This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 4, 2016

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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State, 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 Tax-Exempt 2016 Bonds (as defined herein) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Tax-Exempt 2016 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is of the opinion that the 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. Bond Counsel further observes that interest on the Taxable 2016 Bonds (as defined herein) is not excludable from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.

STATE OF HAWAII

$6,000,000*	**$182,385,000***	**$137,165,000***
General Obligation Refunding Bonds of 2016, Series FD	**General Obligation Refunding Bonds of 2016, Series FE**	**Taxable General Obligation Refunding Bonds of 2016, Series FF**

(Base CUSIP: 419792)

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

The General Obligation Refunding Bonds of 2016, Series FD, the General Obligation Refunding Bonds of 2016, Series FE, and the Taxable General Obligation Refunding Bonds of 2016, Series FF (individually, the "Series FD Bonds," the "Series FE Bonds," and the "Series FF Bonds," respectively, 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 Series FD Bonds bear interest payable upon final maturity at the rate set forth on the inside front cover hereof. The Series FE Bonds and the Series FF Bonds bear interest payable at the rates set forth on the inside cover pages hereof on April 1 and October 1 of each year, commencing October 1, 2016.

The Bonds are subject to optional redemption prior to their stated maturities as and to the extent described herein.

The Bonds are being issued for the purpose of refunding certain outstanding general obligation bonds of the State previously issued for public 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.

The State may issue other series of general obligation bonds on or about the same date as the Bonds. Such bonds, if any, are not offered hereby. See "INTRODUCTION – Plan of Finance" herein.

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 Pages

The Bonds are offered when, as and if issued and accepted by the Underwriters listed below. The issuance of the Bonds of each series is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Katten Muchin Rosenman. 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 April ____, 2016.

BofA Merrill Lynch **Goldman, Sachs & Co.**

Dated: _____, 2016

* Preliminary, subject to change.

STATE OF HAWAII

$6,000,000 GENERAL OBLIGATION REFUNDING BONDS OF 2016, SERIES FD
Dated: Date of Delivery
Due: June 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419792)†
2016	$6,000,000			

$182,385,000 GENERAL OBLIGATION REFUNDING BONDS OF 2016, SERIES FE
Dated: Date of Delivery
Due: October 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419792)†
2019	$14,480,000			
2020	15,145,000			
2021	15,925,000			
2022	16,740,000			
2023	17,600,000			
2024	18,500,000			
2025	19,450,000			
2026	20,450,000			
2027	21,495,000			
2028	22,600,000			

Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2016 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the State, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

$137,165,000 TAXABLE GENERAL OBLIGATION REFUNDING BONDS OF 2016, SERIES FF
Dated: Date of Delivery
Due: October 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419792) †
2019	$12,500,000			
2020	12,680,000			
2021	12,900,000			
2022	13,150,000			
2023	13,435,000			
2024	13,750,000			
2025	14,085,000			
2026	14,460,000			
2027	14,875,000			
2028	15,330,000			

Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2016 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the State, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

David Y. Ige
Governor

Shan S. Tsutsui
Lieutenant Governor

Wesley K. Machida
Director of Finance

Douglas S. Chin
Attorney General

Douglas G. Murdock
Comptroller

BOND COUNSEL TO STATE

Orrick, Herrington & Sutcliffe LLP

This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. 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.

Certain information contained in this Official Statement has been provided by the State of Hawaii. Certain other information contained herein has been obtained by the State of Hawaii from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder at any time shall create any implication that the information contained herein is correct as of any time subsequent to its date.

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, their 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. In making an investment decision, investors must rely on their own examination of the State of Hawaii and the terms of the offering, including the merits and risks involved.

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. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

Page

INTRODUCTION 1
AUTHORITY, PLAN OF FINANCE AND PURPOSE 1

- Authority 1
- Plan of Finance 1
- Purpose 2

PLAN OF REFUNDING 2
THE BONDS 2

- Details of the Bonds 2
- Optional Redemption of the Bonds 3
- Selection for Redemption 4
- General Redemption Provisions 5

SECURITY FOR THE BONDS 5

- Security Provisions 5
- Market Risk 5
- Sovereign Immunity 6

THE STATE OF HAWAII 6
PENDING LITIGATION 6
TAX MATTERS 7

- Taxable 2016 Bonds 8

APPROVAL OF LEGAL PROCEEDINGS 11
RATINGS 12
UNDERWRITING 12
PRICING ADVISOR 12
CAUTIONARY STATEMENTS REGARDING FORWARD LOOKING STATEMENTS AND PROJECTIONS IN THIS OFFICIAL STATEMENT 12
CONTINUING DISCLOSURE 13
VERIFICATION 13
FINANCIAL STATEMENTS 14
MISCELLANEOUS 14

APPENDIX A – GENERAL INFORMATION ABOUT THE STATE OF HAWAII
APPENDIX B – FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII
APPENDIX C – EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII
APPENDIX D – GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
APPENDIX E – PENDING LITIGATION
APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE
APPENDIX G – PROPOSED FORM OF OPINION OF BOND COUNSEL
APPENDIX H – BOOK-ENTRY SYSTEM
APPENDIX I – BONDS TO BE REFUNDED

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

STATE OF HAWAII

$6,000,000	**$182,385,000**	**$137,165,000**
General Obligation	**General Obligation**	**Taxable General Obligation**
Refunding Bonds of 2016,	**Refunding Bonds of 2016,**	**Refunding Bonds of 2016,**
Series FD	**Series FE**	**Series FF**

(Base CUSIP: 419792)

INTRODUCTION

The purpose of this Official Statement, which includes the cover pages and the inside cover pages hereof and the appendices hereto, is to set forth information concerning the State of Hawaii (sometimes herein referred to as the "State") and its $6,000,000 aggregate principal amount of General Obligation Refunding Bonds of 2016, Series FD (the "Series FD Bonds"), its $182,385,000 aggregate principal amount of General Obligation Refunding Bonds of 2016, Series FE (the "Series FE Bonds"), and its $137,165,000 aggregate principal amount of Taxable General Obligation Refunding Bonds of 2016, Series FF (the "Series FF Bonds and, together with the Series FD Bonds and Series FE Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii. In addition, the Series FF Bonds are sometimes referred to herein as the "Taxable 2016 Bonds" and the Series FD Bonds and the Series FE Bonds are referred to collectively herein as the "Tax-Exempt 2016 Bonds."

AUTHORITY, PLAN OF FINANCE AND PURPOSE

Authority

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 of the State (the "Legislature") and a Certificate of the Director of Finance of the State (the "Bond Issuance Certificate").

Plan of Finance

The State's plan of finance for the Bonds is expected to be negotiated sale by the Underwriters listed on the cover page.

On or about the same date of issuance of the Bonds, the State expects to issue approximately $525,000,000* aggregate principal amount of general obligation bonds, in one or more series, which may be taxable or tax-exempt, for the purpose of financing, or reimbursing the State for, certain expenditures for public purposes for which appropriations have been made in certain Acts of the Legislature and which the Legislature may from time to time approve, 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 certain other public purposes (the "2016 New Money Bonds"). The 2016 New Money Bonds are expected to be sold, if at all, at least 15 days apart from the sale date of the Bonds. **The 2016 New Money Bonds are offered by way of a separate offering document and are expressly not offered hereby.** The issuance and sale of the 2016 New Money Bonds are at the sole discretion of the State.

Preliminary, subject to change.

Purpose

The proceeds from the sale of the Bonds will be used (i) to refund certain outstanding general obligation bonds previously issued for public 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 (ii) to pay costs of issuance of the Bonds. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Appendix A.

PLAN OF REFUNDING

Upon delivery of the Bonds, the State and U.S. 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 certain series of State of Hawaii General Obligation Bonds and General Obligation Refunding Bonds specified by the Bond Issuance Certificate (the "Refunded Bonds"). Subject to final determination in connection with the pricing of the Bonds, the State has identified potential refunding candidates as shown in APPENDIX I—"BONDS TO BE REFUNDED." The table is not intended to be a definitive list of the Refunded Bonds. The Refunded Bonds will be selected based upon market conditions, bond structure and other factors at the time of pricing. Selection of the Refunded Bonds is at the sole and absolute discretion of the State. The refundings are being undertaken to realize aggregate debt service savings. The final payment dates of the Refunded Bonds will be their respective stated maturity dates or, if earlier, designated redemption dates, as shown in APPENDIX I—"BONDS TO BE REFUNDED."

The Refunded Bonds to be redeemed will be irrevocably designated for redemption on the applicable redemption dates, and provisions will be made in the Escrow Agreement for the giving of the notices of such redemption. The Refunded Bonds may not be redeemed other than as described in APPENDIX I—"BONDS TO BE REFUNDED."

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, premium, if any, and interest on the Refunded Bonds. Immediately upon the issuance and delivery of the 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 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: (i) 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 or earlier redemption date of such Refunded Bonds as described in APPENDIX I—"BONDS TO BE REFUNDED", and (ii) to redeem the Refunded Bonds of each particular series and maturity that are irrevocably called for redemption on the corresponding redemption date at the redemption price thereof. 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, premium, if any, 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 (the "Code"), not to exceed the applicable yield permitted by such provisions. See "VERIFICATION." If the Escrow Securities are purchased in the open market, they may be purchased from one or more of the underwriters of the Bonds shown on the cover page of this Official Statement.

THE BONDS

Details of the Bonds

The Bonds will mature serially on the dates and 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 pages hereof, payable in respect of the Series FE Bonds and the Series FF Bonds on April 1 and October 1 of each year, commencing October 1, 2016, and in respect of the Series FD Bonds, upon the final maturity thereof (each an "interest payment date"). 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.

Preliminary, subject to change.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("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 U.S. Bank National Association, as the Registrar and Paying Agent for the Bonds, to DTC, which will in turn remit such principal and interest to its Direct Participants and Indirect Participants (each as defined in Appendix H), for subsequent distribution to the Beneficial Owners (as defined in Appendix H) 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 APPENDIX H—"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 the Bonds

Optional Redemption. All of the Bonds (including the Taxable 2016 Bonds) maturing on or after April 1, 20__ will be subject to redemption prior to their stated maturities at the option of the State at any time on and after April 1, 20__, in whole or in part, in any order of maturity selected by the State and by lot within a maturity bearing interest at the same rate, at a price equal to the principal amount thereof plus accrued interest to the redemption date.

Make Whole Optional Redemption. In addition to the foregoing, the Taxable 2016 Bonds are subject to redemption prior to April 1, 20__ at the option of the State, in whole or in part (and if in part on a pro-rata basis), on any date at a redemption price equal to the greater of:

(1) 100% of the principal amount of the Taxable 2016 Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Taxable 2016 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Taxable 2016 Bonds are to be redeemed, discounted to the date on which such Taxable 2016 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Comparable Treasury Yield (defined below) plus __ basis points;

Plus, in each case, accrued interest on such Taxable 2016 Bonds to be redeemed to the redemption date.

For purposes of the foregoing, the following terms have the following meanings:

"Calculation Agent" means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities in the United States and designated by the State (which may be one of the institutions that served as an underwriter for the Bonds).

"Comparable Treasury Issue" means the United States Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Taxable 2016 Bonds being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Taxable 2016 Bonds being redeemed.

"Comparable Treasury Price" means, with respect to any date on which a Taxable 2016 Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time on a date selected by the Calculation Agent which is not less than three business days and not more than 20 business days preceding the date fixed for redemption.

"Comparable Treasury Yield" means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates"

Preliminary, subject to change.

under the heading "Treasury Constant Maturities," or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Taxable 2016 Bonds being redeemed. The Comparable Treasury Yield will be determined no sooner than the third business day nor earlier than the twentieth calendar day preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Taxable 2016 Bonds being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Taxable 2016 Bonds being redeemed; and (ii) closest to and less than the remaining term to maturity of the Taxable 2016 Bonds being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

"Reference Treasury Dealer" means a primary dealer of United States Government securities in the United States (which may be one of the institutions that served as an underwriter for the Bonds) appointed by the State and reasonably acceptable to the Calculation Agent.

Selection for Redemption

If less than all of the Bonds of a series are called for redemption, the State will designate the maturities from which the Bonds of such series are to be redeemed. For so long as the Bonds of such series are registered in book-entry form and DTC or a successor securities depository is the sole registered owner of such Bonds, if fewer than all of such Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds to be redeemed shall be selected: (i) by lot, in the case of any redemption of Tax Exempt 2016 Bonds, and (ii) on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, in the case of any redemption of Taxable 2016 Bonds; provided that, so long as the Taxable 2016 Bonds are held in book-entry form, the selection for redemption of the Taxable 2016 Bonds as described above under "Optional Redemption" and "Make-Whole Optional Redemption" will be made in accordance with the operational arrangements of DTC then in effect, and if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, all Taxable 2016 Bonds to be so redeemed will be selected for redemption in accordance with DTC procedures by lot; provided further that any such redemption must be performed such that all Bonds remaining outstanding will be in authorized denominations by lot. See APPENDIX H "BOOK-ENTRY SYSTEM."

In connection with any repayment of principal of the Taxable 2016 Bonds, including payments of scheduled mandatory sinking fund payments, the Paying Agent will direct DTC to make a pass through distribution of principal to the owners of the Taxable 2016 Bonds. A form of Pro Rata Pass Through Distribution of Principal Notice will be provided to the Paying Agent that includes a table of factors reflecting the relevant scheduled redemption payments, based on the current schedule of mandatory sinking fund payments, which is subject to change upon certain optional redemptions, and DTC's currently applicable procedures, which are subject to change.

For purposes of calculating pro rata pass-through distributions of principal, "pro rata" means, for any amount of principal or interest to be paid, the application of a fraction to such amounts where (a) the numerator is equal to the amount due to the owners of the Taxable 2016 Bonds on a payment date and (b) the denominator is equal to the total original par amount of the Taxable 2016 Bonds.

It is the State's intent that redemption allocations made by DTC with respect to the Taxable 2016 Bonds be made on a pro rata pass-through distribution of principal basis as described above. However, the State cannot provide any assurance that DTC, DTC's direct and indirect participants, or any other intermediary will allocate the redemption of such Taxable 2016 Bonds on such basis.

If the Bonds are not registered in book-entry form and if fewer than all of the Taxable 2016 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the Taxable 2016 Bonds of such maturity and bearing such

interest rate to be redeemed will be selected on a pro rata basis, and the particular Tax Exempt 2016 Bonds of such maturity and bearing such interest rate to be redeemed will be selected by lot, provided that any such redemption must be performed such that all Bonds remaining outstanding will be in authorized denominations.

General Redemption Provisions

Except as described above, 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, and unless such notice is conditioned upon satisfaction of any other condition or the occurrence of any other event and such condition is not satisfied or such event has not occurred, 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.

Any notice of any optional redemption of Bonds may state that it is conditional upon receipt by the Registrar and Paying Agent of money sufficient to pay the redemption price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. The State shall provide notice of any rescission or failure to meet any such condition or other such event as promptly as practicable after the failure of such condition or the occurrence of such other event, in the same manner as the notice of redemption.

For so long as the Book-Entry System is in effect with respect to the Bonds, the Registrar and Paying Agent will mail notice of redemption to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a Beneficial Owner of a Bond of any such redemption will not affect the sufficiency or the validity of the redemption of such Bond. See APPENDIX H – "BOOK-ENTRY SYSTEM."

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the payment 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, and sufficient revenues shall be raised and provided from time to time for the purpose of payment. Amounts on deposit in the General Fund are applied to the payment of the debt service on the issued and outstanding general obligation bonds of the State, including the Bonds, as the debt service becomes due and payable.

Market Risk

There can be no assurance of continued marketability of the Bonds at current price levels. 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 as amended. 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, and under current law the State has waived its immunity to be sued in limited circumstances, including for claims against the State founded upon any State statute or upon any contract with the State (except a contract or any act of any State officer which the officer is not authorized to make or do by State law). 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 Comprehensive Annual Financial Report of the State of Hawaii for the State's fiscal year ended June 30, 2015. The State of Hawaii provided certain information, and obtained from other sources believed to be reliable certain other information, set forth in Appendices A and B. The Underwriters (as hereinafter defined) and their counsel, Bond Counsel and Accuity LLP, independent auditors, 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.

Described 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, claims to a portion of the income and proceeds of 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 separately, as to alleged violations of Article XII, Section 1 of the State Constitution for the Legislature not providing sufficient funding for the Department's Administration and Operating Budget, referred to herein as "Nelson"), (iii) 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 (iv) the Department of Taxation (as to the class action lawsuit against the State of Hawaii).

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–"PENDING LITIGATION—Office of Hawaiian Affairs and Ceded Lands." The State 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–"PENDING LITIGATION—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 State intends to defend vigorously against the claims brought against the State, the EUTF, and the EUTF Board referred to in clause (iii) of the second paragraph under this caption, and as such claims and related proceedings are further described in APPENDIX E – "PENDING LITIGATION—Hawaii Employer Union Health Benefits Trust Fund." 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 their favor in this case could have a material adverse effect on the State's financial condition.

The State intends to defend vigorously the claims brought against the State referred to in clause (iv) of the second paragraph under this caption, and as such claims and related proceedings are further described in APPENDIX E – "PENDING LITIGATION – Department of Taxation." 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 their favor in this case could have a material adverse effect on the State's financial condition.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), bond counsel to the State, 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 FD Bonds and the Series FE Bonds (the "Tax-Exempt 2016 Bonds") Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), and the Tax-Exempt 2016 Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Tax-Exempt 2016 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Tax-Exempt 2016 Bonds is less than the amount to be paid at maturity of such Tax-Exempt 2016 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax-Exempt 2016 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Tax-Exempt 2016 Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Tax-Exempt 2016 Bonds is the first price at which a substantial amount of such maturity of the Tax-Exempt 2016 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Tax-Exempt 2016 Bonds accrues daily over the term to maturity of such Tax-Exempt 2016 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Tax-Exempt 2016 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Tax-Exempt 2016 Bonds. Beneficial owners of the Tax-Exempt 2016 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Tax-Exempt 2016 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Tax-Exempt 2016 Bonds in the original offering to the public at the first price at which a substantial amount of such Tax-Exempt 2016 Bonds is sold to the public.

Tax-Exempt 2016 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax-Exempt 2016 Bonds. The State has made certain

representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax-Exempt 2016 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Tax-Exempt 2016 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt 2016 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Tax-Exempt 2016 Bonds may adversely affect the value of, or the tax status of interest on, the Tax-Exempt 2016 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt 2016 Bonds is excluded from gross income for federal income tax purposes and that the Tax-Exempt 2016 Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Tax-Exempt 2016 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt 2016 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Tax-Exempt 2016 Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Tax-Exempt 2016 Bonds. Prospective purchasers of the Tax-Exempt 2016 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Tax-Exempt 2016 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Tax-Exempt 2016 Bonds ends with the issuance of the Tax-Exempt 2016 Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the State or the beneficial owners regarding the tax-exempt status of the Tax-Exempt 2016 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Tax-Exempt 2016 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Tax-Exempt 2016 Bonds, and may cause the State or the beneficial owners to incur significant expense.

Taxable 2016 Bonds

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series FF Bonds (the "Taxable 2016 Bonds") that acquire their Taxable 2016 Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect, and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax considerations applicable to categories of investors some of which may be subject to

special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable 2016 Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Taxable 2016 Bonds pursuant to this offering for the issue price that is applicable to such Taxable 2016 Bonds (i.e., the price at which a substantial amount of the Taxable 2016 Bonds are sold to the public) and who will hold their Taxable 2016 Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Taxable 2016 Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Taxable 2016 Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable 2016 Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable 2016 Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable 2016 Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, the Taxable 2016 Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Taxable 2016 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Taxable 2016 Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix G hereto.

Stated interest on the Taxable 2016 Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. Federal income tax purposes.

The Taxable 2016 Bonds are not expected to be treated as issued with original issue discount ("OID") for U.S. federal income tax purposes because the stated redemption price at maturity of the Taxable 2016 Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Disposition of the Taxable 2016 Bonds. Unless a non-recognition provision of the Code applies, the sale, exchange, defeasance, redemption, retirement (including pursuant to an offer by the State) or other disposition of a Taxable 2016 Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable 2016 Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable 2016 Bonds) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Taxable 2016 Bond (generally, the purchase price paid by the Taxable 2016 Bond decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Taxable 2016 Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Taxable 2016 Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Tax on Net Investment Income. Certain non-corporate U.S. Holders of Taxable 2016 Bonds will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (in the case of individuals) or "undistributed net investment income" (in the case of estates and certain trusts) for the relevant taxable year and (2) the excess of the U.S.

Holder's "modified adjusted gross income" (in the case of individuals) or "adjusted gross income" (in the case of estates and certain trusts) for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. Holder's calculation of net investment income generally will include its interest income on the Taxable 2016 Bonds and its net gains from the disposition of the Taxable 2016 Bonds, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of this tax to your income and gains in respect of your investment in the Taxable 2016 Bonds.

Information Reporting and Backup Withholding. Payments on the Taxable 2016 Bonds generally will be subject to U.S. information reporting and "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Taxable 2016 Bonds may be subject to backup withholding at the current rate of 28% with respect to "reportable payments," which include interest paid on the Taxable 2016 Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Taxable 2016 Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," payments of principal of, and interest on, any Taxable 2016 Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the State through stock ownership and (2) a bank which acquires such Taxable 2016 Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Taxable 2016 Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Taxable 2016 Bonds. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, defeasance, redemption, retirement (including pursuant to an offer by the State) or other disposition of a Taxable 2016 Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Taxable 2016 Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Taxable 2016 Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payment of principal and interest on any Taxable 2016 Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable 2016 Bond or a financial institution holding the Taxable 2016 Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in

the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Taxable 2016 Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28%.

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury regulations pays the proceeds of the sale of a Taxable 2016 Bond to the seller of the Taxable 2016 Bond, backup withholding and information reporting requirements will not apply to such payments provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Taxable 2016 Bond will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. Office of a broker of the proceeds of a sale of a Taxable 2016 Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

FATCA. Sections 1471 through 1474 of the Code, impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of U.S. source interest (including OID) and sales proceeds of debt obligations held by or through a foreign entity. Withholding under FATCA generally will apply to (i) payments of U.S. source interest (including OID) made after June 30, 2014, (ii) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (iii) certain foreign "pass-thru" payments no earlier than January 1, 2017, but exempt from withholding any payments made on and proceeds realized from the disposition of obligations that are outstanding on July 1, 2014 and are not substantially modified after that date, which exemption should exclude the Taxable 2016 Bonds from the withholding provisions of FATCA. Prospective investors should nonetheless consult their own tax advisors regarding FATCA and its effect on them.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix G hereto. 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, Katten Muchin Rosenman.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., have rated the Bonds "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

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. (collectively, the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price of $_____, which is equal to the principal amount of the Bonds, plus or minus net original issue premium or discount, as applicable, less an aggregate underwriting discount of $_____, which includes approximately $_____ for other costs of issuance. 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of such Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the State, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, they and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the State.

PRICING ADVISOR

The State has retained Public Financial Management, Inc. (the "Pricing Advisor"), as pricing advisor with respect to the issuance of the Bonds. The Pricing Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Pricing Advisor is an independent advisory firm.

CAUTIONARY STATEMENTS REGARDING FORWARD LOOKING STATEMENTS AND PROJECTIONS 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 obligations, as described under "CONTINUING DISCLOSURE."

Certain statements set forth in this Official Statement constitute "projections" and were 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, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future 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.

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 with respect to its general obligation bonds and certificates of participation electronically to the Municipal Securities Rulemaking Board annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events pursuant to the requirements of

APPENDIX F—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

In one instance within the past five years the State filed its annual report on a timely basis, but did not include its unaudited financial statements (as required by the applicable continuing disclosure certificates because the State's audited financial statements were not available at the time of such filing). In that case, a notice was filed that the audited financial statements were not available and audited financial statements were filed when they became available. The State made a self-report filing under the Securities and Exchange Commission Division of Enforcement's Municipalities Continuing Disclosure Cooperation Initiative program in November 2014. This filing was made in connection with the State's not including its unaudited financial statements in annual report filings when audited financial statements were not available at the time of such filings. In addition, the State has in certain years during the past five years failed to file certain defeasance, refunding and redemption notices or failed to file them in a timely manner. The State has policies and procedures in place to enhance compliance with its continuing disclosure undertakings including the one referenced in the preceding paragraph. The State regularly updates Appendix B, which may involve adding additional financial and operating data, displaying data in a different format, or eliminating data that are no longer material.

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 P.C. (the "Verification Agent") will verify from the information provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the schedules provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated 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 and interest 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.

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2015, included as Part II of Appendix B, have been audited by Accuity LLP, independent auditors, as stated in their report appearing therein, which is based in part on the reports of other auditors (which report expresses an unmodified opinion on the financial statements). 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

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, 1,211,537 in 2000, and 1,360,301 in 2010, making the State the 40th most populous state in the Union as of 2010. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2010 U.S. Census, about 70.1 percent of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from Asia as well as from Europe and the mainland United States. Based on the 2010 U.S. Census, approximately 38.6 percent of the State's population is of Asian descent and about 24.7 percent of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 10.0 percent of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

State Government

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

No Voter Initiative and Referendum

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

The Counties and Their Relationship to the State

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

DEBT STRUCTURE

Types of Bonds Authorized by the Constitution

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

Outstanding Indebtedness and Debt Limit

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

In order to carry out the provisions contained in the Constitution, the Legislature enacted Part IV of Chapter 39, HRS ("Part IV"), to require the Director of Finance to prepare statements of the total outstanding indebtedness of the State and the exclusions therefrom and of the debt limit of the State evidencing the power of the State to issue general obligation bonds and, prior to the issuance of any general obligation bonds, to find that the issuance of such bonds will not cause the debt limit of the State to be exceeded. Part IV provides that such statements shall be prepared as of July 1 of each year and submitted to the Legislature no later than December 1 of such year. The July 1, 2015 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, 2015, 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, 2013, 2014 and 2015 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 October 1, 2015 and on the Bonds giving effect to the issuance of the Bonds, after exclusions therefrom permitted by the Constitution, is $686,290,716 in the fiscal year ending June 30, 2017. A summary of debt service on all general obligation bonded indebtedness of the State (including the Bonds) is set forth under "SUMMARY OF DEBT SERVICE" in Part I of Appendix B; however, the debt service excluded in that table includes reimbursements that are made as required, regardless of whether such reimbursements may be excluded under the Constitution, as described below under "Exclusions."

As calculated from the State Comptroller's Bond Fund report as of January 31, 2016, the amount of authorized but unissued general obligation bonds (including the Series FD Bonds, the Series FE Bonds and the Series FF Bonds) is $2,919,290,055. Such amount does not include general obligation refunding bonds such as the Bonds. These authorized but unissued general obligation bonds are scheduled to be issued prior to June 30, 2019.

The State has not formally adopted a debt management policy, however, it uses the requirements in the Constitution as a guide for issuing debt. See APPENDIX C—"EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII" for a description of these provisions in the Constitution. The Legislature recently passed Act 149, SLH 2015, which requires the Director of Finance to submit a debt management policy to the Legislature for adoption before the regular session of 2017 convenes. The recommended policy is required to be consistent with, but may be more restrictive than, the constitutional provisions and existing statutes related to issuing debt. Act 149, SLH 2015 further requires the Director of Finance to submit a debt affordability study before the regular session of each odd-numbered year convenes to provide the Legislature with information on the affordability of the future debt planned for the State.

Exclusions

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

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

Another of the exclusionary provisions excludes reimbursable general obligation bonds (defined in the Constitution as general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the General Fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the General Fund is required by law to be made from the revenues of the political subdivision) issued for a public undertaking, improvement or system, but only to the extent that reimbursements to the General Fund are made from the net revenues, or net user tax receipts, or combination of both, derived from the particular undertaking, improvement or system or payments or return on security under a loan program or a loan thereunder for the immediately

preceding fiscal year, with the result that the amount of reimbursable general obligation debt excluded will vary from year to year. A "user tax" is defined by the Constitution as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system, provided that mortgage recording taxes shall constitute taxes of a State property insurance program. Thus, for example, the aviation fuel tax is a user tax insofar as the airports system of the State is concerned, since the tax is substantially derived from the sale of a good (aviation fuel) in the utilization of the functions of the airports, but the aviation fuel tax would not be a user tax so far as schools or a stadium is concerned, since the tax is not derived from the consumption or use or sale of goods in using schools or a stadium.

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

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

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

Other Constitutional and Statutory Provisions

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

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

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

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

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

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

Financing Agreements (Including Leases)

HRS Chapter 37D provides for financing agreements (including leases and installment sale agreements) for the improvement, use or acquisition of real or personal property which is or will be owned or operated by the State or any State agency and specifies that any such financing agreement shall not be an obligation for which the full faith and credit of the State or any State agency is pledged, and that no moneys other than amounts appropriated by the Legislature or otherwise held in trust for such purposes shall be required to be applied to the payment thereof. The Legislature is not required to appropriate moneys for such purpose, and financing agreements do not constitute "bonds" within the meaning of Sections 12 or 13 of Article VII of the Constitution including but not limited to for debt limitation purposes. Chapter 37D does provide that the Governor's Executive Budget shall include requests to the Legislature for appropriation of moneys to pay amounts due each fiscal period under financing agreements. See "SUMMARY OF DEBT SERVICE—Certificates of Participation and 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. 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 receives the majority of its revenues from taxes, fees and other sources. The Department of Taxation, headed by the Director of Taxation, is charged with the responsibility of administering and enforcing the tax revenue laws and the collection of most taxes and other payments payable thereunder. All tax revenues of the State are credited to one or the other of the two operating funds maintained by the State, designated respectively as the General Fund and Special Funds. The revenues and expenditures for the last five fiscal years of the General Fund are set forth in Part I of Appendix B.

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

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

General Fund

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

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

Legislature enacted Act 267, SLH 2013, appropriating $50 million of General Fund revenues to be deposited into the EBRF in fiscal year 2014. In fiscal years 2013 and 2014, the General Fund balance exceeded 5% of General Fund revenues for those years, but fiscal year 2014 General Fund revenues did not exceed 5% of fiscal year 2013 General Fund revenues; therefore, the 2015 Legislature was required to provide for a tax refund or tax credit but was not required to make a deposit into the EBRF. However, the 2015 Legislature found it preferable to address possible emergencies and contingencies that may occur in the future should revenues slow down and, instead of providing for a tax refund or tax credit, enacted Act 202, SLH 2015, to appropriate $10 million of general funds for deposit into the EBRF in FY 2015. Because the measure was signed into law after the specified appropriation period, the $10 million could not be deposited into the EBRF in 2015 and legislation is expected to be submitted in the 2016 Legislature to re-appropriate the $10 million for FY 2016. (See "Emergency and Budget Revenue Fund; Tobacco Settlement; Hurricane Relief Fund" in this Appendix A.)

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

Taxes and Other Amounts Deposited in General Fund

The proceeds of the taxes described below are deposited to the General Fund. See "REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—Actual 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, transient accommodations taxes, insurance premium taxes and other taxes are deposited entirely or in part to the General Fund. For fiscal year 2015, these taxes represented approximately 88% of all tax revenues of the State, and approximately 87% of all General Fund revenues (as reported by the Department of Accounting and General Services ("DAGS")). The information contained in this Official Statement for fiscal year 2015, as reported by DAGS or otherwise, is unaudited.

The following table provides the General Fund tax revenues for fiscal year 2015 as reported by DAGS. (Please note that the tax revenue numbers reported by DAGS may differ from the tax revenue numbers reported by the Department of Taxation because of accounting system reclassifications and collection timing issues.):

General Fund Taxes

Description	FY 2015 ($ thousands)	% of Total Taxes
General Excise Tax	2,993,284	46.13%
Individual Net Income	1,987,733	30.64%
Transient Accommodations Tax	202,970	3.13%
Public Service Companies	163,481	2.52%
Premiums of Insurance Companies	145,672	2.25%
Tobacco Tax	82,829	1.28%
Corporation Net Income	52,319	0.81%
Liquor Tax	50,281	0.77%
Franchise (Banks and Other Financial Corporations)	17,930	0.28%
Environmental Response Tax	14,833	0.23%
Inheritance	12,071	0.19%
Conveyance Tax	11,058	0.17%
Rental Motor Vehicle Surcharge Tax	1	0.00%
Total	5,734,462	88.38%

Note: Totals reflect rounding.

General Excise and Use Tax. The general excise tax is a tax imposed on businesses for the privilege of doing business in Hawaii, and is assessed at various percentage rates on the gross income businesses derive from activity in the State. Businesses also may need to pay the use tax on the value of tangible personal property, services, and contracting that are brought into Hawaii from anywhere outside Hawaii. The tax is based upon the purchase price or value of the tangible

personal property, contracting, or services purchased or imported, whichever is applicable. The general excise tax rate varies depending on the business activity; it is 0.15% on insurance commissions, 0.5% on certain activities such as wholesaling, and 4% on most activities at the consumer level. For fiscal year 2015, the general excise tax comprised approximately 46% of all taxes (as reported by DAGS). Effective January 1, 2007, the general excise and use tax was amended to provide the City and County of Honolulu a surcharge for the purpose of funding a mass transit system, thereby increasing the general excise and use tax rate for transactions attributable to the county, the proceeds of which accrue to the county. The surcharge of ½ of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes through 2022. Act 240, SLH 2015, provides that the City and County of Honolulu, by ordinance, may extend the surcharge through 2027. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the State for the costs of assessment, collection and disposition of the surcharge.

Income Taxes. Net taxable income (gross income less exclusions and deductions) for both individuals and corporations is subject to a State income tax. Although there are differences, Hawaii income tax law generally follows the federal Internal Revenue Code in computing the net taxable income. The individual income tax rates for married individuals, including qualifying surviving spouses, and unmarried individuals, including qualifying heads of households, range from 1.4% to 11.0% of net taxable income. New top rates of 9%, 10% and 11% were added by Act 60, SLH 2009. The new top rates are in effect for taxable years beginning after December 31, 2008 and are repealed on December 31, 2015, after which the top rate of the individual income tax reverts to its old rate of 8.25%. The income tax rates for estates and trusts range from 1.4% to 8.25%. Corporate income tax rates range from 4.4% to 6.4%. For fiscal year 2015, income taxes comprised approximately 31% of all taxes (as reported by DAGS).

Transient Accommodations Tax. The transient accommodations tax ("TAT") is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units. The TAT rate is 9.25%, except that time share vacation rentals are taxed at 7.25%. Act 93, SLH 2015, increases the TAT rates on time share vacation rentals to 8.25% beginning January 1, 2016 and 9.25% beginning January 1, 2017. Act 121, SLH 2015, prioritized the distribution of TAT revenues to the following order, with the excess revenues to be deposited into the General Fund: 1) $1.5 million to the Turtle Bay conservation easement special fund beginning July 1, 2015, 2) $26.5 million to the convention center enterprise special fund, 3) $82.0 million to the tourism special fund and 4) $103.0 million for FY 2015 and FY 2016 and $93.0 million for each fiscal year thereafter to the counties. Act 117, SLH 2015, provides that $3 million shall be allocated to the special land and development fund, beginning July 1, 2016. For fiscal year 2015, the General Fund portion of the TAT comprised approximately 3% of all taxes (as reported by DAGS).

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

Non-tax Revenues. Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. From fiscal years 2004 to 2008, fiscal year 2010 and fiscal years 2012 to 2015 non tax revenues have averaged approximately 12% of General Fund revenues. In fiscal year 2009, however, non tax revenues were approximately 16% of total General

Fund revenues, primarily as a result of one-time revenue sources such as: (1) the transfer of $81 million from special funds that was authorized by Act 79, SLH 2009; and (2) the transfer of $104 million resulting from debt service savings and a delay in payments for retirement and health insurance premiums. In fiscal year 2011, non-tax revenues were again approximately 16% of total General Fund revenues, primarily as a result of one-time sources such as: (1) the transfer of $111 million from the Hurricane Reserve Trust Fund that was authorized by Act 62, SLH 2011, and (2) the transfer of $63 million from non-general funds that was authorized by Act 192, SLH 2010 and Act 124, SLH 2011.

Special Funds

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

The following table provides the special fund tax revenues for fiscal year 2015 as reported by DAGS. (Please note that the tax revenue numbers reported by DAGS may differ from the tax revenue numbers reported by the Department of Taxation because of accounting system reclassifications and collection timing issues.):

Special Fund Taxes

Description	FY 2015 ($ thousands)	% of Total Taxes
Unemployment Insurance Tax	240,458	3.71%
Transient Accommodations Tax	115,000	1.77%
Liquid Fuel – Highways	86,822	1.34%
State Motor Vehicle Weight Tax	76,092	1.17%
Rental Motor Vehicle Surcharge Tax	51,940	0.80%
State Vehicle Registration Fee	49,021	0.76%
Tobacco Tax	46,830	0.72%
Conveyance Tax	27,913	0.43%
Environmental Response Tax	8,652	0.13%
Liquid Fuel –Aviation	4,453	0.07%
Premiums of Insurance Companies	2,095	0.03%
Franchise (Banks and Other Financial Corporations)	2,000	0.03%
Liquid Fuel – Small Boats	1,627	0.03%
Employment and Training Fund Assessment	1,118	0.02%
Total	714,020	11.00%

Note: Totals reflect rounding.

Fuel taxes, motor vehicle taxes, rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge taxes and unemployment insurance taxes are deposited into Special Funds. In addition, portions of the tobacco taxes, transient accommodations taxes, environmental response, energy, and food security taxes, and conveyance taxes are deposited into Special Funds (and portions of these taxes are deposited into the General Fund). In fiscal year 2015, taxes deposited into Special Funds were approximately 11% of the total tax revenues of the State (as reported by DAGS). Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways. The State has a vehicle weight tax that varies from $0.0175 per pound to $0.0225 per pound, depending on the net weight of the vehicle; vehicles over ten thousand pounds net weight are taxed at a flat rate of $300.00. The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi contribution schedule system. There is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%. There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle

surcharge tax for each tour vehicle in the over 25 passenger seat category and for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. Act 104, SLH 2011, raised the rental motor vehicle surcharge from $3.00 per day to $7.50 per day and deposited $4.50 to the General Fund, effective from July 1, 2011 to June 30, 2012. After June 30, 2012, the tax reverted to the previous rate of $3.00 per day. Act 226, SLH 2008, established a rental motor vehicle customer facility charge of $1.00 per day on motor vehicles rented from airport locations to pay for the development of airport rental car facilities. Act 204, SLH 2010, increased the rental motor vehicle customer facility charge to $4.50 per day in fiscal year 2011, but collection of the charge was suspended in fiscal year 2012 during the period when the rental motor vehicle surcharge was $7.50 per day. The rental motor vehicle customer facility charge has been restored to $4.50 per day effective July 1, 2012. Act 110, SLH 2014 established a car-sharing vehicle surcharge of 25 cents per half hour (up to a maximum of $3 per day) on motor vehicles rented by a car-sharing organization, effective January 1, 2015.

The tobacco tax currently assesses $0.16 for each cigarette or little cigar, 70% of the wholesale price of tobacco products, and 50% of the wholesale price of each large cigar. The environmental response, energy, and food security tax is currently set at $1.05 per barrel of petroleum product for the period from July 1, 2010. Act 185, SLH 2015, also imposed the environmental response, energy, and food security tax on fossil fuel. The tax is 19¢ on each 1,000,000 BTUs of fossil fuel, effective July 1, 2015. The conveyance tax is imposed on the amount paid in the sale, lease, sublease, assignment, transfer, or conveyance of realty or any interest therein. The tax rate ranges from $0.10 per $100 to $1.25 per $100, depending on the value of the property, the type of improvements on the property and whether the purchaser is eligible for a homeowner's exemption for the property.

Federal Grants

State departments, agencies, and institutions annually receive both competitive and formula driven federal grants. Federal grants are not a source of payment for the Bonds. Over the past five years, approximately 52% of the federal grants were awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 27% of such federal grants were used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 8% of all federal grants, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, accounted for about 6% of such federal receipts. Other programs accounted for the balance of such receipts. In past years, federal funds generally accounted for approximately 15% to 18% of the total State budget for each year. With the receipt of federal stimulus funds in fiscal years 2010 to 2013, the portion of the State budget made up by federal funds increased to 23% in fiscal year 2010 and 20% in fiscal year 2011 and has been approximately 18% to 20% of the State budget since then. The federal budget sequestration has not had a material adverse effect on the amount or timing of federal grants to the State.

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

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

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

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

Budget System; Legislative Procedure

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

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

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

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

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

The Governor has forty-five days, after the adjournment of the Legislature sine die, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill becomes law on

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

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

Emergency and Budget Reserve Fund. HRS Chapter 328L, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve Fund ("EBRF"), a special fund for emergency and "rainy day" purposes. Deposits to the EBRF include appropriations made by the Legislature and a portion of the tobacco settlement moneys. In addition, Act 138, SLH 2010, provided that whenever State General Fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, 5% of the State General Fund balance at the end of the fiscal year shall be deposited into the EBRF; however, no such transfer shall be made whenever the balance of EBRF is equal to or more than 10% of General Fund revenues for the preceding fiscal year. The State Constitution (Article VII, Section 6) also requires that the General Fund balance at the close of each of two successive fiscal years must exceed 5% of General Fund revenues for each of the two fiscal years before a deposit into an emergency fund is required. Thus far, no such deposits into the EBRF have been required. Pursuant to Act 138, SLH 2010, all interest earned from moneys in the EBRF is credited to the EBRF; previously, the interest had been credited to the General Fund. Appropriations from the EBRF require a two thirds majority vote of each house of the Legislature. The table below provides EBRF balances as of the end of each fiscal year from 2006 through 2015. See "General Fund" in this Appendix A.

Emergency and Budget Reserve Fund Balances
(Fiscal Years Ended June 30, 2006-2015)

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

Source: Department of Accounting and General Services.

(1) In fiscal year 2011, the fund balance decreased because a total of $59.6 million was transferred out of the EBRF pursuant to Act 191, SLH 2010 (as amended by Act 25, SLH 2011) and Act 30, SLH 2011, to maintain levels of programs determined to be essential to education, public health and public welfare, and to cover a shortfall in public welfare programs.

(2) In fiscal year 2012, the fund balance increased because a total of $15.7 million of unspent funds was returned to the EBRF while $1.1 million was transferred out of the fund pursuant to Act 191, SLH 2010. Pursuant to Act 124, SLH 2011, no tobacco settlement moneys were deposited into the EBRF in fiscal year 2012.

(3) In fiscal year 2013, the fund balance did not change. Pursuant to Act 124, SLH 2011, no tobacco settlement moneys were deposited into the EBRF in fiscal year 2013.

(4) In fiscal year 2014, the fund balance increased because $50 million of general funds was appropriated to the EBRF by Act 267, SLH 2013, and $7.5 million was deposited into the EBRF from tobacco settlement moneys.

(5) In fiscal year 2015, the fund balance increased because $6.7 million from tobacco settlement moneys was deposited into the EBRF.

It is noted that Act 202, SLH 2015, appropriated $10 million in general funds for deposit into the EBRF in FY 2015 pursuant to Article VII, Section 6, of the Hawaii State Constitution, which requires the legislature to provide a tax refund or tax credit to state taxpayers or make a deposit into a reserve fund when certain conditions are met. However, Act

202 was signed into law after the specified appropriation period. Consequently, the $10 million appropriation was deemed invalid and could not be deposited into the EBRF. To remedy the situation, legislation has been introduced for the 2016 Legislature to re-appropriate the $10 million for deposit into the EBRF in fiscal year 2016.

Tobacco Settlement. PricewaterhouseCoopers LLP, independent auditor for the Tobacco Master Settlement Agreement, in a September 1999 report, estimated that the State will receive annual proceeds from the tobacco settlement ranging from $48 million to $63 million a year for the next 25 years, for a total of $1.3 billion. Actual moneys received have been less than the maximum projected as shown below. 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 and a special fund assessment is deducted. In fiscal year 2015, the balance was distributed as follows: 15% to the EBRF, 25% to the Department of Health, 6.5% to the Hawaii tobacco prevention and control trust fund, 26% to the University of Hawaii, and 27.5% to the State General Fund. Pursuant to Act 118, SLH 2015, distribution of the balance in fiscal year 2016 is: 15% to the EBRF, 12.5% to the Hawaii tobacco prevention and control trust fund, 26% to the University of Hawaii, and 46.5% to the State General Fund. Act 118 also appropriated general funds in fiscal year 2016 to various health and human services programs formerly supported by tobacco settlement funds.

The following table shows annual proceeds from the tobacco settlement for fiscal years 2006 through 2015.

Tobacco Settlement Proceeds
(Fiscal Years Ended June 30, 2006-2015)

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

Source: Department of Health.

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

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

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

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

Although not formally established as a budget reserve, the HHRF has been used as a de facto budget reserve. Appropriations from the HHRF require a majority vote by the Legislature. Act 143, SLH 2010, appropriated $67.0 million from the HHRF (of which $12.4 million was not required and was subsequently returned to the HHRF) to restore public school instructional days for school year 2010-11 that were reduced as part of a cost cutting, collective bargaining agreement that furloughed public school teachers for 21 days of which 17 were instructional days. Act 62, SLH 2011, authorized the Governor to transfer in two steps the remaining balance of the HHRF to the General Fund (at that point $120.3 million) in fiscal year 2011 to maintain program levels determined to be essential for education, public health, and public welfare. In total, $111.0 million was transferred pursuant to Act 62. Act 62 also provided a statutory mechanism to repay the HHRF in fiscal years 2014 (50 percent) and 2015 (50 percent) through designation of general excise tax revenues to be deposited into the HHRF. Act 266, SLH 2013, further accelerated the recapitalization of the HHRF by appropriating $50 million of general funds in fiscal year 2014 to the HHRF. The total amount that was deposited to the HHRF in fiscal year 2014 was $105.5 million and, as a result, the balance of the HHRF as of June 30, 2014 was $126.6 million. For fiscal year 2015, the required $55.5 million deposit from general excise taxes was completed in two increments: $25 million on September 24, 2014 and $30.5 million on September 26, 2014. As a result, the HHRF balance at the end of the fiscal year was $182.4 million.

The following table provides HHRF balances as of the end of each fiscal year from 2006 through 2015:

Hawaii Hurricane Relief Fund Balances
(Fiscal Years Ended June 30, 2006-2015)

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

Expenditure Control

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

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 and projected appropriations for fiscal year 2016 are also not expected to exceed the expenditure ceiling.

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

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

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

State Educational Facilities Improvement Special Fund

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

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

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

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

Article XIII of the State Constitution grants public employees the right to organize for the purpose of collective bargaining as provided by law. HRS Chapter 89 provides for 14 recognized bargaining units for all public employees throughout the State including State and county employees. Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. In the case of bargaining units for nonsupervisory blue collar positions, supervisory blue collar positions, nonsupervisory white collar positions, supervisory white collar positions, registered professional nurses, institutional health and correctional workers 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 University of Hawaii ("UH") faculty and UH administrative, professional and technical staff, the Governor shall have three votes, the UH Board of Regents shall have two votes and the UH president shall have one vote. Decisions by the employer representatives shall be on the basis of simple majority, except when a bargaining unit includes county employees from more than one county. In such case, the simple majority shall include at least one county.

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

The status of negotiations and awards for wages and health benefits for the period from July 1, 2015 to June 30, 2017 is as follows:

Unit 1 (blue collar workers) ratified a new agreement on April 26, 2013 for the period July 2013 through June 2017. The agreement provides for 2% across-the-board increases in October and April in each of the four years of the contract.

Units 2 (blue collar supervisors) ratified a new agreement in April 2015 for the period July 2015 through June 2017, providing 2% across-the-board increases in October and April of each year as well as other adjustments to the salary schedule.

Units 3 (white collar workers) and 4 (white collar supervisors), ratified a new agreement in April 2015 for the period July 2015 through June 2017, providing catch up step movements on July 1, 2015 ($1,500 lump sum for those not eligible for a step movement), a 1.6% across-the-board increase on January 1, 2017, a lump sum payment of $1,200 in the second year of the agreement, and continuation of the step movement plan throughout the contract.

Unit 5 (teachers) ratified a new agreement on April 17, 2013 for the period July 1, 2013 through June 30, 2017. The contract provides for step movements in the first and third years of the contract ($1,500 lump sum for teachers

on the top step) and 3.2% across-the-board increases in the second and fourth years. The contract also provided for the parties to meet and bargain not less than ninety days before the 2015 legislative session on whether salaries and other compensation should be increased. As a result, the parties agreed to an additional $2,000 lump sum payment to be paid to each teacher in October of 2015 and an additional 1.8% across-the-board increase at the end of the contract.

Unit 6 (educational officers) had an arbitration award issued on April 17, 2014 for the period July 1, 2013 through June 30, 2017. The award provides for 4.5% across-the-board increases in July of each year of the contract. The award institutes a new ninety day cap on leave for principals and provides for payout of the resulting excess balances.

Unit 7 (University of Hawaii Professional Assembly ("UHPA")) ratified a new agreement on August 25, 2014 for the period July 2015 through June 2017. The agreement provides for 4% across-the-board increases in each year of the agreement and adjustments to the minimum salaries.

Unit 8 (University of Hawaii administrative, professional and technical staff) is subject to mandatory binding arbitration. An arbitration award was issued in December 2015 for the period July 1, 2015 through June 30, 2017 and is subject to Legislative approval. The award provides for 4% across-the-board increases July 1, 2015 and July 1, 2016 and a $2,500 lump sum payment in the second year of the contract.

Unit 9 ratified a new agreement in April 2015, for the period July 1, 2015 through June 30, 2017. The agreement provides for 4% across-the-board increases in each year of the agreement and continuation of the step movement plan.

Unit 10 (institutional health and correctional workers) ratified a new agreement on September 25, 2013 for the period July 2013 through June 2017. The agreement provides for a step movement and 4% lump sum payments for those on the top of the salary schedule in each year of the contract and across-the-board increases of 0.3% in fiscal year 2014, 0.5% in fiscal year 2015, 0.5% in fiscal year 2016 and 1.0% in fiscal year 2017.

Unit 11 (firefighters) had an arbitration award issued on November 15, 2013 for the period July 1, 2011 through June 30, 2017. The award provides for the addition of a new step L5 for twenty-five years of service and a catch-up on the step movement plan on January 1, 2014 with continuation of the step movement plan throughout the remainder of the contract. The award also provides for 2% across-the-board increases in July and January of years three through five of the contract and a final 5% across-the-board increase in July 2016. Other significant terms in the contract included a new provision for rank-for-rank recall pay.

Unit 13 (professional and scientific employees) ratified a new agreement on October 4, 2013 for the period July 2013 through June 2017. The agreement provides for a 4% across-the-board increase in July 2013 and catch-up step movements beginning in July of 2014. The last two years of the agreement provide for 3.5% across-the-board increases in January of each year and continuation of the step movement plan.

Unit 14 (State law enforcement officers and State and county ocean safety and water safety officers). Act 137, Session Laws of Hawaii 2013, authorized a fourteenth bargaining unit. These employees were formerly members of bargaining units 3 and 4 and now have an initial contract. An arbitration award was issued on February 22, 2016 for the period February 22, 2016 through June 30, 2017. The award provides for the same increase as bargaining units 3 and 4 for the first year of the contract (catch-up step movements on July 1, 2015 ($1,500 lump sum for those not eligible for a step movement). The second year of the agreement provides for a restructuring of the salary schedule (equivalent to an approximate 12% increase), and a 4% across-the-board increase effective July 1, 2016 and continuation of a slightly modified step movement plan. Other significant terms include a new standard-of-conduct differential. The second year of the agreement is subject to funding by the Legislature.

State Employees' Health Benefits

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

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

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

Other Post Employment Benefits

The Governmental Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans (i.e., "OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 was implemented by the employers for fiscal year ending June 30, 2008 and for the County of Kauai for fiscal year ending June 30, 2009. On July 9, 2012, Act 304, SLH 2012 was signed into law and provided for the establishment of "a separate trust fund for the purpose of receiving employer contributions that will prefund other post-employment health and other benefit plan costs for retirees and their

beneficiaries." Effective June 30, 2013, the Board approved the Plan and Trust Agreement for Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits ("OPEB Trust") establishing the irrevocable trust whose assets are legally protected from creditors and can only be used for the benefit of participants' other post employment benefits. The OPEB Trust is set up as an agent multiple-employer plan. Funds are pooled together but employer contributions; related investment income, investment expenses and gains/losses; and distributions are recorded separately by employer.

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

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

In the past, the State funded its OPEB costs on a "pay as you go" basis; however, the State began the process of pre-funding its OPEB costs with contributions in the amount of $100 million for fiscal year ending June 30, 2014. The State has met its pre-funding OPEB contribution in accordance with Act 268, SLH 2013 for the fiscal years ending June 30, 2015 and 2016 with actual contributions of $117.4 million (versus the $83.0 million Act 268, SLH 2013 required contribution) and $163.6 million (which equals the Act 268, SLH 2013 required contribution), respectively. The fiscal year ending June 30, 2016 contribution was made in July 2015. The market value of the State's OPEB assets amounted to $376.7 million as of December 31, 2015.

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

Hawaii EUTF Contributions

Fiscal Years 2014 – 2019

Fiscal Year	ARC	Benefit Payment*	UAAL Prefunding Balance	Act 268 Prefunding Requirement %	Act 268 Prefunding Requirement $	Total Prefunding Contribution **
2014	$692,622,000	$281,584,000	$411,038,000	N/A	N/A	$100,000,000
2015	717,689,000	302,738,000	414,951,000	20%	$ 82,990,000	117,400,000
2016	742,808,000	333,770,000	409,038,000	40%	163,615,000	163,615,000
2017	744,248,000	360,606,000	383,642,000	60%	230,185,000	245,812,000
2018	770,297,000	398,968,000	371,329,000	80%	297,063,000	399,073,000
2019*	811,313,000	436,139,000	375,174,000	100%	375,174,000	412,730,000

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

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

This statute also requires the Director of Finance to report to the Legislature on an implementation plan to have both the EUTF and the ERS jointly sharing investment information and services for the benefit of the Trust Fund. A report was prepared dated September 2014 which concludes that joint investment services face hurdles due to tax law and fiduciary responsibility conflicts.

State Employees' Retirement System

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

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

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 90th Annual Actuarial Valuation for the Year Ended June 30, 2015 (the "2015 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2015 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in January 2011 with the exception of the investment return assumption which was set to 7.65% effective with the June 30, 2015 valuation. As described more fully under "—General Information" below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. This is the second valuation with new members under the new tier of benefits and member contribution rates. However, the liability for this group of employees represents just a small fraction of the total liabilities of the system. Included in the 2015 Valuation Report are projections showing the long term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012. In June 2012, the Governmental Accounting Standards Board ("GASB") voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), is effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), is effective for fiscal years beginning after June 15, 2014. GASB 68 requires governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the System) for reporting purposes, and limit the smoothing of differences

between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

The State implemented GASB 68 beginning with the fiscal year ending June 30, 2015. Like most public employers, the State reflected pension liabilities directly on its Statement of Net Position, which resulted in a reduction in the State's reported net assets. As allowed under GASB 68 the State is reporting its GASB 68 disclosure items one year in arrears (June 30, 2014 information is reported as of June 30, 2015). The amount of the ERS net pension liability (as of June 30, 2014) allocated to the State is $5.8 billion or 72% (of the $8.0 billion net pension liability for all participating employers).

General Information

The System began operation on January 1, 1926. The System is a cost sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System's plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost sharing plan, the System does not allocate its liabilities among participating employers. However, based on the new GASB 68 financial reporting requirements for employers, the State's share of the System, based on employer contributions, is approximately 72%, with the remaining 28% share as the responsibility of the four counties. Although the State's employer contributions are recorded as expenses of the General Fund, approximately 29.0% are reimbursed from various non general funds of the State.

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

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

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

In December 2010, the System's actuary completed an Actuarial Experience Study for the five year period ended June 30, 2010 (the "2010 Experience Study"). In fiscal year 2011, based in part on the results of the Experience Study, the Legislature acted to limit the growth of the State's pension liabilities by passing Act 163, SLH 2011. This Act, effective July 1, 2012, enacts certain changes to the funding of the System and the benefit structure for new members in all plans. Funding changes include increasing the statutorily required employer contribution rates (see "—Funding Status" below). Benefit changes for new members include increasing the age and service requirements for retirement eligibility, reducing the retirement benefit multiplier and reducing the interest rate credited to employee contributions to 2%. The change in the

interest rate credited to employee contributions to 2% is for new members in the Hybrid Plan and Contributory Plan hired on or after July 1, 2011. All other benefit changes are effective for new members hired on or after July 1, 2012. Act 163, SLH 2011, also reduced the investment yield rate assumption for fiscal year 2011 from 8% to 7.75% and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the System, the Board of Trustees adopted the assumption recommendations set forth in the 2010 Experience Study, including continuing the investment yield rate assumption of 7.75%. During its September 23, 2014 meeting, the Board of Trustees reviewed actuarial scenarios based on the System's short and long-term investment return risk and approved a three year plan for the phased-in reduction of the investment yield rate from 7.75% to 7.50% beginning with the June 30, 2015 valuation of the System, as follows: 7.65% for the June 30, 2015 valuation, 7.55% for the June 30, 2016 valuation and 7.50% for the June 30, 2017 valuation, respectively. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012 and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

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

The demographic data for each annual June 30 valuation is collected as of the March 31st preceding the valuation date. As of March 31, 2015, the contributory plan covered 6,169 active employees or 9.2% of all active members of the System, the noncontributory plan covered approximately 16,023 active employees or 23.8%, and the Hybrid Plan covered 45,118 active members or 67.0%. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

As of March 31, 2015, the System's membership comprised approximately 67,310 active employees, 7,413 inactive vested members and 44,283 pensioners and beneficiaries. The following table shows the number of active members, inactive vested members and retirees and beneficiaries of the System as of March 31, 2013, 2014 and 2015:

Category	March 31, 2013	March 31, 2014	March 31, 2015
Active	66,226	67,206	67,310
Inactive, vested	7,312	8,105	7,413
Retirees and beneficiaries	41,812	43,087	44,283
Total	**115,350**	**118,398**	**119,006**

Funded Status

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

Based on the 2015 Valuation Report, the System's funded status has decreased compared to the prior year. The increase can be attributed to the lowering of the investment return assumption to 7.65%. Without the change in assumptions, the funded status would have increased due to liability experience gains. The unfunded actuarial accrued liability (the "UAAL") as of June 30, 2015 was $8.78 billion. The State estimates its share of the UAAL is 50% as an expense of the General Fund, 20% is to be paid from non-general funds of the State, and the remaining 30% of the UAAL

to be funded by the four counties. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 25.0% for police and fire employees and 17.0% for all other employees, the contribution rates established in statute (see "—Funding Policy" below), and the new benefit tier for employees hired after June 30, 2012 the actuary has determined that the remaining amortization period is 26 years. Because this period is within 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System are currently being realized. Section 88-122(e)(1) of the Hawaii Revised Statutes provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See "—Funding Policy" below for information on increases in the employer contribution rates and benefits changes.

Funding Policy

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

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

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

Under the contributory plan, police officers, firefighters, and corrections officers are required to contribute 12.2% of their salary to the plan and most other covered employees are required to contribute 7.8% of their salary. Under the Hybrid Plan, covered employees are generally required to contribute 6.0% of their salary to the plan, with sewer workers in specified classifications, water safety officers and emergency medical technicians required to contribute 9.75% of their salary. Effective July 1, 2012, contribution rates for newly hired employees covered under the contributory and Hybrid Plan increased by 2% pursuant to Act 163, SLH 2011, such that the corresponding contribution rates for new employees as

discussed in this paragraph will be 14.2%, 9.8%, 8.0% and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

Actuarial Methods

The System's actuary uses the entry age normal cost method. The most recent valuation was performed for the year ended June 30, 2015.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. For the June 30, 2015 valuation, this determination was made using an open group projection to reflect both the increasing contribution rates and the changes in benefits for members hired after June 30, 2012.

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

On an aggregate basis with regards to the contributory, the Hybrid, and the noncontributory plans, the total normal cost for benefits provided by the System for the fiscal year beginning July 1, 2015 was 11.66% of payroll, which was 11.87% of payroll less than the total contributions required by law (17.89% from employers plus 5.64% in the aggregate from employees). Since only 6.02% of the employers' 17.89% contribution is required to meet the normal cost (5.64% comes from the employee contribution), it is intended that the remaining 11.87% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year. Due to the changes enacted in 2011 (increases in the employer contribution rates and new benefits and contribution rates for members hired after June 30, 2012), the percentage of payroll available to amortize the unfunded actuarial liabilities is expected to increase each year for the foreseeable future.

The following table shows the valuation results as of June 30, 2015 plus a 30-year open group projection of ERS' assets and liabilities. The projection assumes no actuarial gains or losses in the actuarial liabilities or the actuarial value of assets. In addition, the projection reflects the changes made to the future employer contribution rates as well as changes to the benefits and member contribution rates of employees hired after June 30, 2012.

Projection Results Based on June 30, 2015 Actuarial Valuation†

Valuation as of June 30,	Employer Contribution Rate for Fiscal Year Following Valuation Date	Compensation (in Millions)	Employer Contributions (in Millions)	Actuarial Accrued Liability (AAL, in Millions)	Actuarial Value of Assets (AVA, in Millions)	Unfunded Actuarial Accrued Liability (UAAL, in Millions)	Funded Ratio
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2015	17.89%	$ 4,171.4	$ 746	$ 23,238	$ 14,464	$ 8,775	62.2%
2016	17.89%	4,263.9	763	24,142	15,226	8,916	63.1%
2017	17.89%	4,371.9	782	25,085	16,037	9,048	63.9%
2018	17.89%	4,489.1	803	26,023	16,856	9,167	64.8%
2019	17.89%	4,616.3	826	26,953	17,684	9,269	65.6%
2020	17.89%	4,752.4	850	27,878	18,526	9,353	66.5%
2021	17.89%	4,896.3	876	28,797	19,383	9,414	67.3%
2022	17.89%	5,048.5	903	29,708	20,258	9,450	68.2%
2023	17.89%	5,210.4	932	30,613	21,155	9,458	69.1%
2024	17.88%	5,380.7	962	31,512	22,078	9,433	70.1%
2025	17.88%	5,560.0	994	32,405	23,032	9,373	71.1%
2026	17.88%	5,747.6	1,027	33,292	24,020	9,272	72.1%
2027	17.87%	5,944.2	1,062	34,172	25,046	9,126	73.3%
2028	17.87%	6,150.4	1,099	35,047	26,116	8,931	74.5%
2029	17.87%	6,367.2	1,138	35,917	27,238	8,679	75.8%
2030	17.87%	6,594.1	1,178	36,786	28,420	8,366	77.3%
2031	17.87%	6,831.7	1,221	37,654	29,670	7,984	78.8%
2032	17.86%	7,079.9	1,265	38,524	30,997	7,526	80.5%
2033	17.86%	7,339.3	1,311	39,397	32,412	6,986	82.3%
2034	17.86%	7,611.4	1,360	40,279	33,925	6,354	84.2%
2035	17.87%	7,896.3	1,411	41,173	35,552	5,621	86.3%
2036	17.87%	8,193.4	1,464	42,082	37,305	4,777	88.6%
2037	17.87%	8,504.4	1,520	43,013	39,200	3,813	91.1%
2038	17.87%	8,830.4	1,578	43,969	41,253	2,715	93.8%
2039	17.87%	9,171.0	1,639	44,956	43,483	1,473	96.7%
2040	17.87%	9,526.7	1,703	45,980	45,908	72	99.8%
2041	17.88%	9,897.4	1,769	47,047	48,550	(1,503)	103.2%
2042	17.88%	10,284.2	1,839	48,163	51,429	(3,266)	106.8%
2043	17.88%	10,687.3	1,911	49,333	54,569	(5,236)	110.6%
2044	17.88%	11,107.5	1,986	50,565	57,994	(7,429)	114.7%

Source: 2015 Valuation Report.
† Projection assumes all assumptions exactly met, including a 7.65% annual return on the current actuarial value of assets.

Actuarial Valuation

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

The System's actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. Prior to fiscal year 2012, HRS Section 88-122(b) provided for the Board of Trustees to adopt the assumptions to be used by the System, except the investment yield rate, which was set by the Legislature. Act 163, SLH 2011, set the investment yield rate at 7.75% for fiscal year 2011 but also amended HRS Section 88-122(b) to allow the Board of Trustees to establish, for subsequent fiscal years, all assumptions to be used by the System, including the investment yield rate assumption. The Board of Trustees periodically evaluates and revises the assumptions used by the System for actuarial valuations, including by commissioning experience studies to evaluate the actuarial assumptions to be used by the System. The current assumptions were adopted by the System's Board of Trustees based on the recommendations of the System's actuary in the most recent experience study, the 2010 Experience Study. These assumptions, funding changes and benefit structure are reflected in the 2015 Valuation Report. The impact of the first year of the phased-in reduction of the investment yield rate from 7.75% to 7.50%, was reflected with the June 30, 2015 Valuation Report. The impact of lowering the investment return assumption from 7.75% to 7.65% was an increase in the unfunded liabilities of the System of approximately $261 million. The remaining phase-in is 7.55% for the June 30, 2016 valuation and 7.50% for the June 30, 2017 valuation, respectively. Also, a new 5-year experience study for the System will be conducted for fiscal years 2011 to 2015 that is expected to be available in the summer of 2016. The impact of the future lowering of the investment return assumption and possible new demographic assumptions cannot be determined at this time.

The actual investment returns of the System for fiscal years 2006 through 2015 shown below are market returns, net of investment and administrative expenses.

Fiscal Year	**Percentage**
2006	11.50%
2007	17.81%
2008	-3.51%
2009	-17.54%
2010	11.96%
2011	21.25%
2012	-0.14%
2013	12.57%
2014	17.77%
2015	4.23%

Source: Report on Investment Activity for the ERS prepared by Callan Associates, Inc. (2006), and Pension Consulting Alliance, Inc. (2007 to 2015), and reported in the ERS CAFRs.

The State anticipates that as the percentage of employees hired on and after July 1, 2012, increases and the new funding policies impact the System, the State will be able to fully amortize the UAAL over a 26 year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should

equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2023. The combination of the higher contribution policies and new benefit structure for future employees will enable the Retirement System to absorb the prior adverse experience over the 26 year term.

[Remainder of page intentionally left blank.]

The following table sets forth the schedule of funding progress of the System for the ten most recent actuarial valuation dates.

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in millions)

June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b)–(a)	Funded Ratio (a)/(b)	Payroll (c)	UAAL as a Percentage of Payroll ((b)–(a))/(c)
2006*	9,529.4	14,661.4	5,132.0	65.0%	3,238.3	158.5%
2007	10,589.8	15,696.5	5,106.8	67.5%	3,507.0	145.6%
2008	11,381.0	16,549.1	5,168.1	68.8%	3,782.1	136.6%
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011**	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%
2012	12,242.5	20,683.4	8,440.9	59.2%	3,890.0	217.0%
2013	12,748.8	21,243.7	8,494.9	60.0%	3,906.7	217.4%
2014	13,641.8	22,220.1	8,578.3	61.4%	3,991.6	214.9%
2015***	14,463.7	23,238.4	8,774.7	62.2%	4,171.4	210.4%

Source: The 2015 Valuation Report.
*Assumption changes and new Hybrid Plan effective June 30, 2006.
**Figures reflect assumption changes effective June 30, 2011.
***Reflects change in investment return assumption effective June 30, 2015.

The total assets of the System on a market value basis amounted to approximately $11.3 billion as of June 30, 2012, $12.4 billion as of June 30, 2013, $14.2 billion as of June 30, 2014 and $14.5 billion as of June 30, 2015. Actuarial certification of assets as of June 30, 2013 was $12.7 billion and as of June 30, 2014 was $13.6 billion, and as of June 30, 2015 was $14.5 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B hereto).

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

Fiscal Year (ending June 30)	Actuarial Value of Assets (in millions)	Market Value of Assets (in millions)	Market Value as Percentage of AVA	Funded Ratio (AVA)	Funded Ratio (Market Value)
2006	9,529.4	9,932.4	104.2%	65.0%	67.7%
2007	10,589.8	11,434.3	108.0%	67.5%	72.8%
2008	11,381.0	10,846.8	95.3%	68.8%	65.5%
2009	11,400.1	8,818.0	77.4%	64.6%	50.0%
2010	11,345.6	9,821.6	86.6%	61.4%	53.2%
2011	11,942.8	11,642.3	97.5%	59.4%	57.9%
2012	12,242.5	11,285.9	92.2%	59.2%	54.6%
2013	12,748.8	12,357.8	96.9%	60.0%	58.2%
2014	13,641.8	14,203.0	104.1%	61.4%	63.9%
2015	14,463.7	14,505.5	100.3%	62.2%	62.4%

Source: The 2006-2015 Valuation Reports.

As of June 30, 2015, the UAAL of the System was $8.77 billon. Since the System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. However, under GASB 68 a portion of the Net Pension Liability is allocated to each participating employer including the State. The amount of the ERS net pension liability that was allocated to the State is $5.8 billion (as of June 30, 2014), of which the State estimates that the General Fund portion is 71%. The following table shows the normal cost (which means the annual cost of providing retirement benefits for services performed by today's members) as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for fiscal years 2014 and 2015:

NORMAL COST

	June 30,					
	2014			2015		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	19.47%	9.92%	10.96%	20.39%	10.53%	11.66%
Employee contribution rate	12.30%	4.58%	5.42%	12.35%	4.77%	5.64%
Effective employer normal cost rate	7.17%	5.34%	5.54%	8.04%	5.76%	6.02%

Source: The 2015 Valuation Report.

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 10 valuation dates. Employer contribution rates are set prospectively by the statute and, accordingly, may be greater or less than the ARC in any given year.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in thousands)

June 30,	Actual Contribution
2006*	423,446
2007	454,494
2008	488,770
2009	578,635
2010	547,613
2011	534,858
2012	548,353
2013	581,447
2014	653,128
2015**	717,793

Source: The 2014-2015 Valuation Reports.
* Effective July 1, 2005, the required contributions are based on contribution rates and not specific dollar amounts.
** Effective July 1, 2015, the GASB annual required contribution under GASB 25 and 27 no longer applies.

Asset Allocation

The following table shows the target and actual asset allocation of the System as of June 30, 2015:

ASSET ALLOCATION
(as of June 30, 2015)

	Actual Allocation		Target Allocation		Allocation
Asset Type	**Amount ($mm)**	**Percentage**	**Amount ($mm)**	**Percentage**	**Difference**
Domestic Equity	$5,137.0	35.6%	$4,822.9	33.4%	2.2%
Non-US Equity	3,394.6	23.5%	3,753.6	26.0%	-2.5%
Fixed Income	2,609.5	18.1%	2,887.4	20.0%	-1.9%
Real Estate	922.3	6.4%	922.3	6.4%	0.0%
Private Equity	688.4	4.8%	688.4	4.8%	0.0%
Real Return	640.5	4.4%	640.5	4.4%	0.0%
Covered Calls	853.5	5.9%	721.9	5.0%	0.9%
Other	191.3	1.3%	0.0	0.0%	1.3%
Total	**$14,437.0**	**100.0%**	**$14,437.0**	**100.0%**	

Source: Valuations provided by BNY Mellon – 2015; values unaudited.

The above table represents the historical asset class policy as of June 30, 2015. In August 2014, the Board of Trustees of the System approved the adoption of a change in its asset allocation policy from the current asset-class policy to a new risk-based asset allocation framework within the categories of Broad Growth, Principal Protection, Real Estate and Real Return and Other. The new policy became effective as of October 1, 2014.

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" from "Table 1" through "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") First Quarter 2016 Quarterly Statistical and Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at http://dbedt.hawaii.gov/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." The following descriptions of the various components of the State's economy and DBEDT's outlook for the economy are below under "State of the Economy" and there is a brief description in the "Outlook for the Economy" section below explaining the impact of these components on the State's fiscal position.

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 2016 is 4.1 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2016 State's GDP growth to be 2.3 percent over that of the previous year. DBEDT calculates that the State's GDP has diversified from 67% to 83% in non-tourism sectors from 1988 to 2015.

State of the Economy

Hawaii's major economic indicators were mostly positive in the fourth quarter of 2015. State general fund tax revenues, visitor arrivals, visitor expenditures, wage and salary jobs, personal income, and State CIP expenditures all increased in the quarter, only government contracts awarded and private building permits decreased compared to the same quarter of 2014.

In the fourth quarter of 2015, the total number of visitors arriving by air to Hawaii increased 88,030 or 4.3 percent. Due to slightly shorter lengths of stay, the daily visitor census increased 3.2 percent in the quarter. Since visitors spent less on a daily basis during the fourth quarter of 2015, the total spending by visitors arriving by air increased only 1.1 percent in the quarter. Historical data shows that after seventeen quarters of positive growth from the third quarter of 2009 to the third quarter of 2013, Hawaii's tourism sector experienced one quarter of negative growth in the fourth quarter of 2013. Since the first quarter of 2014, however, Hawaii's tourism sector returned to positive growth compared with the same quarter in the previous year.

In construction, the government contracts awarded and the value of private building permits both decreased. In the fourth quarter of 2015, government contracts awarded decreased $93.0 million, the permit value for private construction decreased $27.2 million, but the State CIP expenditures increased $108.3 million. The construction sector added 3,800 jobs compared with the same quarter of 2014. According to the most recent data available, current construction put-in-place increased $545.8 million or 32.8 percent in the third quarter of 2015 compared with the same quarter of 2014. Construction-put-in-place is based on excise tax data.

In the fourth quarter of 2015, State general fund tax revenues were up $19.1 million or 1.4 percent over the same period of 2014. State general excise tax revenue increased $16.6 million or 2.2 percent in the fourth quarter of 2015 compared to the same quarter in 2014. In 2015, State general fund tax revenues increased $462.9 million or 8.4 percent, and the state general excise tax revenue increased $161.7 million or 5.4 percent, compared with the previous year.

Labor market conditions were positive. Since the fourth quarter of 2010, Hawaii's jobs increased for the 21th consecutive quarter. In the fourth quarter of 2015 Hawaii's civilian non-agricultural wage and salary jobs averaged 645,700 jobs, an increase of 13,700 jobs or 2.2 percent from the same quarter of 2014.

The job increase in the fourth quarter of 2015 was mainly due to job increases in the private sector. In this quarter, the private sector added about 13,600 non-agricultural jobs compared to the fourth quarter of 2014. Jobs increased the most in Natural Resources, Mining and Construction, adding 3,800 jobs or 12.0 percent. This was followed by Health Care and Social Assistance, adding 2,200 jobs or 3.3 percent, Food Services and Drinking Places, adding 2,100 jobs or 3.4 percent, Other Services, adding 2,000 jobs or 7.6 percent, Transportation, Warehousing, and Utilities, adding 1,400 jobs or 4.7 percent, and Retail Trade, adding 1,100 jobs or 1.5 percent in the quarter. In this quarter, only Educational Services lost 300 jobs, Accommodation lost 300 jobs, and Manufacturing lost 100 jobs compared to the same quarter of 2014. The three levels of government added 100 jobs or 0.1 percent in the fourth quarter of 2015. The Federal Government lost 100 jobs or 0.3 percent; the State Government added 300 jobs or 0.4 percent, while the Local Government jobs was unchanged compared to the fourth quarter of 2014.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total nominal annualized personal income in the third quarter of 2015 increased $3,128.6 million or 4.8 percent from the same quarter of 2014. This increase includes inflation so the growth of real personal income was smaller. The increase in nominal personal income during the third quarter of 2015 was due to increases in all major components of personal income. In dollar terms, the largest increases occurred in wages and salaries, followed by dividends, interest, and rent, personal current transfer receipts, proprietors' income, and

supplements to wages and salaries. In the first three quarters of 2015, total annualized personal income was $68,044.2 million, an increase of 4.7 percent from the same period of last year.

Consumer prices in Honolulu increased 1.3 percent in the second half of 2015 compared with the same period of 2014, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). In contrast, the U.S. CPI-U increased 0.3 percent in the second half of 2015. In 2014, the Honolulu CPI-U increased 1.4 percent from the previous year. In the second half of 2015, the Honolulu CPI-U increased the most in Medical Care (10.6 percent), followed by Food and Beverages (4.4 percent), Other Goods and Services (3.8 percent), Education and Communication (3.0 percent), Recreation (2.8 percent), and Housing (0.9 percent). The price of Transportation and Apparel decreased 8.0 percent and 2.0 percent, respectively, compared to the second half of 2014.

According to the most recent data available, in the second quarter of 2015, total annualized nominal GDP increased $3,619.0 million or 4.8 percent from the second quarter of 2014. In the first half of 2015, total annualized nominal GDP increased $3,410.5 million or 4.5 percent from the same period of 2014. In the second quarter of 2015, total annualized real GDP (in chained 2009 dollar) increased $1,464.0 million or 2.1 percent from the second quarter of 2014. In the first half of 2015, total annualized real GDP increased $1,184.5 million or 1.7 percent from the same period of 2014.

Outlook for the Economy

Hawaii's economy is expected to continue positive growth for the rest of 2016 and into 2017. This outlook is based on the most recent developments in the national and global economies, the performance of Hawaii's tourism industry, labor market conditions, and the growth of personal income and tax revenues.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the February 2016 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 2.1 percent in 2016, 0.5 of a percentage point lower than the 2.6 percent growth rate projected in the November 2015 forecast. For 2017 the consensus forecast predicts an overall 2.4 percent growth in U.S. real GDP.

According to the February 2016 Blue Chip Economic Consensus Forecast, real GDP growth for Japan is now expected to increase 1.0 percent in 2016, 0.1 of a percentage point lower than the growth rate projected in the November 2015 forecast. For 2017, the consensus forecast now expects an overall 0.7 percent growth rate for Japanese real GDP.

For the local economy, DBEDT expects that visitor expenditures will grow at lower rates than projected in the previous forecast. For GDP growth, the current forecast was about the same as the previous forecast.

Overall, Hawaii's economy, as measured by real GDP, is projected to show a 2.3 percent increase in 2016, same as the growth rate forecasted last quarter. The real GDP growth forecast in 2017 is 2.4 percent, also same as the growth rate forecasted last quarter.

Hawaii's unemployment rate is projected to be 3.5 percent in 2016, 0.2 of a percentage point lower than the previous forecast. The unemployment rate in 2017 is now projected to be 3.3 percent, 0.2 of a percentage point lower than the previous forecast.

Visitor arrivals are expected to increase 1.9 percent in 2016, 0.2 of a percentage point above the previous forecast. The forecast for visitor days in 2016 decreased 0.1 of a percentage point to 1.7 percent. The forecast for visitor expenditure growth in 2016 was revised downward to 2.4 percent, from 3.5 percent growth projected in the previous forecast. For 2017, the growth rate of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.9 percent, 1.9 percent, and 3.9 percent, respectively.

The projection for the non-agricultural wage and salary job growth rate in 2016 is 1.3 percent, 0.1 of a percentage point above the previous forecast. In 2017, jobs are projected to increase 1.2 percent, 0.2 of a percentage point above the previous forecast.

The Honolulu Consumer Price Index (CPI) is now expected to increase 2.0 percent in 2016, 0.3 of a percentage point below the previous forecast. In 2017, the CPI is projected to increase 2.2 percent, also 0.3 of a percentage point below the previous forecast.

Personal income in current dollars is now expected to increase 4.8 percent in 2016, same as the previous forecast. Real personal income is currently projected to grow 3.0 percent in 2016, same as the previous forecast. In 2017, current-dollar personal income and real personal income are expected to increase 5.0 percent and 3.1 percent, respectively.

Beyond 2017, the economy is expected to continue its expansion path, with job growth projected to be 1.1 percent in 2018 and 2019. Visitor arrivals are expected to increase 1.8 percent in both 2018 and 2019. Visitor expenditures are expected to increase 4.1 percent in 2018 and 2019. Real personal income is projected to increase 3.0 percent in 2018 and 2019. Hawaii's real GDP growth is expected to increase 2.4 percent in 2018 and 2.2 percent in 2019. The unemployment rate is expected to decrease to 3.1 percent in 2018 and 2019.

[Remainder of page intentionally left blank.]

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

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	4th QUARTER 2014	4th QUARTER 2015	4th QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2014	YEAR-TO-DATE 2015	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	669,750	680,550	1.6	668,200	676,300	1.2
Civilian employed, NSA	643,050	658,800	2.4	639,050	651,350	1.9
Civilian unemployed, NSA	26,700	21,700	-18.7	29,150	25,000	-14.2
Unemployment rate, NSA (%) 1/ 2/	4.0	3.2	-0.8	4.4	3.7	-0.7
Total wage and salary jobs, NSA	639,000	652,700	2.1	632,300	641,300	1.4
Total non-agric. wage & salary jobs	632,000	645,700	2.2	625,300	634,800	1.5
Nat. Resources, Mining, Constr.	31,600	35,400	12.0	31,600	33,400	5.7
Manufacturing	13,700	13,600	-0.7	13,700	13,500	-1.5
Wholesale Trade	18,000	18,000	0.0	17,700	18,100	2.3
Retail Trade	71,500	72,600	1.5	69,700	71,400	2.4
Transp., Warehousing, Util.	30,000	31,400	4.7	30,000	30,900	3.0
Information	8,700	8,700	0.0	8,500	8,400	-1.2
Financial Activities	27,600	28,100	1.8	27,400	27,900	1.8
Professional & Business Services	83,900	84,300	0.5	82,300	83,600	1.6
Educational Services	14,200	13,900	-2.1	14,200	14,000	-1.4
Health Care & Social Assistance	65,800	68,000	3.3	64,800	66,700	2.9
Arts, Entertainment & Recreation	12,300	12,600	2.4	12,100	12,600	4.1
Accommodation	39,400	39,100	-0.8	39,300	39,000	-0.8
Food Services & Drinking Places	62,300	64,400	3.4	61,900	63,500	2.6
Other Services	26,200	28,200	7.6	26,500	27,300	3.0
Government	127,000	127,100	0.1	125,600	124,700	-0.7
Federal	33,300	33,200	-0.3	33,200	32,700	-1.5
State	74,900	75,200	0.4	73,600	73,100	-0.7
Local	18,800	18,800	0.0	18,800	18,900	0.5
Agriculture wage and salary jobs	7,000	7,000	0.0	7,000	6,500	-7.1
State general fund revenues ($1,000)	1,412,748	1,431,883	1.4	5,535,709	5,998,652	8.4
General excise and use tax revenues	737,774	754,374	2.2	2,979,776	3,141,489	5.4
Income-individual	499,814	498,417	-0.3	1,820,693	2,054,065	12.8
Declaration estimated taxes	64,723	58,458	-9.7	449,385	543,718	21.0
Payment with returns	25,735	32,035	24.5	154,526	188,765	22.2
Withholding tax on wages	439,693	442,604	0.7	1,683,842	1,756,887	4.3
Refunds ('-' indicates relative to State)	-30,337	-34,648	14.2	-467,060	-435,272	-6.8
Transient accommodations tax	90,476	96,087	6.2	408,141	435,025	6.6
Honolulu County Surcharge 3/	64,255	(NA)	(NA)	241,583	(NA)	(NA)
Private Building Permits ($1,000)	960,605	933,431	-2.8	3,315,078	3,963,607	19.6
Residential	299,347	417,805	39.6	985,938	1,651,336	67.5
Commercial & industrial	249,158	94,395	-62.1	498,536	702,920	41.0
Additions & alterations	412,101	421,230	2.2	1,830,604	1,609,350	-12.1
Visitor Days - by air	18,761,539	19,364,776	3.2	74,982,915	77,727,767	3.7
Domestic visitor days - by air	13,570,449	14,043,478	3.5	54,854,993	56,676,259	3.3
International visitor days - by air	5,191,090	5,321,298	2.5	20,127,921	21,051,508	4.6
Visitor arrivals by air - by air	2,031,752	2,119,781	4.3	8,183,671	8,533,978	4.3
Domestic flight visitors - by air	1,337,232	1,407,528	5.3	5,473,388	5,762,371	5.3
International flight visitors - by air	694,520	712,253	2.6	2,710,283	2,771,607	2.3
Visitor expend. - arrivals by air ($1,000)	3,765,536	3,805,582	1.1	14,778,473	15,118,936	2.3
Hotel occupancy rates (%) 2/	75.0	(NA)	(NA)	77.1	(NA)	(NA)

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
2014 TO 2019

Economic Indicators	2014	2015	2016	2017	2018	2019
	(Actual)		(Forecast)			
Total population (thousands)	1,420	1,432	1,443	1,455	1,468	1,481
Visitor arrivals (thousands) 1/	8,308	8,649	8,818	8,985	9,143	9,305
Visitor days (thousands) 1/	75,646	78,281	79,637	81,177	82,629	84,108
Visitor expenditures (million dollars) 1/	14,943	15,282	15,645	16,262	16,935	17,633
Honolulu CPI-U (1982-84=100)	257.6	260.2	265.4	271.2	277.4	284.1
Personal income (million dollars) 2/	65,348	68,419	71,703	75,289	79,053	83,006
Real personal income (millions of 2009$) 3/	52,346	54,231	55,857	57,610	59,367	61,124
Non-agricultural wage & salary jobs (thousands)	625.3	634.8	643.1	650.8	657.9	665.2
Civilian unemployment rate 4/	4.4	3.7	3.5	3.3	3.1	3.1
Gross domestic product (million dollars) 5/	76,171	79,637	82,935	86,199	89,945	93,670
Real gross domestic product (millions of 2009$) 5/	69,436	70,825	72,454	74,193	75,973	77,645
Gross domestic product deflator (2009=100) 5/	109.7	112.4	114.5	116.2	118.4	120.6
Annual Percentage Change						
Total population	0.8	0.8	0.8	0.8	0.9	0.9
Visitor arrivals 1/	1.6	4.1	1.9	1.9	1.8	1.8
Visitor days 1/	0.9	3.5	1.7	1.9	1.8	1.8
Visitor expenditures 1/	2.9	2.3	2.4	3.9	4.1	4.1
Honolulu CPI-U	1.4	1.0	2.0	2.2	2.3	2.4
Personal income 2/	4.7	4.7	4.8	5.0	5.0	5.0
Real personal income 3/	2.8	3.6	3.0	3.1	3.0	3.0
Non-agricultural wage & salary jobs	1.1	1.5	1.3	1.2	1.1	1.1
Civilian unemployment rate 4/	-0.4	-0.7	-0.2	-0.2	-0.2	0.0
Gross domestic product 5/	2.7	4.5	4.1	3.9	4.3	4.1
Real gross domestic product 5/	0.4	2.0	2.3	2.4	2.4	2.2
Gross domestic product deflator (2009=100) 5/	2.3	2.5	1.8	1.5	1.9	1.9

1/ Visitors who came to Hawaii by air or by cruise ship. Expenditures includes supplementary expenditures estimated by HTA for 2014 and DBEDT thereafter.

2/ The 2015 values are estimated based on actual values in the first three quarters of 2015.

3/ Using personal income deflator developed by the U.S. Bureau of Economic Analysis and estimated by DBEDT.

4/ Absolute change from previous year.

5/ 2015 and later years are estimated by DBEDT, data for earlier years from U.S. Bureau of Economic Analysis.

Source: Hawaii State Department of Business, Economic Development & Tourism, February 5, 2016.

Labor Force and Jobs

Hawaii's labor market conditions continued to improve in the fourth quarter of 2015. Since the civilian labor force increased less than the civilian employment, the civilian unemployment rate decreased 0.8 of a percentage point in the quarter. For the 21th consecutive quarter, civilian non-agricultural wage and salary jobs increased.

In the fourth quarter of 2015, the civilian labor force averaged 680,550 people, an increase of 10,800 people or 1.6 percent from the same quarter of 2014. In 2015, the civilian labor force increased 8,100 people or 1.2 percent from previous year.

Civilian employment totaled 658,800 people in the fourth quarter of 2015, an increase of 15,750 people or 2.4 percent compared to the same quarter of 2014. This is the 13th quarterly increase. In 2015, average civilian employment increased 12,350 people or 1.9 percent from the previous year.

In the fourth quarter of 2015, the number of civilian unemployed averaged 21,700, a decrease of 5,000 people or 18.7 percent from the same quarter of 2014. In 2015, the number of unemployed decreased 4,150 people or 14.2 percent from the previous year.

The unemployment rate (not seasonally adjusted) decreased from 4.0 percent in the fourth quarter of 2014 to 3.2 percent in the fourth quarter of 2015. In 2015, the unemployment rate decreased 0.7 of a percentage point from the previous year.

In the fourth quarter of 2015, Hawaii's civilian non-agricultural wage and salary jobs averaged 645,700 jobs, an increase of 13,700 jobs or 2.2 percent from the same quarter of 2014. This is the 21th consecutive quarterly increase in non-agricultural wage and salary jobs after ten consecutive quarterly decreases in jobs since the second quarter of 2008. In 2015, average non-agricultural wage and salary jobs increased 1.5 percent or 9,500 jobs from the previous year.

The job increase in the fourth quarter of 2015 was mainly due to a job increase in the private sector. In this quarter, the private sector added about 13,600 non-agricultural jobs compared to the fourth quarter of 2014. Jobs increased the most in Natural Resources, Mining and Construction, adding 3,800 jobs or 12.0 percent. This was followed by Health Care and Social Assistance, adding 2,200 jobs or 3.3 percent, Food Services and Drinking Places, adding 2,100 jobs or 3.4 percent, Other Services, adding 2,000 jobs or 7.6 percent, Transportation, Warehousing, and Utilities, adding 1,400 jobs or 4.7 percent, and Retail Trade, adding 1,100 jobs or 1.5 percent in the quarter. For the private sector, in the fourth quarter of 2015, Educational Services lost 300 jobs, Accommodation lost 300 jobs, and the Manufacturing sector lost 100 jobs compared to the same quarter of 2014.

The three levels of government added 100 jobs or 0.1 percent in the fourth quarter of 2015 compared to the same quarter of 2014. The Federal Government lost 100 jobs or 0.3 percent; the State Government added 300 jobs or 0.4 percent, while the Local Government jobs was unchanged compared to the fourth quarter of 2014.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, decreased 11.7 percent in the fourth quarter of 2015 compared to the same quarter of 2014. In 2015, the initial liable claims for unemployment decreased 9.2 percent from the previous year.

[Remainder of page intentionally left blank.]

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT (NUMBER OF PERSONS)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
2005	626,900	2.6	608,950	3.2	2.9
2006	638,250	1.8	621,550	2.1	2.6
2007	638,400	0.0	620,550	-0.2	2.8
2008	639,700	0.2	612,100	-1.4	4.3
2009	631,700	-1.3	586,500	-4.2	7.2
2010	647,250	2.5	602,300	2.7	6.9
2011	660,150	2.0	615,100	2.1	6.8
2012	648,000	-1.8	609,100	-1.0	6.0
2013	651,100	0.5	619,550	1.7	4.8
2014	668,200	2.6	639,000	3.1	4.4
2015	676,300	1.2	651,350	1.9	3.7

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

Hawaii's total personal income increased during the third quarter of 2015 over the same quarter of 2014, all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wages and salaries, followed by dividends, interest, and rent, personal current transfer receipts, proprietors' income, and supplements to wages and salaries.

In the third quarter of 2015, total nominal annualized personal income (i.e. not adjusted for inflation) increased $3,128.6 million or 4.8 percent from the third quarter of 2014. In the first three quarters of 2015, total annualized personal income was $68,044.2 million, an increase of 4.7 percent from the same period of 2014.

In the third quarter of 2015, wages and salaries increased $1,696.6 million or 5.1 percent from the third quarter of 2014. This was the 21st consecutive quarterly year-over-year increase since the third quarter of 2010. In the first three quarters of 2015, wages and salaries increased 4.7 percent from the same period of 2014.

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 $328.2 million or 3.5 percent in the third quarter of 2015 from the same quarter of 2014. In the first three quarters of 2015, supplements to wages and salaries increased 2.8 percent from the same period of 2014.

Proprietors' income increased $334.9 million or 7.5 percent in the third quarter of 2015 over that of 2014. In the first three quarters of 2015, proprietors' income was up 7.9 percent from the same period of 2014.

Dividends, interest, and rent increased $630.5 million or 4.6 percent in the third quarter of 2015 from the same quarter of 2014. In the first three quarters of 2015, income in this category was up 4.0 percent from the same period of 2014.

The annualized personal current transfer receipts grew by $343.6 million or 3.2 percent in the third quarter of 2015 from the same quarter of 2014. In the first three quarters of 2015, personal current transfer receipts increased 4.7 percent from the same period of 2014.

Contributions to government social insurance, which is subtracted from total personal income, increased $205.1 million or 3.8 percent in the third quarter of 2015, compared to the third quarter of 2014. In the first three quarters of 2015, contributions to government social insurance increased 2.5 percent from the same period of 2014.

In the third quarter of 2015, total non-farm private sector annualized earnings increased $2,037.4 million or 6.4 percent from the third quarter of 2014. In dollar terms, the largest increase occurred in construction, followed by health care and social assistance, accommodation and food services, transportation and warehousing, real estate and rental and leasing, and administrative and waste management services. During the third quarter of 2015, total government earnings increased $270.9 million or 1.8 percent from the same quarter of 2014. Earnings from the federal government increased $91.9 million or 1.1 percent. Earnings from the state and local governments increased $179.0 million or 2.8 percent in the quarter.

In the second half of 2015, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.3 percent from the same period in 2014. This is in contrast to the 0.3 percent increase for the U.S. average CPI-U and is slightly lower than the 2014 Honolulu CPI-U increase of 1.4 percent from the previous year. In the second half of 2015, the Honolulu CPI-U increased the most in Medical Care (10.6 percent), followed by Food and Beverages (4.4 percent), Other Goods and Services (3.8 percent), Education and Communication (3.0 percent), Recreation (2.8 percent), and Housing (0.9 percent). The price of Transportation and Apparel decreased 8.0 percent and 2.0 percent, respectively, compared to the second half of 2014.

According to the most recent data available, in the second quarter of 2015, total annualized nominal GDP increased $3,619.0 million or 4.8 percent from the second quarter of 2014. In the first half of 2015, total annualized nominal GDP increased $3,410.5 million or 4.5 percent from the same period of 2014. In the second quarter of 2015, total annualized real GDP (in chained 2009 dollar) increased $1,464.0 million or 2.1 percent from the second quarter of 2014. In the first half of 2015, total annualized real GDP increased $1,184.5 million or 1.7 percent from the same period of 2014.

[Remainder of page intentionally left blank.]

Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

(In millions of dollars at seasonally adjusted annual rates and percent. As of QSER September 2003, according to NAICS classification.)

Series	Third Quarter 2014	Second Quarter 2015	Third Quarter 2015	YTD 2014	YTD 2015	Percentage change: Third Quarter 2015 — Third Quarter 2014	Percentage change: Third Quarter 2015 — Second Quarter 2015	Percentage change: YTD 2015 — YTD 2014
PERSONAL INCOME	65,790,744	68,035,410	68,919,388	65,004,692	68,044,163	4.8	1.3	4.7
Earnings By Place of Work	46,962,656	48,657,865	49,322,339	46,512,359	48,665,242	5.0	1.4	4.6
Wage and salary disbursements	33,010,072	34,228,377	34,706,634	32,678,192	34,222,519	5.1	1.4	4.7
Wages and salaries	9,509,764	9,743,147	9,838,003	9,481,204	9,747,070	3.5	1.0	2.8
Emp'er contrib. for emp'ee pension & ins. funds	6,822,348	7,001,964	7,065,906	6,762,572	7,005,405	3.6	0.9	3.6
Employer contrib. for gov't social ins.	2,687,416	2,741,183	2,772,097	2,718,632	2,741,665	3.2	1.1	0.8
Proprietors' income	4,442,820	4,686,341	4,777,702	4,352,963	4,695,653	7.5	1.9	7.9
Farm proprietors' income	-13,612	20,444	29,916	-4,408	23,033	(2/)	(2/)	(2/)
Nonfarm proprietors' income	4,456,432	4,665,897	4,747,786	4,357,371	4,672,620	6.5	1.8	7.2
Dividends, interest, and rent	13,601,560	14,071,809	14,232,059	13,506,184	14,040,215	4.6	1.1	4.0
plus: Personal current transfer receipts	10,639,324	10,862,086	10,982,914	10,407,221	10,895,406	3.2	1.1	4.7
Social Security benefits	3,625,784	3,775,228	3,798,996	3,599,973	3,771,106	4.8	0.6	4.8
Medicare benefits	2,089,012	2,141,890	2,167,593	2,067,839	2,143,862	3.8	1.2	3.7
Medicaid 1/	2,174,724	2,050,866	2,105,770	2,001,208	2,076,307	-3.2	2.7	3.8
State unempl. ins. comp.	167,576	146,433	135,015	182,092	148,544	-19.4	-7.8	-18.4
All other personal current transfer receipts	2,582,228	2,747,669	2,775,540	2,556,109	2,755,587	7.5	1.0	7.8
Less: Contributions for gov't social ins.	5,412,796	5,556,350	5,617,924	5,421,072	5,556,699	3.8	1.1	2.5
Personal contributions for gov't social ins.	2,725,380	2,815,167	2,845,827	2,702,440	2,815,034	4.4	1.1	4.2
Employer contributions for gov't social ins.	2,687,416	2,741,183	2,772,097	2,718,632	2,741,665	3.2	1.1	0.8
Earnings By Industry	46,962,656	48,657,865	49,322,339	46,512,359	48,665,242	5.0	1.4	4.6
Farm Earnings	296,440	336,337	347,802	300,491	338,937	17.3	3.4	12.8
Nonfarm Earnings	46,666,216	48,321,528	48,974,537	46,211,868	48,326,305	4.9	1.4	4.6
Private earnings	31,925,496	33,394,198	33,962,913	31,605,871	33,373,919	6.4	1.7	5.6
Forestry, fishing, & related activities	71,624	82,304	86,959	70,145	83,075	21.4	5.7	18.4
Mining	37,128	41,367	41,730	37,591	42,916	12.4	0.9	14.2
Utilities	579,956	607,432	613,249	564,431	609,013	5.7	1.0	7.9
Construction	3,415,624	3,757,029	3,919,569	3,337,984	3,772,138	14.8	4.3	13.0
Manufacturing	869,976	876,123	885,091	848,919	880,075	1.7	1.0	3.7
Durable goods	264,860	277,385	275,534	263,640	276,972	4.0	-0.7	5.1
Nondurable goods	605,116	598,738	609,557	585,279	603,103	0.7	1.8	3.0
Wholesale trade	1,297,288	1,318,163	1,322,154	1,272,121	1,311,755	1.9	0.3	3.1
Retail trade	2,812,636	2,867,436	2,926,129	2,797,048	2,877,524	4.0	2.0	2.9
Transportation and warehousing	1,745,264	1,842,474	1,875,994	1,759,263	1,860,098	7.5	1.8	5.7
Information	716,608	765,362	760,993	716,573	747,108	6.2	-0.6	4.3
Finance and insurance	1,368,872	1,459,196	1,480,371	1,348,299	1,452,232	8.1	1.5	7.7
Real estate and rental and leasing	1,658,340	1,751,711	1,788,054	1,630,568	1,757,437	7.8	2.1	7.8
Prof., scientific, & technical services	2,648,008	2,696,524	2,708,791	2,642,125	2,682,550	2.3	0.5	1.5
Management of companies and enterprises	822,440	867,717	877,117	814,211	840,184	6.6	1.1	3.2
Admin. & waste management services	2,201,508	2,283,911	2,318,264	2,161,657	2,284,998	5.3	1.5	5.7
Educational services	753,232	773,237	770,048	749,955	769,161	2.2	-0.4	2.6
Health care and social assistance	4,496,824	4,715,698	4,801,041	4,467,996	4,722,741	6.8	1.8	5.7
Arts, entertainment, and recreation	497,368	499,815	517,504	495,063	496,039	4.0	3.5	0.2
Accommodation and food services	4,125,164	4,327,638	4,381,019	4,102,215	4,320,852	6.2	1.2	5.3
Other services, except public admin.	1,807,636	1,861,061	1,888,836	1,789,708	1,864,023	4.5	1.5	4.2
Government and government enterprises	14,740,720	14,927,330	15,011,624	14,605,997	14,952,386	1.8	0.6	2.4
Federal	8,372,176	8,441,152	8,464,060	8,319,752	8,440,999	1.1	0.3	1.5
Federal, civilian	3,465,700	3,540,160	3,548,367	3,450,116	3,534,786	2.4	0.2	2.5
Military	4,906,476	4,900,992	4,915,693	4,869,636	4,906,214	0.2	0.3	0.8
State and local	6,368,544	6,486,178	6,547,564	6,286,245	6,511,386	2.8	0.9	3.6

1/ 2015Q1 to 2015Q2 revised from previous *QSER*.

2/ Percentage change involving negative values not meaningful.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, December 21, 2015 <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=3> accessed December 21, 2015.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
2005	46,111	7.0
2006	49,617	7.6
2007	52,659	6.1
2008	55,478	5.4
2009	55,340	-0.2
2010	56,732	2.5
2011	59,179	4.3
2012	61,984	4.7
2013	62,437	0.7
2014	65,348	4.7
2015 1/	68,044	4.7

1/ First 3 quarters

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

[Remainder of page intentionally left blank.]

Table 6

HONOLULU AND U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U) (1982-84=100. DATA ARE NOT SEASONALLY ADJUSTED)

		Honolulu								
Period	U.S.	All Items	Food & Beverages	Housing	Apparel	Transpor-tation	Medical Care	Recre-ation 1/	Educ. & Comm. 1/	Other Goods & Services
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	317.955	105.290	117.118	365.441
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.599	105.239	122.843	395.186
2010	218.056	234.869	224.774	251.968	116.423	214.411	320.153	107.484	128.483	415.526
2011	224.939	243.622	232.656	260.606	118.394	229.223	324.180	110.473	132.248	433.536
2012	229.594	249.474	242.786	265.473	121.481	231.275	334.441	113.961	137.276	440.428
2013	232.957	253.924	250.922	269.885	119.011	233.133	345.184	116.818	139.423	447.178
2014	236.736	257.589	256.023	273.499	111.141	236.373	351.763	119.586	143.488	457.958
2015	237.017	260.165	267.041	276.047	108.893	216.756	378.876	121.840	147.869	478.634
2013H1	232.366	253.202	250.337	269.213	119.349	232.743	343.253	116.347	138.251	446.226
H2	233.548	254.646	251.508	270.557	118.673	233.523	347.116	117.289	140.594	448.131
2014H1	236.384	255.989	252.895	271.656	112.261	237.614	348.133	119.313	141.981	450.011
H2	237.088	259.190	259.151	275.343	110.021	235.132	355.393	119.860	144.995	465.906
2015H1	236.265	257.848	263.610	274.380	109.941	217.288	364.754	120.419	146.406	473.733
H2	237.769	262.482	270.472	277.714	107.845	216.223	392.998	123.261	149.332	483.535
Percentage Change from the Same Period in Previous Year										
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
2009	-0.4	0.5	3.6	0.4	7.2	-6.4	1.1	0.0	4.9	8.1
2010	1.6	2.1	0.2	0.9	3.2	7.0	-0.4	2.1	4.6	5.1
2011	3.2	3.7	3.5	3.4	1.7	6.9	1.3	2.8	2.9	4.3
2012	2.1	2.4	4.4	1.9	2.6	0.9	3.2	3.2	3.8	1.6
2013	1.5	1.8	3.4	1.7	-2.0	0.8	3.2	2.5	1.6	1.5
2014	1.6	1.4	2.0	1.3	-6.6	1.4	1.9	2.4	2.9	2.4
2015	0.1	1.0	4.3	0.9	-2.0	-8.3	7.7	1.9	3.1	4.5
2013H1	1.5	1.8	3.9	2.0	-2.3	-0.2	2.8	2.6	1.8	1.4
H2	1.4	1.7	2.9	1.3	-1.7	1.8	3.6	2.4	1.3	1.7
2014H1	1.7	1.1	1.0	0.9	-5.9	2.1	1.4	2.5	2.7	0.8
H2	1.5	1.8	3.0	1.8	-7.3	0.7	2.4	2.2	3.1	4.0
2015H1	-0.1	0.7	4.2	1.0	-2.1	-8.6	4.8	0.9	3.1	5.3
H2	0.3	1.3	4.4	0.9	-2.0	-8.0	10.6	2.8	3.0	3.8

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

Tourism

Visitor arrivals continue to be strong with both domestic and international visitor arrivals increasing in the fourth quarter of 2015. Due to shorter lengths of stay, the daily visitor census increased less than the increase of visitor arrivals in the quarter. Since visitors spent less on a daily basis during the fourth quarter of 2015, total visitor spending increased less than the growth of the average total daily visitor census in the

quarter. With the exception of the fourth quarter of 2013, visitor arrivals have increased steadily since the third quarter of 2009.

The total number of visitor arrivals by air increased 88,030 or 4.3 percent in the fourth quarter of 2015, compared to the same quarter of 2014. The total average daily census was up 6,557 or 3.2 percent in the quarter. In 2015, total visitor arrivals by air increased 350,307 or 4.3 percent, while the average daily census increased 7,520 or 3.7 percent from the previous year.

In the fourth quarter of 2015, total visitor arrivals on domestic flights increased 70,297 or 5.3 percent compared to the same quarter of 2014. In 2015, domestic arrivals were up 288,983 or 5.3 percent from the previous year.

Arrivals on international flights increased 17,733 or 2.6 percent in the fourth quarter of 2015 compared to the fourth quarter of 2014. In 2015, international arrivals were up 61,324 or 2.3 percent from the previous year.

In terms of major market areas, from the fourth quarter of 2014 to the same period of 2015, arrivals from the U.S. West increased 47,067 or 5.7 percent, arrivals from the U.S. East increased 26,292 or 6.7 percent, and arrivals from Japan increased 5,323 or 1.4 percent. In 2015, arrivals from U.S. West were up 231,795 or 7.1 percent; arrivals from the U.S. East were up 53,779 or 3.1 percent; and Japanese arrivals were down 12,532 or 0.8 percent from the previous year.

While visitor arrivals have increased, the length of stay per visitor has decreased slightly. Due to the shorter length of stay, the average total daily visitor census increased less than the growth of visitor arrivals in the quarter. The total average daily visitor census was up 3.2 percent or 6,557 visitors per day in the fourth quarter of 2015 over the same quarter of 2014. The domestic average daily census increased 3.5 percent or 5,142 visitors per day, while the international average daily census increased 2.5 percent or 1,415 visitors per day. In 2015, the domestic average daily census increased 4,990 or 3.3 percent; and the international average daily census increased 2,530 or 4.6 percent from the previous year.

Nominal visitor expenditures by air totaled $3,805.6 million in the fourth quarter of 2015, up 1.1 percent or $40.0 million from the same quarter of 2014. In 2015, visitor expenditures increased $340.5 million or 2.3 percent compared with the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 3.7 percent or 105,451 seats in the fourth quarter of 2015, domestic seats increased 5.2 percent or 99,454 seats; international seats increased 0.7 percent or 5,997 seats, compared to the same quarter of 2014. In 2015, the number of total available seats increased 5.7 percent or 638,470 seats from the previous year.

According to the most recent data available, in the third quarter of 2015, the statewide hotel occupancy rate averaged 79.9 percent, 1.2 percentage points higher than that of the same quarter of 2014. In the first three quarters of 2015, the statewide hotel occupancy rate averaged 79.4 percent, 2.2 percentage points higher than that of the same period of 2014.

Table 7

VISITOR ARRIVALS BY AIR

Average Length of Stay, Visitor Days, Average Daily Census

	2012	2013	2014	2015	% Change 2012-2013	% Change 2013-2014	% Change 2014-2015
Total Arrivals							
Total	7,867,143	8,003,474	8,183,671	8,533,978	1.7	2.3	4.3
Domestic	5,403,025	5,405,300	5,473,388	5,762,371	0.0	1.3	5.3
International	2,464,118	2,598,174	2,710,283	2,771,607	5.4	4.3	2.3
Average Length of Stay							
Total	9.3	9.3	9.2	9.1	-0.9	-1.0	-0.6
Domestic	10.1	10.1	10.0	9.8	0.2	-0.5	-1.9
International	7.8	7.5	7.4	7.6	-2.8	-1.5	2.3
Visitor Days							
Total	73,462,636	74,049,772	74,982,915	77,727,767	0.8	1.3	3.7
Domestic	54,343,793	54,462,717	54,854,993	56,676,259	0.2	0.7	3.3
International	19,118,843	19,587,054	20,127,921	21,051,508	2.4	2.8	4.6
Average Daily Census							
Total	201,267	202,876	205,433	212,953	0.8	1.3	3.7
Domestic	148,887	149,213	150,288	155,277	0.2	0.7	3.3
International	52,380	53,663	55,145	57,675	2.4	2.8	4.6

Source: Hawaii Tourism Authority.

[Remainder of page intentionally left blank.]

Table 8

HOTEL OCCUPANCY RATE (%)

Year	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	***Annual Average***
In Percent					
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.6
2007	77.5	72.0	78.6	72.0	75.0
2008	78.8	68.8	70.5	63.8	70.5
2009	66.9	63.7	67.3	63.5	65.3
2010	70.8	67.3	75.2	69.5	70.7
2011	76.7	68.6	76.1	71.9	73.3
2012	80.4	73.8	78.9	74.5	76.9
2013	82.1	74.2	77.8	72.3	76.6
2014[(1)]	81.0	74.0	78.7	75.0	77.1
2015[(1)]	80.3	77.9	79.9	Year-to-Date	79.4

NA Not available.

The 2nd, 3rd, and 4th Quarter averages are computed by Hawaii State Department of Business, Economic Development & Tourism from and Hospitality Advisors LLC monthly averages from February 1995. The 1st quarter and Annual are as released or revised by source.

[(1)] Source revises each month of previous year when current year is released, *i.e.* 2015Q2.

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

Construction and Real Estate

The indicators of Hawaii's construction industry were mixed in the fourth quarter of 2015. The value of private building authorizations and government contracts awarded decreased, but construction jobs and State CIP expenditures increased in the quarter.

Construction has been one of the steady contributors to job growth in Hawaii over the past few years. In the fourth quarter of 2015, the construction sector added 3,800 jobs or 12.0 percent compared with the same quarter of 2014. In 2015, the construction sector added 1,800 jobs or 5.7 percent from the previous year. Before the recession, specifically the period from 2002 to 2007, construction job growth averaged 8.0 percent per year. In the fourth quarter of 2007, the average number of construction jobs reached a peak of 40,000 jobs. The strength of the current construction job market is a sharp contrast to the recession period. From the second quarter of 2008 until the second quarter of 2011 quarter-over-quarter construction job growth was negative in all quarters.

In the fourth quarter of 2015, the private building authorizations in the state decreased $27.2 million or 2.8 percent, compared with the fourth quarter of 2014. In 2015, private building authorizations for the state increased $648.5 million or 19.6 percent compared with the previous year.

In the fourth quarter of 2015, private building authorizations in Honolulu increased $86.4 million or 14.7 percent, compared with the fourth quarter of 2014. In 2015, private building authorizations in Honolulu increased $364.8 million or 17.6 percent compared with the previous year.

In the fourth quarter of 2015, private building authorizations in Hawaii County decreased $56.9 million or 25.2 percent, compared with the fourth quarter of 2014. In 2015, private building authorizations in Hawaii County decreased $7.6 million or 1.1 percent compared with the previous year.

In the fourth quarter of 2015, private building authorizations in Maui decreased $47.5 million or 40.7 percent, compared with the fourth quarter of 2014. In 2015, private building authorizations in Maui increased $287.9 million or 64.9 percent compared with the previous year.

In the fourth quarter of 2015, private building authorizations (residential only) in Kauai decreased $9.1 million or 28.1 percent, compared with the fourth quarter of 2014. In 2015, private building authorizations in Kauai increased $3.5 million or 3.4 percent compared with the previous year.

Government contracts awarded decreased $93.0 million or 36.5 percent in the fourth quarter of 2015 compared to the same quarter of 2014. In 2015, government contracts awarded increased $458.0 million or 41.8 percent compared with the previous year. State government CIP expenditures increased $108.3 million or 43.5 percent in the fourth quarter of 2015. In 2015, CIP expenditures decreased $12.8 million or 1.0 percent from the previous year.

The Honolulu Construction Cost Index increased 7.5 percent for Single Family Residence and 7.4 percent for High-Rise Building in the first quarter of 2015 over that of 2014.

In 2015, Honolulu's median price for single family resales was $700,000, an increase of $25,000 or 3.7 percent from the previous year. The median price for condominium units was $360,000, an increase of $10,000 or 2.9 percent from the previous year. In the fourth quarter of 2015, the number of single-family unit resales was up 6.1 percent, and the number of condominium unit resales was up 2.9 percent compared with the fourth quarter of 2014. In 2015, the number of single-family unit resales was up 5.2 percent, and condominium unit resales was up 4.5 percent compared with the previous year.

In the fourth quarter of 2015, single-family unit resales increased 21.1 percent, and condominium unit resales decreased 2.8 percent in Maui County compared to the same quarter of 2014.

[Remainder of page intentionally left blank.]

Table 9

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

Year		Contracting tax base [1]	Private Building Authorization [2]				Government Contracts Awarded
			Total Private Authorizations	Residential	Commercial & Industrial [3]	Additions & Alterations	
		In Millions of Dollars					
2005		6,024.0	3,492.0	2,259.3	433.5	799.1	725.1
2006		7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007		8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008		7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009		6,641.7	1,998.9	799.2	284.8	914.9	778.6
2010		5,589.8	1,980.3	779.0	377.5	823.8	1,057.6
2011		5,837.4	1,858.8	687.9	285.9	884.9	430.7
2012		7,006.1	2,643.8	837.2	271.1	1,535.5	772.9
2013		7,330.0	2,720.5	1,025.0	296.5	1,399.0	1,194.2
2014		7,024.0	3,315.1	985.9	498.5	1,830.6	1,096.6
2015		(NA)	3,963.6	1,651.3	702.9	1,609.4	1,554.6
2014	1 Qtr.	1,732.3	758.4	150.6	94.9	512.9	155.7
	2 Qtr.	1,766.6	806.5	305.6	80.7	420.2	291.3
	3 Qtr.	1,666.4	789.6	230.4	73.8	485.4	394.9
	4 Qtr.	1,858.7	960.6	299.3	249.2	412.1	254.7
2015	1 Qtr.	1,801.4	1,297.6	482.5	383.6	431.5	225.0
	2 Qtr.	1,995.3	840.4	412.7	113.9	313.7	680.8
	3 Qtr.	2,212.3	892.2	338.3	111.0	442.9	487.1
	4 Qtr.	(NA)	933.4	417.8	94.4	421.2	161.7
		Percentage Change from the Same Period in Previous Year					
2005		22.4	28.1	27.8	43.0	21.9	-47.6
2006		19.9	8.0	-19.8	68.8	53.4	17.8
2007		11.8	-4.9	2.4	-3.8	-16.3	1.8
2008		-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009		-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
2010		-15.8	-0.9	-2.5	32.5	-10.0	35.8
2011		4.4	-6.1	-11.7	-24.3	7.4	-59.3
2012		20.0	42.2	21.7	-5.2	73.5	79.4
2013		4.6	2.9	22.4	9.4	-8.9	54.5
2014		-4.2	21.9	-3.8	68.1	30.8	-8.2
2015		(NA)	19.6	67.5	41.0	-12.1	41.8
2014	1 Qtr.	-6.2	20.6	-47.9	102.3	75.0	-31.9
	2 Qtr.	-8.7	12.9	58.1	-44.6	12.0	-21.5
	3 Qtr.	-9.7	14.7	-27.4	168.5	41.3	-18.0
	4 Qtr.	9.2	39.4	32.9	225.8	6.4	125.2
2015	1 Qtr.	4.0	71.1	220.3	304.3	-15.9	44.5
	2 Qtr.	12.9	4.2	35.1	41.2	-25.3	133.7
	3 Qtr.	32.8	13.0	46.8	50.3	-8.8	23.4
	4 Qtr.	(NA)	-2.8	39.6	-62.1	2.2	-36.5

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.

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

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year		*State*	*City & County of Honolulu*	*Hawaii County*	*Kauai County*[1]	*Maui County*
			In Thousands of Dollars			
2005		3,491,964	1,364,030	1,008,386	288,132	831,416
2006		3,770,051	1,625,328	926,019	239,294	979,412
2007		3,585,447	1,676,232	912,529	268,915	727,772
2008		2,906,578	1,481,272	704,317	277,149	443,840
2009		1,998,908	1,247,196	309,165	218,111	224,437
2010		1,980,296	1,357,314	360,328	68,047	194,607
2011		1,858,763	1,272,923	282,638	59,520	243,683
2012		2,643,840	1,769,454	427,394	79,998	366,994
2013		2,720,519	1,866,352	443,739	85,413	325,014
2014		3,315,078	2,072,202	697,063	102,195	443,617
2015		3,963,607	2,436,954	689,454	105,707	731,491
2014	*1 Qtr.*	758,392	474,522	99,031	15,514	169,325
	2 Qtr.	806,458	468,094	233,543	27,598	77,222
	3 Qtr.	789,623	543,927	138,863	26,516	80,318
	4 Qtr.	960,605	585,659	225,626	32,567	116,753
2015	*1 Qtr.*	1,297,604	711,333	138,610	18,758	428,904
	2 Qtr.	840,376	465,408	214,771	34,383	125,814
	3 Qtr.	892,195	588,188	167,353	29,136	107,517
	4 Qtr.	933,431	672,024	168,720	23,430	69,256
			Percentage Change From The Same Period in Previous Year			
2005		28.1	3.3	22.0	120.5	85.2
2006		8.0	19.2	-8.2	-16.9	17.8
2007		-4.9	3.1	-1.5	12.4	-25.7
2008		-18.9	-11.6	-22.8	3.1	-39.0
2009		-31.2	-15.8	-56.1	-21.3	-49.4
2010		-0.9	8.8	16.5	-68.8	-13.3
2011		-6.1	-6.2	-21.6	-12.5	25.2
2012		42.2	39.0	51.2	34.4	50.6
2013		2.9	5.5	3.8	6.8	-11.4
2014		21.9	11.0	57.1	19.6	36.5
2015		19.6	17.6	-1.1	3.4	64.9
2014	*1 Qtr.*	20.6	-0.6	16.2	2.2	230.4
	2 Qtr.	12.9	8.4	103.1	38.5	-47.6
	3 Qtr.	14.7	10.4	21.7	8.9	40.5
	4 Qtr.	39.4	26.1	74.3	25.4	68.9
2015	*1 Qtr.*	71.1	49.9	40.0	20.9	153.3
	2 Qtr.	4.2	-0.6	-8.0	24.6	62.9
	3 Qtr.	13.0	8.1	20.5	9.9	33.9
	4 Qtr.	-2.8	14.7	-25.2	-28.1	-40.7

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

Source: County building departments.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy. According to the most recent Bureau and Economic Analysis ("BEA") data, the total compensation of employees ("COE") of federal government employees in Hawaii was $8.3 billion in 2014, up 1.7 percent from the previous year. The total COE of combined military and civilian federal employees in Hawaii accounted for about 19.7 percent of Hawaii's total COE in 2014. Between 2004 and 2014, the annual average compounded growth rate for COE was 4.0 percent for civilian and 4.5 percent for military personnel in Hawaii. The military personnel accounted for 58.5 percent of the total Federal COE in 2014. The federal government accounted for about 12.6 percent of State GDP in Hawaii in 2013, a majority of which is defense related.

The most recent BEA data also shows that the earnings of federal government employees in the first three quarters of 2015 increased 1.5 percent over the same period of 2014. In 2014, the earnings of federal government employees increased 1.7 percent from the previous year.

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

Transportation

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

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter island cargo shipments for the fiscal years 2011, 2012, 2013, 2014 and 2015 amounted to, 18.8 million short tons, 19.0 million short tons, 19.8 million short tons, 20.4 million short tons and 20.9 million short tons respectively.

The Harbors System is comprised of ten commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, and Kalaeloa Barbers Point Harbor 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; and (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System previously managed Kewalo Basin for its landowner, the Hawaii Community

Development Authority ("HCDA"). Effective March 1, 2009, HCDA assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System ceased 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 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 8,490 in fiscal year 2011, 7,912 in fiscal year 2012, 6,832 in fiscal year 2013, 6,565 in fiscal year 2014 and 6,275 in fiscal year 2015. The U.S. military moves most of its cargo through the State's Harbors System.

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 2011, 10.0 million short tons in fiscal year 2012, 10.9 million short tons in fiscal year 2013, 11.2 million short tons in fiscal year 2014 and 11.2 million short tons in fiscal year 2015. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

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 ("ATDC") as the entity responsible for the management and implementation of the HMP under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the HMP is estimated at $618 million. ATDC's failure to obtain legislative approval for operating funds for fiscal year 2011 effectively terminated its operations on June 30, 2010. The Harbors Division assumed management and implementation responsibilities of the HMP. Act 152, SLH 2011 placed the ATDC under the Department for administrative purposes and repealed references to the HMP. The Deputy Director Harbors currently serves as the Acting Chief Executive Officer for the ATDC.

Air Transportation. The statewide airports systems consists of 15 airports-11 serving both commercial and general aviation, and four small airports for general aviation only, all located on six islands within the State of Hawaii. The principal airport which provides facilities for overseas flights (i.e., other than inter island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. With 52 gates for overseas and interisland flights, HNL is the most important airport in the State airports system.

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

In fiscal year 2015, total passenger counts increased from 32,590,478 to 33,608,998 due to higher overseas traffic. Aircraft operations increased to 1,024,807 from 977,326 in fiscal year 2015 and 2014, respectively, primarily due to added flights. Total airline and concession revenues have grown over the past seven (7) years, to $332 million in fiscal year 2015 (or $66 million since fiscal year 2009) mainly due to increases from signatory airlines, rental car, and parking revenues.

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

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,321.791 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 953.545 linear miles of roadways. The most important component of the State Highway System is the 54.85 miles of interstate system on Oahu, which includes Interstates H 1, H 2, H 3 and H 201.

The City and County of Honolulu is proceeding with plans for a new $5.3 billion, 20 mile fixed guideway mass transit system to provide rail service along Oahu's east west corridor between Kapolei and downtown Honolulu (terminating at Ala Moana Shopping Center). Construction of the project is expected to be funded with the City and County of Honolulu surcharge of ½ of 1% imposed upon Oahu activities subject to the 4% General Excise and Use Taxes and federal moneys. Construction and operation of this system is the sole responsibility of the City and County of Honolulu.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2015.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2006	907,659	46	2,349	191,230	26,024	31,789	1,157,027
2007	911,607	47	2,260	193,650	26,978	32,698	1,167,240
2008	903,518	57	2,213	193,332	28,447	33,076	1,160,643
2009	895,770	63	2,143	190,935	28,879	32,138	1,149,928
2010	898,452	64	2,103	190,025	29,436	31,601	1,151,681
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370
2012	1,033,975	91	2,621	203,323	38,223	32,053	1,310,286
2013	1,089,709	98	2,669	207,496	41,180	30,189	1,371,341
2014	1,042,818	105	2,565	200,934	37,771	28,252	1,312,445
2015	1,001,879	108	2,465	196,420	32,831	27,820	1,261,343

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

Education

Unlike many other states, the State operates a statewide public school system for elementary, intermediate, and high schools. In addition, the State operates a statewide public system for colleges and universities. In the 2015-2016 school year, system enrollment decreased from a total of 180,807 in the 2014-2015 school year to a projected total of 180,375 in 290 K–12 public schools (includes 34 charter schools). The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation.

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

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

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

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

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

In the fall of 2015, 55,756 students attended the University of Hawaii System, 18,865 of them on the Manoa campus.

For the fall of 2016, it is projected that 56,095 will attend the University of Hawaii System, 19,147 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.

[Remainder of page intentionally left blank.]

[THIS PAGE INTENTIONALLY LEFT BLANK]

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, 2015 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-21)

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

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

INFORMATION ABOUT INDEBTEDNESS

The following tables set forth the State's total indebtedness as of July 1, 2015, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Appendix A.

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS

General obligation bonds outstanding		$ 5,893,685,000
Less excludable reimbursable general obligation bonds [1]		
Highways	$ 4,255,093	
Harbors	29,331,737	
University of Hawaii	379,686	
Parking facilities	33,378	
Hawaiian Home Lands	36,422	
Subtotal excludable reimbursable general obligation bonds	$ 34,036,315	
Less all general obligation bonds maturing in the current year	$ 311,069,577	$ 345,105,892
Net general obligation bonds outstanding		$ 5,548,579,108

Footnotes on following page.

REVENUE BOND INDEBTEDNESS [2]

As of July 1, 2015

Revenue bonds outstanding:		
Airports:		
Airports system	$ 842,700,142	
Airports special facility	28,100,000	$ 870,800,142
Housing:		
Single family mortgage purchase	60,593,840	
Multifamily	232,600,503	293,194,343
Harbors:		
Revenue		328,035,000
Highway:		
Revenue		421,530,000
University of Hawaii:		
Revenue		578,585,000
Hawaiian Home Lands		38,300,000
Hawaii Health Systems Corporation (Maui Regional Health Care System)		18,854,894
Department of Business, Economic Development and Tourism		145,517,817
Total revenue bonds outstanding		$ 2,694,817,196

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [3]

As of July 1, 2015

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 823,505,000
Utilities serving the general public	462,000,000
Industrial enterprises	8,562,500
Not for profit secondary schools, colleges and university serving the general public	100,980,000
Total special purpose revenue bonds outstanding	$1,395,047,500

---

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.

Since July 1, 2015, the State has issued additional general obligation bonds, and has redeemed and retired other general obligation bonds. As of March 1, 2016, and not taking into account the anticipated issuance of the Bonds, the State had a total of $5,891,070,000 of general obligation bonds outstanding. See "APPENDIX D—GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII."

The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2015. The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2015, after exclusions permitted by the Constitution, is $680,985,413 in the fiscal year ending June 30, 2017, which is within the July 1, 2015 debt limit of $1,164,508,724.

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	**2012-2013**	**2013-2014**	**2014-2015**
Total General Fund revenues exclusive of grants from the federal government	$6,234,438,652	$6,096,208,295	$6,576,706,486
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	8,429,886	7,618,992	7,379,294
Net General Fund revenues	$6,226,008,766	$6,088,589,303	$6,569,327,192
Sum of net General Fund revenues for preceding three fiscal years	$18,883,925,261		
Average of preceding three fiscal years	$6,294,641,754		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2012, 2013 and 2014	$1,164,508,724		

NOTE: This Summary Statement is based on the July 1, 2015 statement of indebtedness. See "DEBT STRUCTURE — Outstanding Indebtedness and Debt Limit" in Appendix A.

[Remainder of page intentionally left blank.]

GENERAL OBLIGATION BONDS OUTSTANDING

AS OF JULY 1, 2015

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1]			
From State Special Funds for			
Highways	$ 4,255,093		
Commercial Harbors	$ 29,331,737		
Small Boat Harbors [2]	$ 1,828,581		
Hawaiian Home Lands	$ 36,422		
University of Hawaii	$ 379,686		
Parking Facilities	$ 33,377		
Waiahole Water System [2]	$ 6,162,251		
Convention Center [2]	$ 207,205,289		
Total for Special Funds	$ 249,232,436		
Total Reimbursable General Obligation Bonds		$249,232,436	4.23%
Non Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$5,644,452,564		
Total Non-reimbursable General Obligation Bonds.....		5,644,452,564	95.77%
Total General Obligation Bonds Issued and Outstanding		5,893,685,000	100.00%

[1] See "DEBT STRUCTURE - Reimbursement to State General Fund for Debt Service" in Appendix A 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.

[Remainder of page intentionally left blank.]

The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii as of March 1, 2016, including the Refunded Bonds, as well as debt service payable on the Bonds as of the expected date of delivery thereof. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

SUMMARY OF DEBT SERVICE[1]
As of March 1, 2016

Fiscal Year Ending June 30	Total Remaining Principal Amount[2]	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund[3]	Net Debt Service Payable	Debt Service on the Bonds[4] Total Principal Payable	Total Interest Payable	Less: Refunded Bond Debt Service[5]	Total Debt Service[6]
2016	$5,891,070,000	$ 94,830,000.00	$ 77,887,126.32	$172,717,126.32	$27,750,910.30	$144,966,216.02				
2017	5,796,240,000	429,165,000.00	262,697,935.00	691,862,935.00	32,728,342.84	659,134,592.16				
2018	5,367,075,000	406,510,000.00	245,544,529.10	652,054,529.10	31,485,094.25	620,569,434.85				
2019	4,960,565,000	423,105,000.00	228,486,297.02	651,591,297.02	30,417,120.96	621,174,176.06				
2020	4,537,460,000	396,395,000.00	208,102,658.03	604,497,658.03	30,417,931.13	574,079,726.90				
2021	4,141,065,000	350,470,000.00	189,748,971.88	540,218,971.88	30,420,400.74	509,798,571.14				
2022	3,790,595,000	369,525,000.00	172,948,732.38	542,473,732.38	30,417,895.69	512,055,836.69				
2023	3,421,070,000	368,445,000.00	155,628,431.91	524,073,431.91	30,417,213.37	493,656,218.54				
2024	3,052,625,000	377,465,000.00	137,953,892.26	515,418,892.26	30,417,892.91	485,000,999.35				
2025	2,675,160,000	355,690,000.00	120,289,501.55	475,979,501.55	30,422,683.04	445,556,818.51				
2026	2,319,470,000	349,175,000.00	104,064,067.63	453,239,067.63	30,424,388.21	422,814,679.42				
2027	1,970,295,000	315,990,000.00	86,755,565.38	402,745,565.38	28,145,958.22	374,599,607.16				
2028	1,654,305,000	303,215,000.00	71,902,513.82	375,117,513.82	1,365,184.48	373,752,329.34				
2029	1,351,090,000	284,630,000.00	57,502,962.16	342,132,962.16	428,555.84	341,704,406.32				
2030	1,066,460,000	249,400,000.00	43,885,283.04	293,285,283.04	429,269.65	292,856,013.39				
2031	817,060,000	214,985,000.00	31,647,041.52	246,632,041.52	430,068.12	246,201,973.40				
2032	602,075,000	224,925,000.00	21,619,614.64	246,544,614.64	430,933.07	246,113,681.57				
2033	377,150,000	161,295,000.00	12,915,732.64	174,210,732.64	431,788.12	173,778,944.52				
2034	215,855,000	126,740,000.00	6,540,926.27	133,280,926.27	334,833.60	132,946,092.67				
2035	89,115,000	70,170,000.00	2,230,818.01	72,400,818.01	218,970.58	72,181,847.43				
2036	18,945,000	18,945,000.00	376,415.00	19,321,415.00	0.00	19,321,415.00				
TOTAL	$54,114,745,000	$5,891,070,000.00	$2,238,729,015.56	$8,129,799,015.56	$367,535,435.12	$7,762,263,580.44				

1 Totals reflect rounding.

2 Remaining principal amount, as of commencement of fiscal year, of all general obligation bonded indebtedness of the State that was outstanding as of March 1, 2016.

3 These figures show debt service on outstanding general obligation bonds of the State issued for certain activities, undertakings, improvements and systems of the State where the payment of such debt service from the General Fund is required by statute to be reimbursed to the General Fund from the respective income, revenues or user taxes pertaining to the particular activity, undertaking, improvement or system and regardless of whether excludable under the provisions of the Constitution when determining the power of the State to incur indebtedness. Consequently, the amount of reimbursement to the General Fund in the table above is greater than the excludable reimbursement under the Constitution. For example, of the $27,750,910 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2016, only $957,440 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.

4 As of the expected date of delivery thereof.

5 Reflects debt service payable on the Refunded Bonds.

6 Approximate. Reflects bond debt service on all outstanding general obligation bonded indebtedness of the State of Hawaii as of March 1, 2016, plus debt service on the Bonds and the 2016 New Money Bonds as of their expected date of delivery, taking into account the refunding of certain general obligation bonds expected to be refunded by the Bonds. See "INTRODUCTION – Plan of Finance" in the forepart of this Official Statement.

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
2011	1,375	4,987,544	109	4,987,435	3,627
2012	1,392	5,475,348	64	5,475,284	3,933
2013	1,404	5,534,921	63	5,534,858	3,942
2014	1,420	5,784,139	35	5,784,104	4,073
2015	1,432	5,963,928	35	5,963,893	4,165

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

Certificates of Participation and Lease Purchase Agreements

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

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

In December 2013, the Department of Transportation entered into a lease agreement in respect of the issuance of $167,740,000 certificates of participation related to an energy savings contract for the Airports System in fiscal year 2014. Rental payments under COPs issued by the Department of Transportation are secured by Airports System Revenues, subject to annual appropriation by the Legislature, and do not constitute an obligation payable from the State's General Fund revenues.

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

In November 2014, the State, by the Na Wai Ola Public Charter School, entered into a Master Lease Agreement (the "Charter School Equipment Lease") with an aggregate principal component of $30,000. The State directly placed the

Charter School Equipment Lease with the lessor. The principal components of the Charter School Equipment Lease amortize over a period of five years. The State used the Charter School Equipment Lease proceeds to acquire certain equipment for use at a charter school facility. The lease payments under the Charter School Equipment Lease are payable from lawfully available funds of the State, including the State's General Fund, but do not constitute an obligation for which the State has levied any form of taxation. The obligations of the State under the Charter School Equipment Lease do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

In January 2015, the State, by the Hawaii Criminal Justice Data Center, a division of the Department of Attorney General, entered into an Equipment Lease Purchase Agreement (the "CJDC Equipment Lease") with an aggregate principal amount component of $3,007,422. The State directly placed the CJDC Equipment Lease with the lessor. The principal component of the CJDC Equipment Lease amortizes over a period of five years. The State is using the proceed of the CJDC Equipment Lease to acquire and install hardware and software upgrades to the State's Automated Fingerprint Identification System. The lease payments under the CJDC Equipment Lease are payable from lawfully available funds of the State, including the State's General Fund, but do not constitute an obligation for which the State has levied any form of taxation. The obligations of the State under the CJDC Equipment Lease do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

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

No Obligations Subject to Mandatory Purchase or Acceleration

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

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

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

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities authorized in Section 36-21, HRS. The securities in which State funds may currently be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds for which the full faith and credit of the United States are pledged for the payment of principal and interest; (b) certain U.S. Government Sponsored Enterprises (GSE); (c) time certificates of deposit in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured banks and savings and loan associations; (f) commercial paper with at least an A1/P1 rating; (g) bankers'

acceptances with at least an A1/P1 rating; (h) money market mutual funds that are rated AAA or its equivalent by a nationally recognized rating agency or whose portfolio consists of securities that are rated as first tier securities by a nationally recognized statistical rating organization; and (i) securities of a mutual fund whose portfolio is limited to securities issued or guaranteed by the full faith and credit of the United States. Section 36-21, HRS, prohibits the State from investing in securities which require the State to make any swap, counter or other payments other than the original purchase price plus accrued interest.

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

As of January 31, 2016, 2% of the State's investment portfolio and cash in banks consisted of repurchase agreements with banks, 39% consisted of time certificates with banks, 45% consisted of U.S. Federal Agency and Government Sponsored Entity Securities, 7% consisted of U.S. Treasury securities, and 7% consisted of cash in bank accounts.

Safety of Public Funds

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

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

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

Investment Yield

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

As of June 30, 2015, $7.1 million was credited to the General Fund as investment earnings for that fiscal year. The total accrued investment interest represents an average return on investment for the General Fund of 0.46%. As of December 31, 2015, the first half of the current fiscal year, the General Fund realized $4.2 million of interest.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2011 to 2015. 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, 2015, 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 payments are filed with the Comptroller. At the end of a fiscal year, existing liabilities for which payment is due are vouchered and recorded as expenditures as of the end of the fiscal year. Other liabilities for which payment is not due, and obligations in the form of open purchase orders, are recorded as encumbrances at the end of a fiscal year and are not recorded as expenditures until the encumbrances are subsequently liquidated.

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

[Remainder of this page intentionally left blank]

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

	2011	2012	2013	2014	2015
ASSETS:					
Cash	$ 106,420	$ 238,623	$ 76,050	$ 114,395	$ 203,687
Advances to other funds	-	-	-	-	-
Due from other funds	138,352	133,005	120,748	213,063	327,382
Due from Component Units	102,304	29,300	23,800	21,800	35,200
Receivables:					
Taxes	356,975	441,549	461,846	463,187	524,236
Notes	2,906	2,187	1,440	1,470	1,433
Other	10,050	14,047	8,763	8,125	8,025
Total receivables	369,931	457,783	472,049	472,782	533,694
Investments	169,838	286,913	1,102,679	842,394	920,042
Other Assets	37,144	15,060	932	18,778	16,051
TOTAL ASSETS	$ 923,989	$1,160,684	$1,796,258	$1,683,212	$2,036,056
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Vouchers payable	$ 100,685	$ 115,379	$ 105,252	$ 101,042	$ 162,667
Other accrued liabilities	219,554	213,900	250,459	231,422	243,289
Due to other funds	109	64	63	35	35
Due to Component Units	1,261	1,563	1,601	1,514	1,546
Unearned revenue	45,334	22,340	13,610	13,536	39,224
Total liabilities	366,943	353,246	370,985	347,549	446,761
FUND BALANCES:					
Assigned	210,164	236,779	271,020	256,483	205,242
Unassigned	346,882	570,659	1,154,253	1,079,180	1,384,053
*Total fund balances	557,046	807,438	1,425,273	1,335,663	1,589,295
TOTAL LIABILITIES AND FUND BALANCES	$ 923,989	$ 1,160,684	$ 1,796,258	$ 1,683,212	$ 2,036,056

* Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* is effective for governmental fund financial statements issued beginning with fiscal year ended June 30, 2011. GASB Statement 54 establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. All revenues deposited into the General Fund are not constrained for specific purposes and are the general obligations of the State and are unassigned. Encumbrance balances at year-end are reflected as assigned.

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

	2010-2011	% of Total	2011-2012	% of Total	2012-2013	% of Total	2013-2014	% of Total	2014-2015	% of Total
REVENUES:										
General excise tax	$ 2,507,980	50.89	$ 2,774,636	52.32	$ 2,991,792	51.73	$ 2,816,346	50.12	$ 3,021,418	50.36
Income tax-corporation	44,143	0.90	81,179	1.53	95,060	1.64	85,940	1.53	64,953	1.08
Income tax-individual	1,429,045	29.00	1,552,233	29.27	1,709,349	29.55	1,755,023	31.23	1,982,374	33.04
Service companies tax	117,940	2.39	150,528	2.84	163,930	2.83	166,179	2.96	163,481	2.72
Liquor licenses and taxes	48,053	0.98	48,854	0.92	48,961	0.85	48,305	0.86	50,281	0.84
Tobacco licenses and taxes	106,137	2.15	102,853	1.94	94,180	1.63	77,659	1.38	82,829	1.38
Insurance premiums tax	139,090	2.82	117,617	2.22	131,906	2.28	137,179	2.44	145,672	2.43
Rental motor/tour vehicle surcharge tax	0	0.00	61,430	1.16	4,519	0.08	1	0.00	1	0.00
Inheritance and estate tax	6,900	0.14	14,124	0.27	14,886	0.26	14,789	0.26	12,071	0.20
Franchise tax	31,682	0.64	5,229	0.10	20,673	0.36	36,983	0.66	17,930	0.30
Environmental response tax	13,995	0.28	15,776	0.30	15,537	0.27	17,356	0.31	14,833	0.25
Transient accommodations tax *	59,839	1.21	137,529	2.59	185,377	3.20	188,721	3.36	202,345	3.37
Conveyance tax	22,706	0.46	17,899	0.34	21,148	0.37	27,592	0.49	11,635	0.19
Total Taxes	4,527,510	91.86	5,079,887	95.80	5,497,318	95.05	5,372,073	95.60	5,769,823	96.16
Charges for current services and other revenues	400,594	8.14	223,724	4.20	286,686	4.95	247,072	4.40	230,381	3.84
TOTAL REVENUES	$ 4,928,104	100.00	$ 5,303,611	100.00	$ 5,784,004	100.00	$ 5,619,145	100.00	$ 6,000,204	100.00
EXPENDITURES:										
General government	$ 353,124	8.50	$ 369,664	7.99	$ 322,464	6.95	$ 425,549	8.43	$ 440,602	8.37
Public safety	259,086	6.24	316,863	6.85	291,855	6.29	377,408	7.48	343,368	6.52
Conservation of natural resources	28,119	0.68	26,290	0.57	28,260	0.61	34,132	0.68	42,706	0.81
Health	461,894	11.12	484,543	10.48	521,592	11.24	559,981	11.09	587,358	11.15
Welfare	761,208	18.32	1,019,919	22.05	1,102,912	23.77	992,675	19.67	1,092,243	20.74
Education:										
Higher	502,424	12.09	535,457	11.58	518,486	11.17	563,764	11.17	600,015	11.39
Lower and others	1,699,828	40.91	1,782,369	38.54	1,746,939	37.65	1,965,499	38.94	2,047,653	38.88
Culture-recreation	38,682	0.93	39,144	0.85	38,979	0.84	43,567	0.86	43,770	0.83
Urban redevelopment and housing	82	0.00	108	0.00	294	0.00	10,005	0.20	11,764	0.22
Economic development & assistance	43,755	1.05	24,141	0.52	25,876	0.56	32,992	0.65	28,889	0.55
Other	6,722	0.16	26,250	0.57	42,621	0.92	42,013	0.83	28,082	0.54
TOTAL EXPENDITURES	$ 4,154,924	100.00	$ 4,624,748	100.00	$ 4,640,278	100.00	$ 5,047,585	100.00	$ 5,266,450	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	$ 126,695	-	$ 53,497	-	$ 77,451	-	$ 65,648	-	$ 138,955	-
Transfers out	(413,652)	-	(591,053)	-	(696,818)	-	(818,488)	-	(750,264)	-
Other	37,889	-	109,085	-	93,476	-	91,670	-	131,187	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (249,068)	-	$ (428,471)	-	$ (525,891)	-	$ (661,170)	-	$ (480,122)	-

* Pursuant to Chapter 237D, HRS, a 9.25 percent Transient Accommodations Tax (TAT) is assessed and distributed to various counties and special funds of the State, with excess revenues deposited into the State general fund. The counties and their respective allocations are: city and county of Honolulu 44.1 percent, Maui county 22.8 percent, Hawaii county 18.6 percent, and Kauai county 14.5 percent, with provisions as stated in section 237D-6.5(b)(3), HRS. Act 171, SLH 2012 changed the maximum amount deposited into the tourism special fund to $71 million beginning on July 1, 2012 and ending on June 30, 2015 provided that $2 million shall be expended for the development and implementation of initiatives to take advantage of expanded visa programs and increased travel opportunities for international visitors to Hawaii. Act 243, SLH 2012 amended the provision that revenues in excess of $33 million deposited to the convention center enterprise fund in any calendar year be deposited to the State general fund, to be for any fiscal year. Act 161, SLH 2013, effective July 1, 2013, amended the TAT revenue distribution from a percentage of revenues collected to annual amounts of $33 million to the convention center enterprise special fund, $82 million to the tourism special fund and $93 million to the counties, and made permanent the TAT rate of 9.25 percent. Act 81, SLH 2014, allocated $3 million TAT revenues collected to the Turtle Bay conservation easement special fund and decreased the convention center enterprise special fund annual allocation from $33 million to $26.5 million. Act 174, SLH 2014, increased the ceiling distribution allocated to the counties from $93 million to $103 million for fiscal years 2014-2015 and 2015-2016, with distributions of $93 million for each fiscal year thereafter. Act 117, SLH 2015, allocated $3 million TAT revenues collected to the special land and development fund to finance beach restoration and conservation and other activities, to take effect July 1, 2016. Act 121, SLH 2015, beginning July 1, 2015, amended the TAT revenue distribution to the Turtle Bay conservation easement special fund from $3 million to $1.5 million annually for the reimbursement to the State general fund of debt service on reimbursable general obligation bonds.

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

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

The following is a summary of the Council's actions since September 2014.

In September 2014, the Council lowered its growth rate for fiscal year 2015 from 5.5% to 3.5% primarily as a result of its concerns regarding the lower than expected actual general fund tax collections for fiscal year 2014. The Council also revised the growth rates for fiscal years 2016 to 2020 to 5.5% for each fiscal year and continued the 5.5% growth rate to fiscal year 2021. Although the Council believed that the U.S. and Hawaii economies were still growing, the Council expressed uncertainty about the future.

In January 2015, the Council raised its growth rate for fiscal year 2015 from 3.5% to 4.5% primarily because actual general fund tax revenues had been growing faster than their earlier forecasts; however, the Council continued to express concerns about the future. The Council retained its September 2014 growth forecasts at 5.5% for fiscal years 2016 to 2021.

In March 2015, the Council raised its growth rate for fiscal year 2015 from 4.5% to 5.5% primarily due to higher than anticipated actual collections for the first 8 months of the fiscal year. The Council maintained its January 2015 forecasts for fiscal years 2016 through 2018, but lowered its forecasts for fiscal year 2019 through 2021 from 5.5% to 5.0% for each fiscal year.

In May 2015, the Council raised its growth rate for fiscal year 2015 from 5.5% to 7.5% and lowered its growth rate for fiscal year 2016 from 5.5% to 2.7% primarily based on actual collections to date and the expected reduction in tax refund payments resulting from the slower processing of individual income tax returns due to new processing procedures put in place to prevent payment of fraudulent refund claims. It was estimated that $104 million of refunds that would normally have been paid in fiscal year 2015 would instead be paid in fiscal year 2016. The Council also raised its growth rate for fiscal year 2017 from 5.5% to 6.4% and maintained its March 2015 forecasts for fiscal years 2018 through 2021.

For fiscal year 2015, preliminary actual General Fund tax revenues increased by 6.8%, which is less than the projected 7.5%, partly as result of more tax refunds being processed in fiscal year 2015 than had previously been anticipated.

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

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

The Council's next meeting is scheduled for March 10, 2016, at which time the Council may revise its current projections, which may or may not have a significant impact on the General Fund Financial Plan. See also "General Fund Financial Plan" in this Appendix B.

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

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

General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for fiscal year 2015, and estimates for fiscal years 2016 through 2021. The budgetary General Fund resources, expenditures and balances below and under "General Fund Tax Revenues" and "Actual Collections and Distributions" are presented on a cash-basis. The State's normal practice is to utilize this cash-basis methodology for budgetary and financial planning purposes. In contrast, the State's audited financial statements are prepared on a modified accrual basis. Consequently, the cash basis information presented under this caption and the next two captions titled "General Fund Tax Revenues" and "Actual Collections and Distributions" is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

[Remainder of this page intentionally left blank]

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 2015 – 2021[1]
(in millions of dollars)

	Actual FY 15	Estimated FY 16	Estimated FY 17	Estimated FY 18	Estimated FY 19	Estimated FY 20	Estimated FY 21
REVENUES:							
Executive Branch:							
Tax revenues [2,3]	5,734.5	6,119.4	6,456.0	6,811.0	7,151.6	7,473.4	7,809.7
Nontax revenues [2,3]	807.4	812.9	669.9	689.4	708.0	727.1	747.5
Judicial Branch revenues [2,3]	34.8	35.4	36.0	36.6	37.4	38.1	38.8
Other revenues [4]	--	40.0	76.3	73.3	73.3	60.3	47.3
TOTAL REVENUES	6,576.7	7,007.7	7,238.2	7,610.3	7,970.3	8,298.9	8,643.3
EXPENDITURES							
Executive Branch:							
Operating [5]	6,189.2	6,545.8	7,131.8	7,309.4	7,524.5	7,688.2	7,813.3
CIP	--	--	14.3	14.3	14.3	14.3	14.3
Specific appropriations/CB [6]	260.9	170.2	346.6	127.0	127.0	152.4	152.4
Other expenditures/adjustments	--	25.6	66.6	69.0	69.0	69.0	69.0
Sub-total - Exec Branch	6,450.1	6,741.6	7,559.4	7,519.7	7,734.8	7,924.0	8,049.1
Legislative Branch	37.7	38.8	39.3	39.3	39.3	39.3	39.3
Judicial Branch	154.9	158.2	164.5	164.5	164.5	164.5	164.5
OHA	2.7	3.2	3.2	3.2	3.2	3.2	3.2
Counties	--	0.4	0.4	0.4	0.4	0.4	0.4
Lapses	(231.9)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	6,413.4	6,862.3	7,686.8	7,647.2	7,862.3	8,051.4	8,176.5
REV. OVER (UNDER) EXPEND.	163.3	145.4	(448.7)	(36.8)	108.1	247.5	466.8
CARRY-OVER BALANCE (DEFICIT)							
Beginning	664.8	828.1	973.6	524.9	488.1	596.2	843.7
Ending	828.1	973.6	524.9	488.1	596.2	843.7	1,310.5

[1] *Unaudited. The State's cash-basis statements are not directly comparable with the State's audited financial statements, which are modified accrual basis.*
[2] *Reflects preliminary actual FY 2015 revenue collections as reported by the Department of Accounting and General Services.*
[3] *Reflects FY 2016 - 2021 Council on Revenues' January 2016 projections.*
[4] *Reflects other revenue sources and adjustments: reimbursement of OPEB costs from non-general funds.*
[5] *Reflects estimated FY 2017 Supplemental Budget costs, funds to accelerate phase-in to reach 100% OPEB prefunding by FY 2017.*
[6] *Reflects specific appropriations from 2012-2015 Legislature and Administrative proposals submitted to the 2016 Legislature (which includes additional funds for EBRF in FY 2016 and FY 2017.*

Note: Reflects the FY 2017 Supplemental Budget as submitted to the 2016 Legislature. Totals reflect rounding. This plan is 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.

Sources: Department of Accounting and General Services; Department of Budget and Finance, February 2016.

The preceding General Fund financial plan is based on revised revenue projections reported by the Council on Revenues on January 11, 2016, that also incorporates revenue decreases due to: an increase in the food/excise tax credit for certain taxpayers; an increase in the allocation of the transient accommodations tax to the counties for fiscal years 2015 and 2016; an increase in the motion picture, digital media and film production tax credit and extension of the credit to January 1, 2019; and the continuation of the general excise tax exemption for certain expenses paid by hotel operators and timeshare projects and removal of the cap on the aggregate amount of the exemptions that can be claimed. The Council's projections also include revenue increases due to: the continuation of the transient accommodations tax rate of 9.25% beyond fiscal year 2015; the extension of the current rate for the environmental response tax as well as the allocation of a portion of the tax to the general fund; and changes in the allocation of the conveyance tax and the tobacco tax. For purposes of developing the State budget, debt service on Build America Bonds is budgeted based upon expected gross debt service without taking into account the expected amount of federal interest subsidy payments on such bonds, and subsidy payments are recognized as non tax revenues.

With respect to expenditures, it reflects the fiscal year 2017 Executive Supplemental Budget. In addition, the financial plan includes additional funds to reach the 100% contribution level for OPEB prefunding in fiscal year 2017, continuing costs of existing collective bargaining settlements, additional funds for the EBRF and estimated funds for the fiscal year 2017 Supplemental Budget. The supplemental budgets for the fiscal year 2017 for the Executive and Judicial Branches and the Office of Hawaiian Affairs will be submitted to the 28th Hawaii State Legislature, which convenes on January 20, 2016, for review and approval. The development of these budgets and subsequent deliberations during the upcoming legislative session could result in changes to program expenditures and modifications to tax and other revenue laws that are not currently reflected in the General Fund financial plan included herein.

In the General Fund financial plan, fiscal year revenues are recognized based upon receipt while fiscal year expenditures are recognized when appropriations are expended or encumbered in that year. At the end of the fiscal year, encumbrances, although they may subsequently lapse, are considered to be expended. Additionally, the Department of Education, by law, is allowed to retain up to 5% of its appropriations up to one year into the next fiscal biennium. For example, $44.9 million was carried over from fiscal year 2015 to fiscal year 2016 by the Department of Education, but in the financial plan, was considered to be expended in fiscal year 2015.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2015, and represent approximately 87% of the total General Fund revenues (as reported by DAGS). Set forth below are the actual, cash-basis General Fund tax revenues for the fiscal year ended June 30, 2015, and estimated tax revenues for the fiscal years ending June 30, 2016 and June 30, 2017 as reported by the Department of Taxation. The estimated tax revenues are based on the forecast for total General Fund revenues from the Council on Revenues' January 7, 2016 report, and the line item projections prepared by the Department of Taxation to be consistent with the Council's forecast.

[Remainder of page intentionally left blank.]

GENERAL FUND TAX REVENUES
(Thousands of Dollars)

	Actual* 2014-2015	Estimated 2015-2016	Estimated 2016-2017
General Excise and Use Tax	$2,992,707	$3,197,573	$3,373,680
Income Tax—Individual	1,987,752	2,085,500	2,190,098
Income Tax—Corporation	52,319	82,683	85,684
Public Service Company Tax	163,481	167,469	172,598
Tax on Insurance Premiums	145,679	150,576	157,146
Tobacco Tax & Licenses	82,829	87,198	90,900
Liquor Tax & Permits	50,281	50,532	50,969
Tax on Banks & Other Financial Corp.	17,930	10,595	19,500
Inheritance and Estate Tax	12,071	12,232	12,436
Conveyance Tax	11,534	32,869	34,751
Transient Accommodation Tax	202,970	225,906	251,937
Miscellaneous Taxes	15,588	16,262	16,263
TOTAL	$5,735,141	$6,119,395	$6,455,962
GROWTH RATE	6.79%	6.70%	5.50%

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

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

Sources: Actual collections are from Tax Research and Planning reports. Estimates are from the Council on Revenues' report of January 7, 2016, and line item projections prepared by the Department of Taxation.

[Remainder of page intentionally left blank.]

Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for July through October of fiscal years 2015 and 2016 as reported by the State Director of Taxation. The collections from all sources for July through October of fiscal year 2016, which will end in June 2016, have amounted to $2.4 billion. This represents a 6.2% increase from the same period in the previous fiscal year.

	July through October	
	2015-2016	**2014-2015**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial Corporations [1]	$6,497	$9,567
Conveyances [1]	16,142	27,770
Employment Security Contributions	46,054	55,925
Fuel	70,499	63,814
General Excise License and Registration Fees	177	179
General Excise and Use [2]	1,076,475	1,008,981
Honolulu County Surcharge [3]	87,986	71,844
Income—Corporations:		
Declaration of Estimated Taxes	45,830	38,033
Payment with Returns	22,619	4,175
Refunds	-8,436	-16,054
Income—Individuals [1]:		
Declaration of Estimated Taxes	139,054	110,479
Payment with Returns	33,835	27,919
Withholding tax on Wages	578,481	557,868
Refunds	-74,098	-59,464
Inheritance and Estate	2,003	3,384
Insurance Premiums	44,439	49,575
Liquor and Permits	16,552	16,482
Motor Vehicle Tax/Fees, Etc. [4]	60,698	59,250
Public Service Companies	53,639	52,914
Tobacco and Licenses [1]	41,277	46,447
Transient Accommodations Fees/Time Share Occupation Fees	4	4
Transient Accommodations Tax/Time Share Occupation Tax [1]	148,295	137,424
All Other [5]	4	114
TOTAL	$2,408,025	$2,266,630

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

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

	July through October	
	2015-2016	**2014-2015**
State Tax Collections—Distribution	(Thousands of Dollars)	
State General Fund	$2,053,090	$1,852,025
State Highway Fund	94,208	87,919
State Airport Fund	1,247	1,533
Boating Special Fund	604	538
Environmental Fund	423	403
Cigarette Stamp Administrative Fund	74	84
Cigarette Stamp Enforcement Fund	574	645
Compliance Resolution Fund	0	0
Election Campaign Fund	0	0
Employment Security Fund	46,054	55,925
Rental Housing Fund	8,071	13,885
Natural Area Reserve Fund	0	6,943
Convention Center Enterprise Fund	8,833	11,000
Land Conservation Fund	1,614	2,777
Tourism Special Fund	27,333	27,333
School Minor Repairs and Maintenance Fund	6	4
Public Libraries Fund	5	4
Domestic Violence/Child Abuse Neglect Funds	12	9
Cancer Research Fund	4,766	5,363
Trauma System Fund	2,678	4,021
Emergency Medical Service Fund	2,979	3,352
Community Health Centers Fund	2,979	3,352
Energy Security Fund	1,268	1,209
Energy Systems Development Fund	845	806
Agricultural Development & Food Security Fund	1,268	1,209
Hawaii Hurricane Relief Fund	0	55,500
Turtle Bay Conservation Easement Fund	500	0
Subtotal	$2,259,432	$2,135,839
Honolulu County Surcharge	$87,986	$71,844
Distributions to Counties*:		
Fuel Tax	$26,274	$24,613
Transient Accommodations Tax	34,333	34,333
Counties Total	$60,607	$58,947
TOTAL	$2,408,025	$2,266,630

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

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

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

STATE EMPLOYEES' RETIREMENT SYSTEM

A description of the Employees' Retirement System of the State of Hawaii for employees of the State and the counties is provided under "EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix 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 statutory total employer contribution rate for all employees based on the last nine annual actuarial valuations.

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

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

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

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2014 and 2015 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2014 and 2015
(Includes all counties)

ASSETS	2014	2015
Total current assets	$13,641,755,300	$14,463,670,277
Present value of future employee contributions	1,800,553,136	1,932,961,666
Present value of future employer normal cost contributions	1,703,379,872	1,868,722,677
Unfunded actuarial accrued liability	8,578,342,247	8,774,725,109
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$25,724,030,555	$27,040,079,729
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	11,672,987,746	12,321,791,648
Present value of future benefits to active employees and inactive members	14,051,042,809	14,718,288,081
TOTAL LIABILITIES	$25,724,030,555	$27,040,079,729

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2015, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $8.775 billion. The System's funded ratios — assets divided by the actuarial accrued liability — increased during fiscal year 2015 as shown below:

FUNDED RATIOS

June 30, 2014	June 30, 2015
61.4%	62.2%

[Remainder of page intentionally left blank.]

PART II
GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2015 AND INDEPENDENT AUDITORS' REPORT

Following is the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the Table of Contents of the CAFR.

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

[Remainder of page intentionally left blank.]

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

DOUGLAS MURDOCK
COMPTROLLER

HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2015

DOUGLAS MURDOCK
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

State of Hawaii
Comprehensive Annual Financial Report
Table of Contents
June 30, 2015

Page(s)

PART I: INTRODUCTORY SECTION

Principal Officials for Finance-Related Functions 1

Organizational Chart 2

Letter of Transmittal 3–7

Government Finance Officers Association (GFOA) Certificate 8

PART II: FINANCIAL SECTION

Report of Independent Auditors

Management's Discussion and Analysis (Unaudited) 14–27

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position 30–31

Statement of Activities 32

Fund Financial Statements

Balance Sheet – Governmental Funds 34

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 35

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 36

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities 37

Statement of Fund Net Position – Proprietary Funds 38–39

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds 40

Statement of Cash Flows – Proprietary Funds 41–42

Statement of Fiduciary Net Position – Fiduciary Funds 43

Statement of Changes in Fiduciary Net Position – OPEB Trust Fund – Fiduciary Funds 44

Statement of Net Position – Component Units 46–49

Statement of Revenues, Expenses and Changes in Net Position – Component Units 50–51

Notes to Basic Financial Statements 52–110

State of Hawaii
Comprehensive Annual Financial Report
Table of Contents
June 30, 2015

Page(s)

Required Supplementary Information Other Than Management's Discussion and Analysis (Unaudited)

Schedule of Revenues and Expenditures Budget and Actual (Budgetary Basis) General Fund 113

Schedule of Revenues and Expenditures Budget and Actual (Budgetary Basis) Med-Quest Special Revenue Fund 114

Notes to Required Supplementary Information Budgetary Control 115

Reconciliation of the Budgetary to GAAP Basis General Fund and Med-Quest Special Revenue Fund 116

Schedule of the Proportionate Share of the Net Pension Liability Last Ten Fiscal Years 117

Schedule of Contributions Last Ten Fiscal Years 118

Schedules of Funding Progress 119

Supplementary Information

Nonmajor Governmental Funds

Combining Balance Sheet 122123

Combining Statement of Revenues, Expenditures and Changes in Fund Balances 124125

Combining Statement of Revenues and Expenditures Budget and Actual (Budgetary Basis) — Nonmajor Special Revenue Funds 126131

Reconciliation of the Budgetary to GAAP Basis Nonmajor Special Revenue Funds 132

Nonmajor Proprietary Funds

Combining Statement of Fund Net Position 133

Combining Statement of Revenues, Expenses and Changes in Fund Net Position 134

Combining Statement of Cash Flows 135

Fiduciary Funds

Combining Statement of Fiduciary Net Position Agency Funds 136

Combining Statement of Changes in Assets and Liabilities Agency Funds 137

State of Hawaii
Comprehensive Annual Financial Report
Table of Contents
June 30, 2015

Page(s)

PART III: STATISTICAL SECTION (UNAUDITED)

Schedules of Financial Trends Information

Net Position by Component Ten Years Ended June 30, 2015 140141

Changes in Net Position Ten Years Ended June 30, 2015 142145

Fund Balances Governmental Funds Ten Years Ended June 30, 2015 146147

Changes in Fund Balances Governmental Funds Ten Years Ended June 30, 2015 148149

Schedules of Revenue Capacity Information

Personal Income by Industry Ten Years Ended June 30, 2015 150151

Personal Income Tax Rates Ten Years Ended December 31, 2015 152

Taxable Sales by Industry Ten Years Ended June 30, 2015 154155

Sales Tax Revenue Payers by Industry Ten Years Ended June 30, 2015 156157

Schedules of Debt Capacity Information

Ratios of Outstanding Debt by Type Ten Years Ended June 30, 2015 158159

Ratios of Net General Bonded Debt Outstanding Ten Years Ended June 30, 2015 160

Legal Debt Margin Information Ten Years Ended June 30, 2015 162163

Pledge Revenue Coverage Ten Years Ended June 30, 2015 164

Schedules of Demographic and Economic Information

Demographic and Economic Statistics Ten Years Ended June 30, 2015 165

Ten Largest Private Sector Employers June 30, 2015 and June 30, 2006 166

State Employees by Function Ten Years Ended June 30, 2015 167

Schedules of Operating Information

Operating Indicators by Function Ten Years Ended June 30, 2015 168171

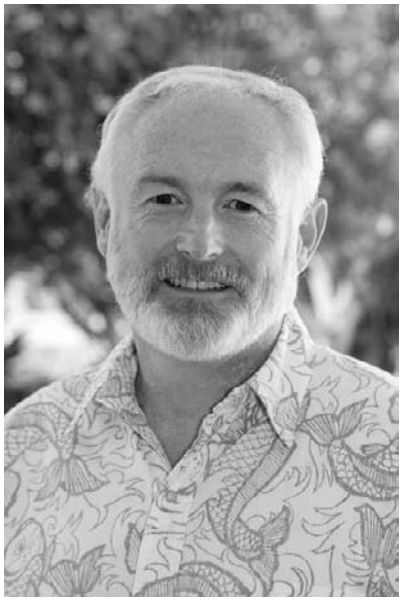
Capital Assets Statistics by Function Ten Years Ended June 30, 2015 172173

This page intentionally left blank.

PART I: INTRODUCTORY SECTION

This page intentionally left blank.

State of Hawaii
Principal Officials for Finance-Related Functions
June 30, 2015



Douglas Murdock
Comptroller

Audrey Hidano
Deputy Comptroller

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

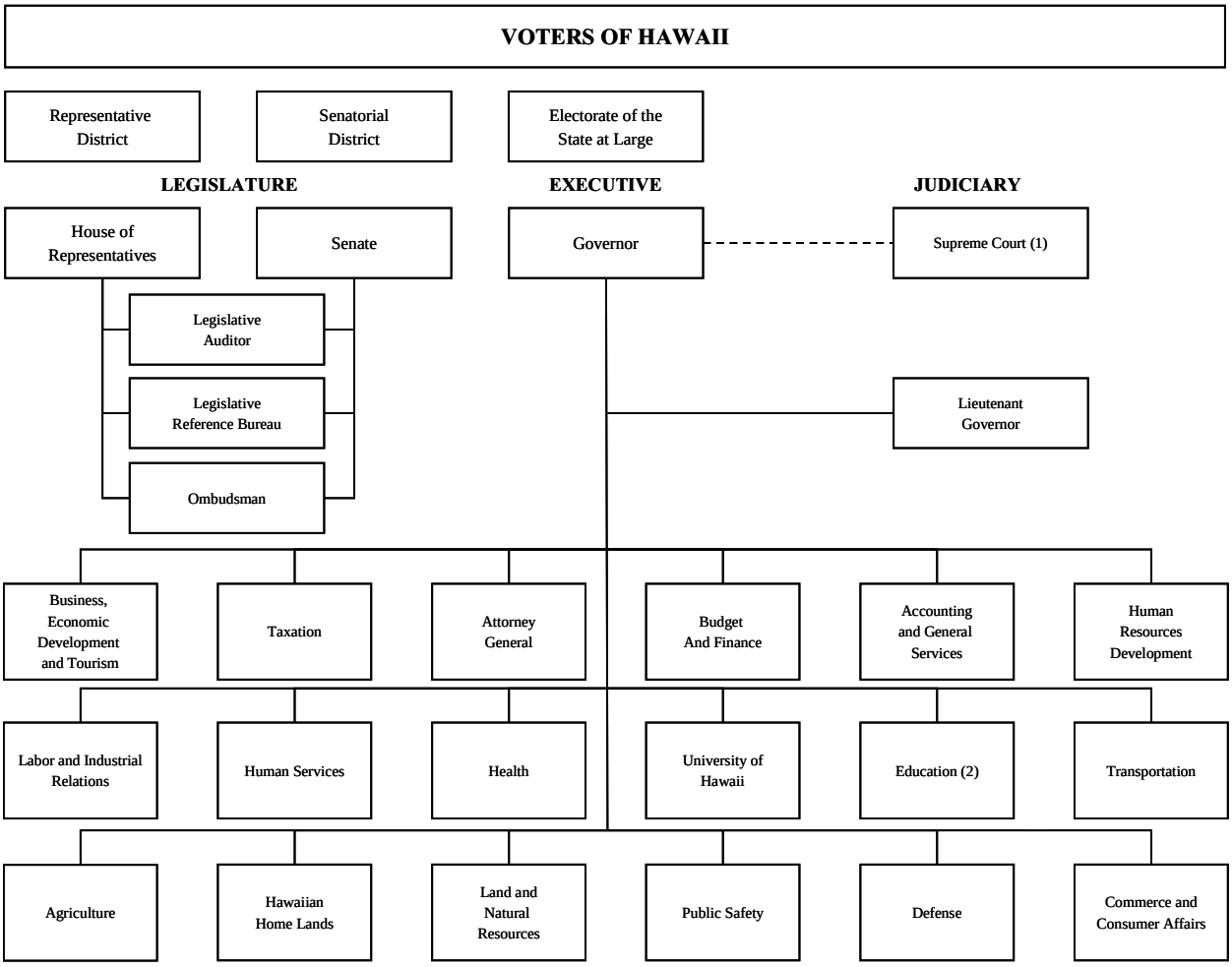
Notes:

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

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

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

State of Hawaii
Organizational Chart
June 30, 2015



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

DAVID Y. IGE
GOVERNOR

DOUGLAS MURDOCK
Comptroller

AUDREY HIDANO
Deputy Comptroller

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

December 30, 2015

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

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is our privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (the State) for the fiscal year ended June 30, 2015. The State's Department of Accounting and General Services has prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. We believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

FACTORS AFFECTING FINANCIAL CONDITION

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

State of the Economy

Overview

During the third quarter of 2015 Hawaii's economic indicators for the tourism industry, tax revenues, the construction industry, and unemployment were mostly positive. State general fund tax revenues, visitor arrivals and expenditures, wage and salary jobs, personal income, government contracts awarded, and private building permits all increased, with only State construction in progress expenditures decreasing.

Labor

Since the fourth quarter of 2010, Hawaii's jobs increased for the 20th consecutive quarter. During the first nine months of 2015, Hawaii's total civilian employment averaged 648,850 persons, an increase of 11,150 persons or 1.7% over the same period in 2014. The number of wage and salary jobs was up 7,400 to 637,500 for an increase of 1.2%. Job increases were most notable in retail trade (1,700), health care and social assistance (1,700), professional and business services (1,600) and food services and drinking places (1,500). A few sectors experienced declines including state government (800), federal government (500) and accommodation (300). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 3.9% for the first nine months of 2015, compared to 4.5% for the same period in 2014.

Taxes

The State General Fund tax revenues increased $444.2 million, or 10.8%, during the first nine months of 2015 compared to the same period in 2014. Among its components, net individual income tax collections increased $234.8 million or 17.8%, general excise and use tax (GET) collections increased $145.1 million or 6.5%, transient accommodations tax (TAT) collections were up $21.3 million or 6.7%, and net corporate income tax revenues increased $21.1 million or 45.1%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $5.7 billion, or 4.4% in the first half of 2015 compared to the same period in 2014. Among its components, the fastest growth was seen in wages and salaries which increased $2.6 billion or 4.0%, personal current transfer receipts which increased $1.1 billion or 5.5%, and dividends, interest, and rent which increased $1.0 billion or 3.6%. Contributions for government social insurance, which are subtracted from personal income, increased by 1.4%.

Prices

Honolulu's consumer price index (CPI) increased 0.7% for the first half of 2015 compared to the same period in 2014, higher than the 0.1% United States (U.S.) average CPI-U decrease. The Honolulu increase was primarily due to increases in other goods and services (5.3%), medical care (4.8%), food and beverages (4.2%), and education and communication (3.1%). Prices also increased for housing (1.0%) and recreation (0.9%). The price decreased for transportation and apparel (8.6% and 2.1% respectively).

Recent Developments in Hawaii's Major Industries

Visitor Industry

In the first nine months of 2015, total visitor arrivals by air increased 262,000 or 4.3% compared to the same period of 2014. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 5.3% while international arrivals increased 2.2%. Total visitor days (visitor arrivals multiplied by average length of stay) increased 3.8% in the first nine months of 2015 compared to the same period of 2014 and total visitor spending increased $294.5 million or 2.7% over the same

period. Statewide hotel occupancy rate averaged 79.1% in the first half of 2015, 1.6% higher than the average rate during the same period of 2014.

Construction

Hawaii's construction industry has been one of the steady contributors to job growth over the past few years. In the first nine months of 2015, the construction sector added 1,100 jobs or 3.5% from the same period of 2014. Before the recession, specifically the period from 2002 to 2007, construction job growth averaged 8.0% per year. The strength of the current construction job market is a sharp contrast to the recession period. From the second quarter of 2008 until the second quarter of 2011, construction job growth was negative.

Outlook for Hawaii's Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth for the rest of 2015 and into 2016. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. The November 2015 Blue Chip Economic Consensus Forecasts expects real GDP growth in 2016 to increase 2.6% for the U.S. and 1.1% for Japan.

For 2016, the growth rate of visitor arrivals, visitor days and visitor expenditures are expected to be 1.7%, 1.8% and 3.5%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 1.2% in 2016. Real Personal Income is expected to increase 3.0% in 2016 with real GDP projected to increase 2.3% in the same period.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.3% in 2016. The State GDP deflator is forecast to grow 1.6% in 2016.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

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

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

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

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2013 (Act 134, SLH 2013), and as amended by the Supplemental Appropriations Act of 2014 (Act 122, SLH 2014), and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

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

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. In 2013, the Legislature created a new bargaining unit. This bargaining unit is composed of State and county employees, relocating individuals from two existing collective bargaining units into the new Bargaining Unit 14. An arbitration hearing was held in November 2015 and an arbitration award subject to Legislative approval is expected in January 2016 for the initial collective bargaining agreement for this new unit.

Of the other 13 collective bargaining units, 12 include State employees. All 12 units have collective bargaining agreements in effect through June 30, 2017.

INDEPENDENT AUDIT

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2015. The independent auditors' report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGEMENTS

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

Respectfully submitted,

DOUGLAS MURDOCK
Comptroller, State of Hawaii

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

This page intentionally left blank.

PART II: FINANCIAL SECTION

ACcuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

The Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii (the State) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements (pages 30–110) as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Business-Type Activities	92%	76%
Aggregate Discretely Presented Component Units	27%	38%
Fiduciary Funds	64%	6%

an independent member of BAKER TILLY INTERNATIONAL

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Employer-Union Health Benefits Trust Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors. The reports on the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Employer-Union Health Benefits Trust Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the Hawaii Health Systems Corporation contain an emphasis-of-matter paragraph relating to the adoption of Governmental Accounting Standards Board (GASB) Statement Nos. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 14–27), budgetary comparison information (pages 113–116 and 126–132), Schedule of the Proportionate Share of the Net Pension Liability (page 117), Schedule of Contributions (page 118), and Schedules of Funding Progress (page 119) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic

financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements (pages 122125 and 133137), introductory section (pages 18) and statistical section (pages 140173) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015, the State adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2015, on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Hawaii's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
December 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3□7 of this report.

Financial Highlights

Implementation of GASB Statement Nos. 68 and 71
During fiscal year 2015, the State implemented GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

The adoption of Statement Nos. 68 and 71 has no impact on the State's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, adoption has resulted in the restatement of the State's fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liability in accordance with the provisions of Statement No. 68 and contributions after the measurement date in accordance with Statement No. 71.

Net position as of July 1, 2014 was decreased by $4,024,656,000 to $645,611,000 reflecting the retrospective effect of adoption.

Net pension liability of $4,047,882,000, deferred outflow of resources related to pensions of $504,356,000, and deferred inflows of resources of $473,909,000 were reported as of June 30, 2015. For the fiscal year ended June 30, 2015, the State recognized pension expense of $438,288,000. Refer to Note 11 for more information regarding the State's pension.

Government-Wide Highlights
The assets of the State exceeded its liabilities at June 30, 2015 by $888.8 million (net position). Unrestricted net position, which may be used to meet the State's ongoing obligations to citizens and creditors, was a negative $6.4 billion, a decrease of $4.3 billion from the previous year. Net position of governmental activities and business-type activities decreased by $3.9 billion and increased by $130.8 million, respectively, due to implementation of Statement Nos. 68 and 71, in addition to current year activity. The combined decrease to the State was $3.8 billion from the prior fiscal year.

Fund Highlights
At June 30, 2015, the State's Governmental Funds reported combined ending fund balances of $2.5 billion, an increase of $484.9 million from the prior fiscal year. Of this amount, $1.6 billion, or 63.7%, of total fund balances was in the General Fund, and the remaining $907.2 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net fund position of $4.0 billion at June 30, 2015, an increase of $266.2 million during the fiscal year.

Liabilities
The State's liabilities increased due primarily to the adoption of Statement Nos. 68 and 71 during the current fiscal year to $18.6 billion, an increase of $5.0 billion. During fiscal 2015, the State issued General Obligation Refunding bonds in the amount of $209.0 million to advance refund $416.9 million of previously issued outstanding General Obligation bonds and $199.8 million in taxable General Obligation Refunding bonds for financing capital projects. In addition, the State issued $575.0 million in General Obligation bonds and $25.0 million in taxable General Obligation bonds. During fiscal 2015, the State issued Revenue Bonds in the amount of $60.3 million to refund previously issued outstanding Revenue Bonds, $150.0 million to provide funds for environmentally beneficial projects and $103.4 million for financing capital projects.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting By Employers For Postemployment Benefits Other Than Pensions*, the State increased the liability for postemployment benefits other than pension, to $3.7 billion, an increase of $284.3 million for the fiscal year ended June 30, 2015.

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. 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 34–37 of this report.

Proprietary Funds

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

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

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

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

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

Notes to Basic Financial Statements
The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 52–110 of this report.

Other Supplementary Information

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

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

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

Government-Wide Financial Analysis

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

Net position is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $888.8 million as of June 30, 2015, and net position decreased $3.8 billion, or 81.0% from June 30, 2014 balances as previously reported. The net position of the governmental activities decreased by $3.9 billion, or 486.1%, and business-type activities had an increase of $130.8 million, or 3.4%. In addition to the fiscal year 2015 activity, net position was affected by the retrospective implementation of Statement Nos. 68 and 71. The following table was derived from the Government-Wide Statement of Net Position.

Summary Schedule of Net Position
June 30, 2015 and 2014
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	$ 4,218,887	$ 3,522,709	$ 2,923,501	$ 2,978,774	$ 7,142,388	$ 6,501,483
Capital assets, net	9,176,892	8,978,930	2,989,332	2,671,775	12,166,224	11,650,705
Total assets	$ 13,395,779	$ 12,501,639	$ 5,912,833	$ 5,650,549	$ 19,308,612	$ 18,152,188
Deferred outflows of resources						
Deferred loss on refunding	$ 97,768	$ 96,843	$ 7,839	$ 9,334	$ 105,607	$ 106,177
Deferred outflows on net pension liability	485,333	-	19,023	-	504,356	-
Total deferred outflows of resources	$ 583,101	$ 96,843	$ 26,862	$ 9,334	$ 609,963	$ 106,177
Liabilities						
Long-term liabilities	$ 15,144,447	$ 10,001,076	$ 1,720,396	$ 1,610,731	$ 16,864,843	$ 11,611,807
Other liabilities	1,483,387	1,792,573	207,592	183,718	1,690,979	1,976,291
Total liabilities	$ 16,627,834	$ 11,793,649	$ 1,927,988	$ 1,794,449	$ 18,555,822	$ 13,588,098
Deferred inflows of resources						
Deferred inflows on net pension liability	$ 458,463	$ -	$ 15,446	$ -	$ 473,909	$ -
Total deferred inflows of resources	$ 458,463	$ -	$ 15,446	$ -	$ 473,909	$ -
Net position						
Net investment in capital assets	$ 2,826,649	$ 2,772,220	$ 1,773,613	$ 1,653,902	$ 4,600,262	$ 4,426,122
Restricted	1,445,824	1,128,678	1,227,441	1,160,551	2,673,265	2,289,229
Unrestricted	(7,379,890)	(3,096,065)	995,207	1,050,981	(6,384,683)	(2,045,084)
Total net position	$ (3,107,417)	$ 804,833	$ 3,996,261	$ 3,865,434	$ 888,844	$ 4,670,267

Analysis of Net Position

By far, the largest portion of the State's net position ($4.6 billion or 517.6%) reflects its investment in capital assets (e.g., land, infrastructure, buildings and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position ($2.7 billion or 300.8%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $6.4 billion or negative 718.3% represents unrestricted net position.

At June 30, 2015, the State is able to report positive balances in two of the categories of net position for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net position for governmental activities is primarily attributed to the State's other postemployment benefit liability of $3.6 billion and pension liability of $3.9 billion.

Changes in Net Position

The State's net position increased by $243.2 million, or 37.7%, during the fiscal year ended June 30, 2015. Approximately 56.8% of the State's total revenues came from taxes, while 28.0% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 14.9% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, general government, public safety, and highways.

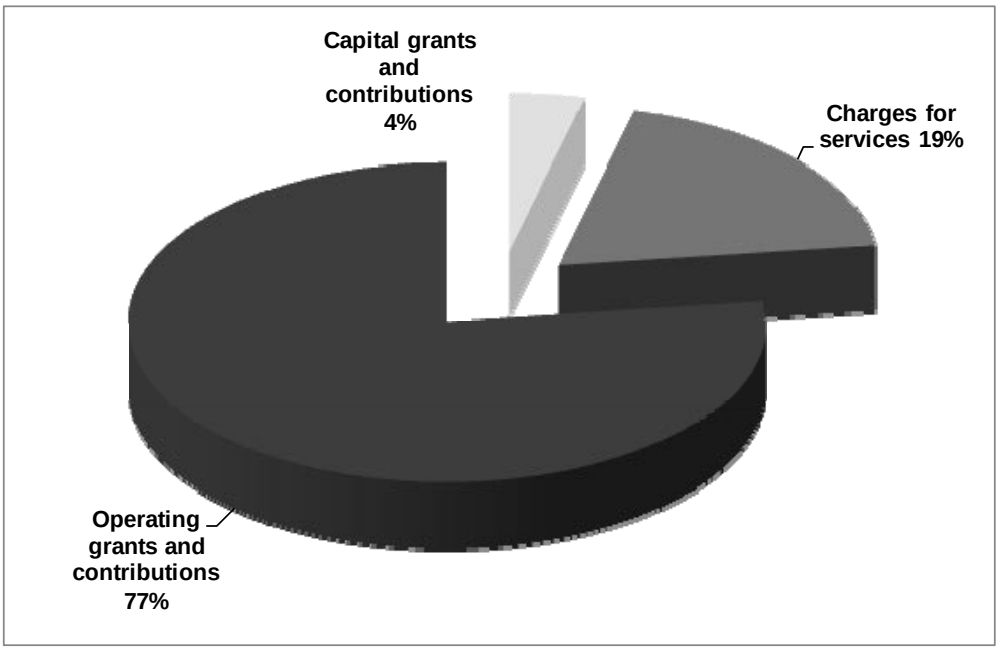
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net position changed during the fiscal year.

Summary Schedule of Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014
(Amounts in thousands)

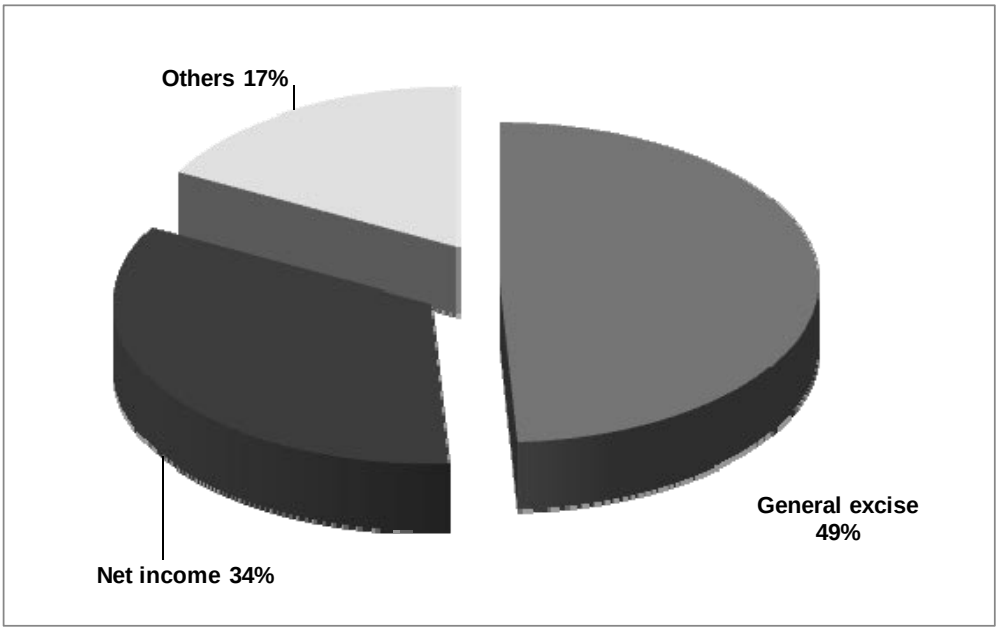
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	$ 699,561	$ 641,341	$ 912,716	$ 961,967	$ 1,612,277	$ 1,603,308
Operating grants and contributions	2,809,460	2,660,770	-	-	2,809,460	2,660,770
Capital grants and contributions	139,977	97,290	72,140	98,628	212,117	195,918
General revenues						
Taxes	6,134,818	5,698,560	-	-	6,134,818	5,698,560
Investment income and other	16,024	13,163	17,567	12,805	33,591	25,968
Total revenues	9,799,840	9,111,124	1,002,423	1,073,400	10,802,263	10,184,524
Expenses						
General government	595,278	567,941	-	-	595,278	567,941
Public safety	504,343	533,727	-	-	504,343	533,727
Highways	426,142	554,039	-	-	426,142	554,039
Conservation of natural resources	89,176	101,587	-	-	89,176	101,587
Health	871,563	849,493	-	-	871,563	849,493
Welfare	3,196,602	2,879,813	-	-	3,196,602	2,879,813
Lower education	2,729,789	2,685,037	-	-	2,729,789	2,685,037
Higher education	761,837	693,292	-	-	761,837	693,292
Other education	21,664	21,766	-	-	21,664	21,766
Culture and recreation	84,265	104,303	-	-	84,265	104,303
Urban redevelopment and housing	115,653	137,160	-	-	115,653	137,160
Economic development and assistance	179,485	166,455	-	-	179,485	166,455
Interest expense	247,059	239,760	-	-	247,059	239,760
Airports	-	-	350,041	346,699	350,041	346,699
Harbors	-	-	87,031	89,327	87,031	89,327
Unemployment compensation	-	-	186,893	244,947	186,893	244,947
Nonmajor proprietary fund	-	-	112,209	87,031	112,209	87,031
Total expenses	9,822,856	9,534,373	736,174	768,004	10,559,030	10,302,377
Change in net position	(23,016)	(423,249)	266,249	305,396	243,233	(117,853)
Net position						
Beginning of year, as previously reported	804,833	1,228,082	3,865,434	3,560,038	4,670,267	4,788,120
Adjustment for change in accounting principle	(3,889,234)	-	(135,422)	-	(4,024,656)	-
Beginning of year, as restated	(3,084,401)	1,228,082	3,730,012	3,560,038	645,611	4,788,120
End of year	$ (3,107,417)	$ 804,833	$ 3,996,261	$ 3,865,434	$ 888,844	$ 4,670,267

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

Program Revenues by Source Governmental Activities
Fiscal Year Ended June 30, 2015



Tax Revenues by Source Governmental Activities
Fiscal Year Ended June 30, 2015



Analysis of Changes in Net Position

The State's net position increased by $243.2 million during the current fiscal year. This is explained in the governmental and business-type activities discussion, and is primarily due to decrease in net position of governmental activities of $23.0 million offset by increases in net position of Unemployment Compensation Fund of $62.7 million, Airports of $127.5 million, Harbors of $37.9 million, and Nonmajor Proprietary Funds of $38.1 million.

Governmental Activities

Governmental activities decreased the State's net position by $23.0 million. The elements of this decrease are reflected below:

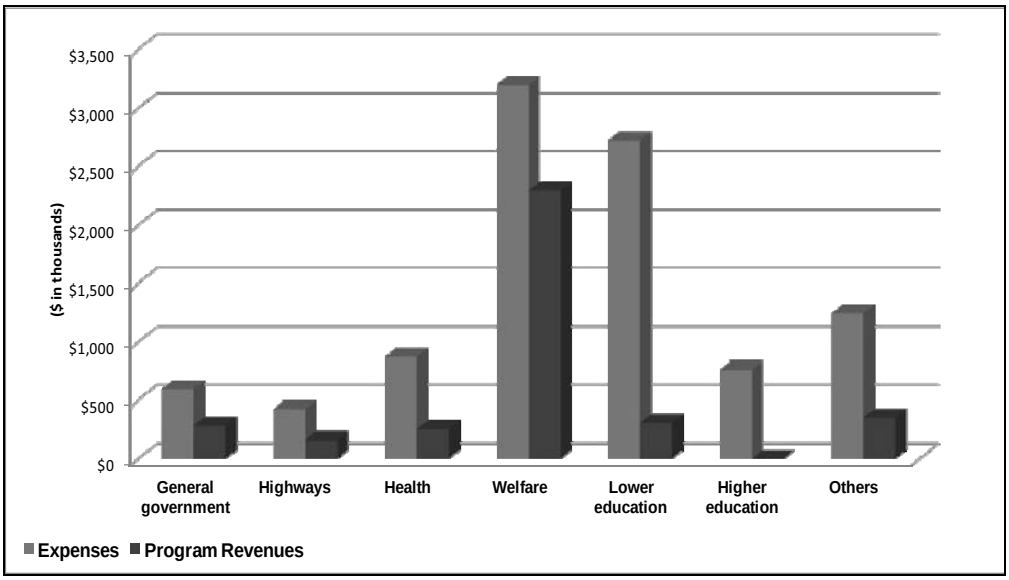
	Governmental Activities (Amounts in thousands)	
	2015	**2014**
General revenues		
Taxes	$ 6,134,818	$ 5,698,560
Interest and investment income and other	16,024	13,163
Total general revenues	6,150,842	5,711,723
Expenses, net of program revenues		
General government	310,796	313,079
Public safety	395,423	423,136
Highways	266,363	354,953
Conservation of natural resources	(1,459)	14,412
Health	618,597	593,900
Welfare	903,414	876,936
Lower education	2,423,324	2,341,385
Higher education	761,837	693,292
Other education	21,664	21,766
Culture and recreation	70,274	87,011
Urban redevelopment and housing	67,994	96,056
Economic development and assistance	88,572	79,286
Interest expense	247,059	239,760
Total governmental activities expenses, net of program revenues	6,173,858	6,134,972
Decrease in governmental activities net position	$ (23,016)	$ (423,249)

Tax revenues increased by $436.3 million, or 7.7%, from the previous fiscal year. The increase was primarily due to increase in general excise taxes of $205.1 million and corporations and individuals net income taxes of $232.1 million due to growth in the State economy.

Lower education net expenses increased $81.9 million or 3.5%. This change is primarily due to the decrease in revenues for the school based budgeting and instructional support programs.

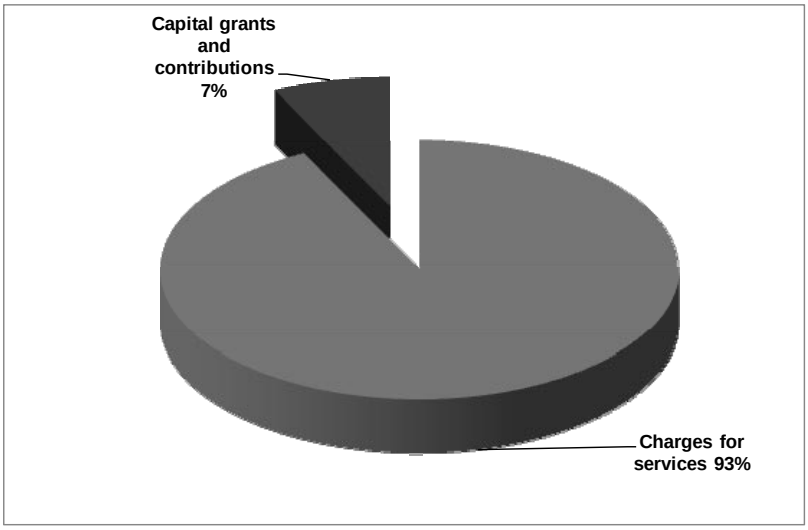
A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental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

Expenses and Program Revenues Governmental Activities
Fiscal Year Ended June 30, 2015

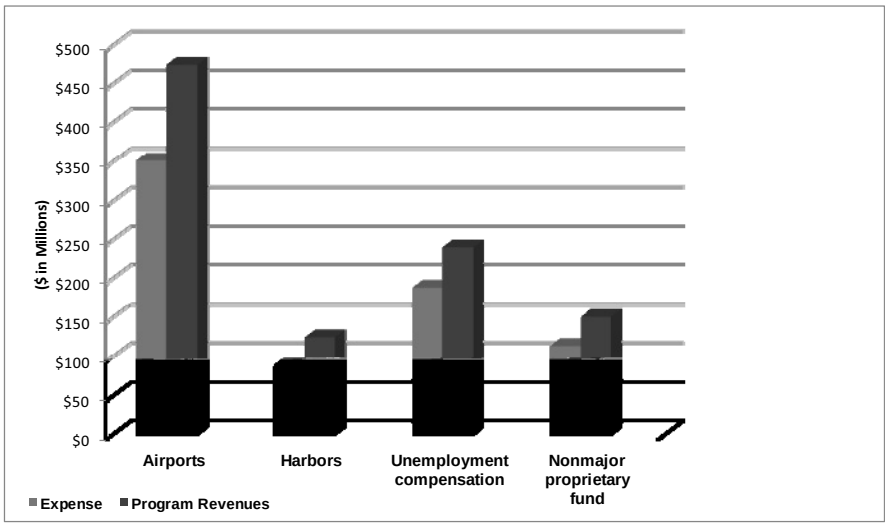


Business-Type Activities
The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source Business-Type Activities
Fiscal Year Ended June 30, 2015



Expenses and Program Revenues Business-Type Activities
Fiscal Year Ended June 30, 2015



Business-type activities increased the State's net position by $266.2 million in fiscal 2015, compared to an increase of $305.4 million in fiscal 2014. Key elements of this increase are as follows:

Airport's net position increased $127.5 million compared to an increase of $125.9 million in the prior fiscal year. Charges for current services increased by $30.0 million primarily due to the increase in landing fees, aeronautical revenues and concession revenues from an increase in passenger traffic. Operating and capital grants and contributions decreased $26.1 million mainly due to the decrease in federal capital grants.

Harbor's net position increased $37.9 million in fiscal 2015 compared to an increase of $32.4 million in fiscal 2014. Charges for current services increased by $2.2 million, while expenses decreased $2.3 million.

The Unemployment Compensation Fund's net position increased $62.7 million compared to an increase of $116.0 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $58.1 million offset by a decrease in unemployment tax revenues of $114.2 million.

The Nonmajor Proprietary Fund's net position increased $38.1 million in fiscal 2015 compared to an increase of $31.1 million in fiscal 2014.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2015 and 2014 are as follows:

	Business-Type Activities (Amounts in thousands)									
	Program Revenues									
	Charges for Services		Operating and Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Airports	$ 434,489	$ 404,442	$ 38,239	$ 64,303	$ 472,728	$ 468,745	$ 350,041	$ 346,699	$ 122,687	$ 122,046
Harbors	123,209	121,038	284	-	123,493	121,038	87,031	89,327	36,462	31,711
Unemployment compensation	239,375	353,546	-	-	239,375	353,546	186,893	244,947	52,482	108,599
Nonmajor proprietary funds	115,643	82,941	33,617	34,325	149,260	117,266	112,209	87,031	37,051	30,235
Total	$ 912,716	$ 961,967	$ 72,140	$ 98,628	$ 984,856	$ 1,060,595	$ 736,174	$ 768,004	$ 248,682	$ 292,591