes:						
Interest and investment income	-	48	48	456	1,843	1,387
Charges for current services	-	272	272	6,037	4,773	(1,264)
Intergovernmental	298,455	252,726	(45,729)	12,717	11,751	(966)
Rentals	-	-	-	2,405	2,008	(397)
Fines, forfeitures and penalties	-	-	-	-	-	-
Licenses and fees	406	133	(273)	-	-	-
Revenues from private sources	-	85	85	100	-	(100)
Other	-	989	989	17	1,667	1,650
Total non-taxes	298,861	254,253	(44,608)	21,732	22,042	310
Total revenues	298,861	254,253	(44,608)	21,732	22,042	310
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	259,805	234,107	25,698	-	-	-
Lower education	-	-	-	-	-	-
Other education	18,372	15,868	2,504	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	48,371	22,036	26,335
Other	-	-	-	-	-	-
Total expenditures	278,177	249,975	28,202	49,471	22,036	27,435
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 20,684	$ 4,278	$ (16,406)	$ (27,739)	$ 6	$ 27,745

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ 3,566	$ 3,566	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
950	1,125	175	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,900	1,745	(155)
950	4,691	3,741	3,900	3,745	(155)
890	1,478	588	1,016	2,056	1,040
18,000	13,491	(4,509)	18,627	15,047	(3,580)
36,733	38,901	2,168	-	-	-
-	-	-	-	-	-
100	721	621	689	2,187	1,498
-	-	-	10,740	10,321	(419)
-	18	18	-	-	-
6	2,649	2,643	3,064	2,948	(116)
55,729	57,258	1,529	34,136	32,559	(1,577)
56,679	61,949	5,270	38,036	36,304	(1,732)
-	-	-	-	-	-
2,289	1,710	579	48,585	36,722	11,863
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
113,954	60,400	53,554	-	-	-
-	-	-	-	-	-
116,243	62,110	54,133	48,585	36,722	11,863
$ (59,564)	$ (161)	$ 59,403	$ (10,549)	$ (418)	$ 10,131

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessm	-	-	-	-	-	-
Tobacco tax	-	-	-	1,090	1,665	575
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance compani	-	-	-	-	-	-
Total taxes	-	-	-	1,090	1,665	575
Non-taxes:						
Interest and investment income	870	1,460	590	1,490	3,694	2,204
Charges for current services	1	2	1	42,329	58,520	16,191
Intergovernmental	7,564	13,469	5,905	17,559	20,895	3,336
Rentals	2,676	10,375	7,699	6,235	6,496	261
Fines, forfeitures and penalties	-	-	-	259	296	37
Licenses and fees	-	-	-	15,125	15,863	738
Revenues from private sources	-	-	-	950	1,087	137
Other	3,240	5,528	2,288	20,791	872,651	851,860
Total non-taxes	14,351	30,834	16,483	104,738	979,502	874,764
Total revenues	14,351	30,834	16,483	105,828	981,167	875,339
EXPENDITURES:						
General government	-	-	-	923,681	892,968	30,713
Public safety	-	-	-	24,558	11,833	12,725
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	359	25	334
Health	-	-	-	19	19	-
Welfare	-	-	-	16,379	13,372	3,007
Lower education	-	-	-	6,500	6,237	263
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	15,138	13,375	1,763
Urban redevelopment and housing	43,614	27,085	16,529	-	-	-
Economic development and assistance	-	-	-	292	283	9
Other	-	-	-	17,031	5,513	11,518
Total expenditures	43,614	27,085	16,529	1,003,957	943,625	60,332
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (29,263)	$ 3,749	$ 33,012	$ (898,129)	$ 37,542	$935,671

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ 3,566	$ 3,566
-	-	-	85,167	88,135	2,968
1,300	1,640	340	1,300	1,640	340
-	-	-	25,382	26,446	1,064
-	-	-	29,032	34,010	4,978
-	-	-	38,626	49,196	10,570
-	-	-	950	1,125	175
-	-	-	1,090	5,823	4,733
-	-	-	17,400	13,443	(3,957)
-	-	-	1,800	1,695	(105)
-	-	-	1,900	2,000	100
-	-	-	2,000	2,000	-
-	-	-	1,900	1,745	(155)
1,300	1,640	340	206,547	230,824	24,277
344	726	382	18,632	38,909	20,277
16,373	19,297	2,924	256,775	266,684	9,909
24,540	49,971	25,431	808,778	919,455	110,677
1,912	2,097	185	16,084	24,870	8,786
3,014	2,466	(548)	6,206	9,101	2,895
460	450	(10)	30,788	31,064	276
-	85	85	54,558	57,191	2,633
7,376	29,065	21,689	39,137	1,035,508	996,371
54,019	104,157	50,138	1,230,958	2,382,782	1,151,824
55,319	105,797	50,478	1,437,505	2,613,606	1,176,101
17,126	13,806	3,320	945,245	911,176	34,069
125,480	64,433	61,047	207,267	117,032	90,235
600	-	600	302,665	249,385	53,280
-	-	-	84,209	49,971	34,238
-	-	-	389,399	335,792	53,607
550	339	211	276,734	247,818	28,916
-	-	-	440,768	261,892	178,876
-	-	-	18,372	15,868	2,504
16,734	12,025	4,709	47,353	36,483	10,870
-	-	-	43,614	27,085	16,529
-	-	-	163,791	83,735	80,056
-	-	-	17,031	5,513	11,518
160,490	90,603	69,887	2,936,448	2,341,750	594,698
$ (105,171)	$ 15,194	$ 120,365	$ (1,498,943)	$ 271,856	$ 1,770,799

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2008
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ 271,856
RESERVE FOR ENCUMBRANCES AT YEAR-END*	284,378
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(284,674)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	(58,514)
TRANSFERS	18,392
ACCRUED LIABILITIES	(248,008)
ACCRUED REVENUES	236,705
EXCESS OF REVENUES OVER EXPENDITURES — GAAP basis	$ 220,135

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

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 16,746	$ 161,843	$ 21,227	$ 199,816
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $245)	118	1,952	165	2,235
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	18,702	2,928	21,630
Other	-	593	876	1,469
Premiums	31,881	-	-	31,881
Prepaid expenses and other assets	9,327	-	-	9,327
Total current assets	58,072	183,090	25,196	266,358
CAPITAL ASSETS				
Construction in progress	1,994	-	-	1,994
Equipment	2,334	54	1,126	3,514
	4,328	54	1,126	5,508
Less accumulated depreciation	(2,203)	(47)	(769)	(3,019)
Net capital assets	2,125	7	357	2,489
Promissory note receivable	-	179,280	46,736	226,016
Total noncurrent assets	2,125	179,287	47,093	228,505
TOTAL	$ 60,197	$ 362,377	$ 72,289	$ 494,863

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

LIABILITIES	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 145	$ 140	$ 289	$ 574
Other accrued liabilities	195	-	-	195
Accrued vacation, current portion	25	-	-	25
Premiums payable	47,263	-	-	47,263
Total current liabilities	47,628	140	289	48,057
NONCURRENT LIABILITIES:				
Accrued vacation	70	161	38	269
Other postemployment benefit liability	-	152	37	189
TOTAL	47,698	453	364	48,515
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	2,125	7	357	2,489
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	361,917	71,568	433,485
UNRESTRICTED	10,374	-	-	10,374
TOTAL NET ASSETS	$ 12,499	$ 361,924	$ 71,925	$ 446,348

(Concluded)

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
OPERATING REVENUES:				
Administrative fees	$ 2,983	$ 1,584	$ 1,472	$ 6,039
Other	-	3,295	232	3,527
Total operating revenues	2,983	4,879	1,704	9,566
OPERATING EXPENSES:				
Personnel services	1,022	-	-	1,022
Depreciation	48	10	84	142
Repairs and maintenance	209	-	-	209
General administration	891	1,627	2,061	4,579
Other	35	-	-	35
Total operating expenses	2,205	1,637	2,145	5,987
Operating income (loss)	778	3,242	(441)	3,579
NONOPERATING REVENUES (EXPENSES):				
Interest income	2,535	2,340	313	5,188
Other	(16,632)	-	-	(16,632)
Total nonoperating revenues (expenses)	(14,097)	2,340	313	(11,444)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(13,319)	5,582	(128)	(7,865)
CAPITAL CONTRIBUTIONS	-	9,830	11,590	21,420
CHANGE IN NET ASSETS	(13,319)	15,412	11,462	13,555
NET ASSETS — Beginning of year	25,818	346,512	60,463	432,793
NET ASSETS — End of year	$ 12,499	$ 361,924	$ 71,925	$ 446,348

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from employees	$ 289,019	$ -	$ -	$ 289,019
Cash paid to suppliers	(1,147)	(150)	(1,395)	(2,692)
Cash paid to employees	(894)	(1,294)	(450)	(2,638)
Cash paid for premiums	(324,806)	-	-	(324,806)
Reserves returned by insurance carriers	141	-	-	141
Interest income from notes receivable	-	3,386	228	3,614
Administrative loan fees	-	1,582	1,290	2,872
Principal repayments on notes receivable	-	15,463	2,290	17,753
Disbursement of notes receivable proceeds	-	(24,379)	(11,074)	(35,453)
Net cash used in operating activities	(37,687)	(5,392)	(9,111)	(52,190)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Net advances to other funds	-	-	393	393
State capital contributions	-	995	1,671	2,666
Proceeds from federal operating grants	-	8,835	9,996	18,831
Net cash provided by noncapital financing activities	-	9,830	12,060	21,890
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY--Acquisiton and construction of capital assets	(2,020)	-	(171)	(2,191)
CASH FLOWS FROM INVESTING ACTIVITIES--Interest from Investments	2,885	2,889	365	6,139
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,822)	7,327	3,143	(26,352)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as previously reported)	56,384	154,516	18,084	228,984
Adjustments (Note 15)	(2,816)	-	-	(2,816)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as restated)	53,568	154,516	18,084	226,168
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 16,746	$ 161,843	$ 21,227	$ 199,816

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	$ 778	$ 3,242	$ (441)	$ 3,579
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	48	10	83	141
Reserves provided by operating activities	4,250	-	-	4,250
Premium reserves held by insurance companies	(24,000)	-	-	(24,000)
Decrease (increase) in assets:				
Receivables	(348)	(8,917)	(8,965)	(18,230)
Prepaid expenses	(2)	-	-	(2)
Increase (decrease) in liabilities:				
Vouchers and contracts payable	(49)	-	-	(49)
Other accrued liabilities	(18,364)	182	216	(17,966)
Accrued interest on loans receivable	-	91	(4)	87
Net cash used in operating activities	$ (37,687)	$ (5,392)	$ (9,111)	$ (52,190)

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2008
(Amounts in thousands)

	Agency Funds			Total Agency Funds
	Tax Collections	Custodial	Other	
ASSETS				
CASH AND CASH EQUIVALENTS	$ 26,544	$ 83,940	$ 15,923	$ 126,407
RECEIVABLES - Taxes	-	-	10,238	10,238
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	36,305	-	-	36,305
INVESTMENTS	-	29,769	44,408	74,177
TOTAL	$ 62,849	$ 113,709	$ 70,569	$ 247,127
LIABILITIES				
VOUCHERS PAYABLE	$ 62,849	$ 4,563	$ 6,494	$ 73,906
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	109,146	64,075	173,221
Total liabilities	$ 62,849	$ 113,709	$ 70,569	$ 247,127

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Balance — June 30, 2007	Additions	Deductions	Balance — June 30, 2008
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 22,073	$ 6,788,067	$ (6,783,596)	$ 26,544
Due from individuals, businesses, and counties	30,286	6,794,086	(6,788,067)	36,305
Total assets	$ 52,359	$ 13,582,153	$ (13,571,663)	$ 62,849
Liabilities — Vouchers payable	$ 52,359	$ 62,849	$ (52,359)	$ 62,849
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 66,770	$ 3,535,794	$ (3,518,624)	$ 83,940
Investments	47,819	29,768	(47,818)	29,769
Total assets	$ 114,589	$ 3,565,562	$ (3,566,442)	$ 113,709
Liabilities:				
Vouchers payable	$ 841	$ 4,563	$ (841)	$ 4,563
Due to individuals, businesses, and counties	113,748	3,535,794	(3,540,396)	109,146
Total liabilities	$ 114,589	$ 3,540,357	$ (3,541,237)	$ 113,709
OTHER:				
Assets:				
Cash and cash equivalents	$ 16,021	$ 29,096	$ (29,194)	$ 15,923
Receivables	9,762	10,238	(9,762)	10,238
Investments	49,864	44,409	(49,865)	44,408
Total assets	$ 75,647	$ 83,743	$ (88,821)	$ 70,569
Liabilities:				
Vouchers payable	$ 129	$ 6,494	$ (129)	$ 6,494
Due to individuals, businesses, and counties	75,518	29,572	(41,015)	64,075
Total liabilities	$ 75,647	$ 36,066	$ (41,144)	$ 70,569
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 104,864	$ 10,352,957	$ (10,331,414)	$ 126,407
Receivables	9,762	10,238	(9,762)	10,238
Due from individuals, businesses, and counties	30,286	6,794,086	(6,788,067)	36,305
Investments	97,683	74,177	(97,683)	74,177
Total assets	$ 242,595	$ 17,231,458	$ (17,226,926)	$ 247,127
Liabilities:				
Vouchers payable	$ 53,329	$ 73,906	$ (53,329)	$ 73,906
Due to individuals, businesses, and counties	189,266	3,565,366	(3,581,411)	173,221
Total liabilities	$ 242,595	$ 3,639,272	$ (3,634,740)	$ 247,127

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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. No such appropriation shall be made for a period exceeding three years; provided that appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities. Any such appropriation or any portion of any such appropriation that is unencumbered at the close of the fiscal period for which the appropriation is made shall lapse; provided that no appropriation for which the source is general obligation bond funds nor any portion of any such appropriation shall lapse if the legislature determines that the appropriation or any portion of the appropriation is necessary to qualify for federal aid financing and reimbursement. Where general obligation bonds have been authorized for an appropriation, the amount of the bond authorization shall be reduced in an amount equal to the amount lapsed.

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

1. The term “bonds” shall include bonds, notes and other instruments of indebtedness.

2. The term “general obligation bonds” means all bonds for the payment of the principal and interest of which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, includes reimbursable general obligation bonds.

3. The term “net revenues” or “net user tax receipts” means the revenues or receipts derived from:

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

   b. Any payments or return on security under a loan program or a loan thereunder, after the costs of operation and administration of the loan program, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made.

4. The term “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; provided that insurance premium payments, assessments and surcharges, shall constitute rates, rentals and charges of a state property insurance program.

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, including a loan program to provide loans to a state property insurance program providing hurricane insurance coverage to the general public.

[Subsections 8 and 9 are omitted.]

The legislature, by a majority vote of the members to which each house is entitled, shall authorize the issuance of all general obligation bonds, bonds issued under special improvement statutes and revenue bonds issued by or on behalf of the State and shall prescribe by general law the manner and procedure for such issuance. The legislature by general law shall authorize political subdivisions to issue general obligation bonds, bonds issued under special improvement statutes and revenue bonds and shall prescribe the manner and procedure for such issuance. All such bonds issued by or on behalf of a political subdivision shall be authorized by the governing body of such political subdivision.

Special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist:

1. Manufacturing, processing or industrial enterprises;

2. Utilities serving the general public;

3. Health care facilities provided to the general public by not-for-profit corporations;

4. Early childhood education and care facilities provided to the general public by not-for-profit corporations;

5. Low and moderate income government housing programs;

6. Not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities; or

7. Agricultural enterprises serving important agricultural lands,

each of which is hereinafter referred to in this paragraph as a special purpose entity.

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature; and provided further that the State may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds. If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision; and provided further that the political subdivision may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. 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 20% 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 18.5% 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 15% of the total of the assessed values for tax rate purposes of real property in each political subdivision, as determined by the last tax assessment rolls pursuant to law, is established as the limit of the funded debt of such political subdivision that is outstanding and unpaid at any time.

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

In determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision under section 12, the following shall be excluded:

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

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for any political subdivision, whether issued before or after the effective date of this section, but only for as long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the effective date of this section, the consent of the governing body of the political subdivision has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such political subdivision.

8. Bonds constituting instruments of indebtedness under which the State or any political subdivision incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% 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.

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APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
as of March 31, 2009
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
					4,444,540.00	4,444,540.00
November 28, 1989	$80,005,159.73, Series BQ, callable (certain maturities bear compound interest, non-callable)	7.150%	December 1, 2009	@		
March 1, 1992	$100,000,000, Series BW, non-callable	6.375%	March 1, 2011	@	5,460,000.00	
		6.250%	March 1, 2012	@	5,555,000.00	11,015,000.00
October 1, 1992	$200,000,000 Series BZ, non-callable	6.000%	October 1, 2009-2012	@	12,500,000.00	50,000,000.00
January 1, 1993	$90,000,000 Series CA, non-callable	5.750%	January 1, 2010	@	625,000.00	
		5.750%	January 1, 2011	@	5,000,000.00	
		5.500%	January 1, 2012	@	5,000,000.00	
		8.000%	January 1, 2013	@	5,000,000.00	15,625,000.00
November 1, 1993	$250,000,000, Series CH, non-callable	6.000%	November 1, 2009	@	13,890,000.00	
		6.000%	November 1, 2010	@	13,885,000.00	
		4.750%	November 1, 2011-2013	@	13,885,000.00	69,430,000.00
November 1, 1993	$316,915,000, Series CI, non-callable (refunding)	4.750%	November 1, 2009	@	21,125,000.00	
		4.900%	November 1, 2010	@	21,125,000.00	42,250,000.00
March 1, 1996	$100,000,000, Series CL, callable	6.000%	March 1, 2011	@	5,555,000.00	5,555,000.00
December 1, 1996	$150,000,000, Series CM, non-callable	6.000%	December 1, 2009-2010	@	8,335,000.00	
		6.000%	December 1, 2011	@	4,125,000.00	
		6.000%	December 1, 2012	@	8,330,000.00	
		6.500%	December 1, 2013-2016	@	8,330,000.00	62,440,000.00
March 1, 1997	$231,755,000, Series CO, non-callable refunding)	6.000%	September 1, 2009	@	12,090,000.00	
		6.000%	March 1, 2010	@	12,450,000.00	
		6.000%	September 1, 2010	@	12,825,000.00	
		6.000%	March 1, 2011	@	13,210,000.00	50,575,000.00
October 1, 1997	$200,000,000, Series CP, callable	5.500%	October 1, 2009	@	11,035,000.00	
		5.500%	October 1, 2010	@	11,660,000.00	22,695,000.00
April 1, 1998	$336,620,000, Series CS, non-callable (refunding)	5.000%	April 1, 2009	@	55,575,000.00	55,575,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
September 15, 1999	$300,000,000, Series CT, callable	5.250%	September 1, 2009		15,080,000.00	
		5.625%	September 1, 2012	@	5,315,000.00	20,395,000.00
October 15, 2000	$150,000,000, Series CU, callable	5.750%	October 1, 2009	@	6,110,000.00	
		4.875%	October 1, 2009	@	1,025,000.00	
		5.750%	October 1, 2010	@	6,980,000.00	
		4.900%	October 1, 2010	@	575,000.00	
		5.750%	October 1, 2011	@	6,795,000.00	
		5.000%	October 1, 2011	@	825,000.00	
		5.750%	October 1, 2012	@	5,985,000.00	
		5.100%	October 1, 2012	@	2,470,000.00	30,765,000.00
August 1, 2001	$300,000,000, Series CV, callable	5.500%	August 1, 2009	@	13,745,000.00	
		5.500%	August 1, 2010	@	14,520,000.00	
		5.500%	August 1, 2011	@	15,340,000.00	
		5.375%	August 1, 2012	@	16,200,000.00	
		5.375%	August 1, 2013	@	17,095,000.00	
		5.375%	August 1, 2014	@	18,035,000.00	
		4.800%	August 1, 2016	@	705,000.00	
		5.375%	August 1, 2016	@	6,860,000.00	
		5.125%	August 1, 2017	@	7,495,000.00	
		5.375%	August 1, 2018	@	22,305,000.00	
		4.900%	August 1, 2019	@	2,385,000.00	
		5.375%	August 1, 2019	@	21,145,000.00	
		5.000%	August 1, 2020	@	24,775,000.00	
		5.000%	August 1, 2121	@	5,590,000.00	
		5.250%	August 1, 2121	@	20,485,000.00	206,680,000.00
August 1, 2001	$156,750,000, Series CW, callable (refunding)	4.100%	August 1, 2009	@	2,275,000.00	
		5.500%	August 1, 2009	@	10,990,000.00	
		4.200%	August 1, 2010	@	2,420,000.00	
		5.500%	August 1, 2010	@	11,560,000.00	
		4.300%	August 1, 2011	@	3,365,000.00	
		5.500%	August 1,2011	@	11,370,000.00	
		4.400%	August 1, 2012	@	1,045,000.00	
		5.375%	August 1, 2012	@	14,490,000.00	
		4.500%	August 1, 2013	@	1,680,000.00	
		5.375%	August 1, 2013	@	14,700,000.00	
		4.600%	August 1, 2014	@	225,000.00	
		5.375%	August 1, 2014	@	17,050,000.00	
		4.700%	August 1, 2015	@	720,000.00	
		5.375%	August 1, 2015	@	12,475,000.00	104,365,000.00
February 1, 2002	$250,000,000, Series CX, callable	4.125%	February 1, 2010	@	6,840,000.00	
		5.250%	February 1, 2010	@	5,290,000.00	
		4.250%	February 1, 2011	@	6,095,000.00	
		5.250%	February 1, 2011	@	6,595,000.00	
		4.300%	February 1, 2012	@	6,135,000.00	
		5.250%	February 1, 2012	@	7,165,000.00	
		4.500%	February 1, 2013	@	1,525,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.500%	February 1, 2013	@	12,415,000.00	
		4.600%	February 1, 2014	@	2,140,000.00	
		5.500%	February 1, 2014	@	140,000.00	
		4.625%	February 1, 2015	@	480,000.00	
		5.500%	February 1, 2015	@	790,000.00	
		5.500%	February 1, 2016	@	410,000.00	
		5.500%	February 1, 2016	@	9,055,000.00	
		4.800%	February 1, 2017	@	725,000.00	
		5.500%	February 1, 2017	@	9,255,000.00	
		5.000%	February 1, 2018	@	10,520,000.00	
		5.000%	February 1, 2019	@	19,065,000.00	
		5.100%	February 1, 2020	@	20,015,000.00	
		5.500%	February 1, 2021	@	21,040,000.00	
		5.125%	February 1, 2022	@	22,195,000.00	167,890,000.00
February 1, 2002	$319,290,000, Series CY, non-callable (refunding)	5.250%	February 1, 2010	@	31,675,000.00	
		5.500%	February 1, 2011	@	34,970,000.00	
		5.500%	February 1, 2012	@	36,895,000.00	
		5.750%	February 1, 2013	@	38,920,000.00	
		5.750%	February 1, 2014	@	41,160,000.00	
		5.750%	February 1, 2015	@	43,525,000.00	227,145,000.00
November 26, 2002	$300,000,000, Series CZ, callable	3.125%	July 1, 2009	@	4,315,000.00	
		3.250%	July 1, 2009	@	9,520,000.00	
		3.300%	July 1, 2010	@	3,340,000.00	
		5.250%	July 1, 2010	@	11,065,000.00	
		3.500%	July 1, 2011	@	1,175,000.00	
		5.250%	July 1, 2011	@	13,965,000.00	
		3.600%	July 1, 2012	@	3,510,000.00	
		5.250%	July 1, 2012	@	12,405,000.00	
		3.750%	July 1, 2013	@	1,945,000.00	
		5.500%	July 1, 2013	@	14,800,000.00	
		3.900%	July 1, 2014	@	1,360,000.00	
		5.500%	July 1, 2014	@	16,305,000.00	
		4.000%	July 1, 2015	@	2,305,000.00	
		4.125%	July 1, 2016	@	210,000.00	
		5.250%	July 1, 2016	@	16,805,000.00	
		4.250%	July 1, 2017	@	375,000.00	
		4.300%	July 1, 2018	@	60,000.00	
		5.250%	July 1, 2018	@	21,705,000.00	
		4.500%	July 1, 2020	@	1,160,000.00	
		4.800%	July 1, 2022	@	8,370,000.00	144,695,000.00
September 16, 2003	$225,000,000 Series DA, callable	3.125%	September 1, 2009	@	10,270,000.00	
		3.500%	September 1, 2010	@	3,570,000.00	
		4.000%	September 1, 2010	@	7,060,000.00	
		3.750%	September 1,2011	@	7,570,000.00	
		4.000%	September 1, 2011	@	3,475,000.00	
		3.900%	September 1, 2012	@	830,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		4.000%	September 1, 2012	@	10,110,000.00	
		4.250%	September 1, 2012	@	550,000.00	
		4.000%	September 1, 2013	@	11,955,000.00	
		4.200%	September 1, 2014	@	4,355,000.00	
		5.250%	September 1, 2014	@	8,145,000.00	
		4.300%	September 1, 2015	@	1,475,000.00	
		5.250%	September 1, 2015	@	11,670,000.00	
		4.400%	September 1, 2016	@	10,000.00	
		5.250%	September 1, 2016	@	13,835,000.00	
		4.500%	September 1, 2017	@	350,000.00	
		5.250%	September 1, 2017	@	7,125,000.00	
		4.600%	September 1, 2018	@	1,240,000.00	
		5.250%	September 1, 2018	@	14,135,000.00	
		5.250%	September 1, 2019	@	16,195,000.00	
		4.750%	September 1, 2020	@	35,000.00	
		5.250%	September 1, 2020	@	17,035,000.00	
		4.800%	September 1, 2021	@	500,000.00	
		5.250%	September 1, 2021	@	17,490,000.00	
		4.900%	September 1, 2022	@	250,000.00	
		5.250%	September 1, 2022	@	18,710,000.00	
		4.900%	September 1, 2023	@	4,675,000.00	
		5.250%	September 1, 2023	@	15,295,000.00	207,915,000.00
September 16, 2003	$188,650,000, Series DB, callable	4.000%	September 1, 2009	@	6,515,000.00	
		5.000%	September 1, 2009	@	11,370,000.00	
		5.000%	September 1, 2010	@	18,770,000.00	
		5.000%	September 1, 2011	@	19,730,000.00	
		5.000%	September 1, 2012	@	20,740,000.00	
		4.250%	September 1, 2013	@	3,380,000.00	
		5.250%	September 1, 2013	@	18,435,000.00	
		4.000%	September 1, 2014	@	5,000,000.00	
		5.250%	September 1, 2014	@	17,945,000.00	
		5.250%	September 1, 2015	@	24,150,000.00	
		5.250%	September 1, 2016	@	25,450,000.00	171,485,000.00
May 13, 2004	$225,000,000, Series DD, callable	3.500%	May 1, 2011	@	2,140,000.00	
		3.700%	May 1, 2012	@	1,195,000.00	
		5.000%	May 1, 2012	@	9,825,000.00	
		3.800%	May 1, 2013	@	1,090,000.00	
		5.000%	May 1, 2013	@	10,465,000.00	
		4.000%	May 1, 2014	@	4,060,000.00	
		5.250%	May 1, 2014	@	8,055,000.00	
		4.125%	May 1, 2015	@	2,295,000.00	
		5.250%	May 1, 2015	@	10,410,000.00	
		4.200%	May 1, 2016	@	790,000.00	
		5.000%	May 1, 2016	@	7,725,000.00	
		4.250%	May 1, 2017	@	575,000.00	
		5.000%	May 1, 2017	@	13,430,000.00	
		4.300%	May 1, 2018	@	460,000.00	
		5.000%	May 1, 2018	@	5,230,000.00	
		4.400%	May 1, 2019	@	610,000.00	
		5.000%	May 1, 2019	@	14,825,000.00	
		4.500%	May 1, 2020	@	250,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.000%	May 1, 2020	@	15,950,000.00	
		5.000%	May 1, 2021	@	17,010,000.00	
		5.250%	May 1, 2022	@	17,860,000.00	
		4.750%	May 1, 2023	@	1,150,000.00,	
		5.250%	May 1, 2023	@	17,645,000.00	
		4.800%	May 1, 2024	@	2,045,000.00	
		5.250%	May 1, 2024	@	17,735,000.00	182,825,000.00
November 10, 2004	$225,000,000 Series DE, callable	5.000%	October 1, 2009	@	2,960,000.00	
		2.625%	October 1, 2009	@	6,815,000.00	
		5.000%	October 1, 2010	@	5,090,000.00	
		3.000%	October 1, 2010	@	5,050,000.00	
		5.000%	October 1, 2011	@	5,715,000.00	
		3.000%	October 1, 2011	@	4,845,000.00	
		5.000%	October 1, 2012	@	8,250,000.00	
		3.250%	October 1, 2012	@	2,775,000.00	
		5.000%	October 1, 2013	@	10,610,000.00	
		3.375%	October 1, 2013	@	950,000.00	
		5.000%	October 1, 2014	@	7,420,000.00	
		3.500%	October 1, 2014	@	4,685,000.00	
		5.000%	October 1, 2015	@	11,665,000.00	
		3.600%	October 1, 2015	@	1,020,000.00	
		5.000%	October 1, 2016	@	11,600,000.00	
		3.625%	October 1, 2016	@	1,715,000.00	
		5.000%	October 1, 2017	@	13,855,000.00	
		3.750%	October 1, 2017	@	130,000.00	
		5.000%	October 1, 2018	@	14,380,000.00	
		3.800%	October 1, 2018	@	320,000.00	
		5.000%	October 1, 2019	@	13,955,000.00	
		3.875%	October 1, 2019	@	1,490,000.00	
		5.000%	October 1, 2020	@	15,435,000.00	
		4.000%	October 1, 2020	@	785,000.00	
		5.000%	October 1, 2021	@	16,675,000.00	
		4.000%	October 1, 2021	@	375,000.00	
		5.000%	October 1, 2022	@	14,360,000.00	
		4.125%	October 1, 2022	@	3,545,000.00	
		5.000%	October 1, 2023	@	17,270,000.00	
		4.200%	October 1, 2023	@	1,530,000.00	
		5.000%	October 1, 2024	@	12,565,000.00	
		4.300%	October 1, 2024	@	7,165,000.00	225,000,000.00
June 15, 2005	$225,000,000, Series DF, callable	3.000%	July 1, 2009	@	9,060,000.00	
		3.125%	July 1, 2010	@	9,340,000.00	
		3.250%	July 1, 2011	@	9,645,000.00	
		3.375%	July 1, 2012	@	2,165,000.00	
		5.000%	July 1, 2012	@	7,865,000.00	
		3.500%	July 1, 2013	@	1,855,000.00	
		5.000%	July 1, 2013	@	8,660,000.00	
		3.600%	July 1, 2014	@	955,000.00	
		5.000%	July 1, 2014	@	10,075,000.00	
		3.625%	July 1, 2015	@	1,800,000.00	
		5.000%	July 1, 2015	@	9,780,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		3.750%	July 1, 2016	@	60,000.00	
		5.000%	July 1, 2016	@	12,100,000.00	
		3.800%	July 1, 2017	@	25,000.00	
		5.000%	July 1, 2017	@	12,755,000.00	
		3.800%	July 1, 2018	@	25,000.00	
		5.000%	July 1, 2018	@	13,410,000.00	
		3.875%	July 1, 2019	@	70,000.00	
		5.000%	July 1, 2019	@	14,055,000.00	
		5.000%	July 1, 2020	@	14,850,000.00	
		3.875%	July 1, 2021	@	185,000.00	
		5.000%	July 1, 2021	@	15,425,000.00	
		4.000%	July 1, 2022	@	125,000.00	
		5.000%	July 1, 2022	@	16,285,000.00	
		5.000%	July 1, 2023	@	17,250,000.00	
		4.000%	July 1, 2024	@	270,000.00	
		5.000%	July 1, 2024	@	17,865,000.00	
		4.000%	July 1, 2025	@	2,900,000.00	
		5.000%	July 1, 2025	@	16,145,000.00	225,000,000.00
June 15, 2005	$722,575,000, Series DG, callable	5.000%	July 1, 2009	@	65,185,000.00	
		5.000%	July 1, 2010	@	68,530,000.00	
		5.000%	July 1, 2011	@	72,040,000.00	
		5.000%	July 1, 2012	@	75,735,000.00	
		5.000%	July 1, 2013	@	79,620,000.00	
		5.000%	July 1, 2014	@	83,705,000.00	
		5.000%	July 1, 2015	@	87,995,000.00	
		5.000%	July 1, 2016	@	92,510,000.00	
		5.000%	July 1, 2017	@	97,255,000.00	722,575,000.00
March 23, 2006	$350,000,000, Series DI, callable	3.500%	March 1, 2010	@	8,980,000.00	
		5.000%	March 1, 2010	@	4,945,000.00	
		3.625%	March 1, 2011	@	7,410,000.00	
		4.000%	March 1, 2011	@	950,000.00	
		5.000%	March 1, 2011	@	6,125,000.00	
		3.750%	March 1, 2012	@	7,600,000.00	
		5.000%	March 1, 2012	@	7,500,000.00	
		3.800%	March 1, 2013	@	4,170,000.00	
		4.000%	March 1, 2013	@	2,250,000.00	
		5.500%	March 1, 2013	@	9,340,000.00	
		3.900%	March 1, 2014	@	1,390,000.00	
		5.000%	March 1, 2014	@	15,130,000.00	
		3.900%	March 1, 2015	@	1,065,000.00	
		4.500%	March 1, 2015	@	4,000,000.00	
		5.000%	March 1, 2015	@	12,270,000.00	
		4.000%	March 1, 2016	@	7,135,000.00	
		5.000%	March 1, 2016	@	11,030,000.00	
		4.000%	March 1, 2017	@	1,705,000.00	
		5.000%	March 1, 2017	@	17,300,000.00	
		4.000%	March 1, 2018	@	885,000.00	
		5.000%	March 1, 2018	@	19,050,000.00	
		4.125%	March 1, 2019	@	235,000.00	
		5.000%	March 1, 2019	@	20,690,000.00	
		4.125%	March 1, 2020	@	340,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.000%	March 1, 2020	@	21,630,000.00	
		4.200%	March 1, 2021	@	105,000.00	
		5.000%	March 1, 2021	@	22,960,000.00	
		4.250%	March 1, 2022	@	135,000.00	
		5.000%	March 1, 2022	@	24,080,000.00	
		5.000%	March 1, 2023	@	25,425,000.00	
		4.250%	March 1, 2024	@	50,000.00	
		5.000%	March 1, 2024	@	26,650,000.00	
		5.000%	March 1, 2025	@	28,035,000.00	
		4.300%	March 1, 2026	@	460,000.00	
		5.000%	March 1, 2026	@	28,975,000.00	350,000,000.00
April 12, 2007	$350,000,000, Series DJ, callable	3.625%	April 1, 2011	@	9,010,000.00	
		4.000%	April 1, 2011	@	5,000,000.00	
		3.625%	April 1, 2012	@	4,690,000.00	
		4.000%	April 1, 2012	@	9,850,000.00	
		4.000%	April 1, 2013	@	6,315,000.00	
		5.000%	April 1, 2013	@	8,790,000.00	
		3.700%	April 1, 2014	@	2,705,000.00	
		4.500%	April 1, 2014	@	2,450,000.00	
		5.000%	April 1, 2014	@	10,640,000.00	
		3.750%	April 1, 2015	@	2,140,000.00	
		5.000%	April 1, 2015	@	14,395,000.00	
		4.000%	April 1, 2016	@	8,990,000.00	
		4.500%	April 1, 2016	@	2,250,000.00	
		5.000%	April 1, 2016	@	6,095,000.00	
		3.800%	April 1, 2017	@	3,115,000.00	
		4.500%	April 1, 2017	@	375,000.00	
		5.000%	April 1, 2017	@	14,610,000.00	
		5.000%	April 1, 2018	@	18,970,000.00	
		5.000%	April 1, 2019	@	19,915,000.00	
		5.000%	April 1, 2020	@	20,910,000.00	
		5.000%	April 1, 2021	@	21,960,000.00	
		5.000%	April 1, 2022	@	23,055,000.00	
		5.000%	April 1, 2023	@	24,210,000.00	
		5.000%	April 1, 2024	@	25,420,000.00	
		5.000%	April 1, 2025	@	26,690,000.00	
		5.000%	April 1, 2026	@	28,025,000.00	
		5.000%	April 1, 2027	@	29,425,000.00	350,000,000.00
May 20, 2008	$375,000,000, Series DK, callable	3.000%	May 1, 2012	@	5,360,000.00	
		5.000%	May 1, 2012	@	9,450,000.00	
		3.500%	May 1, 2013	@	5,505,000.00	
		5.000%	May 1, 2013	@	9,935,000.00	
		5.000%	May 1, 2014	@	16,130,000.00	
		3.750%	May 1, 2015	@	4,420,000.00	
		5.000%	May 1, 2015	@	12,520,000.00	
		5.000%	May 1, 2016	@	17,730,000.00	
		5.000%	May 1, 2017	@	18,615,000.00	
		5.000%	May 1, 2018	@	19,545,000.00	
		4.000%	May 1, 2019	@	3,600,000.00	
		4.250%	May 1, 2019	@	6,350,000.00	
		5.000%	May 1, 2019	@	10,575,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
						–
		4.100%	May 1, 2020	@	9,705,000.00	
		5.000%	May 1, 2020	@	11,760,000.00	
		4.200%	May 1, 2021	@	3,125,000.00	
		5.000%	May 1, 2021	@	19,325,000.00	
		4.250%	May 1, 2022	@	2,335,000.00	
		5.000%	May 1, 2022	@	21,215,000.00	
		4.300%	May 1, 2023	@	3,735,000.00	
		5.000%	May 1, 2023	@	20,975,000.00	
		4.375%	May 1, 2024	@	1,685,000.00	
		5.000%	May 1, 2024	@	24,235,000.00	
		4.400%	May 1, 2025	@	2,445,000.00	
		5.000%	May 1, 2025	@	24,760,000.00	
		4.400%	May 1, 2026	@	1,900,000.00	
		5.000%	May 1, 2026	@	26,650,000.00	
		4.500%	May 1, 2027	@	3,255,000.00	
		5.000%	May 1, 2027	@	26,710,000.00	
		4.500%	May 1, 2028	@	5,670,000.00	
		5.000%	May 1, 2028	@	25,780,000.00	375,000,000.00
May 20, 2008	$29,010,000, Series DL, non-callable	3.000%	May 1, 2012	@	3,745,000.00	
	(refunding)	3.500%	May 1, 2013	@	3,860,000.00	
		3.250%	May 1, 2014	@	3,995,000.00	
		3.750%	May 1, 2015	@	4,120,000.00	
		3.500%	May 1, 2016	@	4,275,000.00	
		3.700%	May 1, 2017	@	4,425,000.00	
		5.000%	May 1, 2018	@	4,590,000.00	29,010,000.00
May 20, 2008	$25,000,000, Series DM, non-callable	3.330%	May 1, 2009	@	3,835,000.00	
	(taxable)	3.680%	May 1, 2010	@	3,910,000.00	
		4.010%	May 1, 2011	@	4,055,000.00	
		4.260%	May 1, 2012	@	4,215,000.00	
		4.460%	May 1, 2013	@	4,395,000.00	
		4.670%	May 1, 2014	@	4,590,000.00	25,000,000.00
December 16, 2008	$100,000,000, Series DN, callable	3.000%	August 1, 2012	@	3,885,000.00	
		5.000%	August 1, 2013	@	4,045,000.00	
		3.500%	August 1, 2014	@	2,435,000.00	
		5.000%	August 1, 2014	@	1,800,000.00	
		5.000%	August 1, 2015	@	4,430,000.00	
		5.000%	August 1, 2016	@	4,660,000.00	
		5.000%	August 1, 2017	@	4,900,000.00	
		4.250%	August 1, 2018	@	935,000.00	
		5.000%	August 1, 2018	@	4,210,000.00	
		5.000%	August 1, 2019	@	5,405,000.00	
		5.000%	August 1, 2020	@	5,685,000.00	
		5.000%	August 1, 2021	@	5,975,000.00	
		5.000%	August 1, 2022	@	6,280,000.00	
		5.000%	August 1, 2023	@	6,600,000.00	
		5.125%	August 1, 2024	@	6,945,000.00	
		5.250%	August 1, 2025	@	7,315,000.00	
		5.500%	August 1, 2026	@	7,720,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.500%	August 1, 2027	@	8,155,000.00	
		5.500%	August 1, 2028	@	8,620,000.00	100,000,000.00
December 16, 2008	$101,825,000, Series DO, non-callable Refunding	3.000%	August 1, 2011	@	5,400,000.00	
		5.000%	August 1, 2011	@	5,585,000.00	
		3.000%	August 1, 2012	@	7,545,000.00	
		5.000%	August 1, 2012	@	3,875,000.00	
		3.250%	August 1, 2013	@	5,905,000.00	
		5.000%	August 1, 2013	@	5,970,000.00	
		3.500%	August 1, 2014	@	8,610,000.00	
		5.000%	August 1, 2014	@	3,750,000.00	
		3.500%	August 1, 2015	@	6,425,000.00	
		5.000%	August 1, 2015	@	6,455,000.00	
		4.000%	August 1, 2016	@	6,710,000.00	
		5.000%	August 1, 2016	@	6,745,000.00	
		4.000%	August 1, 2017	@	4,835,000.00	
		5.000%	August 1, 2017	@	9,255,000.00	
		4.250%	August 1, 2018	@	7,350,000.00	
		5.000%	August 1, 2018	@	7,410,000.00	101,825,000.00
December 16, 2008	$26,000,000, Series DP, non-callable	4.150%	August 1, 2011	@	3,840,000.00	
		4.400%	August 1, 2012	@	4,005,000.00	
		4.650%	August 1, 2013	@	4,195,000.00	
		5.180%	August 1, 2014	@	4,405,000.00	
		5.430%	August 1, 2015	@	4,645,000.00	
		5.680%	August 1, 2016	@	4,910,000.00	26,000,000.00

Total of all State of Hawaii general obligation bonds and general obligation refunding bond issued and outstanding $ 4,383,174,540.00

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APPENDIX E

PENDING LITIGATION

Office of Hawaiian Affairs and Ceded Lands

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held 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 a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki*"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of moneys which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 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.) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought 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 the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter 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-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively, the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court 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, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's 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 was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001), that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justiciability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the Legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in *OHA I* was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation ("DOT") issued a report (the "IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 (the "DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act ("Section 340") essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and

Article XII, Sections 4, 5 and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass any bill for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC," since succeeded by the Hawaii Housing Finance and Development Corporation, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States…and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate," and allowed the parties until July 17, 2009 to inform the court "whether there is any effective settlement of [the] matter."

OHA also filed suit against the Hawaii Housing Authority (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*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 HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the suits against them described above were filed. As more fully described under "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix A, the corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

In 1991, the Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the "Panel") to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima et al. v. Cayetano*, Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima et al. v. State of Hawaii et al.*, Civil No. 99-4771-12VSM (1st Cir.) ("*Kalima I*"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.*, Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.*, Civil No. 99-4774-12 (1st Cir.); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (1st Cir.); *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4772-12 (1st Cir.). The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiffs Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima et al. v. State of Hawaii, et al.*, Civil No. 00-1-1041-03 (1st Cir.) ("*Kalima II*"). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*.

On August 30, 2000, the circuit court entered an order in *Kalima I* granting plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying the State's motion for judgment on the pleadings. Essentially, the circuit court rejected the sovereign immunity, lack of subject matter jurisdiction, and no-cause of action defenses the State asserted, and ruled that the plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court and entered an order staying all proceedings in *Kalima I* pending the Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trial. By an opinion issued June 30, 2006, the Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first. Trial on the waiting subclass' claims is scheduled to begin on August 4, 2009.

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007 but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the Department of Hawaiian Home Lands ("DHHL") and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act")by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in article XII, section 1 of the Hawaii Constitution.

The plaintiffs also ask the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson.* The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346.9 million plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervenor defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervenor defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervenor defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346.9 million of employer contributions for 1997, 1998 , and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims.

A description of the ERS and Act 100 is provided under "EMPLOYEE RELATIONS: STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix A.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). Plaintiffs' First Amended Complaint alleges that Defendants have violated constitutional, contractual and statutory rights of Plaintiffs under article XVI, section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. *See Marion Everson, et al. v. State of Hawaii, et al.,* Civil No. 06-1-1141-06, (1st Cir.). Plaintiffs' action claims that Defendants' conduct constitutes a breach of contract and negligence. Plaintiffs' action seeks declaratory and injunctive relief, damages, prejudgment interest and attorneys' fees and costs. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that: (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003 to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed that decision to the First Circuit Court. *See Marion Everson, et al. v. Board of Trustees of the Hawaii Employer-Union Health Benefits Trust Fund*, *et al.*, Civil No. 07-1-1872-10, (1st Cir.). By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that: (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) the State Legislature is not precluded from changing health benefits for prospective employees; (d) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (e) certain of the health benefits provided to retirees and their dependents by the EUTF are not reasonably approximate to those provided to active employees and their dependents. The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to this matter. The State is currently considering an appeal of the circuit court's decision.

Other

On April 14, 2008, in *Hawaii Insurers Council v. Lingle*, 184 P.3d 769 (Haw. App. 2008), the Hawaii Intermediate Court of Appeals ruled that past assessments of insurers by the Insurance Division of the Department of Commerce and Consumer Affairs were unlawful taxes rather than regulatory fees. This ruling may impact other specially funded state programs. The State is currently unable to predict with reasonable certainty the magnitude of the impact of this ruling on its specially funded State programs, if any. The Hawaii Supreme Court has taken the matter up on appeal. No hearing has yet been scheduled. The State deposits such assessments upon collection into its Special Fund, which is not a source of payment for the Bonds. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Fund" in Part I of Appendix A.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated June 23, 2009

\$500,000,000 **State of Hawaii** **General Obligation Bonds** **of 2009, Series DQ**	**\$225,410,000** **State of Hawaii** **General Obligation Refunding** **Bonds of 2009, Series DR**

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") in connection with the issuance of its \$500,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2009, Series DQ and its \$225,410,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2009, Series DR (collectively, 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 in order 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 at http//www.sec.gov/info/municipal/nrmsir.htm. Beginning July 1, 2009, the sole National Repository will be the Municipal Securities Rulemaking Board ("MSRB"); Email: http://www.emma.msrb.org. Reference is made to Commission Release No. 34-59062, December 8, 2008 (the "Release") relating to the MSRB's Electronic Municipal Market Access ("EMMA") system for municipal securities disclosure that becomes effective on July 1, 2009. To the extent applicable to this Disclosure Certificate, the State shall comply with the Release and with EMMA.

"Participating Underwriters" shall mean any original underwriter 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 Fiscal Year ending June 30, 2009, 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. Contents 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 June 9, 2009, 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. 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. 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.

Section 12. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By ______________________________

GEORGINA K. KAWAMURA
Director of Finance
State of Hawaii

EXHIBIT A

FORM OF NOTICE OF REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Hawaii
Names of Bond Issues:	State of Hawaii General Obligation Bonds of 2009, Series DQ State of Hawaii General Obligation Refunding Bonds of 2009, Series DR
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 _______________. [The State anticipates that the Annual Report will be filed by _______________.]

Dates:

STATE OF HAWAII

By ____

Title ____

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APPENDIX G

FORM OF OPINION OF BOND COUNSEL

June __, 2009

State of Hawaii
Honolulu, Hawaii

$500,000,000 State of Hawaii General Obligation Bonds of 2008, Series DQ	**$225,410,000 State of Hawaii General Obligation Refunding Bonds of 2009, Series DR**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of $500,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2009, Series DQ (the "Series DQ Bonds") and $225,410,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2009, Series DR (the "Series DR Bonds" and, together with the Series DQ Bonds, the "Bonds"), pursuant to the provisions of Part I of Chapter 39, Hawaii Revised Statutes, a Certificate of the Director of Finance of the State dated June 9, 2009 (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

In such connection, we have reviewed the Certificate, the Tax Certificate of the State, dated the date hereof (the "Tax Certificate"), certificates and opinions of the Attorney General and certificates of other officers of the State, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series DQ Bonds or the Series DR Bonds to be included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code").

The rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid general obligations of the State.

2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid obligation of the State.

3. Interest and principal payments on the Bonds are a first charge on the general fund of the State to the punctual payment of which the full faith and credit of the State are pledged.

4. Interest on the Series DQ Bonds and the Series DR Bonds (including original issue discount treated as interest, if any) is excluded from gross income for federal income tax purposes. Interest on the Series DQ Bonds is not a specific item of tax preference or included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series DR Bonds is not a specific item of tax preference for purposes of the federal alternative tax imposed on individuals and corporations. However, for certain corporations, interest on the Series DR 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).

5. Interest on the Bonds is exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer and estate taxes, provided that no opinion is expressed with respect to the franchise tax imposed on banks and other financial institutions.

Very truly yours,

[To be signed and delivered at Closing by
Kutak Rock LLP]

APPENDIX H

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 each issue of the Bonds in the aggregate principal amount of such maturity, 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 in deposited securities, such as transfers and pledges, 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," a "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 of 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 or holders should be read to include the person for whom 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 or holders 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.

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or 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.