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

In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series FW Bonds is not includable in gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals. Bond Counsel is further of the opinion that all of 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 expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Interest on the Series FX Bonds and the Series FY Bonds is not excludable from gross income for federal income tax purposes. See "TAX MATTERS" in this Official Statement.

STATE OF HAWAII

$431,665,000	$75,000,000	$68,335,000
General Obligation Bonds of 2019, Series FW	**Taxable General Obligation Bonds of 2019, Series FX**	**Taxable General Obligation Bonds of 2019, Series FY**

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

The General Obligation Bonds of 2019, Series FW, the Taxable General Obligation Bonds of 2019, Series FX and the Taxable General Obligation Bonds of 2019, Series FY (individually, the "Series FW Bonds", the "Series FX Bonds" and the "Series FY 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 Bonds of each series bear interest payable at the rate or rates set forth on the inside cover pages hereof (i) with respect to the Series FW Bonds and the Series FX Bonds, on January 1 and July 1 of each year, commencing July 1, 2019 and (ii) with respect to the Series FY Bonds, at maturity on April 1, 2019.

The Series FW Bonds and the Series FX Bonds are subject to optional redemption prior to their stated maturities as and to the extent described herein. The Series FY Bonds are not subject to optional redemption prior to their stated maturity.

The Bonds are being issued for the purpose of financing, or reimbursing the State of Hawaii for, the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and for other public purposes. See "AUTHORITY AND PURPOSE" herein.

The Bonds are general obligations of the State of Hawaii. The interest and principal payments on the Bonds are a first charge on the General Fund of the State of Hawaii, and the full faith and credit of the State of Hawaii are pledged to the punctual payment thereof.

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

MATURITY SCHEDULE — See Inside Cover 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 Katten Muchin Rosenman LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Dentons US LLP. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about February 21, 2019.

BofA Merrill Lynch **Morgan Stanley**

Goldman Sachs & Co. LLC **Stifel** **Wells Fargo Securities**

Dated: February 6, 2019

STATE OF HAWAII

$431,665,000 GENERAL OBLIGATION BONDS OF 2019, SERIES FW
Dated: Date of Delivery
Due: January 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419792)†
1/1/2023	$ 3,000,000	2.000%	1.750%	XE1
1/1/2023	14,025,000	5.000%	1.750%	XD3
1/1/2024	4,600,000	2.000%	1.820%	XG6
1/1/2024	13,185,000	5.000%	1.820%	XF8
1/1/2025	4,095,000	4.000%	1.920%	XJ0
1/1/2025	14,445,000	5.000%	1.920%	XH4
1/1/2026	19,425,000	5.000%	2.000%	XK7
1/1/2027	20,395,000	5.000%	2.120%	XM3
1/1/2028	21,415,000	5.000%	2.230%	XN1
1/1/2029	2,500,000	4.000%	2.340%	XQ4
1/1/2029	19,985,000	5.000%	2.340%	XP6
1/1/2030	180,000	2.500%	2.650%[C]	XS0
1/1/2030	23,405,000	5.000%	2.470%[C]	XR2
1/1/2031	24,760,000	5.000%	2.590%[C]	XT8
1/1/2032	26,000,000	5.000%	2.680%[C]	XU5
1/1/2033	2,500,000	3.000%	3.130%	XV3
1/1/2033	24,795,000	5.000%	2.780%[C]	XW1
1/1/2034	13,410,000	4.000%	3.070%[C]	XX9
1/1/2034	15,200,000	5.000%	2.830%[C]	XY7
1/1/2035	5,000,000	3.250%	3.360%	YA8
1/1/2035	24,910,000	5.000%	2.890%[C]	XZ4
1/1/2036	31,315,000	5.000%	2.950%[C]	YB6
1/1/2037	15,290,000	4.000%	3.300%[C]	YC4
1/1/2037	17,590,000	5.000%	2.980%[C]	YD2
1/1/2038	15,000,000	3.500%	3.550%	YF7
1/1/2038	19,375,000	5.000%	3.030%[C]	YE0
1/1/2039	12,500,000	4.000%	3.420%[C]	YH3
1/1/2039	23,365,000	5.000%	3.070%[C]	YG5

[C] Priced to January 1, 2029 first optional redemption date.

$75,000,000 TAXABLE GENERAL OBLIGATION BONDS OF 2019, SERIES FX
Dated: Date of Delivery
Due: January 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419792)[†]
1/1/2020	$24,500,000	2.650%	2.650%	YJ9
1/1/2021	24,845,000	3.250%	2.730%	YK6
1/1/2022	25,655,000	2.770%	2.770%	YL4

$68,335,000 TAXABLE GENERAL OBLIGATION BONDS OF 2019, SERIES FY
Dated: Date of Delivery
Due: April 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419792)[†]
4/1/2019	$68,335,000	2.550%	2.550%	YM2

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

David Y. Ige
Governor

Dr. Josh Green
Lieutenant Governor

Roderick K. Becker
Director of Finance

Clare E. Connors
Attorney General

Curt T. Otaguro
Comptroller

BOND COUNSEL TO STATE

Katten Muchin Rosenman 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"), ANY STATE SECURITIES AGENCY, OR ANY OTHER FEDERAL, STATE OR FOREIGN SECURITIES COMMISSION OR REGULATORY AUTHORITY, NOR HAS THE SEC, ANY STATE SECURITIES AGENCY, OR ANY OTHER FEDERAL, STATE OR FOREIGN SECURITIES COMMISSION OR REGULATORY AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

NO ACTION HAS BEEN TAKEN BY THE STATE THAT WOULD PERMIT A PUBLIC OFFERING OF THE BONDS OR POSSESSION OR DISTRIBUTION OF THE OFFICIAL STATEMENT OR ANY OTHER OFFERING MATERIAL IN ANY FOREIGN JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, EACH OF THE UNDERWRITERS HAS AGREED THAT IT WILL COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY FOREIGN JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE BONDS OR POSSESSES OR DISTRIBUTES THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING MATERIAL AND WILL OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE BONDS UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY FOREIGN JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES AND THE STATE SHALL HAVE NO RESPONSIBILITY THEREFOR.

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.

References to web site addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into and are not a part of this Official Statement.

CUSIP numbers are included in this Official Statement for the convenience of the holders and potential holders of the Bonds. No assurance can be given that the CUSIP numbers will remain the same after the date of issuance and delivery of the Bonds.

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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" or "Hawaii") and its $431,665,000 aggregate principal amount of General Obligation Bonds of 2019, Series FW (the "Series FW Bonds"), its $75,000,000 aggregate principal amount of Taxable General Obligation Bonds of 2019, Series FX (the "Series FX Bonds") and its $68,335,000 aggregate principal amount of Taxable General Obligation Bonds of 2019, Series FY (the "Series FY Bonds" and, together with the Series FW Bonds and the Series FX Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii. In addition, the Series FW Bonds are sometimes referred to herein as the "Tax-Exempt 2019 Bonds" and the Series FX Bonds and the Series FY Bonds are sometimes referred to herein collectively as the "Taxable 2019 Bonds."

AUTHORITY 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").

Purpose

The proceeds from the sale of the Bonds will be used to (i) finance, or to reimburse 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, (ii) pay principal and interest on certain of the Bonds and (iii) pay costs of issuance of the Bonds. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Appendix A.

THE BONDS

Details of the Bonds

The Bonds will mature serially on the dates and years, and will bear interest at the rate or 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 (i) with respect to the Series FW Bonds and the Series FX Bonds, on January 1 and July 1 of each year, commencing July 1, 2019 and (ii) with respect to the Series FY Bonds, at maturity on April 1, 2019 (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 integral multiples thereof.

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"). 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 of Series FW Bonds. The Series FW Bonds maturing on or after January 1, 2030 will be subject to redemption prior to their stated maturities at the option of the State at any time on and after January 1, 2029, 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 of Series FX Bonds. The Series FX Bonds are subject to redemption at the option of the State, in whole or in part (and if in part in any order of maturity selected by the State and within a maturity 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 Series FX 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 Series FX Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series FX Bonds are to be redeemed, discounted to the date on which such Series FX 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 10 basis points;

Plus, in each case, accrued interest on such Series FX 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 Series FX 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 Series FX Bonds being redeemed.

"Comparable Treasury Price" means, with respect to any date on which a Series FX 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" 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 Series FX 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 Series FX 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 Series FX Bonds being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series FX 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.

No Early Redemption of Series FY Bonds. The Series FY Bonds are not subject to redemption prior to their maturity.

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 Series FW 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 Series FX Bonds; provided that, so long as the Series FX Bonds are held in book-entry form, the selection for redemption of the Series FX Bonds as described above under "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 Series FX 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 Series FX Bonds remaining outstanding will be in authorized denominations. See APPENDIX H — "BOOK-ENTRY SYSTEM."

In connection with any repayment of principal of the Series FX Bonds, the Paying Agent will direct DTC to make a pass-through distribution of principal to the owners of the Series FX 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 Series FX Bonds on a payment date and (b) the denominator is equal to the total original par amount of the Series FX Bonds.

It is the State's intent that redemption allocations made by DTC with respect to the Series FX 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 Series FX Bonds on such basis.

If the Bonds are not registered in book-entry form and if fewer than all of the Series FX Bonds of the same maturity and bearing the same interest rate are to be redeemed, the Series FX Bonds of such maturity and bearing such interest rate to be redeemed will be selected on a pro rata basis, and the particular Series FX 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 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, 2018. 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 that 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) and the State's alleged breach of fiduciary duties as trustee of the public land trust in the management of Mauna Kea; (ii) the Hawaiian Home Lands 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 claims of retired state employees that their health care benefits have been diminished or impaired in violation of Article XVI, Section 2 of the State Constitution as a result of the State's, EUTF's, and the EUTF Board's breach of contract, negligence, and breach of fiduciary duties) 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

SERIES FW BONDS

Summary of Bond Counsel Opinion

In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions, and assuming compliance by the State with certain covenants and the accuracy of certain representation, interest on the Series FW Bonds is not includable in gross income for federal income tax purposes. Bond Counsel is of the further opinion that interest on the Series FW Bonds is not an "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes various limitations, conditions and other requirements which must be met on a continuous basis during the term of the Series FW Bonds in order that interest on the Series Bonds will be and remain not includable in gross income for federal income tax purposes. Included among these requirements are restrictions on the investment and use of proceeds of the Series FW Bonds, restrictions on the use of property financed by the Series FW Bonds and, in certain circumstances, payment of amounts in respect of such proceeds to the United States. Failure to comply with the requirements of the Code may cause interest on the Series FW Bonds to be includable in gross income for purposes of federal income tax, possibly from the date of original issuance of the Series FW Bonds. The State has covenanted to comply with certain procedures, and it has made certain representations and certifications, designed to assure satisfaction of the requirements of the Code in respect of the Series FW Bonds. The opinion of Bond Counsel assumes compliance with such covenants and the accuracy, in all material respects, of such representations and certifications. Bond Counsel expresses no opinion with respect to the exclusion from gross income for federal income tax purposes of interest on the Series FW Bonds in the event that any such representations and certifications are materially inaccurate or that there occurs a failure to comply with such covenants. These covenants, representations and certifications may be modified if the State obtains an opinion of nationally recognized bond counsel that any action required thereunder is no longer required or that some further action is required. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest on the Series FW Bonds of any such modification or change that occurs or is taken in reliance upon an opinion obtained by the State from counsel other than Katten Muchin Rosenman LLP.

Interest on the Series FW Bonds is 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 has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issue of the Series FW Bonds may adversely affect the value of, or the federal, state and local tax status of interest on, the Series FW Bonds. The opinion of Bond Counsel is based on current legal authority. Future tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status under federal or state law and could affect the market price or marketability of the Series FW Bonds.

Series FW Bonds Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of each maturity of the Series FW Bonds is sold to the public (the "Offering Price") and the principal amount payable at maturity of such Series FW Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Series FW Bond, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Series FW Bond, the difference between the two is known as "original issue discount."

Bond premium and original issue discount are amortized over the term of a Series FW Bond on the basis of the Series FW Bond's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as a reduction in the amount of tax-exempt interest earned during such period and is subtracted from the owner's tax basis in the Series FW Bond. The amount of original issue discount accruing during each period is treated as interest that is not includable in the gross income of the owner of such Series FW Bond for federal income tax purposes, to the same extent and with the same limitations as current interest and is added to the owner's tax basis in the Series FW Bond. A Series FW Bond's adjusted tax basis is used to determine whether, and to what extent, the owner realizes taxable gain or loss upon the disposition of the Series FW Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the Series FW Bond).

Owners who purchase Series FW Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Series FW Bonds. In addition, owners of Series FW Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series FW Bonds; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

Exclusion from Gross Income: Continuing Requirements

The Code sets forth certain requirements that must be satisfied on a continuing basis in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series FW Bonds. Among these requirements are the following:

Limitations on Private Use. The Code includes limitations on the amount of Series FW Bond proceeds that may be used in the trade or business of, or used to make or finance loans to, persons other than governmental units.

Investment Restrictions. Except during certain "temporary periods," proceeds of the Series FW Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a "minor portion") may generally not be invested in investments having a yield that is "materially higher" (1/8 of one percent) than the yield on the Series FW Bonds.

Rebate of Arbitrage Profit. Unless certain exceptions apply, earnings from the investment of the "gross proceeds" of the Series FW Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Series FW Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term "gross proceeds" includes the original proceeds of the Series FW Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Series FW Bonds.

Covenants to Comply

The State has covenanted to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Series FW Bonds.

Risks of Non-Compliance

In the event that the State fails to comply with the requirements of the Code, interest on the Series FW Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of issue. In such event, the Bond Issuance Certificate does not require either acceleration of payment of principal of, or interest on, the Series FW Bonds or payment of any additional interest or penalties to the owners of the Series FW Bonds.

Federal Income Tax Consequences

Pursuant to Section 103 of the Code, interest on the Series FW Bonds is not includable in the gross income of the owners thereof for federal income tax purposes to the extent and with the limitations described above. However, the Code contains a number of other provisions relating to the treatment of interest on the Series FW Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE SERIES FW BONDS.

Cost of Carry. Owners of the Series FW Bonds will generally be denied a deduction for otherwise deductible interest on any debt which is treated for federal income tax purposes as incurred or continued to purchase or carry the Series FW Bonds. As discussed below, special allocation rules apply to financial institutions.

Corporate Owners. Interest on the Series FW Bonds is generally taken into account in computing the earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Series FW Bonds is taken into account in computing the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

Individual Owners. Receipt of interest on the Series FW Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

Certain Blue Cross or Blue Shield Organizations. Receipt of interest on the Series FW Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

Property or Casualty Insurance Companies. Receipt of interest on the Series FW Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

Financial Institutions. Financial institutions may be denied a deduction for their otherwise allowable interest expense in an amount determined by reference, in part, to their adjusted basis in the Series FW Bonds.

Foreign Personal Holding Company Income. A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Series FW Bonds held by such a company is properly allocable to the shareholder.

Back-up Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series FW Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient. If an owner purchasing a Series FW Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series FW Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

THE SERIES FX BONDS and THE SERIES FY BONDS

The following is a summary of the principal United States federal income tax consequences of ownership of the Series FX Bonds and the Series FW Bonds (collectively, the "Taxable Bonds"). This summary deals only with the Taxable Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold the Taxable Bonds as a hedge or as hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the United States dollar.

The Code contains a number of provisions relating to the taxation of the Taxable Bonds (including but not limited to the treatment of and accounting for interest, premium, original issue discount and market discount thereon, gain from the disposition thereof and withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Prospective purchasers of the Taxable Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of the Taxable Bonds.

United States Federal Income Tax Considerations for United States Holders of Taxable Bonds

Payments of Interest to United States Holders. Interest on the Taxable Bonds will be taxable to a United States Holder (as defined below) as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes in accordance with generally applicable principles.

The term "United States Holder" refers to a beneficial owner of a Taxable Bond for United States federal income tax law purposes and that is:

- a citizen or resident of the United States;
- a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if (1) 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 have the authority to control all substantial decisions of the trust or (2) the trust was in existence on August 10, 1996 and properly elected to continue to be treated as a United States person.

The term “Non-U.S. Holder” refers to any beneficial owner of a Taxable Bond who or which is not a United States Holder.

If a partnership holds the Taxable Bonds, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Taxable Bonds should consult its tax advisor regarding the consequences to the United States federal income tax treatment of an investment in the Taxable Bonds.

Original Issue Discount and Original Issue Premium in respect of Taxable Bonds.

If a Taxable Bond is issued at a discount from its stated redemption price at maturity, and the discount is at least equal to the product of one-quarter of one percent (0.25%) of the stated redemption price at maturity of the Taxable Bond multiplied by the number of complete years to maturity from the issue date of the Taxable Bond, the Taxable Bond will be an “OID Bond.” In general, the excess of the stated redemption price at maturity of an OID Bond over its issue price will constitute original issue discount (“OID”) for U.S. federal income tax purposes. The stated redemption price at maturity of a Taxable Bond is the sum of all scheduled amounts payable on the Taxable Bond (other than qualified stated interest). The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the State), or that is treated as constructively received, at least annually at a single fixed rate or, under certain conditions, at a variable rate. U.S. Holders of OID Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on the compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

If a Taxable Bond is issued at a price greater than the principal amount payable at maturity, a U.S. Holder generally will be considered to have purchased the Taxable Bond at a premium, and generally may elect to amortize the premium as an offset to interest income otherwise required to be included in respect of the Taxable Bond during a taxable year, using a constant-yield method, over the remaining term of the Taxable Bond. If a U.S. Holder makes the election to amortize the premium, it generally will apply to all debt instruments held by such U.S. Holder at the time of the election, as well as any debt instruments that are subsequently acquired by such U.S. Holder. In addition, a U.S. Holder may not revoke the election without the consent of the IRS. If such U.S. Holder elects to amortize the premium, such U.S. Holder will be required to reduce its tax basis in the Taxable Bond by the amount of the premium amortized during the holding period of the U.S. Holder. If such U.S. Holder does not elect to amortize premium, the amount of premium will be included in its tax basis in the Taxable Bond. Therefore, if a U.S. Holder does not elect to amortize premium and holds the Taxable Bond to maturity, the premium will decrease the amount of gain or increase the amount of loss otherwise recognized on the disposition of such Taxable Bond. Special rules for determining the amount of amortizable bond premium attributable to a debt instrument may be applicable of the debt instrument may be optionally redeemed. These rules are complex and prospective purchasers are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

Sale and Retirement of the Taxable Bonds. Unless a nonrecognition provision of the Code applies, United States Holders of the Taxable Bonds must recognize any gain or loss on the sale, redemption, retirement or other disposition of their Taxable Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of a Taxable Bond and the United States Holder’s adjusted tax basis in the Taxable Bond (except to the extent attributable to accrued but unpaid interest on the Bonds which will be taxed in the manner described above under “Payments of Interest to United States Holders”). Such gain or loss is capital gain or loss, except to the extent of accrued market discount not previously included in income, and is long term capital gain or loss if at the time of disposition such Taxable Bond has been held for more than one year.

Unearned Income Medicare Contribution Tax. A 3.8% Medicare contribution tax is imposed on the “net investment income” of certain United States individuals and on the undistributed “net investment income” of certain estates and trusts. Among other items, “net investment income” generally includes interest and certain net gain from the disposition of property (such as the Taxable Bonds), less certain deductions.

United States Federal Income Tax Considerations for Non-U.S. Holders of Taxable Bonds

Withholding Tax on Payments of Principal and Interest on Bonds held by Non-U.S. Holders. Generally, subject to the discussion of FATCA below, payments of principal and interest on a Taxable Bond held by Non-U.S. Holders will not be subject to United States federal withholding tax, provided that in the case of an interest payment:

- the beneficial owner of the Taxable Bond is not a bank to which the Taxable Bonds constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and

- either (A) the beneficial owner of the Taxable Bond certifies to the applicable payor or its agent, under penalties of perjury on an IRS Form W-8BEN, IRS Form W-8BEN-E or a suitable substitute form, that such owner is not a United States person and provides such owner's name and address or (B) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (a "financial institution") and holds the Taxable Bond, certifies under penalties of perjury that such an IRS Form W-8BEN, IRS Form W-8BEN-E or suitable substitute form has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof.

If the Non-U.S. Holders owning a Taxable Bond is entitled to the benefit of an income tax treaty to which the United States is a party, such owner can obtain an exemption from or reduction of income and withholding tax (depending on the terms of the treaty) by providing to the withholding agent a properly completed IRS Form W-8BEN, IRS Form W-8BEN-E, or any successor form, before interest is paid. However, neither exemption nor reduced withholding will be available if the withholding agent has actual knowledge or reason to know that the form is false.

Except to the extent otherwise provided under an applicable tax treaty, a held by Non-U.S. Holder owning a Taxable Bond generally will be taxed in the same manner as a United States Holder with respect to interest and original issue discount payments on a Taxable Bond if such interest and original issue discount is effectively connected with such owner's conduct of a trade or business in the United States. Effectively connected interest received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

Gain on Disposition of the Taxable Bonds by a Non-U.S Holder. A Non-U.S Holder owning a Taxable Bond generally will not be subject to United States federal income tax on gain realized on the sale, exchange or redemption of a Taxable Bond unless:

- such owner is an individual present in the United States for 183 days or more in the year of such sale, exchange or redemption and either (A) such owner has a "tax home" in the United States and certain other requirements are met, or (B) the gain from the disposition is attributable to such owner's office or other fixed place of business in the United States; or

- the gain is effectively connected with such owner's conduct of a trade or business in the United States.

Taxation of Payments under FATCA to Foreign Financial Institutions and Certain Other Non-U.S. Holders that are Foreign Entities. A 30% withholding tax generally will apply to payments of interest on, and after December 31, 2018, on gross proceeds from the disposition of, the Taxable Bonds that are made to Non-U.S. Holders that are financial institutions and certain non-financial entities. Such withholding tax, imposed under sections 1471 through 1474 of the Code, or FATCA, generally will not apply where such payments are made to (i) a Non-U.S. Holder that is a financial institution that enters into an agreement with the IRS to, among other requirements, undertake to identify accounts held by certain United States persons or U.S.-owned foreign entities, report annually certain information about such accounts and withhold tax as may be required by such agreement (or otherwise complies with an applicable intergovernmental agreement with respect to FATCA), or (ii) a Non-U.S. Holder that is a non-financial entity that certifies it does not have any substantial United States owners or furnishes identifying information regarding each substantial United States owner. A Non-U.S. Holder generally will be required to provide information with respect to its status for FATCA purposes, generally on the appropriate IRS Form W-8 or any successor form, to avoid withholding taxes under FATCA. Prospective investors should consult their own tax advisors regarding the application and requirements of these information reporting and withholding provisions under FATCA.

U.S. Federal Estate Tax. A Taxable Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for United States federal estate tax purposes) is not subject to United States federal estate tax if at the time of the individual's death, payments with respect to such Taxable Bond are not effectively connected with the conduct by such individual of a trade or business in the United States.

Backup Withholding and Information Reporting

*United States Holder*s. Information reporting applies to payments of interest on the Taxable Bonds, or the proceeds of the sale or other disposition of the Taxable Bonds with respect to certain non corporate United States holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's United States federal income tax liability provided the required information is furnished to the IRS.

Non-U.S. Holders. Backup withholding and information reporting on Form 1099 does not apply to payments of principal and interest on the Taxable Bonds to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under "United States Federal Income Tax Considerations for Non-U.S. Holders-Withholding Tax on Payments of Principal and Interest on Bonds" or otherwise establishes an exemption (provided that neither the State nor its agent has actual knowledge that the holder is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non-U.S. Holder may, however, be reported to the IRS and to such Non-U.S. Holder on Form 1042 S.

Information reporting and backup withholding generally do not apply to a payment of the proceeds of a sale of Taxable Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of Taxable Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50% or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a United States trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-U.S. Holder (and such broker has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of Taxable Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's United States federal income tax liability provided the required information is furnished to the IRS.

CHANGE OF LAW

The opinion of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date the Bonds are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Bonds.

STATE AND LOCAL CONSIDERATIONS

Interest on the Bonds is 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. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and Bond Counsel expresses no opinion regarding any such consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Katten Muchin Rosenman 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, Dentons US LLP.

RATINGS

Fitch Ratings, Moody's Investors Service and S&P Global Ratings Inc., have rated the Bonds "AA," "Aa1" 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, Morgan Stanley & Co. LLC, Goldman Sachs & Co. LLC, Stifel, Nicolaus & Company, Incorporated and Wells Fargo Bank, N.A. (collectively, the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price of $643,970,262.98, which is equal to the principal amount of the Bonds, plus net original issue premium of $69,962,204.45, less an aggregate underwriting discount of $991,941.47. 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.

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

MUNICIPAL ADVISOR

The State has retained PFM Financial Advisors LLC (the “Municipal Advisor”), as municipal advisor with respect to the issuance of the Bonds. The Municipal 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 Municipal 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 (the "MSRB") annually and to provide notice to the MSRB of the occurrence of certain enumerated events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. §240.15c2-12) (the "Rule"). See APPENDIX F — "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The State entered into similar continuing disclosure undertakings with respect to prior issues of its general obligation bonds and certificates of participation. The State's fiscal year 2009 and 2010 annual filings were incomplete and the State failed to disclose such matters in three official statements issued between 2011 and 2013. In connection with the foregoing, the State self-reported under the Securities and Exchange Commission Division of Enforcement's Municipalities Continuing Disclosure Cooperation Initiative (the "Initiative") in November 2014. The State entered into an offer of settlement with the SEC and the SEC issued a cease-and-desist order (the "Order") on August 26, 2016, in accordance with the specified terms of the Initiative. The Order required the State to: (i) establish, within 180 days of the Order, appropriate written policies and procedures and periodic training regarding continuing disclosure obligations to effect compliance with the federal securities laws, including the designation of an individual or officer responsible for ensuring compliance of such policies and procedures and implementing and maintaining a record (including attendance) of such training; (ii) comply, within 180 days of the Order, with existing continuing disclosure undertakings, including updating past delinquent filings, if any; (iii) disclose, in a clear and conspicuous fashion, the terms of the Order in any final official statement issued within five years of the date thereof; (iv) certify, in writing, compliance with the aforementioned undertakings, which certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance and shall be submitted no later than the one-year anniversary of the institution of the Order; and (v) cooperate with any subsequent investigation by the Division of Enforcement regarding the false statement(s) and/or material omission(s), including the roles of individuals and/or other parties involved. The State filed a certification with the SEC intended to address the requirement described in (iv) of the immediately preceding sentence in March 2017.

In addition to the foregoing, the State has, 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 adopted policies and procedures aimed at ensuring compliance with its continuing disclosure undertakings going forward. 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.

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2018, 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, 2018 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, 2018, 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, 2016, 2017 and 2018 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 January 1, 2019, after giving effect to the issuance of the Bonds, after exclusions therefrom permitted by the Constitution, is $830,258,744 in the fiscal year ending June 30, 2020. 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 December 31, 2018, the amount of authorized but unissued general obligation bonds (including the Series FW Bonds, the Series FX Bonds and the Series FY Bonds) is $2,936,417,944. Such amount does not include general obligation refunding bonds. These authorized but unissued general obligation bonds are scheduled to be issued prior to June 30, 2021.

Until recently, the State relied upon the requirements in the Constitution as the principal guide for issuing debt. See APPENDIX C — “EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII” for a description of the relevant provisions in the Constitution. In 2015, the Legislature passed Act 149, SLH 2015, which required the Director of Finance to develop and submit a formal debt management policy to the Legislature before the regular session of 2017 convened, and to submit a debt affordability study before the regular session of each odd-numbered year convenes to provide the Legislature with information on the affordability of the future debt planned for the State. The debt management policy and debt affordability study were completed and submitted to the Legislature as required in December 2016. An update to the debt affordability study was submitted to the Legislature in December 2018.

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 Lease Purchase Agreements."

Reimbursement to State General Fund for Debt Service

As indicated above, all general obligation bonds of the State are payable as to principal and interest from the General Fund of the State. Acts of the Legislature authorizing the issuance of general obligation bonds for certain purposes frequently (but not always) require that the General Fund be reimbursed for the payment from such fund of the debt service on such bonds, such reimbursement to be made from any income or revenues or user taxes derived from the carrying out of such purposes. Such income or revenues or user taxes are not pledged to the payment of such bonds. There are now outstanding general obligation bonds (including general obligation refunding bonds) issued for highway, harbor and airport facilities, for land development, for economic development projects, for university revenue projects, and for State parking facilities, where the General Fund of the State is required to be reimbursed for all debt service. Reimbursement is made from the income or revenues or user taxes derived from or with respect to such highways, harbor and airport facilities, land development, economic development projects, university projects, parking facilities and housing programs. Of the bonds referred to in this paragraph: (a) reimbursement to the General Fund of general obligation bonds issued for highways is made exclusively from the tax on motor fuel and does not include any revenues such as toll revenue; and (b) reimbursement to the General Fund of general obligation bonds issued for airports is made from the aviation fuel tax as well as from airports system revenues. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Funds" for a description of such taxes. Reimbursement to the General Fund of all the other general obligation bonds referred to in this paragraph is made from non tax revenues, such as from wharfage and dockage charges, pier rentals and other charges for harbor facilities; from land sales or rentals; and from dormitory and dining hall revenues and income from other ancillary facilities.

Some of the bonds referred to in the immediately preceding paragraph do not constitute "reimbursable general obligation bonds" excludable from the debt limit because they are not issued for the type of public undertaking, improvement or system to which the constitutional provisions for such exclusion pertain. See "DEBT STRUCTURE— Exclusions." See "GENERAL OBLIGATION BONDS OUTSTANDING" in Part I of Appendix 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 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 at this time predict the impact, if any, of recently enacted changes to the federal individual and corporate income tax laws on the tax revenues of the State, nor can it predict the impact on such tax revenues of any other proposed changes that may currently be under consideration or discussion.

The State Constitution requires the establishment of a tax review commission to be appointed as provided by law every five years. The purpose of such commission is to submit to the Legislature an evaluation of the State's tax structure and to recommend revenue and tax policy, after which such commission is dissolved. The State Constitution does not require action by the Legislature with respect to the recommendations as submitted. The Legislature has the option of accepting or rejecting all or portions of the commission's findings. The fifth tax review commission convened on July 26, 2005, and issued its report in final form on December 1, 2006, in which it concluded that the Hawaii tax system is "basically sound." The sixth tax review commission convened on July 15, 2011 and issued its report on November 28, 2012. After reviewing Hawaii's tax structure, including how the structure fared during the Great Recession of 2008-2010 and how adequate the structure will be to meet future needs, the commission expressed concern about a possible budget gap and, as a result, one of its recommendations was the establishment of a separate commission to review and make recommendations on both revenues and expenditures. Although the Legislature did not take action on this recommendation, the Legislature did pass legislation addressing several of the commission's concerns; e.g., increasing the food/excise tax credit, modernizing the tax computer system, and funding the unfunded liabilities in other post-employment benefits (see "EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Health Benefits"). The seventh Tax Review Commission convened on June 27, 2016 and issued its report to the Legislature on February 8, 2018.

General Fund

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

The State Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each of the two years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The State Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. General Fund balances exceeded 5% of General Fund revenues for fiscal years 2006, 2007 and 2008; as a result: (1) the 2008 Legislature passed Act 58, SLH 2008, to provide for a tax credit in the aggregate amount of approximately $1 million and (2) the 2009 Legislature passed Act 84, SLH 2009, to provide for a tax credit in the aggregate amount of approximately $1.1 million. In November 2010, Section 6 of Article VII of the State Constitution was amended to add another option to dispose of excess revenues. In addition to providing for a tax refund or tax credit, the Legislature may make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of an emergency, economic downturn or unforeseen reduction in revenues, as provided by law. Act 138, SLH 2010, provided for the deposit of general funds into the Emergency and Budget Reserve Fund ("EBRF") whenever State General Fund revenues for each of two successive fiscal years exceed revenues for each of the preceding fiscal years by 5%; however, no such transfer shall be made whenever the balance of the EBRF is equal to or more than 10% of General Fund revenues for the preceding fiscal year. The State Constitution also provides, in conjunction with Section 328L-3, HRS, that the Director of Finance is required to transfer 5% of the General Fund fiscal year-end balance into the EBRF whenever General Fund revenues for each of two successive fiscal years exceed revenues for the respective preceding fiscal years by 5%. In November 2016, Section 6 of Article VII of the State Constitution was amended to add more options to dispose of excess revenues. In addition to providing for a tax refund or tax credit and making 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, the Legislature may appropriate general funds for the pre-payment of either or both of debt service for General Obligation bonds issued by the State or pension or other post-employment benefit liabilities accrued for state employees.

Although a deposit into the EBRF was not required, the 2013 Legislature passed 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 fiscal year 2013 General Fund revenues by 5%; therefore, the 2015 Legislature was required to provide for a tax refund or tax credit but was not required to make a deposit into the EBRF. However, the 2015 Legislature found it preferable to address possible emergencies and contingencies that may occur in the future should revenues slow down and, instead of providing for a tax refund or tax credit, enacted Act 202, SLH 2015, to appropriate $10 million of general funds for deposit into the EBRF in fiscal year 2015. Because the measure was signed into law after the specified appropriation period, the $10 million could not be deposited into the EBRF in fiscal year 2015. The 2016 Legislature enacted Act 64, SLH 2016, to re-appropriate $1 million of general funds for deposit into the EBRF in fiscal year 2016 to comply with Article VII, Section 6 of the Hawaii State Constitution for the deposit that did not occur in fiscal year 2015.

In fiscal years 2014 and 2015, the general fund balance exceeded 5% of general fund revenues for both years. In addition, fiscal year 2015 general fund revenues exceeded fiscal year 2014 general fund revenues by 5%; therefore, the 2016 Legislature was required to provide a deposit into the EBRF. Accordingly, the 2016 Legislature enacted Act 104, SLH 2016, to appropriate $150 million in general funds for deposit into the EBRF in fiscal year 2017. In fiscal years 2015 and 2016, the General Fund balance exceeded 5% of General Fund revenues for both years, fiscal year 2016 General Fund revenues exceeded fiscal year 2015 General Fund revenues by 5%, and the EBRF ending fund balance was less than 10% of fiscal year 2015 general fund revenues. Therefore, the Director of Finance transferred 5% of fiscal year 2016 General Fund ending balance or approximately $51.4 million to the EBRF in fiscal year 2017. (See "Emergency and Budget Revenue Fund; Tobacco Settlement; Hurricane Relief Fund" in this Appendix A.) In fiscal years 2016 and 2017, the general fund balance exceeded 5% of general fund revenues for those years, however fiscal year 2017 general fund revenues did not exceed fiscal year 2016 general fund revenues by 5%; therefore, the 2018 Legislature was required to provide for a tax refund or tax credit but was not required to make a deposit into the EBRF. Subsequently, the 2018 Legislature opted to deposit tobacco settlement arbitration moneys directly to the EBRF that would otherwise be deposited to the Tobacco Settlement Special Fund. In fiscal years 2017 and 2018, the general fund balance exceeded 5% of general fund revenues for those years, fiscal year 2017 general fund revenues did not exceed fiscal year 2016 general fund revenues by more than 5%, fiscal year 2018 general fund revenues exceeded fiscal year 2017 general fund revenues by more than 5% and the EBRF ending balance was less than 10% of fiscal year 2017 general fund revenues; therefore, the 2019 Legislature will be required to provide for a tax refund or appropriate general funds for the pre-payment of either or both of debt service or pension or other post-employment benefit liabilities but will not be required to make a deposit into the EBRF.

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 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 2018, these taxes represented approximately 89% of all tax revenues of the State, and approximately 89% of all General Fund revenues (as reported by the Department of Accounting and General Services ("DAGS")).

The following table provides the General Fund tax revenues for fiscal year 2018 as reported by DAGS. (Please note that the tax revenue numbers are reported by DAGS on a cash basis and may differ from the tax revenue numbers reported by the Department of Taxation because of accounting system reclassifications and collection timing issues):

General Fund Taxes
(in thousands)

Description	Fiscal Year 2018	% of Total Taxes
General Excise	3,396,267	45.03%
Individual Net Income	2,429,836	32.22%
Transient Accommodations	315,264	4.18%
Premiums Of Insurance Companies	159,814	2.12%
Corporation Net Income	131,119	1.74%
Public Service Companies (Act 147, SLH 1963)	117,641	1.56%
Tobacco	79,914	1.06%
Conveyance (Act 10, SLH 1966)	55,805	0.74%
Liquor	51,383	0.68%
Inheritance	29,351	0.39%
Environmental Response Tax	15,373	0.20%
Franchise (Banks and Other Financial Corporations)	13,712	0.18%
Rental Motor Vehicle Surcharge Tax	2	0.00%
Total	6,795,482	90.11%

Note: Totals reflect rounding.

General Excise and Use Tax. The general excise tax is a tax imposed on businesses for the privilege of doing business in Hawaii and is assessed at various percentage rates on the gross income businesses derive from activity in the State. Businesses or consumers also may need to pay the use tax on the value of tangible personal property, services, and contracting that are brought into Hawaii from anywhere outside Hawaii. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. The general excise tax rate varies depending on the business activity; it is 0.15% on insurance commissions, 0.5% on certain activities such as wholesaling, and 4% on most activities at the consumer level. For fiscal year 2018, the general excise tax comprised approximately 45% of all tax revenues (as reported by DAGS). Effective January 1, 2007, the general excise and use tax was amended to provide the City and County of Honolulu a surcharge for the purpose of funding a mass transit system, thereby increasing the general excise and use tax rate for transactions attributable to the county, the proceeds of which accrue to the county. The surcharge of 1/2 of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes through 2022. Act 240, SLH 2015, provides that the City and County of Honolulu, by ordinance, may extend the surcharge through 2027. Act 1, 1st Special Session SLH 2017, provides that the City and County of Honolulu, by ordinance, may further extend the surcharge through 2030. Prior to September of 2017, the State retained, 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. Act 1, 1st Special Session SLH 2017, reduced the State's retention from 10% to 1% as of September 5, 2017. On December 11, 2017, Ordinance No. 1021 was enacted in Kauai County. Ordinance No. 1021 authorizes the imposition of a county surcharge (CS) on general excise tax (GET) for Kauai County beginning on January 1, 2019 and ending on December 31, 2030 at the rate of 0.5%. On June 29, 2018, Ordinance No. 1874 was enacted in Hawaii County. Ordinance No. 1874 authorizes the imposition of a county surcharge (CS) on general excise tax (GET) for Hawaii County beginning on January 1, 2019 and ending on December 31, 2020 at the rate of 0.25%.

Income Taxes. Net taxable income (gross income less exclusions and deductions) for both individuals and corporations is subject to a State income tax. Although there are differences, Hawaii income tax law generally follows the federal Internal Revenue Code in computing the net taxable income. The individual income tax rates for married individuals, including qualifying surviving spouses, and unmarried individuals, including qualifying heads of households, range from 1.4% to 8.25% of net taxable income. New top rates of 9%, 10% and 11% were added by Act 60, SLH 2009. The new top rates were in effect for taxable years beginning after December 31, 2008 and were repealed on December 31, 2015, after which the top rate of the individual income tax reverted to its old rate of 8.25%. The income tax rates for estates and trusts range from 1.4% to 8.25%. Corporate income tax rates range from 4.4% to 6.4%. For fiscal year 2018, individual income taxes comprised approximately 32% of all taxes (as reported by DAGS).

Act 107, SLH 2017, established a nonrefundable earned income tax credit for the period after December 31, 2017 through December 31, 2022 and reestablished new top income tax rates of 9%, 10% and 11% after December 31, 2017.

Transient Accommodations Tax. The transient accommodations tax ("TAT") is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units. The TAT rate is 9.25%. Act 93, SLH 2015, increased the previously lower TAT rates on time share vacation rentals from 7.25% to 8.25% beginning January 1, 2016 and to the current 9.25% rate beginning January 1, 2017. Act 121, SLH 2015, prioritized the distribution of TAT revenues to the following order, with the excess revenues to be deposited into the General Fund: (1) $1.5 million to the Turtle Bay conservation easement special fund beginning July 1, 2015, (2) $26.5 million to the convention center enterprise special fund, (3) $82.0 million to the tourism special fund and (4) $103.0 million to the Counties for each fiscal year 2015 and fiscal year 2016. Act 117, SLH 2015, allocated $3 million to the special land and development fund, beginning July 1, 2016. Act 233, SLH 2016, extended the allocation of $103 million to the Counties to fiscal year 2017 and $93.0 million for each fiscal year thereafter. Act 1, 1st Special Session SLH 2017, extended the annual allocation of $103 million to the counties to fiscal year 2018 and thereafter. Act 1 also increases the TAT rate from 9.25% to 10.25% effective January 1, 2018 and allocates the increased revenues to the mass transit special fund to fund the capital costs of a locally preferred alternative for a mass transit project for the City and County of Honolulu. For fiscal year 2018, the General Fund portion of the TAT comprised approximately 4% of all taxes (as reported by DAGS). Pursuant to Act 211, SLH 2018, when transient accommodations are furnished through arrangements made by a travel agency at noncommissioned negotiated contract rates and the gross income is divided by the operator and the travel agency, the TAT applies to both the operator and travel agency with respect to each person's respective portion of the proceeds.

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, fiscal years 2012 to 2016, and fiscal year 2018 non tax revenues have averaged approximately 11 to 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. In fiscal year 2017, non tax revenues were approximately 14% of total General Fund revenues, primarily as a result of the one-time increase in premiums on bonds sold (increased $74 million from the previous fiscal year) and the first full year of reimbursements from non-general funds for other post employment benefits (an increase of $45 million from the previous fiscal year).

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 2018 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
(in thousands)

Description		Fiscal Year 2018	% of Total Taxes
Transient Accommodations		136,626	1.81%
General Excise		133,499	1.77%
Liquid Fuel – Highways		83,489	1.11%
State Motor Vehicle Weight		83,145	1.10%
Rental Motor Vehicle Surcharge Tax		54,844	0.73%
State Vehicle Registration Fee		51,934	0.69%
Conveyance (Act 10, SLH 1966)		44,800	0.59%
Tobacco		40,473	0.54%
Environmental Response Tax		11,613	0.15%
Liquid Fuel – Aviation		2,632	0.03%
Premiums of Insurance Companies		2,504	0.03%
Franchise (Banks and Other Financial Corp)		2,000	0.03%
Liquid Fuel – Small Boats		1,722	0.02%
Employment & Training Fund Assessment		1,371	0.02%
	Total	650,651	8.63%

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 2018, taxes deposited into Special Funds were approximately 8.6% 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 of $3.00 per day effective July 1, 2012. The tax is levied on the lessor. There is a rental motor vehicle customer facility charge of $3.00 per day on motor vehicles rented from airport locations to pay for the development of airport rental car facilities effective July 1, 2012. The charge is levied on the lessor. There is 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. There is also a tour vehicle surcharge tax for each tour vehicle in the over 25 passenger seat category and for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator.

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

Federal Grants

State departments, agencies, and institutions annually receive both competitive and formula driven federal grants. Federal grants are not a source of payment for the Bonds. Over the past five years, approximately 63% 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 24% 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 7% of all federal grants, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, accounted for about 2% of such federal receipts. Other programs accounted for the balance of such receipts. In past years, federal funds generally accounted for approximately 15% to 21% of the total State budget for each year. With the receipt of federal stimulus funds in fiscal years 2010 to 2013, the portion of the State budget made up by federal funds increased to 23% in fiscal year 2010 and 20% in fiscal year 2011 and has been approximately 18% to 21% of the State budget through fiscal year 2018 (fiscal year 2017 was the last year of federal stimulus fund appropriations). The State is unable to predict whether federal grant funding received by the State's departments, agencies, and institutions in the current or any future fiscal year will be similar to historical levels.

In July 2013, the Office of Federal Award Management ("OFAM") was established in the Department of Budget and Finance. The purpose of OFAM is to: (1) plan, organize, direct, coordinate and conduct federal awards activities for Executive Departments and Agencies to advance the management, administration, and oversight of federal grants. The objective of these activities is to maximize the program and fiscal performance of federal awards, ensure compliance with state and federal rules and regulations and reduce the opportunity for waste, fraud and abuse; (2) establish and implement policies, procedures, and controls following review as necessary with the Director of Finance, Comptroller, and Governor to advance the financial management, administration and oversight of federal grants that are awarded to state executive departments and agencies; and (3) provide technical management services, assistance, and recommendations to the Governor, Director of Finance, Comptroller, and to the Directors and Heads of Executive Departments and Agencies, to maximize use of federal fund resources in order to achieve the State's statutory requirements, goals, and objectives efficiently, economically, and effectively.

Fiscal Year Ended June 30	**Grant Amount (in millions)**
2009	$2,294.2
2010	2,845.0*
2011	3,114.4*
2012	2,573.3*
2013	2,449.6*
2014	2,665.6*
2015	2,751.2*
2016	2,988.8
2017	2,802.8
2018	3,035.2

* 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.

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

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

Emergency and Budget Reserve Fund. HRS Chapter 328L, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve Fund ("EBRF"), a special fund for emergency and "rainy day" purposes. Deposits to the EBRF include appropriations made by the Legislature and a portion of the tobacco settlement moneys. In addition, Act 138, SLH 2010, provided that whenever State General Fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, the Director of Finance is required to deposit 5% of the State General Fund balance at the end of the fiscal year into the EBRF; however, no such transfer shall be made whenever the balance of EBRF is equal to or more than 10% of General Fund revenues for the preceding fiscal year. The State Constitution (Article VII, Section 6) also requires that the General Fund balance at the close of each of two successive fiscal years must exceed 5% of General Fund revenues for each of the two fiscal years before a deposit into an emergency fund is required. In fiscal years 2014 and 2015, the General Fund balance exceeded 5% of general fund revenues for both years. In addition, fiscal year 2015 General Fund revenues exceeded fiscal year 2014 General Fund revenues by 5%; therefore, the 2016 legislature was required to provide an appropriation for deposit into the EBRF. Accordingly, the 2016 Legislature enacted Act 104, SLH 2016, to appropriate $150 million in general funds to be deposited in the EBRF in fiscal year 2017. In fiscal years 2015 and 2016, the General Fund balance exceeded 5% of General Fund revenues for both years and fiscal year 2016 General Fund revenues exceeded fiscal year 2015 General Fund revenues by 5%, and the EBRF ending fund balance was less than 10% of fiscal year 2015 general fund revenues. Therefore, the Director of Finance transferred 5% of fiscal year 2016 General Fund ending balance or approximately $51.4 million to the EBRF in fiscal year 2017. In fiscal years 2016 and 2017, the General Fund balance exceeded 5% of General Fund revenues for both years. However, fiscal year 2017 General Fund revenues did not exceed fiscal year 2016 General Fund revenues by 5%; therefore, the 2018 Legislature was required to provide for a tax refund or tax credit but was not required to provide an appropriation for deposit into the EBRF. Subsequently, the 2018 Legislature opted to deposit tobacco settlement arbitration moneys directly to the EBRF that would otherwise be deposited to the Tobacco Settlement Special Fund. In fiscal years 2017 and 2018, the general fund balance exceeded 5% of general fund revenues for those years, fiscal year 2017 general fund revenues did not exceed fiscal year 2016 general fund revenues by more than 5%, fiscal year 2018 general fund revenues exceeded fiscal year 2017 general fund revenues by more than 5%, and the EBRF ending balance was less than 10% of fiscal year 2017 general fund revenues. Therefore, the 2019 Legislature will be required to provide for a tax refund or tax credit or appropriate general funds for the pre-payment of either or both of debt service or pension or other post-employment benefit liabilities but will not be required to provide an appropriation for deposit into the EBRF.

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. Act 207, SLH 2017, prohibits the Legislature from making appropriations from the EBRF: (1) that are more than 50% of the total EBRF balance; (2) that exceeds 10% of total discretionary funds (e.g., funds authorized for debt service payments, pension and retirement benefit costs, Medicaid services costs, etc.) appropriated by the Legislature; and (3) if General Fund Tax Revenues for the current fiscal year exceed the revenue collections of the immediately preceding fiscal year. 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 2009 through 2018. See "General Fund" in this Appendix A.

Emergency and Budget Reserve Fund Balances
(Fiscal Years Ended June 30, 2009-2018)

Fiscal Year	$ (Millions)
2009	60.4
2010	62.5
2011	9.7(1)
2012	24.2(2)
2013	24.2(3)
2014	83.2(4)
2015	90.2(5)
2016	100.9(6)
2017	311.3(7)
2018	375.7(8)

Source: Department of Accounting and General Services.

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

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

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

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

(5) In fiscal year 2015, the fund balance increased because $6.7 million from tobacco settlement moneys was deposited into the EBRF.
(6) In fiscal year 2016, the fund balance increased because $1 million of general funds was appropriated to the EBRF by Act 64, SLH 2016, and $6.9 million from tobacco settlement moneys was deposited into the EBRF.
(7) In fiscal year 2017, the fund balance increased because $150 million of general funds was appropriated to the EBRF by Act 104, SLH 2016; $51.4 million was deposited into the EBRF pursuant to Section 328L-3, HRS and Article VII, Section 6, of the Hawaii State Constitution; and $6.9 million was deposited into EBRF from tobacco settlement moneys.
(8) In fiscal year 2018, the fund balance increased because $58.7 million from the tobacco arbitration agreement was deposited into the EBRF pursuant to Act 12, SLH 2018; and $3.6 million was deposited into EBRF from tobacco settlement moneys.

Tobacco Settlement. On November 23, 1998, leading United States tobacco manufacturers entered into the Tobacco Master Settlement Agreement (hereinafter "Master Settlement Agreement" or "MSA") with forty-six states, including Hawaii. In consideration for a release of past, present, and certain future claims against them, the Master Settlement Agreement obligates these manufacturers to pay substantial sums to the settling states (tied in part to the volume of tobacco product sales).

PricewaterhouseCoopers LLP, independent auditor for the Master Settlement Agreement, in a September 1999 report, estimated that the State will receive annual proceeds from the tobacco settlement of $48 million a year for 2018 and thereafter, with the payment value being based on the annual tobacco sales. The annual MSA payments are in perpetuity; therefore, over the next 25 years, the payments would total about $1.2 billion. Actual moneys received have been less than the maximum projected as shown herein. The amount of future annual proceeds is subject to adjustments and offsets.

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

On April 19, 2018, Hawaii received an aggregate payment of $84.7 million that included a $58.7 million lump sum arbitration settlement of non-participating manufacturer adjustment moneys for calendar years 2004 through 2017 and $26.0 million for the annual tobacco payment distribution for calendar year 2017. Act 12, SLH 2018, required that the $58.7 million arbitration settlement be deposited into the EBRF. The remaining $26.0 million annual tobacco payment was distributed based on allocations prescribed by Act 118, SLH 2015.

The following table shows annual proceeds from the tobacco settlement for fiscal years 2009 through 2018.

Tobacco Settlement Proceeds (Fiscal Years Ended June 30, 2009-2018)

Fiscal Year	$ (Millions)
2009	60.0
2010	50.9
2011	47.7
2012	48.2
2013	48.6
2014	52.7
2015	47.2
2016	49.3
2017	48.7
2018	84.7

Source: Department of Health.

The Attorney General of each settling state under the Master Settlement Agreement is responsible for enforcing its provisions. The Master Settlement Agreement requires the State to diligently enforce the requirements of the "model statute," which was enacted as the Tobacco Liability Act. It is important to note that the Diligent Enforcement obligation is on-going and continuous and is subject to challenge by the participating manufacturers on a year to year basis.

Failure to diligently enforce the Tobacco Liability Act may result in a state losing a significant portion of its Master Settlement Agreement payments. After nearly two years of pretrial litigation and extensive discovery the Participating Manufacturers affirmatively challenged the State of Hawaii's Diligent Enforcement for the calendar year 2004. The State of Hawaii's Arbitration was scheduled to begin in August of 2018. With the assistance of outside counsel the State reached a Settlement with the Tobacco industry, on March 6, 2018, which resolved the Diligent Enforcement Arbitration Issues for the years 2004 through and including 2017. The Settlement spared the State the cost and uncertainty of ongoing and protracted arbitrations. It was estimated that had the matter gone to arbitration it could have cost the State approximately $1.5 million dollars in litigation costs. Had the State prevailed in the 2004 Diligent Enforcement Arbitration, Hawaii would have received $4,648,059.24, the amount withheld by the industry from the industry's 2004 payment to Hawaii, plus any interest that accrued on the withheld amount.

As mentioned above, the State of Hawaii reached an agreement with the Tobacco Industry that settled the Diligent Enforcement Arbitration Disputes for the years 2004 through and including 2017. The Settlement amount of $58,600,584.78 was received by the State on April 19, 2018. Outside Litigation costs totaled approximately $189,000.00.

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

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

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

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

Although not formally established as a budget reserve, the HHRF has been used as a de facto budget reserve. Appropriations from the HHRF require a majority vote by the Legislature. Act 143, SLH 2010, appropriated $67.0 million from the HHRF (of which $12.4 million was not required and was subsequently returned to the HHRF) to restore public school instructional days for school year 2010-11 that were reduced as part of a cost cutting, collective bargaining agreement that furloughed public school teachers for 21 days of which 17 were instructional days. Act 62, SLH 2011, authorized the Governor to transfer in two steps the remaining balance of the HHRF to the General Fund (at that point $120.3 million) in fiscal year 2011 to maintain program levels determined to be essential for education, public health, and public welfare. In total, $111.0 million was transferred pursuant to Act 62. Act 62 also provided a statutory mechanism to repay the HHRF in fiscal years 2014 (50 percent) and 2015 (50 percent) through designation of general excise tax revenues to be deposited into the HHRF. Act 266, SLH 2013, further accelerated the recapitalization of the HHRF by appropriating $50 million of general funds in fiscal year 2014 to the HHRF. The total amount that was deposited to the HHRF in fiscal year 2014 was $105.5 million and, as a result, the balance of the HHRF as of June 30, 2014 was $126.6 million. For fiscal year 2015, the required $55.5 million deposit from general excise taxes was completed in two increments: $25 million on September 24, 2014 and $30.5 million on September 26, 2014. As a result, the HHRF balance at the end of the fiscal year was $182.4 million. For fiscal year 2016, the HHRF ending balance was $186.9 million, due to a gain in market value of the investment portfolio. For fiscal years 2017 and 2018, the HHRF ending balance was $182.2 million and $177.9 million, respectively, due to decreases in the fund's investment portfolio unrealized gains balance.

The following table provides HHRF balances as of the end of each fiscal year from 2009 through 2018:

Hawaii Hurricane Relief Fund Balances
(Fiscal Years Ended June 30, 2009-2018)

Fiscal Year	$ (Millions)
2009	188.0
2010	188.2
2011	21.1
2012	21.1
2013	20.8
2014	126.6
2015	182.4
2016	186.9
2017	182.2
2018	177.9

Expenditure Control

Expenditure Ceiling. The State Constitution provides that, notwithstanding any other provision to the contrary, the Legislature shall establish a General Fund expenditure ceiling which shall limit the rate of growth of General Fund appropriations, excluding federal funds received by the General Fund, to the estimated rate of growth of the State's economy as provided by law and that no appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the General Fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the ceiling amount. Appropriations for recent fiscal years, except fiscal year 2007, have not exceeded the expenditure ceiling and appropriations for fiscal year 2019, 2020, and 2021 also will not exceed the expenditure ceiling.

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

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, moneys can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of the Executive Branch of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by Chapter 37, HRS. The Director of Finance and the Governor may modify or withhold planned expenditures if such expenditures would be in excess of authorized levels of service or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. Unencumbered allotment balances at the end of each quarter shall revert to the related appropriation account, except for the Department of Education and the University of Hawaii. 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 University of Hawaii 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. 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. No further appropriations of general obligation bond funds have been made or are expected to be made in the future to SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

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

By statute, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding, and, if mutually agreeable to the parties, final and binding arbitration. Although the statute characterizes arbitration as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies. If final and binding arbitration is not agreed upon, either party may take other lawful action to end the dispute, which, in the case of blue collar workers, public school teachers and university professors, could include an employee strike. In the case of the remaining eleven 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, 2019 to June 30, 2021 is as follows:

Unit 1 (blue collar workers): The United Public Workers ("UPW") and the employer reached a four-year (July 1, 2017 – June 30, 2021) agreement that was ratified in August 2017. The last two years of the agreement provides for across the board increases of 2% July 1, 2019 and 2% July 1, 2020. Negotiations regarding additional increase in the final two years of the contract are expected to begin in early 2019.

Unit 2 (blue collar supervisors): The current contract expires June 30, 2019. HGEA has filed for impasse and HLRB set the impasse date as December 10, 2018. The date for the arbitration hearing has not yet been determined.

Unit 3 (white collar workers): The current contract expires June 30, 2019. HGEA has filed for impasse and HLRB set the impasse date as November 7, 2018. The date for the arbitration hearing has not yet been determined.

Unit 4 (white collar supervisors): The current contract expires June 30, 2019. HGEA has filed for impasse and HLRB set the impasse date as November 21, 2018. The date for the arbitration hearing has not yet been determined.

Unit 5 (teachers): The Hawaii State Teachers Association ratified a new four-year agreement (July 1, 2017 – June 30, 2021) on April 27, 2017. The second two years of the agreement provide for an across the board wage adjustments of 3.5% at the beginning of the second quarter of the 2020-2021 school years and one step movement on the salary schedule at the beginning of the second quarter of the 2019-2020 school year or a $1,500 lump sum payment for teachers on the maximum step of the salary schedule. Negotiations on the continuation of the twenty-one hours of paid professional development time for the final two years of the contract are ongoing.

Unit 6 (educational officers): The Hawaii Government Employees Association ("HGEA") and the employer reached a new agreement (July 1, 2017 – June 30, 2021) that was ratified by the membership on April 28-29, 2017. The final two years of the agreement provide for across the board wage adjustments of 1.8% July 1, 2019 and 1.8% July 1, 2020. The agreement also provides for a one step movement on the salary schedule wage adjustment on January 1 of each year of the agreement or a 1.4% lump payment for educational officers on the maximum step of the salary schedule.

Unit 7 (faculty of the University of Hawaii): University of Hawaii Professional Assembly and the employer reached a four-year agreement (July 1, 2017 – June 30, 2021) that was ratified in July 2017. The last two years of the agreement provide for across the board increases of 2% July 1, 2019 and 2% July 1, 2020. Negotiations regarding additional increase in the final two years of the contract are expected to begin in early 2019.

Unit 8 (University of Hawaii administrative, professional and technical staff): The current contract expires June 30, 2019. HGEA has filed for impasse and the Hawaii Labor Relations Board (HLRB) set the impasse date as November 2, 2018. The date for the arbitration hearing has not yet been determined.

Unit 9 (registered professional nurses): The current contract expires June 30, 2019. HGEA has filed for impasse and HLRB set the impasse date as October 19, 2018. The date for the arbitration hearing has not yet been determined.

Unit 10 (institutional health and correctional workers): UPW and the employer and the employer reached a four-year (July 1, 2017 – June 30, 2021) that was ratified in August 2017. The last two years of the agreement provides across the board increases of 2% July 1, 2019 and 2% July 1, 2020. Negotiations regarding additional increase in the final two years of the contract are expected to begin in early 2019.

Unit 11 (firefighters): The current contract expires June 30, 2019. An arbitration hearing was held January 7 – 12, 22 – 25, and completed February 1, 2019. An arbitration award is expected prior to the end of the 2019 legislative session.

Unit 13 (professional and scientific employees): The current contract expires June 30, 2019. HGEA has filed for impasse and HLRB set the impasse date as October 31, 2018. The date for the arbitration hearing has not yet been determined.

Unit 14 (State law enforcement officers and State and county ocean safety and water safety officers): The current contract expires June 30, 2019. HGEA has filed for impasse and HLRB set the impasse date as December 10, 2018. The date for the arbitration hearing has not yet been determined.

State Employees' Health Benefits

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

Act 245, SLH 2005 (partially codified as HRS Chapter 87D), temporarily authorized employee organizations to establish voluntary employees beneficiary association ("VEBA") trusts to provide health benefits to state and county employees in their bargaining units outside of the Trust Fund. Each VEBA trust was to provide health benefits to State and county employees who retired after establishment of the VEBA trust ("future retirees") and was to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("existing retirees") a one-time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees were to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees were to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 was to allow the temporary establishment of a VEBA trust pilot program so as to enable a thorough analysis of the costs and benefits of VEBA trusts against the Trust Fund to determine what actual savings could be realized by the State through the VEBA trust mechanism. The Hawaii State Teachers Association ("HSTA") implemented a VEBA trust for its active employees on March 1, 2006 and for retirees on January 1, 2007. Act 245 was amended by Act 294, SLH 2007 to extend the repeal date to July 1, 2009 for any VEBA implemented in March 2006. Act 5, First Special Session 2008, amended Act 245, SLH 2005, to extend the sunset date to July 1, 2010. Act 106, SLH 2010, amended Act 245, SLH 2005, to provide a final extension of the sunset date to December 31, 2010, to allow for a smoother transition from the HSTA VEBA trust to the Trust Fund. In September 2010, two participants in the HSTA VEBA trust and the trustees of the HSTA VEBA trust ("plaintiffs") filed a purported class action lawsuit seeking, in part, to enjoin the transition from the HSTA VEBA trust to the Trust Fund. See *Gail Kono, et al. v. Neil Abercrombie, et al*, Civil No. 10 1 1966 09, First Circuit Court, State of Hawaii. On December 7, 2010, the First Circuit Court ("circuit court") denied the plaintiffs' motion for a temporary injunction to enjoin the transition of active employees and retirees from the HSTA VEBA trust to the Trust Fund. However, the circuit court ruled that the Trust Fund was required to provide the active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their HSTA VEBA trust health benefits plans. The circuit court also ruled that approximately $3.96 million in surplus funds that the HSTA VEBA trust returned to the State's General Fund should be paid by the State to the Trust Fund and used to ensure that active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund can maintain their same standard of coverage benefits as ordered by the circuit court. Based on these rulings, the active employees and retirees in the HSTA VEBA trust were transitioned to the Trust Fund, effective January 1, 2011. A final judgment was entered on the circuit court's rulings and both the State and plaintiffs filed appeals. On April 24, 2013, the Intermediate Court of Appeals (the "ICA") issued a memorandum opinion vacating the final judgment and several related orders. The ICA said the circuit court lacked authority to render the final judgment in the absence of an appropriate pending motion from either party. When the final judgment was entered, the ICA said there was no pending dispositive motion on which the circuit court could terminate the litigation. The ICA remanded the case to the circuit court for further proceedings. The ICA left standing the order that requires the Trust Fund to provide active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their former HSTA VEBA trust health benefits plans and that required the State to pay the surplus funds returned by the HSTA VEBA trust to the Trust Fund. The State intends to continue to vigorously defend against Plaintiffs' claim in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the years ended June 30, 2013, 2014, 2015, 2016, 2017 and 2018.

Other Post Employment Benefits

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

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

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

The State has received the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") July 1, 2018 Actuarial Valuation Report (the "Trust Fund Report") and the GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions report (the "GASB 75 Report") prepared for fiscal year ending June 30, 2018 of the Trust Fund's OPEB liabilities. The Trust Fund and the GASB 75 Reports were 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 75 and develops the Annual Required Contributions ("ARC"). The GASB 75 Report complements the Trust Fund Report and the calculation of the OPEB Trust liability for this report is not applicable for funding purposes of the OPEB Trust.

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, 2018 is $9,413.6 million. The corresponding ARC for the fiscal years ending June 30, 2019 and 2020 are $787.1 million and $814.7 million, respectively, of which 76% is an expense of the General Fund and 24% is to be paid from non-general funds of the State. The Trust Fund Report estimates the "pay-as-you-go" funding amounts for fiscal years ending June 30, 2019 and 2020 are $373.3 million and $410.8 million, respectively.

In the past, the State funded its OPEB costs on a "pay-as-you-go" basis; however, the State began the process of pre-funding its OPEB costs with contributions in the amount of $100 million for fiscal year ending June 30, 2014. The State has met its pre-funding OPEB contribution in accordance with Act 268, SLH 2013 for the fiscal years ending June 30, 2015, 2016, 2017 and 2018 with actual contributions of $117.4 million (versus the $83.0 million Act 268, SLH 2013 required contribution), $249.8 million (versus the $163.6 million Act 268, SLH 2013 required contribution), $333.0 million (versus the $230.2 million Act 268, SLH 2013 required contribution) and $337.1 million (versus the $297.063 million Act 268, SLH 2013 required contribution), respectively. The market value of the State's OPEB assets amounted to $1.3 billion as of June 30, 2018. The State requested and was appropriated $787.1 million for the fiscal year ending June 30, 2019 for ARC payments.

Act 93, SLH 2017, requires the EUTF board of trustees to conduct an annual actuarial valuation of the Trust Fund. Previous practice was to have an actuarial valuation every two years. Act 93 also requires the board to update all assumptions specific to the Trust Fund used in the valuation at least once every three years.

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Hawaii EUTF Contributions
Fiscal Years 2014 — 2021

Fiscal Year	ARC	Benefit Payment*	UAAL Prefunding Balance	Act 268 Prefunding Requirement %	Act 268 Prefunding Requirement $	Total Prefunding Contribution**	Total Requirement
2014	$692,622,000	$281,584,000	$411,038,000	N/A	N/A	$100,000,000	$ N/A
2015	717,689,000	302,738,000	414,951,000	20%	$82,990,000	117,400,000	N/A
2016	742,808,000	333,770,000	409,038,000	40%	163,615,000	249,827,434	N/A
2017	744,248,000	360,606,000	383,642,000	60%	230,185,000	333,049,894	N/A
2018	770,297,000	357,026,000	413,271,000	80%	297,063,000	337,129,000	N/A
2019**	787,110,000	373,349,000	413,761,000	100%	787,110,000	787,110,000	787,110,000
2020**	814,659,000	410,843,000	403,816,000	100%	814,659,000	814,659,000	814,659,000
2021**	842,456,000	452,222,000	390,234,000	100%	842,456,000	842,456,000	842,456,000

*Gabriel Roeder Smith & Company projections
**Fiscal years 2014, 2015, 2016, 2017, 2018 and 2019 are actual, and 2020 and 2021 are projected based on the 2018 Trust Fund Report and included in the State's General Fund Financial Plan. Effective fiscal year 2019, Act 268 requires 100% ARC payment.

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

State Employees' Retirement System

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

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

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 93rd Annual Actuarial Valuation for the Year Ended June 30, 2018 (the "2018 Valuation Report"), which is the most recent valuation report of the System.

The information presented in the 2018 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in December 2016 effective with the June 30, 2016 valuation. Since the June 30, 2016 valuation, there have been no changes in the benefit structure, but future employer contribution rates were enacted through statute. This is the sixth 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 2018 Valuation Report are projections showing the long term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012. In June 2012, the Governmental Accounting Standards Board ("GASB") voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), was effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), was effective for fiscal years beginning after June 15, 2014. GASB 68 requires governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

The State implemented GASB 68 beginning with the fiscal year ending June 30, 2015. Like most public employers, the State reflected pension liabilities directly on its Statement of Net Position, which resulted in a reduction in the State's reported net position. As allowed under GASB 68 the State is reporting its GASB 68 disclosure items one year in arrears (information measured as of June 30, 2017 is reported as of June 30, 2018). The amount of the ERS net pension liability (measured as of June 30, 2017, the most recent information available) allocated to the State (not including the University of Hawaii) is approximately $7.3 billion, or approximately 57% of the $12.95 billion net pension liability for all participating employers.

General Information

The System began operation on January 1, 1926. The System is a cost sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System's plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost sharing plan, the System does not allocate its liabilities among participating employers. However, based on the new GASB 68 financial reporting requirements for employers, the State's share of the System, based on employer contributions, is approximately 70% (including the University of Hawaii), with the remaining 30% share as the responsibility of the four counties. Although the State's employer contributions are recorded as expenses of the General Fund, approximately 25% 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.

On July 5, 2016, the System's actuary completed an Actuarial Experience Study for the five year period ended June 30, 2015 (the "2015 Experience Study"). To better reflect the recent actual experience of the System, in December 2016 the Board of Trustees adopted the assumption recommendations set forth in the 2015 Experience Study. The Board also set the investment yield rate assumption of 7.00%. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012 and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

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

The demographic data for each annual June 30 valuation is collected as of the March 31st preceding the valuation date. As of March 31, 2018, the contributory plan covered 5,647 active employees (which includes police and fire) or 8.5% of all active members of the System, the noncontributory plan covered approximately 12,841 active employees or 19.4%, and the Hybrid Plan covered 47,783 active members or 72.1%. 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, 2018, the System's membership comprised approximately 66,271 active employees, 9,249 inactive vested members and 48,569 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, 2016, 2017 and 2018:

Category	March 31, 2016	March 31, 2017	March 31, 2018
Active	67,377	65,911	66,271
Inactive, vested	7,741	9,241	9,249
Retirees and beneficiaries	45,506	46,927	48,569
Total	**120,624**	**122,079**	**124,089**

Funded Status

Net Pension Liability

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 separate annual actuarial valuation reports, one of which provides information for funding purposes and 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 (the "GASB 67/68 Report"). The most recent GASB 67/68 Report was delivered in March 2018 and presents as of June 30, 2018 the required information measured as of June 30, 2017 as permitted by GASB 68. As reported therein, the total pension liability of the System was $28,648,630,533 and the System's fiduciary net position (representing the value of the assets of the System) was $15,698,324,306, resulting in a net pension liability of the System of $12,950,306,227. Of such liability, the State's proportionate share was approximately $7,330,815,866 (not including approximately $1,648,600,600 allocated to the University of Hawaii), representing approximately 57% of the total System net pension liability. The State estimates that the General Fund portion of the State's share is 75%.

Under GASB 67, projected benefit payments by the System are required to be discounted to their actuarial present values using a single discount rate that reflects a long-term expected rate of return on System investments. Such expected rate of return, and consequently the single discount rate, is set at 7.00%. GASB 68 further requires disclosure of the sensitivity of the net pension liability to changes in the assumed single discount rate by presenting the changes to the net pension liability associated with a 1% decrease and a 1% increase in the single discount rate. Applying a 6.00% discount rate, the $12,950,306,227 net pension liability would increase to $16,846,997,813, and applying an 8.00% discount rate, it would decrease to $9,737,284,744.

Unfunded Actuarial Accrued Liability

In addition to the annual GASB 67/68 Report, the actuary provides its 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 unfunded actuarial accrued liability (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 most recent such report is the 2018 Valuation Report, presenting the actuarial condition of the ERS as of June 30, 2018.

The valuation report as of June 30, 2016 (the "2016 Valuation Report") reported that the System's funded status had decreased compared to the prior year, which decrease was primarily attributable to the new actuarial assumptions adopted by the Board in December 2016, and, to a lesser degree, to investment and liability experience losses, resulting in a UAAL as of June 30, 2016 of $12.441 billion. Based on the then-current statutory contribution rates of 25.0% for police and fire employees and 17.0% for all other employees (see "-Funding Policy" below), and the new benefit tier for employees hired after June 30, 2012, the actuary determined in the 2016 Valuation Report that the remaining amortization period was 66 years. Because this period was not within 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System were not 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.

To bring the System's funding period to within 30 years as required by HRS Section 88-122(e)(1)), the Legislature adopted Act 17, SLH 2017 during the 2017 regular legislative session. Act 17 contains significant increases to employer contribution rates over a four-year period. The 2018 Valuation Report reported that the UAAL increased to $13.405 billion as of June 30, 2018, compared to $12.928 billion as of June 30, 2017. The positive investment returns on financial markets in fiscal year 2017 continued in fiscal year 2018, resulting in a return of 7.89% on the market value of assets. The funded ratio increased slightly to 55.2% in 2018, compared to 54.9% for the prior year based on smoothed assets. Based on the assumptions used in preparing the 2016 Valuation Report and the future contribution rates established by the Legislature effective July 1, 2017 in Act 17, SLH 2017, the actuary determined that, as of the 2018 Valuation Report, the remaining amortization period was 25 years. Thus, the current contribution rates are sufficient to eliminate the UAAL over a period of 30 years or less as mandated by HRS Section 88-122(e)(1).

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

To bring the funding period of the System within 30 years, Act 17, SLH 2017, which became effective on July 1, 2017, increases employer contribution requirements as follows:

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

The Legislature also included $34.6 million in fiscal year 2017-2018 and $70.7 million in fiscal year 2018-2019 in the Executive Budget Bill (Act 49, SLH 2017), which was approved by the Legislature on May 2, 2017 to fund the contribution increases required by Act 17, SLH 2017.

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 fiscal year ended June 30, 2018.

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, 2018 valuation, this determination was made using an open group projection due to the effects of the new lower tier of benefits adopted effective July 1, 2012 and the increased employer contribution rates mandated by Act 17, SLH 2017.

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, 2018 was 13.90% of payroll, which was 12.54% of payroll less than the total contributions required by law (20.36% from employers plus 6.08% in the aggregate from employees). Since only 7.82% of the employers' 20.36% contribution is required to meet the normal cost (6.08% comes from the employee contribution), it is intended that the remaining 12.54% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that pay for new entrants increases by 3.50% per year. Due to the changes enacted in 2011 (new benefits and contribution rates for members hired after June 30, 2012) and in 2017 (increases in the employer contribution rates), 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, 2018 plus a 30-year open group projection of ERS' assets and liabilities. The projection assumes no actuarial gains or losses in the actuarial liabilities or the actuarial value of assets. In addition, the projection reflects the changes made to the benefits and member contribution rates of employees hired after June 30, 2012, and the increased employer contributions required by Act 17, SLH 2017.

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Projection Results Based on June 30, 2018 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)
2017	19.16%	$ 4,265	$ 817	$28,649	$15,721	$12,928	54.9%
2018	20.39%	4,375	892	29,710	16,370	13,341	55.1%
2019	23.61%	4,497	1,062	30,864	17,161	13,703	55.6%
2020	25.95%	4,625	1,200	32,022	18,108	13,914	56.5%
2021	25.95%	4,759	1,235	33,181	19,185	13,996	57.8%
2022	25.94%	4,897	1,270	34,342	20,293	14,049	59.1%
2023	25.93%	5,042	1,308	35,504	21,435	14,069	60.4%
2024	25.92%	5,193	1,346	36,666	22,614	14,052	61.7%
2025	25.91%	5,350	1,386	37,826	23,831	13,995	63.0%
2026	25.90%	5,515	1,429	38,985	25,092	13,893	64.4%
2027	25.89%	5,688	1,473	40,141	26,400	13,741	65.8%
2028	25.88%	5,868	1,519	41,297	27,763	13,534	67.2%
2029	25.88%	6,056	1,567	42,455	29,188	13,267	68.8%
2030	25.87%	6,253	1,617	43,615	30,683	12,932	70.3%
2031	25.86%	6,457	1,670	44,780	32,255	12,525	72.0%
2032	25.85%	6,670	1,724	45,951	33,913	12,038	73.8%
2033	25.85%	6,891	1,781	47,128	35,666	11,462	75.7%
2034	25.84%	7,121	1,840	48,314	37,523	10,791	77.7%
2035	25.84%	7,361	1,902	49,513	39,498	10,015	79.8%
2036	25.84%	7,610	1,966	50,726	41,601	9,125	82.0%
2037	25.84%	7,869	2,033	51,958	43,847	8,110	84.4%
2038	25.84%	8,139	2,103	53,212	46,252	6,960	86.9%
2039	25.84%	8,421	2,176	54,496	48,833	5,663	89.6%
2040	25.85%	8,714	2,252	55,813	51,608	4,205	92.5%
2041	25.85%	9,019	2,332	57,171	54,597	2,574	95.5%
2042	25.86%	9,336	2,414	58,577	57,823	754	98.7%
2043	4.30%	9,665	415	60,037	61,307	(1,270)	102.1%
2044	4.25%	10,007	425	61,558	62,916	(1,357)	102.2%
2045	4.21%	10,361	426	63,148	64,599	(1,451)	102.3%
2046	4.18%	10,728	448	64,811	66,362	(1,551)	102.4%

Projection assumes all assumptions exactly met, including a 7.00% annual return on the current actuarial value of assets.
Source: 2018 Valuation Report.

Actuarial Valuation

The actuarial value of assets is equal to the market value, adjusted for a four-year phase-in of actual investment return in excess of or below expected investment return. The actual return is calculated net of investment 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 2015 Experience Study. These assumptions, funding changes and benefit structure are reflected in the 2016 Valuation Report and in the 2017 and 2018 Valuation Report. The impact of the new actuarial assumptions was an increase in the unfunded liabilities of the System of approximately $2.9 billion in the 2016 Valuation Report.

Act 85, SLH 2017, requires the Employees' Retirement System to conduct an annual stress test of the system and to report the results of the test to the Legislature annually. The test is to project the effect of certain unfavorable scenarios on the system's assets, liabilities, funded ratio and other specified benchmarks. Act 93, SLH 2017, requires the Employees' Retirement System Board of Trustees to conduct an actuarial experience study of assumptions used in the actuarial valuation of the system at least once every three years. Previous statutes required an experience study once every five years. The next experience study will be performed following the June 30, 2018 valuation.

The actual investment returns of the System for fiscal years 2009 through 2018 shown below consist of a mix of gross and net of fees.

Fiscal Year	Percentage
2009	-17.54%
2010	11.96%
2011	21.25%
2012	-0.14%
2013	12.57%
2014	17.77%
2015	4.23%
2016	-0.78%
2017	13.68%
2018	7.89%

Source: Report on Investment Activity for the ERS prepared by The Northern Trust Company (2008 to 2013), The Bank of New York Mellon (2014 to 2017), and reported in the ERS' CAFRs.

Through September 30, 2018, the actual investment return (market return) of the System for the first three months of fiscal year 2019 was estimated at 2.5%, gross of investment and administrative expenses.

The State anticipates that as the percentage of employees hired on and after July 1, 2012 increases, and increases in the employer contribution rates required by Act 17, SLH 2017, impact the System, the State will be able to fully amortize the UAAL over a 30 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 should enable the Retirement System to absorb the prior adverse experience and the revised actuarial assumptions over the 30 year term.

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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)
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011**	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%
2012	12,242.5	20,683.4	8,440.9	59.2%	3,890.0	217.0%
2013	12,748.8	21,243.7	8,494.9	60.0%	3,906.7	217.4%
2014	13,641.8	22,220.1	8,578.3	61.4%	3,991.6	214.9%
2015***	14,463.7	23,238.4	8,774.7	62.2%	4,171.4	210.4%
2016****	14,998.7	27,439.2	12,440.5	54.7%	4,258.9	292.1%
2017	15,720.6	28,648.6	12,928.0	54.9%	4,265.0	303.1%
2018	16,512.7	29,917.4	13,404.7	55.2%	4,383.7	305.8%

Source: 2018 Valuation Report.
**Figures reflect assumption changes effective June 30, 2011.
***Reflects change in investment return assumption effective June 30, 2015.
****Reflects assumption changes effective June 30, 2016.

The 2018 Valuation Report found that the UAAL will be fully amortized over a 25-year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2023. The combination of the higher contribution policies and new benefit structure for future employees is expected to enable the System to absorb the prior adverse experience over the 25-year term.

The total assets of the System on a market value basis available for benefits amounted to approximately $14.2 billion as of June 30, 2014, $14.5 billion as of June 30, 2015, $14.1 billion as of June 30, 2016, $15.7 billion as of June 30, 2017 and $16.6 billion as of June 30, 2018. Actuarial certification of assets as of June 30, 2014 was $13.6 billion, as of June 30, 2015 was $14.5 billion, as of June 30, 2016 was $15.0 billion, as of June 30, 2017 was $15.7 billion, and as of June 30, 2018 was $16.5 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:

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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)
2009	11,400.1	8,818.0	77.4%	64.6%	50.0%
2010	11,345.6	9,821.6	86.6%	61.4%	53.2%
2011	11,942.8	11,642.3	97.5%	59.4%	57.9%
2012	12,242.5	11,285.9	92.2%	59.2%	54.6%
2013	12,748.8	12,357.8	96.9%	60.0%	58.2%
2014	13,641.8	14,203.0	104.1%	61.4%	63.9%
2015	14,463.7	14,505.5	100.3%	62.2%	62.4%
2016	14,998.7	14,070.0	93.8%	54.7%	51.3%
2017	15,720.6	15,698.3	99.9%	54.9%	54.8%
2018	16,512.7	16,598.4	100.5%	55.2%	55.5%

Source: The 2009-2018 Valuation Reports

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 2017 and 2018:

NORMAL COST

	June 30,					
	2017			2018		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	25.56%	12.39%	13.96%	25.46%	12.38%	13.90%
Employee contribution rate	12.43%	5.06%	5.94%	12.49%	5.24%	6.08%
Effective employer normal cost rate	13.13%	7.33%	8.02%	12.97%	7.14%	7.82%

Source: 2018 Valuation Report.

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in thousands)

June 30,	Actual Contribution
2009	578,635
2010	547,613
2011	534,858
2012	548,353
2013	581,447
2014	653,128
2015	717,793
2016	756,558
2017	781,244
2018	847,595

Source: The 2014-2018 Valuation Reports.

Asset Allocation

In August 2014, the Board of Trustees of ERS approved the adoption of a change in its asset allocation policy from the previous asset-class policy to a new risk-based asset allocation framework within the categories of Broad Growth, Principal Protection, Crisis Risk Offset, Real Return and Other. The new policy became effective as of October 1, 2014. The following table shows the target and actual asset allocation of the System as of September 30, 2018 under the new asset allocation policy:

ASSET ALLOCATION
(as of September 30, 2018)

	Actual Allocation		Target Allocation		
Asset Type	**Amount ($mm)**	**Percentage**	**Amount ($mm)**	**Percentage***	**Allocation Difference**
Broad Growth	$12,639.0	75.0%	$12,639.0	72.0%	0.3%
Principal Protection	1,362.8	8.1%	1,362.8	8.0%	0.1%
Crisis Risk Offset	2,105.2	12.5%	2,105.2	13.0%	-0.5%
Real Return	510.5	3.0%	510.5	7.0%	-4.0%
Opportunities	28.8	0.2%	0.0	0.0%	0.2%
Other	207.6	1.2%	0.0	0.0%	1.2%
Total	**$ 16,853.9**	**100.0%**	**$16,853.9**	**100.0%**	

Source: Valuations provided by BNY Mellon – September 30, 2018; values unaudited.

* Target Percentages are the June 2018 Risk-Based Policy Targets. Numbers subject to changes and rounding errors.

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) *Fourth Quarter 2018 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 2018 is 3.0 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2018 State's GDP growth to be 1.0 percent over that of the previous year.

State of the Economy

Hawaii's major economic indicators were mostly positive in the third quarter of 2018. Visitor arrivals, visitor expenditures, State general fund tax revenues, wage and salary jobs, personal income (through the second quarter of

2018), private building authorizations, and State CIP expenditures all increased in the quarter compared to third quarter 2017. Only government contracts awarded decreased in the quarter.

In the third quarter of 2018, the total number of visitors arriving by air to Hawaii increased 99,390 or 4.1 percent. Due to longer lengths of stay, the daily visitor census increased 5.0 percent in the quarter. Since visitors spent less on a daily basis in the third quarter of 2018, total visitors by air spending increased 4.4 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 has shown positive growth compared with the same quarter in the previous year.

In the third quarter of 2018, jobs in the construction sector increased 0.6 percent or 200 jobs, the government contracts awarded decreased $250.3 million or 38.8 percent, the permit value for private construction increased $20.9 million or 2.9 percent, and State CIP expenditures increased $46.5 million or 12.3 percent, compared with the same quarter of 2017. According to the most recent excise tax base data available, current construction put-in-place increased $31.9 million or 1.5 percent in the first quarter of 2018, compared with that quarter in 2017.

In the third quarter of 2018, State general fund tax revenues were up $6.2 million or 0.4 percent over the same period of 2017. Net individual income tax revenues increased $67.5 million or 12.4 percent, and State general excise tax revenue decreased $20.7 million or 2.3 percent in the third quarter of 2018, compared to third quarter 2017. In the first three quarters of 2018, State general fund tax revenues increased $317.3 million or 6.4 percent, and state general excise tax revenue increased $25.1 million or 1.0 percent, compared to the same period of the previous year.

Labor market conditions were mainly positive. Hawaii's jobs increased for the 32nd consecutive quarter beginning in fourth quarter 2010. In the third quarter of 2018, Hawaii's non-agricultural wage and salary jobs averaged 658,800 jobs, an increase of 12,700 jobs or 2.0 percent from the same quarter of 2017.

The job growth in the third quarter of 2018 was due to job increases in both the private sector and the government sector. In this quarter, jobs increased the most in Food Services and Drinking Places, adding 4,500 jobs or 6.5 percent. This was followed by Professional & Business Services, adding 2,100 jobs or 2.6 percent, Financial Activities, adding 1,500 jobs or 5.3 percent, Health Care & Social Assistance, adding 1,500 jobs or 2.1 percent, and Transportation, Warehousing, and Utilities, adding 700 jobs or 2.1 percent in the quarter. In the third quarter of 2018, Manufacturing lost 500 jobs, and Information lost 400 jobs in the quarter. The three levels of government added 1,500 jobs or 1.3 percent in the third quarter of 2018 compared to the same quarter of 2017. The Federal Government added 100 jobs or 0.3 percent; State Government added 1,100 jobs or 1.7 percent, and Local Government added 300 jobs or 1.6 percent, compared to the third quarter of 2017.

In the second quarter of 2018, total annualized nominal GDP increased $3,021 million or 3.4 percent, from the second quarter of 2017. In the first half of 2018, total annualized nominal GDP increased $2,545 million or 2.9 percent from the same period of the previous year. In the second quarter of 2018, total annualized real GDP (in chained 2012 dollars) increased $755 million or 1.0 percent from the second quarter of 2017. In the first half of 2018, total annualized real GDP increased $389 million or 0.5 percent from the same period of the previous year.

In the second quarter of 2018, total non-farm private sector annualized earnings increased $1,578.4 million or 4.2 percent from the second quarter of 2017. In dollar terms, the largest increase occurred in health care and social assistance; followed by accommodation and food services, retail trade, professional, scientific, & technical services, and construction. During the second quarter of 2018, total government earnings increased $18.3 million or 0.1 percent from the same quarter of 2017. Earnings from the federal government increased $109.1 million or 1.3 percent. Earnings from the state and local governments decreased $90.8 million or 1.3 percent in the quarter.

In the first half of 2018, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.6 percent from the same period in 2017. This is 0.9 of a percentage point below the 2.5 percent increase for the U.S. average CPI-U and is lower than the first half of 2017 Honolulu CPI-U increase of 2.5 percent from the same period of the previous year. In the first half of 2018, the Honolulu CPI-U increased the most in Transportation Housing (4.3 percent), followed by Food and Beverages (2.1 percent), Housing (1.8 percent), Other Goods and Services (1.7

percent), and Recreation (0.9 percent). The price of Education and Communication decreased 2.5 percent and the price of Apparel decreased 2.8 percent compared to the first half of 2017.

Outlook for the Economy

Hawaii's economy is expected to continue positive growth in 2018 and 2019. 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 November 2018 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 2.9 percent in 2018, same as the growth rate projected in the August 2018 forecast. For 2019 the consensus forecast predicts an overall 2.6 percent growth in U.S. real GDP.

According to the November 2018 Blue Chip Economic Consensus Forecast, real GDP growth for Japan is now expected to increase 1.1 percent in 2018, 0.1 of a percentage point below the growth rate projected in the August 2018 forecast. For 2019, the consensus forecast now projects an overall 1.1 percent growth rate for Japanese real GDP.

For the local economy, DBEDT expects that visitor expenditures will grow at a lower rate than projected in the previous forecast for 2018, and real GDP growth rate will be lower than projected in the previous forecast.

Overall, Hawaii's economy, as measured by real GDP, is projected to show a 1.0 percent increase in 2018, 0.5 of a percentage point below the growth rate forecast last quarter. The real GDP growth forecast for 2019 is 1.2 percent, 0.4 of a percentage point below the previous forecast.

Hawaii's unemployment rate is projected to be 2.3 percent in 2018, 0.1 of a percentage point above the previous forecast. The unemployment rate in 2019 is projected to be 2.5 percent, same as the previous forecast.

Visitor arrivals are expected to increase 5.8 percent in 2018, 0.3 of a percentage point below the previous forecast. The forecast for visitor days in 2018 increased 0.2 of a percentage point to 6.0 percent. The 2018 forecast for visitor expenditure growth was revised downward to 8.9 percent, from 9.2 percent growth projected in the previous forecast. For 2019, the growth rate of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.8 percent, 2.1 percent, and 4.2 percent, respectively.

The projection for the non-agricultural wage and salary job growth rate for 2018 is 1.2 percent, the same as the previous forecast. In 2019, jobs are projected to increase 0.9 percent, also the same as the previous forecast.

The Honolulu Consumer Price Index (CPI) is expected to increase 2.0 percent in 2018, the same as the previous forecast. In 2019, the CPI is projected to increase 2.3 percent, also the same as the previous forecast.

Personal income in current dollars is expected to increase 3.3 percent in 2018, 0.2 of a percentage point below the previous forecast. Real personal income is now projected to grow 1.6 percent in 2018, 0.2 of a percentage point below the previous forecast. In 2019, current-dollar personal income and real personal income are expected to increase 3.5 and 1.7 percent, respectively.

Beyond 2019, the economy is expected to continue its expansion path, with job growth projected to be 0.9 percent in 2020 and 0.8 percent in 2021. Visitor arrivals are expected to increase 1.5 percent in 2020 and 2021. Visitor expenditures are expected to increase 3.6 percent in 2020 and 2021. Real personal income is projected to increase 1.7 percent in 2020 and 1.6 percent in 2021. Hawaii's real GDP growth is expected to increase 1.4 percent in both 2020 and 2021. The unemployment rate is expected to increase to 3.0 percent in 2020 and 3.4 percent in 2021.

INFORMATION ON EMPLOYMENT, WAGES AND SALARIES, TAX REVENUES AND TAX BASE
Table 1
SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	3rd QUARTER 2017	3rd QUARTER 2018	3rd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2017	YEAR-TO-DATE 2018	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	683,350	685,100	0.3	686,700	686,650	0.0
Civilian employed, NSA	667,900	669,400	0.2	669,650	671,750	0.3
Civilian unemployed, NSA	15,450	15,650	1.3	17,050	14,850	-12.9
Unemployment rate, NSA (%) 1/ 2/	2.3	2.3	0.0	2.5	2.2	-0.3
Total wage and salary jobs, NSA	652,100	664,800	1.9	655,850	667,100	1.7
Total non-agric. wage & salary jobs	646,100	658,800	2.0	649,900	660,800	1.7
Nat. Resources, Mining, Constr.	36,100	36,300	0.6	36,100	36,100	0.0
Manufacturing	14,200	13,700	-3.5	14,200	13,900	-2.1
Wholesale Trade	17,900	18,200	1.7	17,900	18,300	2.2
Retail Trade	70,700	70,600	-0.1	70,500	70,100	-0.6
Transp., Warehousing, Util.	32,800	33,500	2.1	32,500	33,200	2.2
Information	9,400	9,000	-4.3	9,200	9,000	-2.2
Financial Activities	28,500	30,000	5.3	28,600	29,200	2.1
Professional & Business Services	82,300	84,400	2.6	82,000	84,000	2.4
Educational Services	13,500	13,900	3.0	14,100	14,100	0.0
Health Care & Social Assistance	70,700	72,200	2.1	69,600	72,100	3.6
Arts, Entertainment & Recreation	12,600	12,800	1.6	12,600	12,700	0.8
Accommodation	41,700	42,300	1.4	41,400	42,300	2.2
Food Services & Drinking Places	69,200	73,700	6.5	68,700	73,100	6.4
Other Services	27,800	28,100	1.1	27,700	28,100	1.4
Government	118,700	120,200	1.3	124,900	124,600	-0.2
Federal	33,300	33,400	0.3	33,300	33,400	0.3
State	66,100	67,200	1.7	72,500	71,900	-0.8
Local	19,300	19,600	1.6	19,000	19,300	1.6
Agriculture wage and salary jobs	6,000	6,000	0.0	6,000	6,300	5.0
State general fund revenues ($1,000)	1,691,534	1,697,772	0.4	4,960,788	5,278,087	6.4
General excise and use tax revenues	901,033	880,360	-2.3	2,555,156	2,580,226	1.0
Income-individual	543,027	610,570	12.4	1,715,574	1,989,624	16.0
Declaration estimated taxes	149,959	82,044	-45.3	541,177	544,191	0.6
Payment with returns	18,999	20,272	6.7	156,573	185,244	18.3
Withholding tax on wages	460,630	537,828	16.8	1,451,473	1,651,303	13.8
Refunds ('-' indicates relative to State)	-86,562	-29,573	-65.8	-433,650	-391,114	-9.8
Transient accommodations tax	135,310	157,536	16.4	394,494	466,713	18.3
Honolulu County Surcharge 3/	73,995	69,404	-6.2	197,515	204,252	3.4
Private Building Permits ($1,000)	722,367	743,220	2.9	2,462,909	2,551,642	3.6
Residential	374,067	365,566	-2.3	1,240,852	1,139,955	-8.1
Commercial & industrial	85,373	70,308	-17.6	318,155	331,498	4.2
Additions & alterations	262,928	307,346	16.9	903,902	1,080,189	19.5
Visitor Days - by air	21,001,574	22,060,884	5.0	62,489,095	66,575,103	6.5
Domestic visitor days - by air	15,219,675	16,094,410	5.7	44,987,475	48,404,924	7.6
International visitor days - by air	5,781,899	5,966,474	3.2	17,501,620	18,170,179	3.8
Visitor arrivals by air - by air	2,399,481	2,498,871	4.1	6,950,879	7,415,711	6.7
Domestic flight visitors - by air	1,621,643	1,728,086	6.6	4,690,933	5,112,426	9.0
International flight visitors - by air	777,838	770,785	-0.9	2,259,946	2,303,286	1.9
Visitor expend. - arrivals by air ($1,000)	4,171,200	4,353,086	4.4	12,378,171	13,591,972	9.8
Hotel occupancy rates (%) 2/	81.4	79.7	-1.8	80.7	81.0	0.3

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
2016 TO 2021

Economic Indicators	2016	2017	2018	2019	2020	2021
	(Actual)		(Forecast)			
Total population (thousands)	1,429	1,428	1,435	1,443	1,452	1,462
Visitor arrivals (thousands) 1/	8,931	9,404	9,949	10,128	10,284	10,437
Visitor days (thousands) 1/	80,195	84,066	89,085	90,980	92,448	93,866
Visitor expenditures (million dollars) 1/	15,911	16,809	18,312	19,075	19,771	20,476
Honolulu CPI-U (1982-84=100)	265.3	272.0	277.5	283.8	290.9	298.8
Personal income (million dollars)	72,650	75,355	77,842	80,566	83,628	86,973
Real personal income (millions of 2009$) 2/	59,081	59,908	60,867	61,901	62,954	63,961
Non-agricultural wage & salary jobs (thousands)	646.1	652.7	660.5	666.5	672.5	677.9
Civilian unemployment rate 3/	2.9	2.4	2.3	2.5	3.0	3.4
Gross domestic product (million dollars)	85,648	88,448	91,101	94,290	97,779	101,396
Real gross domestic product (millions of 2012$)	78,556	79,469	80,263	81,227	82,364	83,517
Gross domestic product deflator (2012=100)	109.0	111.3	113.5	116.1	118.7	121.4
Annual Percentage Change						
Total population	0.2	-0.1	0.5	0.6	0.6	0.7
Visitor arrivals 1/	2.9	5.3	5.8	1.8	1.5	1.5
Visitor days 1/	2.0	4.8	6.0	2.1	1.6	1.5
Visitor expenditures 1/	5.3	5.6	8.9	4.2	3.6	3.6
Honolulu CPI-U	2.0	2.5	2.0	2.3	2.5	2.7
Personal income	3.3	3.7	3.3	3.5	3.8	4.0
Real personal income 2/	2.8	1.4	1.6	1.7	1.7	1.6
Non-agricultural wage & salary jobs	1.3	1.0	1.2	0.9	0.9	0.8
Civilian unemployment rate 3/	-0.7	-0.5	-0.1	0.2	0.5	0.4
Gross domestic product	3.5	3.3	3.0	3.5	3.7	3.7
Real gross domestic product	2.0	1.2	1.0	1.2	1.4	1.4
Gross domestic product deflator (2012=100)	1.5	2.1	2.0	2.3	2.3	2.3

1/ Visitors who came to Hawaii by air or by cruise ship. Expenditures includes supplementary expenditures. 2017 supplementary expenditure was estimated by DBEDT.

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

3/ Absolute change from previous year.

Source: Hawaii State Department of Business, Economic Development & Tourism, November 16, 2018.

Labor Force and Jobs

Hawaii's labor market conditions were mostly positive in the third quarter of 2018. Since the civilian labor force increased only slightly more than the increase in civilian employment, the civilian unemployment rate remained about the same at 2.3 percent in the quarter. For the 32nd consecutive quarter-over-quarter, civilian non-agricultural wage and salary jobs increased.

In the third quarter of 2018, the civilian labor force averaged 685,100 people, an increase of 1,750 people or 0.3 percent from the same quarter of 2017. In the first three quarters of 2018, the civilian labor force decreased 50 people from the same period of the previous year.

Civilian employment totaled 669,400 people in the third quarter of 2018, an increase of 1,500 people or 0.2 percent compared to the same quarter of 2017. In the first three quarters of 2018, average civilian employment increased 2,133 people or 0.3 percent from the same period of the previous year.

In the third quarter of 2018, the number of civilian unemployed averaged 15,650, an increase of 200 people or 1.3 percent from the same quarter of 2017. In the first three quarters of 2018, the number of unemployed decreased 2,233 people or 13.1 percent from the same period of the previous year.

The unemployment rate (not seasonally adjusted) remained about the same at 2.3 percent in the third quarter of 2018 compared with the third quarter of 2017. In the first three quarters of 2018, the unemployment rate decreased 0.3 of a percentage point from the same period of the previous year.

In the third quarter of 2018, Hawaii's non-agricultural wage and salary jobs averaged 658,800 jobs, an increase of 12,700 jobs or 2.0 percent from the same quarter of 2017. This is the 32nd consecutive quarter-over-quarter increase in non-agricultural wage and salary jobs after ten consecutive quarter-over-quarter decreases in jobs since the second quarter of 2008. In the first three quarters of 2018, average non-agricultural wage and salary jobs increased 1.7 percent or 10,900 jobs from the same period of the previous year.

The job growth in the third quarter of 2018 was due to job increases in both the private sector and the government sector. In this quarter, the private sector added about 11,200 non-agricultural jobs compared to the third quarter of 2017. Jobs increased the most in Food Services and Drinking Places, adding 4,500 jobs or 6.5 percent. This was followed by Professional & Business Services, adding 2,100 jobs or 2.6 percent, Financial Activities, adding 1,500 jobs or 5.3 percent, Health Care & Social Assistance, adding 1,500 jobs or 2.1 percent, and Transportation, Warehousing, and Utilities, adding 700 jobs or 2.1 percent in the quarter. For the private sector, in the third quarter of 2018, Manufacturing lost 500 jobs, Information lost 400 jobs, and Retail Trade lost 100 jobs in the quarter.

The three levels of government added 1,500 jobs or 1.3 percent in the third quarter of 2018 compared to the same quarter of 2017. The Federal Government added 100 jobs or 0.3 percent; State Government added 1,100 jobs or 1.7 percent, and Local Government added 300 jobs or 1.6 percent, compared to the third quarter of 2017.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, decreased 11.3 percent in the third quarter of 2018 compared to the same quarter of 2017. In the first three quarters of 2018, the initial liable claims for unemployment decreased 13.5 percent from the same period of the previous year.

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(NUMBER OF PERSONS)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
2005	626,900	2.6	608,950	3.2	2.9
2006	638,250	1.8	621,550	2.1	2.6
2007	638,400	0.0	620,550	-0.2	2.8
2008	639,700	0.2	612,100	-1.4	4.3
2009	631,700	-1.3	586,500	-4.2	7.2
2010	647,250	2.5	602,300	2.7	6.9
2011	660,250	2.0	615,300	2.2	6.8
2012	647,200	-2.0	608,300	-1.1	6.0
2013	651,550	0.7	619,700	1.9	4.9
2014	666,650	2.3	637,650	2.9	4.4
2015	675,500	1.3	651,450	2.2	3.6
2016	684,150	1.3	664,050	1.9	2.9
2017	685,400	0.2	669,250	0.8	2.4
2018 1/	686,650	0.0	671,750	0.3	2.3

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

In the second quarter of 2018, total annualized nominal GDP increased $3,021 million or 3.4 percent, from the second quarter of 2017. In the first half of 2018, total annualized nominal GDP increased $2,545 million or 2.9 percent from the same period of the previous year. In the second quarter of 2018, total annualized real GDP (in chained 2012 dollars) increased $755 million or 1.0 percent from the second quarter of 2017. In the first half of 2018, total annualized real GDP increased $389 million or 0.5 percent from the same period of the previous year.

Hawaii's total personal income increased during the second quarter of 2018 over the same quarter of 2017; 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 second quarter of 2018, total nominal annualized personal income (i.e. not adjusted for inflation) increased $2,415.6 million or 3.2 percent over that of 2017. In the first half of 2018, total annualized personal income was $77,051.8 million, an increase of 3.0 percent from the same period of the previous year.

In the second quarter of 2018, wages and salaries increased $1,162.5 million or 3.2 percent over that of 2017. This was the 32nd consecutive quarterly year-over-year increase since the third quarter of 2010. In the first half of 2018, wages and salaries increased 2.6 percent from the same period of the previous year.

Supplements to wages and salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased $176.3 million or 1.7 percent in the second quarter of 2018, from the same quarter of 2017. In the first half of 2018, supplements to wages and salaries increased 1.5 percent from the same period of the previous year.

Proprietors' income increased $258.7 million or 4.5 percent in the second quarter of 2018, over that of 2017. In the first half of 2018, proprietors' income was up 4.5 percent from the same period of the previous year.

Dividends, interest, and rent increased $696.5 million or 4.3 percent in the second quarter of 2018, from the same quarter of 2017. In the first half of 2018, income in this category was up 4.0 percent from the same period of the previous year.

The annualized personal current transfer receipts grew by $336.4 million or 2.9 percent in the second quarter of 2018 from the same quarter of 2017. In the first half of 2018, personal current transfer receipts increased 3.5 percent from the same period of the previous year.

Contributions to government social insurance, which is subtracted from total personal income, increased $214.8 million or 3.6 percent in the second quarter of 2018, compared to the second quarter of 2017. In the first half of 2018, contributions to government social insurance increased 3.1 percent from the same period of the previous year.

In the second quarter of 2018, total non-farm private sector annualized earnings increased $1,578.4 million or 4.2 percent from the second quarter of 2017. In dollar terms, the largest increase occurred in health care and social assistance; followed by accommodation and food services, retail trade, professional, scientific, & technical services, and construction. During the second quarter of 2018, total government earnings increased $18.3 million or 0.1 percent from the same quarter of 2017. Earnings from the federal government increased $109.1 million or 1.3 percent. Earnings from the state and local governments decreased $90.8 million or 1.3 percent in the quarter.

In the first half of 2018, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.6 percent from the same period in 2017. This is 0.9 of a percentage point below the 2.5 percent increase for the U.S. average CPI-U and is lower than the first half of 2017 Honolulu CPI-U increase of 2.5 percent from the same period of the previous year. In the first half of 2018, the Honolulu CPI-U increased the most in Transportation Housing (4.3 percent), followed by Food and Beverages (2.1 percent), Housing (1.8 percent), Other Goods and Services (1.7 percent), and Recreation (0.9 percent). The price of Education and Communication decreased 2.5 percent and the price of Apparel decreased 2.8 percent compared to the first half of 2017.

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

							Percentage change			
							Second Quarter 2018		Ann Aver	YTD 2018
Series 1/	Second Quarter 2017	First Quarter 2018	Second Quarter 2018	AnnAver 2017	YTD 2017	YTD 2018	Second Quarter 2017	First Quarter 2018	2017 from 2016	YTD 2017
PERSONAL INCOME	74,925,888	76,762,059	77,341,499	75,355,132	74,809,822	77,051,779	3.2	0.8	3.7	3.0
Earnings By Place of Work	53,005,160	54,082,626	54,602,616	53,287,231	52,975,680	54,342,621	3.0	1.0	3.6	2.6
Wages and salaries	36,866,992	37,637,750	38,029,450	37,084,626	36,878,524	37,833,600	3.2	1.0	3.6	2.6
Supplements to wages and salaries	10,412,100	10,517,785	10,588,437	10,443,858	10,396,698	10,553,111	1.7	0.7	3.1	1.5
Emp'er contrib. for emp'ee pension & ins. funds	7,509,640	7,545,645	7,589,346	7,523,132	7,498,370	7,567,496	1.1	0.6	2.8	0.9
Employer contributions for gov't social ins.	2,902,460	2,972,140	2,999,091	2,920,726	2,898,328	2,985,616	3.3	0.9	3.8	3.0
Proprietors' income	5,726,068	5,927,091	5,984,729	5,758,747	5,700,458	5,955,910	4.5	1.0	4.7	4.5
Farm proprietors' income	-3,548	-15,880	-11,716	-8,881	-3,608	-13,798	(NA)	(NA)	(NA)	(NA)
Nonfarm proprietors' income	5,729,616	5,942,971	5,996,445	5,767,628	5,704,066	5,969,708	4.7	0.9	4.4	4.7
Dividends, interest, and rent	16,260,608	16,837,289	16,957,127	16,379,408	16,246,814	16,897,208	4.3	0.7	4.1	4.0
plus: Personal current transfer receipts	11,687,232	12,026,320	12,023,650	11,749,347	11,613,174	12,024,985	2.9	0.0	3.9	3.5
Social Security benefits	4,033,888	4,203,748	4,239,813	4,049,073	4,018,530	4,221,781	5.1	0.9	3.5	5.1
Medicare benefits	2,404,608	2,481,910	2,519,519	2,417,033	2,389,152	2,500,715	4.8	1.5	5.1	4.7
Medicaid	2,384,976	2,468,391	2,369,284	2,410,833	2,350,752	2,418,838	-0.7	-4.0	7.4	2.9
State unempl. ins. comp.	167,304	136,713	125,940	155,999	161,366	131,327	-24.7	-7.9	21.0	-18.6
All other personal current transfer receipts	2,696,456	2,735,558	2,769,094	2,716,409	2,693,374	2,752,326	2.7	1.2	-0.2	2.2
Less: Contributions for gov't social insurance	6,027,112	6,184,176	6,241,894	6,060,854	6,025,846	6,213,035	3.6	0.9	3.9	3.1
Personal contributions for gov't social ins.	3,124,652	3,212,036	3,242,803	3,140,128	3,127,518	3,227,420	3.8	1.0	4.0	3.2
Employer contributions for gov't social ins.	2,902,460	2,972,140	2,999,091	2,920,726	2,898,328	2,985,616	3.3	0.9	3.8	3.0
Earnings By Industry	53,005,160	54,082,626	54,602,616	53,287,231	52,975,680	54,342,621	3.0	1.0	3.6	2.6
Farm Earnings	288,696	283,192	289,432	284,664	288,070	286,312	0.3	2.2	7.4	-0.6
Nonfarm Earnings	52,716,464	53,799,434	54,313,184	53,002,567	52,687,610	54,056,309	3.0	1.0	3.6	2.6
Private earnings	37,292,880	38,427,740	38,871,255	37,588,364	37,276,498	38,649,498	4.2	1.2	4.6	3.7
Forestry, fishing, & related activities	94,436	93,491	97,142	94,676	95,560	95,317	2.9	3.9	8.6	-0.3
Mining	34,508	33,824	34,867	34,294	33,758	34,346	1.0	3.1	13.1	1.7
Utilities	571,896	566,980	572,332	562,028	557,260	569,656	0.1	0.9	0.7	2.2
Construction	4,326,152	4,407,461	4,440,200	4,328,867	4,337,712	4,423,831	2.6	0.7	-0.5	2.0
Manufacturing	958,676	959,563	962,436	948,974	940,518	961,000	0.4	0.3	1.6	2.2
Durable goods	325,436	326,991	326,430	328,171	321,990	326,711	0.3	-0.2	5.0	1.5
Nondurable goods	633,240	632,572	636,006	620,803	618,528	634,289	0.4	0.5	-0.2	2.5
Wholesale trade	1,397,292	1,365,957	1,391,431	1,410,577	1,425,284	1,378,694	-0.4	1.9	6.1	-3.3
Retail trade	3,151,916	3,283,764	3,329,543	3,199,629	3,162,382	3,306,654	5.6	1.4	4.9	4.6
Transportation and warehousing	2,424,884	2,422,022	2,434,827	2,369,241	2,372,196	2,428,425	0.4	0.5	9.9	2.4
Information	848,304	762,202	757,981	792,999	814,128	760,092	-10.6	-0.6	6.8	-6.6
Finance and insurance	1,606,732	1,608,799	1,626,588	1,610,648	1,581,868	1,617,694	1.2	1.1	6.7	2.3
Real estate and rental and leasing	1,679,604	1,755,010	1,779,959	1,709,888	1,699,096	1,767,485	6.0	1.4	0.1	4.0
Prof., scientific, & technical services	2,979,248	3,065,407	3,140,625	3,008,539	2,966,986	3,103,016	5.4	2.5	5.3	4.6
Management of companies and enterprises	971,632	1,002,793	1,012,352	976,730	981,906	1,007,573	4.2	1.0	3.9	2.6
Admin. & waste management services	2,504,456	2,579,305	2,613,042	2,523,307	2,490,600	2,596,174	4.3	1.3	4.1	4.2
Educational services	771,440	804,118	811,067	792,647	794,444	807,593	5.1	0.9	0.1	1.7
Health care and social assistance	5,146,112	5,616,536	5,677,884	5,397,027	5,273,568	5,647,210	10.3	1.1	5.8	7.1
Arts, entertainment, and recreation	697,352	714,410	715,028	692,195	689,858	714,719	2.5	0.1	9.7	3.6
Accommodation and food services	4,969,504	5,153,743	5,207,699	4,963,079	4,903,368	5,180,721	4.8	1.0	6.4	5.7
Other services, except public admin.	2,158,736	2,232,355	2,266,252	2,173,019	2,156,006	2,249,304	5.0	1.5	5.5	4.3
Government and government enterprises	15,423,584	15,371,694	15,441,929	15,414,203	15,411,112	15,406,812	0.1	0.5	1.1	0.0
Federal	8,461,056	8,514,706	8,570,199	8,473,167	8,479,322	8,542,453	1.3	0.7	-0.2	0.7
Federal, civilian	3,752,516	3,801,289	3,835,902	3,766,237	3,754,734	3,818,596	2.2	0.9	2.7	1.7
Military	4,708,540	4,713,417	4,734,297	4,706,930	4,724,588	4,723,857	0.5	0.4	-2.4	0.0
State and local	6,962,528	6,856,988	6,871,730	6,941,036	6,931,790	6,864,359	-1.3	0.2	2.6	-1.0

NA Not available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, September 25, 2018 <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=3> accessed September 25, 2018.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
2005	47,359	7.5
2006	50,774	7.2
2007	53,520	5.4
2008	56,166	4.9
2009	56,013	-0.3
2010	57,101	1.9
2011	59,922	4.9
2012	62,435	4.2
2013	63,355	1.5
2014	66,899	5.6
2015	70,323	5.1
2016	72,650	3.3
2017	75,355	3.7
2018 1/	77,052	3.0

1/ The average of first two quarters and the percentage change represents the change from the same period in the previous year.

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

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Table 6

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

		Honolulu								
Period	U.S.	All Items	Food & Beverages	Housing	Apparel	Transpor-tation	Medical Care	Recre-ation 1/	Educ. & Comm. 1/	Other Goods & Services
2008	215.303	228.861	216.625	248.700	105.277	213.998	317.955	105.290	117.118	365.441
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.599	105.239	122.843	395.186
2010	218.056	234.869	224.774	251.968	116.423	214.411	320.153	107.484	128.483	415.526
2011	224.939	243.622	232.656	260.606	118.394	229.223	324.180	110.473	132.248	433.536
2012	229.594	249.474	242.786	265.473	121.481	231.275	334.441	113.961	137.276	440.428
2013	232.957	253.924	250.922	269.885	119.011	233.133	345.184	116.818	139.423	447.178
2014	236.736	257.589	256.023	273.499	111.141	236.373	351.763	119.586	143.488	457.958
2015	237.017	260.165	267.041	276.047	108.893	216.756	378.876	121.840	147.869	478.634
2016	240.007	265.283	272.051	283.565	111.736	211.645	400.408	124.872	149.785	484.820
2017	245.120	272.014	277.301	294.510	115.762	217.646	407.384	125.781	144.410	488.990
2014H1	236.384	255.989	252.895	271.656	112.261	237.614	348.133	119.313	141.981	450.011
H2	237.088	259.190	259.151	275.343	110.021	235.132	355.393	119.860	144.995	465.906
2015H1	236.265	257.848	263.610	274.380	109.941	217.288	364.754	120.419	146.406	473.733
H2	237.769	262.482	270.472	277.714	107.845	216.223	392.998	123.261	149.332	483.535
2016H1	238.778	264.038	272.390	281.079	110.769	210.717	399.192	124.456	150.105	483.778
H2	241.237	266.528	271.712	286.052	112.703	212.573	401.624	125.288	149.465	485.863
2017H1	244.076	270.738	275.042	292.629	117.145	216.836	405.254	125.662	144.769	489.868
H2	246.163	273.290	279.560	296.390	114.379	218.455	409.514	125.900	144.051	488.111
2018H1	250.089	275.196	280.783	297.758	113.842	226.195	(NA)	126.739	141.143	498.266
Percentage Change from the Same Period in Previous Year										
2008	3.8	4.3	5.7	4.3	1.1	4.4	(NA)	2.6	2.8	5.2
2009	-0.4	0.5	3.6	0.4	7.2	-6.4	1.1	0.0	4.9	8.1
2010	1.6	2.1	0.2	0.9	3.2	7.0	-0.4	2.1	4.6	5.1
2011	3.2	3.7	3.5	3.4	1.7	6.9	1.3	2.8	2.9	4.3
2012	2.1	2.4	4.4	1.9	2.6	0.9	3.2	3.2	3.8	1.6
2013	1.5	1.8	3.4	1.7	-2.0	0.8	3.2	2.5	1.6	1.5
2014	1.6	1.4	2.0	1.3	-6.6	1.4	1.9	2.4	2.9	2.4
2015	0.1	1.0	4.3	0.9	-2.0	-8.3	7.7	1.9	3.1	4.5
2016	1.3	2.0	1.9	2.7	2.6	-2.4	5.7	2.5	1.3	1.3
2017	2.1	2.5	1.9	3.9	3.6	2.8	1.7	0.7	-3.6	0.9
2014H1	1.7	1.1	1.0	0.9	-5.9	2.1	1.4	2.5	2.7	0.8
H2	1.5	1.8	3.0	1.8	-7.3	0.7	2.4	2.2	3.1	4.0
2015H1	-0.1	0.7	4.2	1.0	-2.1	-8.6	4.8	0.9	3.1	5.3
H2	0.3	1.3	4.4	0.9	-2.0	-8.0	10.6	2.8	3.0	3.8
2016H1	1.1	2.4	3.3	2.4	0.8	-3.0	9.4	3.4	2.5	2.1
H2	1.5	1.5	0.5	3.0	4.5	-1.7	2.2	1.6	0.1	0.5
2017H1	2.2	2.5	1.0	4.1	5.8	2.9	1.5	1.0	-3.6	1.3
H2	2.0	2.5	2.9	3.6	1.5	2.8	2.0	0.5	-3.6	0.5
2018H1	2.5	1.6	2.1	1.8	-2.8	4.3	(NA)	0.9	-2.5	1.7

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous through August 2015. Beginning with the 2nd half and annual average for 2015 data were released in January and will be in January and July henceforth.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> accessed July 12, 2018, and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed July 12, 2018.

Tourism

Visitor arrivals continue to be strong, increased domestic visitor arrivals dominated decreased international visitor arrivals in the third quarter of 2018. Due to longer lengths of stay, the daily visitor census increased more than the increase of visitor arrivals in the quarter. Since visitors spent less on a daily basis, 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 since the third quarter of 2009.

The total number of visitor arrivals by air increased 99,390 or 4.1 percent in the third quarter of 2018, compared to the same quarter of 2017. The total average daily census was up 11,514 or 5.0 percent in the quarter. In the first three quarters of 2018, total visitor arrivals by air increased 464,832 or 6.7 percent, while the average daily census increased 14,990 or 6.5 percent from the same period of the previous year.

In the third quarter of 2018, total visitor arrivals on domestic flights increased 106,443 or 6.6 percent compared to the same quarter of 2017. In the first three quarters of 2018, domestic arrivals were up 421,492 or 9.0 percent from the same period of the previous year.

Arrivals on international flights decreased 7,053 or 0.9 percent in the third quarter of 2018 compared to the third quarter of 2017. In the first three quarters of 2018, international arrivals were up 43,340 or 1.9 percent from the same period of the previous year.

In terms of major market areas, from the third quarter of 2017 to the same period of 2018, arrivals from the U.S. West increased 66,630 or 6.6 percent, arrivals from the U.S. East increased 43,016 or 8.7 percent, and arrivals from Japan decreased 12,061 or 2.7 percent. In the first three quarters of 2018, arrivals from the U.S. West were up 275,530 or 9.6 percent; arrivals from the U.S. East were up 129,784 or 8.4 percent; and Japanese arrivals were down 22,328 or 1.9 percent from the same period of the previous year.

In the third quarter of 2018, the length of stay per visitor increased. Due to the longer length of stay, the average total daily visitor census increased more than the growth of visitor arrivals in the quarter. The total average daily visitor census was up 5.0 percent or 11,514 visitors per day in the third quarter of 2018, over the same quarter of 2017. The domestic average daily census increased 5.7 percent or 9,508 visitors per day, while the international average daily census increased 3.2 percent or 2,006 visitors per day. In the first three quarters of 2018, the domestic average daily census increased 12,539 or 7.6 percent; and the international average daily census increased 2,451 or 3.8 percent from the same period of the previous year.

Nominal visitor expenditures by air totaled $4,353.1 million in the third quarter of 2018, up 4.4 percent or $181.9 million from the same quarter of 2017. In the first three quarters of 2018, visitor expenditures increased $1,213.8 million or 9.8 percent from the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 7.1 percent or 225,032 seats in the third quarter of 2018, domestic seats increased 8.3 percent or 184,522 seats; international seats increased 4.3 percent or 40,510 seats, compared to the same quarter of 2017. In the first three quarters of 2018, the number of total available seats increased 9.2 percent or 843,581 seats from the same period of the previous year.

In the third quarter of 2018, the statewide hotel occupancy rate averaged 79.7 percent, 1.7 of a percentage point lower than the same quarter of 2017. In the first three quarters of 2018, the statewide hotel occupancy rate averaged 81.1 percent, 0.4 of a percentage point higher than the same period of the previous year.

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Table 7

VISITOR ARRIVALS BY AIR

Average Length of Stay, Visitor Days, Average Daily Census

	2014	2015	2016	2017	% Change 2014-2015	% Change 2015-2016	% Change 2016-2017
Total Arrivals							
Total	8,196,342	8,563,018	8,821,802	9,277,613	4.5	3.0	5.2
Domestic	5,486,059	5,782,140	5,968,779	6,239,748	5.4	3.2	4.5
International	2,710,283	2,780,878	2,853,023	3,037,865	2.6	2.6	6.5
Average Length of Stay							
Total	9.2	9.1	9.0	9.0	-0.7	-1.0	-0.3
Domestic	10.1	9.8	9.7	9.6	-2.0	-1.7	-0.8
International	7.4	7.6	7.7	7.8	2.4	0.8	1.2
Visitor Days							
Total	75,269,197	78,086,081	79,669,135	83,506,498	3.7	2.0	4.8
Domestic	55,142,678	56,949,633	57,810,695	59,959,536	3.3	1.5	3.7
International	20,126,519	21,136,447	21,858,441	23,546,962	5.0	3.4	7.7
Average Daily Census							
Total	206,217	213,934	217,675	228,785	3.7	1.7	5.1
Domestic	151,076	156,026	157,953	164,273	3.3	1.2	4.0
International	55,141	57,908	59,723	64,512	5.0	3.1	8.0

Source: Hawaii Tourism Authority.

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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	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012	80.3	73.8	78.9	74.5	76.9
2013	82.0	74.2	77.8	72.3	76.5
2014	80.8	74.0	78.7	74.7	77.0
2015	80.0	77.7	79.4	77.8	78.7
2016	80.7	77.5	80.5	77.5	79.0
2017	81.4	79.4	81.4	78.6	80.0
2018	82.9	80.7	79.7	Year-to-Date	81.7

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 third quarter of 2018. The private building authorizations, State CIP expenditures, and construction jobs increased; but the government contracts awarded decreased.

Construction has been one of the steady contributors to job growth in Hawaii over the past few years. In the third quarter of 2018, the number of jobs in the construction sector increased 0.6 percent or 200 jobs compared with the same quarter of 2017. In the first three quarters of 2018, average job count in the construction sector was the same as that in the same period of the previous year. Before the recession, specifically the period 2002 through 2007, construction job growth averaged 8.5 percent per year. In the fourth quarter of 2007, the average number of construction jobs reached a peak of 40,000 jobs. The strength of the construction job market in the past few years was a sharp contrast to the recession period. From the second quarter of 2008 until the second quarter of 2011 quarter-over-quarter construction job growth was negative in all quarters.

In the third quarter of 2018, private building authorizations in the state increased $20.9 million or 2.9 percent, compared with the third quarter of 2017. In the first three quarters of 2018, private building authorizations in the state increased $88.7 million or 3.6 percent compared with the same period of the previous year.

In the third quarter of 2018, private building authorizations in Honolulu decreased $70.0 million or 15.1 percent, compared with the third quarter of 2017. In the first three quarters of 2018, private building authorizations in Honolulu decreased $105.9 million or 6.4 percent, compared with the same period of the previous year.

In the third quarter of 2018, private building authorizations in Hawaii County increased $82.8 million or 82.8 percent, compared with the third quarter of 2017. In the first three quarters of 2018, private building authorizations in Hawaii County increased $111.0 million or 33.8 percent, compared with the same period of the previous year.

In the third quarter of 2018, private building authorizations in Maui County increased $23.8 million or 22.5 percent, compared with the third quarter of 2017. In the first three quarters of 2018, private building authorizations in Maui County increased $71.8 million or 19.1 percent compared with the same period of the previous year.

In the third quarter of 2018, private building authorizations (residential only) in Kauai decreased $15.7 million or 29.7 percent, compared with the third quarter of 2017. In the first three quarters of 2018, private building authorizations in Kauai increased $11.9 million or 10.8 percent compared with the same period of the previous year.

Government contracts awarded decreased $250.3 million or 38.8 percent in the third quarter of 2018 compared with the same quarter of 2017. In the first three quarters of 2018, government contracts awarded increased $430.6 million or 39.3 percent compared with the same period of the previous year. State government CIP expenditures increased $46.5 million or 12.3 percent in the third quarter of 2017. In the first three quarters of 2018, CIP expenditures increased $337.5 million or 35.9 percent compared with the same period of the previous year.

The Honolulu Construction Cost Index increased 0.9 percent in the third quarter of 2018 compared to the same quarter of 2017 for Single Family Residence and increased 1.2 percent for High-Rise Building. In the first three quarters of 2018, the index for Single Family Residence increased 0.1 percent and 0.3 percent for High-Rise Building from the same period of the previous year.

In the second quarter of 2018, Honolulu's median price for single family resales was $781,194, an increase of $27,194 or 3.6 percent compared to the same quarter of 2017. The median price for condominium units was $421,000, up $18,000 or 4.5 percent over the same quarter of 2017. In the third quarter of 2018, the number of single-family unit resales was down 7.3 percent, and the number of condominium unit resales was down 2.7 percent, compared with the third quarter of 2017. In the first three quarters of 2018, the number of single-family unit resales was down 3.7 percent, and condominium unit resales was down 0.1 percent compared with the same period of the previous year.

In the first quarter of 2018, Maui County's single-family unit resales median price was $690,000 or $10,000 and 1.4 percent lower than in the first quarter of 2017. The condominium unit resales median price was $475,000 or $2,413 and 0.5 percent lower than in the same quarter of 2017.

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Table 9

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

Year		Contracting tax base 1/	Private Building Authorization 2/				Government Contracts Awarded
			Total Private Authorizations	Residential 2/	Commercial & Industrial 3/	Additions & Alterations	
In Millions of Dollars							
2007		8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008		7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009		6,641.7	1,998.9	799.2	284.8	914.9	778.6
2010		5,589.8	1,980.3	779.0	377.5	823.8	1,057.6
2011		5,837.4	1,858.8	687.9	285.9	884.9	430.7
2012		7,006.1	2,643.8	837.2	271.1	1,535.5	772.9
2013		7,330.0	2,720.5	1,025.0	296.5	1,399.0	1,194.2
2014		7,024.0	3,315.1	985.9	498.5	1,830.6	1,096.6
2015		8,112.2	3,963.6	1,651.3	702.9	1,609.4	1,554.6
2016		8,288.2	3,240.6	1,448.0	211.0	1,581.7	1,673.3
2017		8,384.4	3,127.8	1,504.7	395.9	1,227.3	1,191.6
2016	1 Qtr.	1,745.4	545.6	223.1	30.2	292.3	175.0
	2 Qtr.	2,123.9	960.2	429.6	75.6	455.0	328.9
	3 Qtr.	2,196.4	889.4	429.2	39.3	420.9	913.1
	4 Qtr.	2,222.5	845.6	366.1	65.9	413.5	256.3
2017	1 Qtr.	2,170.7	919.5	507.4	101.4	310.7	213.8
	2 Qtr.	1,828.3	821.0	359.4	131.4	330.3	236.2
	3 Qtr.	2,206.1	722.4	374.1	85.4	262.9	644.3
	4 Qtr.	2,179.3	664.9	263.8	77.7	323.4	97.3
2018	1 Qtr.	2,202.6	699.8	382.4	76.1	241.4	532.4
	2 Qtr.	2,326.5	1,108.6	392.0	185.1	531.5	598.4
	3 Qtr.	(NA)	743.2	365.6	70.3	307.3	394.1
Percentage Change from the Same Period in Previous Year							
2007		11.8	-4.9	2.4	-3.8	-16.3	1.8
2008		-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009		-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
2010		-15.8	-0.9	-2.5	32.5	-10.0	35.8
2011		4.4	-6.1	-11.7	-24.3	7.4	-59.3
2012		20.0	42.2	21.7	-5.2	73.5	79.4
2013		4.6	2.9	22.4	9.4	-8.9	54.5
2014		-4.2	21.9	-3.8	68.1	30.8	-8.2
2015		15.5	19.6	67.5	41.0	-12.1	41.8
2016		2.2	-18.2	-12.3	-70.0	-1.7	7.6
2017		1.2	-3.5	3.9	87.6	-22.4	-28.8
2016	1 Qtr.	-3.1	-58.0	-53.8	-92.1	-32.3	-22.2
	2 Qtr.	6.4	14.3	4.1	-33.7	45.0	-51.7
	3 Qtr.	-0.7	-0.3	26.9	-64.6	-5.0	87.5
	4 Qtr.	5.7	-9.4	-12.4	-30.1	-1.8	58.5
2017	1 Qtr.	24.4	68.5	127.5	236.0	6.3	22.1
	2 Qtr.	-13.9	-14.5	-16.3	73.8	-27.4	-28.2
	3 Qtr.	0.4	-18.8	-12.9	117.5	-37.5	-29.4
	4 Qtr.	-1.9	-21.4	-27.9	17.8	-21.8	-62.0
2018	1 Qtr.	1.5	-23.9	-24.6	-25.0	-22.3	149.1
	2 Qtr.	27.2	35.0	9.1	40.9	60.9	153.3
	3 Qtr.	(NA)	2.9	-2.3	-17.6	16.9	-38.8

NA Not available.

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

2/ Kauai data available for residential only.

3/ Includes hotels.

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

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year		State	City & County of Honolulu	Hawaii County	Kauai County 1/	Maui County
In Thousands of Dollars						
2007		3,585,447	1,676,232	912,529	268,915	727,772
2008		2,906,578	1,481,272	704,317	277,149	443,840
2009		1,998,908	1,247,196	309,165	218,111	224,437
2010		1,980,296	1,357,314	360,328	68,047	194,607
2011		1,858,763	1,272,923	282,638	59,520	243,683
2012		2,643,840	1,769,454	427,394	79,998	366,994
2013		2,720,519	1,866,352	443,739	85,413	325,014
2014		3,315,078	2,072,202	697,063	102,195	443,617
2015		3,963,607	2,436,954	689,454	105,707	731,491
2016		3,240,649	2,141,467	576,015	138,481	384,686
2017		3,127,828	2,007,815	497,218	145,266	477,528
2016	1 Qtr.	545,567	341,486	90,105	21,856	92,120
	2 Qtr.	960,150	607,763	216,414	42,409	93,564
	3 Qtr.	889,375	629,829	144,063	39,914	75,569
	4 Qtr.	845,557	562,389	125,433	34,302	123,433
2017	1 Qtr.	919,507	627,931	122,886	29,191	139,499
	2 Qtr.	821,035	557,380	105,175	28,294	130,186
	3 Qtr.	722,367	463,709	99,947	52,918	105,793
	4 Qtr.	664,919	358,796	169,210	34,863	102,050
2018	1 Qtr.	699,830	394,041	141,494	37,576	126,719
	2 Qtr.	1,108,592	755,318	114,784	47,491	190,998
	3 Qtr.	743,220	393,711	182,737	37,217	129,555
Percentage Change From The Same Period in Previous Year						
2007		-4.9	3.1	-1.5	12.4	-25.7
2008		-18.9	-11.6	-22.8	3.1	-39.0
2009		-31.2	-15.8	-56.1	-21.3	-49.4
2010		-0.9	8.8	16.5	-68.8	-13.3
2011		-6.1	-6.2	-21.6	-12.5	25.2
2012		42.2	39.0	51.2	34.4	50.6
2013		2.9	5.5	3.8	6.8	-11.4
2014		21.9	11.0	57.1	19.6	36.5
2015		19.6	17.6	-1.1	3.4	64.9
2016		-18.2	-12.1	-16.5	31.0	-47.4
2017		-3.5	-6.2	-13.7	4.9	24.1
2016	1 Qtr.	-58.0	-52.0	-35.0	16.5	-78.5
	2 Qtr.	14.3	30.6	0.8	23.3	-25.6
	3 Qtr.	-0.3	7.1	-13.9	37.0	-29.7
	4 Qtr.	-9.4	-16.3	-25.7	46.4	78.2
2017	1 Qtr.	68.5	83.9	36.4	33.6	51.4
	2 Qtr.	-14.5	-8.3	-51.4	-33.3	39.1
	3 Qtr.	-18.8	-26.4	-30.6	32.6	40.0
	4 Qtr.	-21.4	-36.2	34.9	1.6	-17.3
2018	1 Qtr.	-23.9	-37.2	15.1	28.7	-9.2
	2 Qtr.	35.0	35.5	9.1	67.8	46.7
	3 Qtr.	2.9	-15.1	82.8	-29.7	22.5

1/ Kauai County data 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 U.S. Bureau and Economic Analysis ("BEA") data, the total compensation of employees ("COE") of federal government employees in Hawaii was about $8.5 billion in 2017, down 0.2 percent from the previous year. The total COE of combined military and civilian federal employees in Hawaii accounted for about 17.8 percent of Hawaii's total COE in 2017. Between 2007 and 2017, the annual average compounded growth rate for COE was 3.4 percent for Federal civilian personnel and 1.7 percent for military personnel in Hawaii. The military personnel accounted for 55.6 percent of the total Federal COE in 2017. The federal government accounted for about 11.3 percent of State GDP in Hawaii in 2016, a majority of which is defense related.

The most recent BEA data also shows that the earnings of federal government employees in the second quarter of 2018 increased 1.3 percent over the same period of 2017. In the first two quarters of 2018, the earnings of federal government employees increased 0.7 percent from the same period of the previous year.

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

In addition, the Trump Administration and leaders in the United States Congress have introduced (and in certain instances adopted) legislation, instituted executive orders and otherwise proposed significant changes affecting various aspects of the Patient Protection and Affordable Care Act, Medicaid, trade and immigration policy and the federal tax structure, in addition to other actions. Some of these changes, as adopted or as further proposed, may have some impact on the economy and budget of the State. The State cannot predict the impact of any such changes on the revenues of the State.

Transportation

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

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter island cargo shipments for the fiscal years, 2014, 2015, 2016, 2017 and 2018 amounted to 20.4 million short tons, 20.9 million short tons, 21.3 million short tons, 20.8 million short tons and 20.3 million short tons, respectively.

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

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

The Harbors System is a hub and spoke system; Honolulu Harbor serves as the hub of this Harbors System and the harbors located on the neighbor islands serve as the spokes. Honolulu Harbor serves as the major distribution point for incoming overseas cargo that is shipped to the neighbor islands and is the primary consolidation center for the export of the State's products to overseas ports. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 11.2 million short tons in fiscal year 2014, 11.2 million short tons in fiscal year 2015, 11.4 million short tons in fiscal year 2016, 11.1 million short tons in fiscal year 2017 and 11.1 million short tons in fiscal year 2018.

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

Air Transportation. The statewide airports system consists of 15 airports; 11 serving both commercial and general aviation, and four small airports for general aviation only, all located on six islands within the State of Hawaii. The principal airport which provides facilities for overseas flights (i.e., other than inter island flights within the State) is Daniel K. Inouye International Airport ("HNL") on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. With 42 gates for overseas and interisland flights with loading bridges and an additional 5 gates in Terminal 3 and G Gates (former Diamond Head concourse), 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 Ellison Onizuka 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.

Total passenger counts increased from 35.7 million in fiscal year 2017 to 37.5 million in fiscal year 2018 due to higher overseas traffic. Total airline and concession revenues have grown over the past nine (9) years, to $441 million in fiscal year 2018 (or $175 million since the recession in 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 Department of Transportation has substantially completed the consolidated rental car facility at Kahului Airport and started construction of the Mauka Concourse and the consolidated rental car facility at Daniel K. Inouye International Airport. They have also announced the planned construction of a new Diamond Head Concourse to service the increasing enplanements. 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.

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 4,346.73 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 129.54 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 954.62 linear miles of roadways. The most important component of the State Highway System is the 54.86 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The City and County of Honolulu has completed 47% of the design and construction of a new 20-mile fixed guideway mass transit system to provide rail service along Oahu's east-west corridor between Kapolei and downtown Honolulu (terminating at Ala Moana Shopping Center). Construction of the project has been funded with the City and County of Honolulu surcharge of 1/2 of 1% imposed upon Oahu activities subject to the 4% General Excise and Use Taxes and federal moneys. In response to projected funding shortfalls, certain proposals were made to extend the county surcharge and/or to increase the transient accommodations tax and to allocate a portion of the increased revenues to provide additional funding for construction of the fixed guideway mass transit system during the 2017 regular legislative session. Act 1, 1st Special Session 2017, was passed that provides additional funding for the system. Act 1, among other provisions, authorizes the City to extend the surcharge from December 31, 2027 to December 31, 2030, decreases the State's retainage for administrative expenses from 10.0% to 1.0%, increases the transient accommodations tax from 9.25% to 10.25% from January 1, 2018 to December 31, 2030 and allocates those revenues to the system, and prohibits use of the surcharge and transient accommodations tax revenues for operation or maintenance costs of the system and administrative costs of the Honolulu Rapid Transit Authority. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL — Budget System; Legislative Procedure." Shortly after the adjournment of the special session, the City acted by ordinance to extend the surcharge to December 31, 2030 as authorized by Act 1. 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, 2017.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2008	903,518	57	2,213	193,332	28,447	33,076	1,160,643
2009	895,770	63	2,143	190,935	28,879	32,138	1,149,928
2010	898,452	64	2,103	190,025	29,436	31,601	1,151,681
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370
2012	1,033,975	91	2,621	203,323	38,223	32,053	1,310,286
2013	1,089,709	98	2,669	207,496	41,180	30,189	1,371,341
2014	1,042,818	105	2,565	200,934	37,771	28,252	1,312,445
2015	1,001,879	108	2,465	196,240	32,831	27,820	1,261,343
2016	1,000,684	119	2,377	198,469	31,082	28,826	1,261,557
2017	1,016,088	114	2,344	201,686	39,312	29,010	1,288,554

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 2018-2019 school year, system enrollment increased from a total of 179,255 in the 2017-2018 school year to a total of 179,698 in 292 K-12 public schools (includes 36 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 2018, 51,063 students attended the University of Hawaii System, 17,710 of them on the Manoa campus. For the fall of 2019, it is projected that 50,151 will attend the University of Hawaii System, 17,346 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.

RECENT EVENTS

Cybersecurity

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

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

Climate Change and Natural Disasters

Climate change issues are of particular concern to the State for a number of reasons, including, but not limited to, challenges arising from potential sea level rise and water and agricultural security. The State has taken steps to attempt to mitigate some of the negative impacts of climate change. On June 7, 2017 Governor Ige signed Act 32 SLH 2017 (the "Climate Change Act") into law, which, among other things, made Hawaiʻi the first state to enact legislation implementing parts of the Paris climate accord and tasked the Hawaii Climate Change Mitigation and Adaptation Commission (the "Climate Commission") with providing direction, facilitation, coordination and planning among state and county agencies, federal agencies, and other partners about climate change mitigation (reduction of greenhouse gases) and climate change resiliency strategies, including, but not limited to, sea level rise adaptation, water and agricultural security, and natural resource conservation.

It is believed that climate change increases the frequency and severity of natural disasters, including hurricanes and volcanic activity. In August of 2018 Hurricane Lane, which peaked as a powerful Category 5 hurricane (one of only two ever recorded within 350 miles of the State), became the first major threat to the State since Hurricane Iniki made landfall in September 1992. Lane weakened significantly as it moved towards the State but it still caused severe mudslides and flash flooding on the Island of Hawaiʻi, where a maximum of 52 inches (1,321 mm) of rain was recorded. Between May 3, 2018 through approximately August 15, 2018 a volcanic event known as the 2018 lower Puna eruption occurred at the Kīlauea volcano located on the Island of Hawaiʻi. The 2018 lower Puna eruption ultimately resulted in the destruction of over 700 homes, the evacuation of approximately 2,000 residents, temporary highway blockages and other adverse disruptions.

No assurances can be given as to the frequency or severity of any future natural disasters, whether or not they are influenced by climate change, nor what impact, individually or in the aggregate, such disasters may have on the State, its residents or its overall financial condition.

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APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

(commences on page B-1)

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE

STATE OF HAWAII AS OF JUNE 30, 2018 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-21)

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APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

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

INFORMATION ABOUT INDEBTEDNESS

The following tables set forth the State's total indebtedness as of July 1, 2018, 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		$7,193,953,064
Less excludable reimbursable general obligation bonds[1]		
Harbors	23,254,635	
Land and Natural Resources	35,000,000	
Subtotal excludable reimbursable general obligation bonds	$ 58,254,635	
Less all general obligation bonds maturing in the current year	$467,022,081	$ 525,276,716
Net general obligation bonds outstanding		$6,668,676,348

Footnotes on following page.

REVENUE BOND INDEBTEDNESS[2]

As of July 1, 2018

Revenue bonds outstanding:		
Airports:		
Airports system	$1,011,070,000	
Airports special facility	266,500,000	$1,277,570,000
Housing:		
Single family mortgage purchase	26,879,452	
Multifamily	272,209,699	299,089,151
Harbors:		
Revenue		283,995,000
Highway:		
Revenue		400,725,000
University of Hawaii:		
Revenue		525,425,000
Hawaiian Home Lands		29,840,000
Hawaii Health Systems Corporation (Maui Regional Health Care System)		17,869,219
Department of Business, Economic Development and Tourism		121,924,940
Total revenue bonds outstanding		$2,956,438,310

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS[3]

As of July 1, 2018

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$764,681,599
Utilities serving the general public	462,000,000
Not for profit secondary schools, colleges and university serving the general Public	108,790,000
Total special purpose revenue bonds outstanding	$1,335,471,599

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, 2018, the State has not issued additional general obligation bonds; however, it has redeemed and retired other general obligation bonds. As of January 1, 2019, and not taking into account the anticipated issuance of the Bonds, the State had a total of $6,880,153,064 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, 2018. The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2018, after exclusions permitted by the Constitution, is $786,230,762 in the fiscal year ending June 30, 2020, which is within the July 1, 2018 debt limit of $1,361,476,133.

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	2015-2016	2016-2017	2017-2018
Total General Fund revenues exclusive of grants from the federal government	$7,081,914,912	$7,351,580,844	$7,660,397,889
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	5,933,726	5,572,219	4,396,349
Net General Fund revenues	$7,075,981,186	$7,346,008,625	$7,656,001,540
Sum of net General Fund revenues for preceding three fiscal years	$22,077,991,351		
Average of preceding three fiscal years	$7,359,330,450		
18.5% of average net General Fund revenues of the three preceding years ended June 30, 2016, 2017 and 2018	$1,361,476,133		

NOTE: This Summary Statement is based on the July 1, 2018 statement of indebtedness. See “DEBT STRUCTURE — Outstanding Indebtedness and Debt Limit” in Appendix A.

GENERAL OBLIGATION BONDS OUTSTANDING AS OF JULY 1, 2018

Reimbursable General Obligation Bonds[1]	Principal Amount	Balance	% of Total
From State Special Funds for			
Commercial Harbors	$23,254,635		
Small Boat Harbors [2]	$1,225,967		
Waiahole Water System [2]	$5,425,371		
Land and Natural Resources	$35,000,000		
Total for Special Funds	$64,905,973		
Total Reimbursable General Obligation Bonds		$64,905,973	0.90%
Non-Reimbursable General Obligation Bonds from State General Funds for various purposes	$7,129,047,091		
Total Non-Reimbursable General Obligation Bonds		$7,129,047,091	99.10%
Total General Obligation Bonds Issued and Outstanding		$7,193,953,064	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.

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 January 1, 2019, but also including 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 January 1, 2019

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 Series FW, FX and FY [4]: Total Principal Payable for New Bonds	Debt Service on Series FW, FX and FY [4]: Total Interest Payable for New Bonds	Total Debt Service[5]
2019	6,880,153,064	156,985,000.00	137,562,110.04	294,547,110.04	3,791,089.79	290,756,020.25	68,335,000.00[6]	193,615.83[6]	359,284,636.08
2020	6,723,168,064	500,735,000.00	291,407,713.49	792,142,713.49	6,518,657.66	785,624,055.83	24,500,000.00	19,527,981.55	829,652,037.38
2021	6,222,433,064	457,865,000.00	269,997,497.98	727,862,497.98	6,519,274.68	721,343,223.30	24,845,000.00	22,028,406.00	768,216,629.30
2022	5,764,568,064	462,745,000.00	249,900,419.63	712,645,419.63	6,518,727.67	706,126,691.96	25,655,000.00	21,220,943.50	753,002,635.46
2023	5,301,823,064	465,320,635.58	228,991,745.88	694,312,381.46	6,522,445.36	687,789,936.10	17,025,000.00	20,510,300.00	725,325,236.10
2024	4,836,502,429	472,859,123.43	207,582,056.24	680,441,179.67	6,521,549.90	673,919,629.77	17,785,000.00	19,749,050.00	711,453,679.77
2025	4,363,643,305	454,955,472.76	186,035,249.10	640,990,721.86	6,523,426.03	634,467,295.83	18,540,000.00	18,997,800.00	672,005,095.83
2026	3,908,687,832	453,200,747.22	165,012,751.27	618,213,498.49	6,523,845.20	611,689,653.29	19,425,000.00	18,111,750.00	649,226,403.29
2027	3,455,487,085	423,326,178.14	144,466,621.15	567,792,799.29	4,244,202.68	563,548,596.61	20,395,000.00	17,140,500.00	601,084,096.61
2028	3,032,160,907	415,154,106.88	124,986,617.16	540,140,724.04	3,898,978.24	536,241,745.80	21,415,000.00	16,120,750.00	573,777,495.80
2029	2,617,006,800	401,019,815.25	106,125,777.44	507,145,592.69	2,958,624.60	504,186,968.09	22,485,000.00	15,050,000.00	541,721,968.09
2030	2,215,986,985	372,047,126.14	88,173,806.32	460,220,932.46	2,963,813.41	457,257,119.05	23,585,000.00	13,950,750.00	494,792,869.05
2031	1,843,939,859	342,358,918.66	71,214,284.78	413,573,203.44	2,960,893.13	410,612,310.31	24,760,000.00	12,776,000.00	448,148,310.31
2032	1,501,580,940	357,137,152.13	56,391,589.42	413,528,741.55	2,963,364.33	410,565,377.22	26,000,000.00	11,538,000.00	448,103,377.22
2033	1,144,443,788	299,363,855.90	43,129,468.66	342,493,324.56	2,962,231.88	339,531,092.68	27,295,000.00	10,238,000.00	377,064,092.68
2034	845,079,932	269,969,932.17	31,607,571.02	301,577,503.19	2,865,933.61	298,711,569.58	28,610,000.00	8,923,250.00	336,244,819.58
2035	575,110,000	221,600,000.00	21,506,239.01	243,106,239.01	2,751,704.96	240,354,534.05	29,910,000.00	7,626,850.00	277,891,384.05
2036	353,510,000	176,120,000.00	13,913,852.00	190,033,852.00	2,533,575.00	187,500,277.00	31,315,000.00	6,218,850.00	225,034,127.00
2037	177,390,000	125,055,000.00	7,225,470.00	132,280,470.00	0.00	132,280,470.00	32,880,000.00	4,653,100.00	169,813,570.00
2038	52,335,000	52,335,000.00	2,616,750.00	54,951,750.00	0.00	54,951,750.00	34,375,000.00	3,162,000.00	92,488,750.00
2039	0.00	0.00	0.00	0.00	0.00	0.00	35,865,000.00	1,668,250.00	37,533,250.00
	Totals	6,880,153,064.26	2,447,847,590.59	9,328,000,654.85	80,542,338.13	9,247,458,316.72	575,000,000.00	269,406,146.88	10,091,864,463.60

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 January 1, 2019.
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 $3,791,089.79 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2019, only $3,296,723.11 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 Approximate. Reflects bond debt service on all outstanding general obligation bonded indebtedness of the State of Hawaii as of January 1, 2019, plus debt service on the Bonds as of their expected date of delivery.
6 The amount of $68,528,615.83, which is equal to the principal of and interest on the Series FY Bonds to their maturity on April 1, 2019 in the amount of $68,335,000 and $193,615.83, respectively, is held in escrow for payment of the Series FY Bonds in their entirety. Therefore, net debt service payable for the fiscal year ending June 30, 2019 is $290,756,020.25.

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
2014	1,420	5,784,139	35	5,784,104	4,073
2015	1,432	5,963,928	35	5,963,893	4,165
2016	1,429	6,294,325	35	6,294,290	4,405
2017	1,428	6,865,043	35	6,865,008	4,807
2018	1,435	7,170,698	-	7,170,698	4,997

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 (the "Hawaiian Homelands Lease") related to the issuance of $24,500,000 of Certificates of Participation (the "Hawaiian Homelands 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. Certificates of Participation in the aggregate principal amount of $15,125,000 were issued in August 2017 for the purpose of refunding all of the Hawaiian Homelands COPs, which are payable from the lease payments owed by the State under the Hawaiian Homelands Lease. The Kapolei COPs, Capital District COPs and Hawaiian Homelands COPs (collectively, the "COPs") are secured by rental payments payable from lawfully available funds of the State, including the State's General Fund. The rental payments do not constitute an obligation for which the State has levied any form of taxation. The COPs do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

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

Lease Purchase Agreements. The State, by and through various departments, agencies and divisions of the State, from time to time enters into lease purchase agreements relating to equipment. Certain of these lease purchase agreement transactions are described below. In September 2009, April 2011 and September 2013, the State, by the Department of Accounting and General Services and the Department of Public Safety, entered into Equipment Lease

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

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

No Obligations Subject to Mandatory Purchase or Acceleration

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

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

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

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities authorized in Section 36-21, HRS. The securities in which State funds may currently be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds for which the full faith and credit of the United States are pledged for the payment of principal and interest; (b) certain U.S. Government Sponsored Enterprises (GSE); (c) time certificates of deposit in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured financial institutions; (f) commercial paper with at least an A1/P1 rating; (g) bankers' acceptances with at least an A1/P1 rating; (h) money market mutual funds that are rated AAAm-G or its equivalent by Standard & Poor's Rating Group; and invest solely in obligations of the United States or an agency unconditionally 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 November 30, 2018, 24% of the State's investment portfolio and cash in banks consisted of time certificates with banks, 70% consisted of U.S. Federal Agency and Government Sponsored Entity Securities, 4% consisted of U.S. Treasury securities, and 2% consisted of cash in bank accounts.

Safety of Public Funds

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

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

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

Investment Yield

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

For the fiscal year ended June 30, 2018, approximately $27.3 million was credited to the General Fund as investment earnings from the Treasury Investment Pool. The total accrued investment interest represents an average return on investment for the General Fund of 1.49%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2014 to 2018. 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, 2018, 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).

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

(Amounts In Thousands)

	2014	2015	2016	2017	2018
ASSETS:					
Cash	$ 114,395	$ 203,687	$ 234,070	$ 120,199	$ 136,303
Due from other funds	213,063	327,382	189,016	177,270	90,172
Due from Component Units	21,800	35,200	12,400	18,800	6,000
Receivables:					
Taxes	463,187	524,236	419,220	393,165	302,350
Notes	1,470	1,433	1,380	1,380	1,380
Other	8,125	8,025	7,925	7,901	7,901
Total receivables	472,782	533,694	428,525	402,446	311,631
Investments	842,394	920,042	1,357,484	1,397,849	1,407,702
Other Assets	18,778	16,051	9,371	3,901	3,902
TOTAL ASSETS	$1,683,212	$2,036,056	$2,230,866	$2,120,465	$1,955,710
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Vouchers payable	$ 101,042	$ 162,667	$ 146,259	$ 153,109	$ 197,870
Other accrued liabilities	231,422	243,289	286,573	257,458	274,873
Due to other funds	35	35	35	35	-
Due to Component Units	1,514	1,546	2,635	3,792	5,047
Unearned revenue	13,536	39,224	-	-	-
Total liabilities	347,549	446,761	435,502	414,394	477,790
FUND BALANCES:					
Assigned	256,483	205,242	394,581	400,529	503,201
Unassigned	1,079,180	1,384,053	1,400,783	1,305,542	974,719
Total fund balances*	1,335,663	1,589,295	1,795,364	1,706,071	1,477,920
TOTAL LIABILITIES AND FUND BALANCES	$1,683,212	$2,036,056	$2,230,866	$2,120,465	$1,955,710

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

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

	2013-2014	% of Total	2014-2015	% of Total	2015-2016	% of Total	2016-2017	% of Total	2017-2018	% of Total
REVENUES:										
General excise tax.	$ 2,816,346	50.12	$ 3,021,418	50.36	$ 3,192,469	49.87	$ 3,189.599	47.95	$ 3,420,476	48.40
Income tax-corporation	85,940	1.53	64,953	1.08	60,528	0.95	181,843	2.73	111,827	1.58
Income tax-individual	1,755,023	31.23	1,982,374	33.04	2,097,351	32.76	2,104,174	31.63	2,344,847	33.18
Service companies tax	166,179	2.96	163,481	2.72	152,760	2.39	122,159	1.84	117,641	1.66
Liquor licenses and taxes	48,305	0.86	50,281	0.84	50,590	0.79	51,167	0.77	51,383	0.73
Tobacco licenses and taxes	77,659	1.38	82,829	1.38	83,685	1.31	82,792	1.24	79,913	1.13
Insurance premiums tax	137,179	2.44	145,672	2.43	152,622	2.38	164,688	2.48	159,814	2.26
Rental motor/tour vehicle surcharge tax	1	-	1	-	1	-	2	-	2	-
Inheritance and estate tax	14,789	0.26	12,071	0.20	49,613	0.77	18,968	0.29	29,351	0.42
Franchise tax.	36,983	0.66	17,930	0.30	12,691	0.20	9,174	0.14	13,712	0.19
Environmental response tax	17,356	0.31	14,833	0.25	15,359	0.24	15,090	0.23	15,373	0.22
Transient accommodations tax* .	188,721	3.36	202,345	3.37	233,082	3.64	299,712	4.51	304,521	4.31
Conveyance tax	27,592	0.49	11,635	0.19	27,033	0.42	49,737	0.75	55,805	0.79
Total Taxes	5,372,073	95.60	5,769,823	96.16	6,127,784	95.72	6,289,105	94.56	6,704,665	94.87
Charges for current services and other revenues	247,072	4.40	230,381	3.84	274,101	4.28	363,313	5.44	362,837	5.13
TOTAL REVENUES	$ 5,619,145	100.00	$ 6,000,204	100.00	$ 6,401,885	100.00	$ 6,652,418	100.00	$ 7,067,502	100.00
EXPENDITURES:										
General government	$ 425,549	8.43	$ 440,602	8.37	$ 505,656	9.03	$ 526,006	8.73	$ 567,869	8.63
Public safety	377,408	7.48	343,368	6.52	345,453	6.17	389,190	6.46	430,954	6.55
Conservation of natural resources	34,132	0.68	42,706	0.81	50,402	0.90	67,889	1.13	64,986	0.99
Health	559,981	11.09	587,358	11.15	614,456	10.97	614,536	10.20	577,749	8.78
Welfare	992,675	19.67	1,092,243	20.74	1,100,399	19.64	1,227,601	20.37	1,186,888	18.05
Education										
Higher	563,764	11.17	600,015	11.39	656,700	11.72	740,102	12.28	766,764	11.66
Lower and others	1,965,499	38.94	2,047,653	38.88	2,191,107	39.12	2,312,198	38.36	2,495,321	37.94
Culture-recreation	43,567	0.86	43,770	0.83	49,864	0.89	50,107	0.83	56,148	0.85
Urban redevelopment and housing	10,005	0.20	11,764	0.22	11,962	0.21	18,613	0.31	21,105	0.32
Economic development & assistance	32,992	0.65	28,889	0.55	43,690	0.78	47,736	0.79	45,527	0.69
Other	42,013	0.83	28,082	0.54	31,927	0.57	33,485	0.54	363,304	5.54
TOTAL EXPENDITURES	$ 5,047,585	100.00	$ 5,266,450	100.00	$ 5,601,616	100.00	$ 6,027,463	100.00	$ 6,576,615	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	$ 65,648	-	$ 138,955	-	$ 214,284	-	$ 197,119	-	$ 155,213	-
Transfers out	(818,488)	-	(750,264)	-	(776,011)	-	(1,053,472)	-	(874,368)	-
Other	91,670	-	131,187	-	70,727	-	142,105	-	117	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (661,170)	-	$ (480,122)	-	$ (491,000)	-	$ (714,248)	-	$ (719,038)	-
SPECIAL ITEM:										
Loan forgiveness	$ -	-	$ -	-	$ (103,200)	-	$ -	-	$ -	-
TOTAL SPECIAL ITEM	$ -	-	$ -	-	$ (103,200)	-	$ -	-	$ -	-

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

Act 171, SLH 2012 changed the maximum amount deposited into the tourism special fund to $71 million beginning on July 1, 2012 and ending on June 30, 2015 provided that $2 million shall be expended for the development and implementation of initiatives to take advantage of expanded visa programs and increased travel opportunities for international visitors to Hawaii. Act 243, SLH 2012 amended the provision that revenues in excess of $33 million deposited to the convention center enterprise fund in any calendar year be deposited to the State general fund, to be for any fiscal year. Act 161, SLH 2013, effective July 1, 2013, amended the TAT revenue distribution from a percentage of revenues collected to annual amounts of $33 million to the convention center enterprise special fund, $82 million to the tourism special fund and $93 million to the counties, and made permanent the TAT rate of 9.25 percent. Act 81, SLH 2014, allocated $3 million TAT revenues collected to the Turtle Bay conservation easement special fund and decreased the convention center enterprise special fund annual allocation from $33 million to $26.5 million. Act 174, SLH 2014, increased the ceiling distribution allocated to the counties from $93 million to $103 million for fiscal years 2014-2015 and 2015-2016, with distributions of $93 million for each fiscal year thereafter. Act 117, SLH 2015, allocated $3 million TAT revenues collected to the special land and development fund to finance beach restoration and conservation and other activities, to take effect July 1, 2016. Act 121, SLH 2015, beginning July 1, 2015, amended the TAT revenue distribution to the Turtle Bay conservation easement special fund from $3 million to $1.5 million annually for the reimbursement to the State general fund of debt service on reimbursable general obligation bonds. Act 223, SLH 2016, increased the ceiling distribution allocation to the counties from $93 million to $103 million for fiscal year 2016-2017. Act 001 SLH 2017 First Special Session, made permanent the $103 million ceiling distribution allocation to the counties.

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 2017.

In September 2017, the Council raised its growth rate for fiscal year 2018 and 2019 from 4.0% to 4.3% citing an expected rebound in growth after the low growth in fiscal year 2017. The Council lowered its forecast for fiscal years 2020 through 2024 from 4.5% to 4.0% due to concern that the State economy's expansionary cycle may be nearing its peak.

In January 2018, the Council raised its growth rate for fiscal year 2018 from 4.3% to 4.5% based on actual collections to date that are expected to continue based on favorable economic data. The Council also maintained its September 2017 forecasts for fiscal year 2019 through fiscal year 2024 as described in the previous paragraph, citing continuing concerns about the State's expansionary cycle as well as the potential impact of the federal Tax Cut and Jobs Act.

In March 2018, the Council raised its growth rate for fiscal year 2018 from 4.5% to 5.3% due in part to actual collections during the first eight months of the fiscal year having a greater than expected increase in collections The Council also raised its forecast for fiscal year 2019 from 4.3% to 4.5% and maintained its January 2018 forecasts for fiscal year 2020 through fiscal year 2024 citing concerns over economic and political volatility, evidence of stagnant personal income growth, and the potential impact of federal tax law changes.

In May 2018, the Council raised its growth rate for fiscal year 2018 from 5.3% to 7.3% primarily due to increased revenue from individual income taxes. The Council also raised its forecast for fiscal year 2019 from 4.5% to 5.0% and maintained its March 2018 forecast for fiscal year 2020 through fiscal year 2024.

In July 2018, the Department of Taxation reported that the fiscal year 2018 preliminary cumulative general fund tax collections were up by 7.6% over the same period in fiscal year 2017.

In September 2018, the Council maintained its May 2018 forecast for fiscal year 2019 through fiscal year 2025 citing it believed Hawaii's economy to be strong, but expressed concerns that the State may be nearing the end of its expansionary cycle.

In January 2019, the Council lowered its growth rate for fiscal year 2019 from 5.0% to 4.2% based on expectations of slower economic growth than in fiscal year 2018. The Council also maintained its forecast for fiscal year 2020 through fiscal year 2025.

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 2018 and estimates for fiscal years 2019 through 2025. The budgetary General Fund resources, expenditures and balances below and under "General Fund Tax Revenues" and "Actual Collections and Distributions" are presented on a modified cash-basis. The State's normal practice is to utilize this modified 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 modified cash basis information presented under this caption and the next two captions titled "General Fund Tax Revenues" and "Actual Collections and Distributions" is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

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MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 2018-2025[1]

(in millions of dollars)

	Actual FY 18	Estimated FY 19	Estimated FY 20	Estimated FY 21	Estimated FY 22	Estimated FY 23	Estimated [8] FY 24	Estimated [8] FY 25
REVENUES:								
Executive Branch:								
Tax Revenues [2,3]	6,795.5	7,081.5	7,364.7	7,659.3	7,965.7	8,284.3	8,615.7	8,960.3
Nontax Revenues [2,3]	830.5	669.1	705.7	733.4	745.3	758.2	759.5	760.5
Judicial Branch Revenues [2,3]	34.5	34.5	34.5	34.5	34.5	34.5	34.5	34.5
Other Revenues [4]	0.0	15.3	(31.4)	(90.0)	(96.4)	(102.8)	(62.5)	(69.6)
TOTAL REVENUES	7,660.4	7,800.3	8,073.5	8,337.2	8,649.0	8,974.2	9,347.2	9,685.7
EXPENDITURES								
Executive Branch:								
Operating [5]	7,248.5	7,512.2	7,864.0	8,066.2	8,232.3	8,392.4	8,555.6	8,691.6
CIP	10.5	-	-	-	-	-	-	-
Specific Appropriations/CB [6]	441.5	290.8	188.4	234.3	249.9	249.9	249.9	249.9
Other expenditures/adjustments [7]	0.0	4.6	5.2	0.2	0.7	3.3	6.0	8.4
Sub-total – Exec Branch	7,700.5	7,807.6	8,057.6	8,300.7	8,482.8	8,645.5	8,811.5	8,949.9
Legislative Branch	42.0	42.0	41.6	41.6	41.6	41.6	41.6	41.6
Judicial Branch	165.7	170.3	172.4	173.4	173.4	173.4	173.4	173.4
OHA	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0
Counties	0.6	0.6	-	-	-	-	-	-
Lapses	(107.8)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	7,803.9	7,943.6	8,195.7	8,439.7	8,621.9	8,784.5	8,950.5	9,089.0
REV. OVER (UNDER) EXPEND.	(143.5)	(143.2)	(122.2)	(102.5)	27.2	189.7	396.7	596.7
CARRY OVER BALANCE								
Beginning	893.8	750.3	607.1	484.9	382.4	409.6	599.3	996.0
Ending	750.3	607.1	484.9	382.4	409.6	599.3	996.0	1,592.7

Sources: Department of Accounting and General Services; Department of Budget and Finance, January 2019.

(1) Unaudited. The State's modified cash-basis statements are not directly comparable with the State's audited financial statements, which are presented on a modified accrual basis.

(2) Reflects actual FY 2018 revenue collections as reported by the Department of Accounting and General Services.

(3) Reflects FYs 2019-2025 Council on Revenues' January 2019 projections.

(4) Incorporates various legislative proposals with general fund impact that will be submitted to the 2019 Legislature.

(5) Executive Branch's FY 2019 expenditures reflect Act 49, SLH 2017, as amended by Act 53, SLH 2018. FYs 2020-2025 expenditures based on Act 49, SLH 2017, as amended by Act 53, SLH 2018, and adjusted to include the FB 2019-2021 Executive Budget.

(6) Reflects specific appropriations from 2017 and 2018 Legislatures and estimated out year costs.

(7) Includes: proposals with expenditure impact to be submitted to the 2019 Legislature; and the Other Post-Employment Benefit adjustment pursuant to the 2018 actuarial valuation.

(8) FY 2024 and 2025 expenditures are not yet available, therefore FY 2023 expenditures were used for FY 2024 and FY 2025.

Note: Due to rounding, details may not add to totals. This plan is not included as an item in the financial statements under "SELECTED FINANCIAL STATEMENTS" in Part 1 of this Appendix B, nor in the projections of the Council on Revenues.

The preceding General Fund financial plan is based on preliminary cash-basis general fund tax revenues for the fiscal year ended June 30, 2018, as reported by the Department of Accounting and General Services. The estimated tax revenues are based on the forecast for general fund revenues from the Council on Revenues' January 10, 2019 report, that also incorporates revenue increases due to: the conformance of certain income taxes and estate taxes to the Internal Revenue Code; clarifying and applying the general excise tax law to certain online and interstate sales of goods and services used in Hawaii starting July 1, 2018; increasing the allocation of the transient accommodations tax to the general fund by reducing the allocation to the Convention Center Special Fund ($10 million) and the Tourism Special Fund ($3 million); increasing the withholding on Hawaii real estate dispositions conducted by nonresidents starting September 15, 2018; and imposing the transient accommodations tax on brokers, agencies and packagers that provide transient accommodations. The Council's projections also include revenue decreases due to an increase in the exemption from $7 million to $30 million for certain affordable rental housing projects and extends the exemption to June 30, 2030. The estimates for fiscal years 2019-2025 are based on the Council's projections and incorporates legislative proposals that will be submitted to the 2019 Legislature.

With respect to Executive Branch expenditures, the figures reflect appropriations made pursuant to Act 49, SLH 2017, as amended by Act 53, SLH 2018 and adjusted to include the FB 2019-2021 Executive Budget, as well as specific appropriations, legislative proposals that will be submitted to the 2019 Legislature and the OPEB adjustment pursuant to the 2018 actuarial certification. The budget for fiscal years 2019-2021 for the Judicial Branch reflects appropriations made pursuant to Act 195, SLH 2017 as amended by Act 26, SLH 2018 and incorporates the Judicial Branch's estimated expenditures submitted to the Governor on November 1, 2018 that was revised on November 21, 2018. The budget for fiscal years 2019-2021 for the Office of Hawaiian Affairs (OHA) reflects appropriations made pursuant to Act 131, SLH 2017 and incorporates OHA's estimated expenditures submitted to the Governor on November 1, 2018.

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, $48.0 million was carried over from fiscal year 2018 to fiscal year 2019 by the Department of Education, but in the financial plan, was considered to be expended in fiscal year 2018.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2018, and represent approximately 89% 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, 2018, and estimated tax revenues for the fiscal years ending June 30, 2019 and June 30, 2020 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 10, 2019 report, and the line item projections are prepared by the Department of Taxation to be consistent with the Council's forecast.

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GENERAL FUND TAX REVENUES
(Thousands of Dollars)

	Actual* 2017-2018	Estimated 2018-2019	Estimated 2019-2020
General Excise and Use Tax	$3,395,566	$3,504,403	$3,632,594
Income Tax—Individual	2,430,356	2,558,877	2,631,165
Income Tax—Corporation	131,119	107,867	125,521
Public Service Company Tax	117,641	122,391	127,152
Tax on Insurance Premiums	159,814	163,546	166,921
Tobacco Tax & Licenses	79,914	81,370	83,110
Liquor Tax & Permits	51,383	52,484	53,392
Tax on Banks & Other Financial Corp.	13,712	11,269	13,035
Inheritance and Estate Tax	29,351	29,991	30,621
Conveyance Tax	55,803	59,882	63,716
Transient Accommodation Tax	315,264	372,620	420,732
Miscellaneous Taxes	16,633	16,770	16,770
TOTAL	$6,796,036	$7,081,470	$7,364,729
GROWTH RATE	7.6%	4.2%	4.0%

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 9, 2019, and line item projections prepared by the Department of Taxation. (Please note that the tax revenue numbers reported by the Department of Taxation may differ from the tax revenue numbers reported by the Department of Accounting and General Services because of accounting system reclassifications and collection timing issues.)

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for fiscal years 2017 and 2018 as reported by the State Director of Taxation. The collections from all sources for fiscal year 2018 amounted to $7.9 billion. This represents a 7.6% increase from the previous fiscal year.

	Fiscal Year Ended June 30	
	2017-2018	**2016-2017**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial Corporations [1]	$15,712	$11,174
Conveyances [1]	100,603	94,537
Employment Security Contributions	110,885	104,313
Fuel	201,778	194,761
General Excise License and Registration Fees	701	698
General Excise and Use [2]	3,395,566	3,239,225
Honolulu County Surcharge [3]	281,589	248,158
Income—Corporations:		
Declaration of Estimated Taxes	194,966	173,258
Payment with Returns	25,812	29,212
Refunds	-89,660	-28,804
Income—Individuals [1]:		
Declaration of Estimated Taxes	700,017	552,236
Payment with Returns	219,989	191,898
Withholding tax on Wages	2,032,879	1,916,350
Refunds	-522,528	-564,586
Inheritance and Estate	29,351	18,968
Insurance Premiums	159,814	164,688
Liquor and Permits	51,383	51,167
Motor Vehicle Tax/Fees, Etc. [4]	193,241	186,490
Public Service Companies	117,641	122,159
Tobacco and Licenses [1]	120,522	124,066
Transient Accommodations Fees/Time Share Occupation Fees	22	20
Transient Accommodations Tax/Time Share Occupation Tax [1]	554,890	508,357
All Other [5]	534	36
TOTAL	$7,895,708	$7,338,382

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

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

	Fiscal Year Ended June 30	
	2017-2018	**2016-2017**
State Tax Collections—Distribution	(Thousands of Dollars)	
State General Fund	$6,796,036	$6,315,215
State Highway Fund	276,727	269,759
State Airport Fund	2,632	2,059
Boating Special Fund	1,722	1,662
Environmental Fund	1,291	1,267
Cigarette Stamp Administrative Fund	217	223
Cigarette Stamp Enforcement Fund	1,675	1,724
Compliance Resolution Fund	2,000	2,000
Election Campaign Fund	195	164
Employment Security Fund	110,885	104,313
Rental Housing Fund	38,000	38,000
Convention Center Enterprise Fund	26,500	26,500
Land Conservation Fund	6,800	6,800
Tourism Special Fund	82,000	82,000
School Minor Repairs and Maintenance Fund	80	74
Public Libraries Fund	75	68
Domestic Violence/Child Abuse Neglect Funds	170	155
Cancer Research Fund	13,917	14,326
Trauma System Fund	7,400	7,400
Emergency Medical Service Fund	8,700	8,800
Community Health Centers Fund	8,700	8,800
Energy Security Fund	3,872	3,801
Energy Systems Development Fund	2,582	2,534
Agricultural Development & Food Security Fund	3,872	3,801
Turtle Bay Conservation Easement Fund	1,500	1,500
Land and Development Fund	3,000	3,000
Mass Transit Special Fund	23,626	-
Subtotal	$7,424,174	$6,905,946
Honolulu County Surcharge	$281,589	$248,158
Distributions to Counties*:		
Fuel Tax	$86,946	$81,278
Transient Accommodations Tax	103,000	103,000
Counties Total	$189,946	$184,278
TOTAL	$7,895,708	$7,338,382

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 five annual actuarial valuations.

Actuarial Valuation as of June 30	Total Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2014	17.28	26.0
2015	17.89	26.0
2016	17.91	66.0
2017	19.16	26.0
2018	20.36	25.0

* 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 and Act 17, SLH 2017.

The funding period in 2015 remained unchanged due to the offsetting impact from experience gains and the liability increase as a result of the lowering of the investment return assumption to 7.65% by the Board of Trustees effective with the June 30, 2015 valuation. The funding period increased in 2016 due to a combination of factors. The system experienced a loss on the actuarial value of assets due to lower than expected investment performance. The system also experienced liability losses due to higher than expected salary increases during fiscal year 2016. Both of these events increased the funding period of the system. However, the adoption of the new actuarial assumptions by the Board of Trustees in December 2016 (including the decision to lower the investment return assumption to 7.00%) by far had the most impact on the increase in the funding period. The large decrease in funding period in 2017 is primarily due to investment gains and a mandated increase in employer contributions under Act 17, SLH 2017. The decrease in funding period in 2018 was as expected due to aggregate experience closely matching expectations.

To bring the funding period of the System within 30 years, Act 17, SLH 2017, which became effective July 1, 2017, increased employer contribution requirements as follows:

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

The Legislature also included $34.6 million in fiscal year 2017-2018 and $70.7 million in fiscal year 2018-2019 in the Executive Budget Bill (Act 49, SLH 2017), which was approved by the Legislature on May 2, 2017 to fund the contribution increases required by Act 17, 2017 SLH.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2017 and 2018 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2017 and 2018
(Includes all counties)

ASSETS	**2017**	**2018**
Total current assets	$15,720,627,120	$16,512,744,474
Present value of future employee contributions	2,283,117,878	2,425,178,684
Present value of future employer normal cost contributions..	2,675,729,127	2,664,690,218
Unfunded actuarial accrued liability	12,928,003,413	13,404,656,909
Present value of future employer Early Incentive Retirement Program contribution	N/A	
TOTAL ASSETS	$33,607,477,538	$35,007,270,285
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$15,020,603,612	$16,008,847,800
Present value of future benefits to active employees and inactive members	18,586,873,926	$18,998,422,485
TOTAL LIABILITIES..	$33,607,477,538	$35,007,270,285

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2018, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $13.405 billion. The System's funded ratios — assets divided by the actuarial accrued liability — increased slightly during fiscal year 2018 as shown below:

FUNDED RATIOS

June 30, 2017	**June 30, 2018**
54.9%	55.2%

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PART II
GENERAL PURPOSE FINANCIAL STATEMENTS
OF THE STATE OF HAWAII AS OF JUNE 30, 2018
AND INDEPENDENT AUDITORS' REPORT

Following is the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018 ("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.

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STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

RODERICK K. BECKER
COMPTROLLER

STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

RODERICK K. BECKER
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

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State of Hawaii
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PART III: STATISTICAL SECTION (UNAUDITED)

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PART I: INTRODUCTORY SECTION

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State of Hawaii
Principal Officials for Finance-Related Functions
June 30, 2018

Roderick K. Becker
Comptroller

Audrey Hidano
Deputy Comptroller

Governor	**David Y. Ige**
Director of Finance	**Laurel A. Johnston**
Director of Taxation	**Linda Chu Takayama**
Comptroller	**Roderick K. Becker**
Deputy Comptroller	**Audrey Hidano**

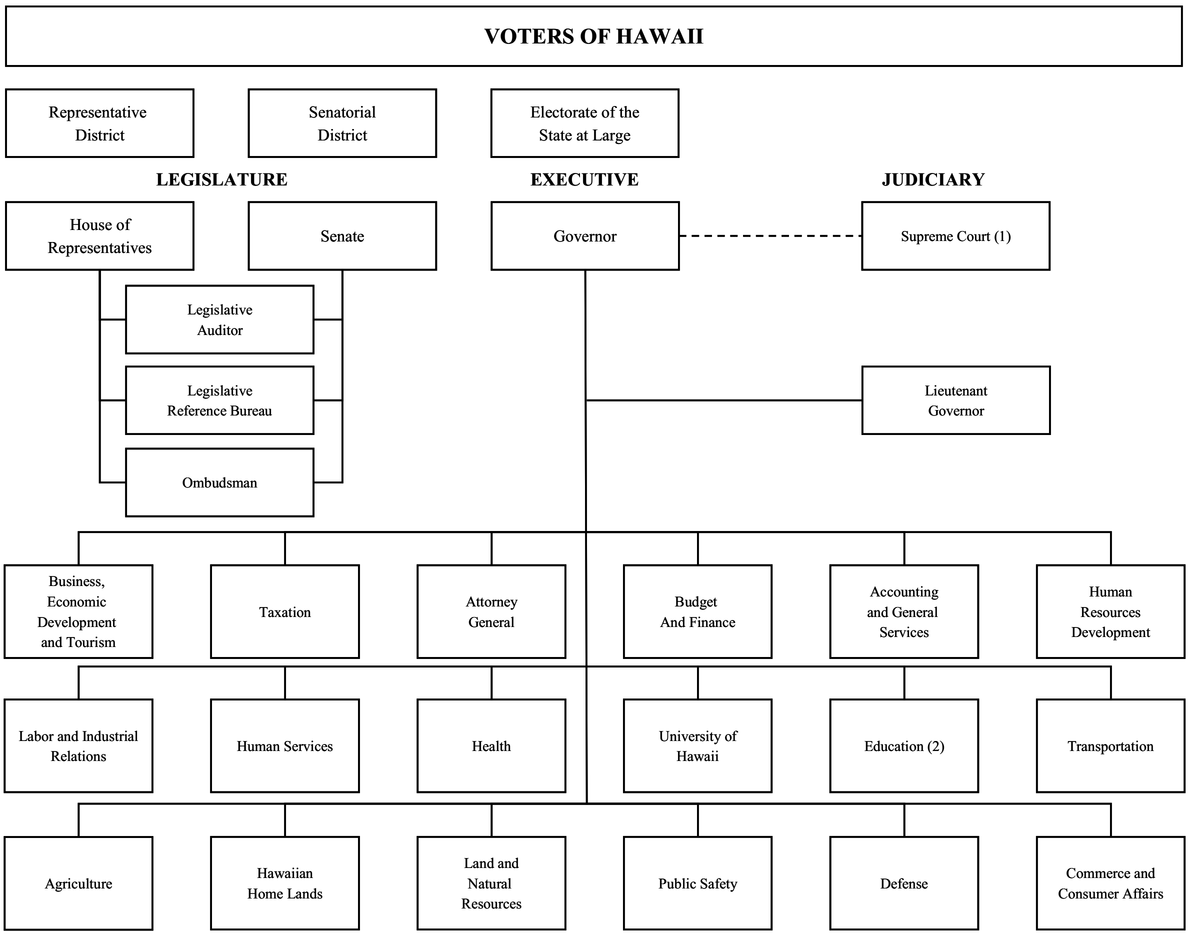
Notes:

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

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

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

State of Hawaii
Organizational Chart
June 30, 2018



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

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

DAVID Y. IGE
GOVERNOR

RODERICK K. BECKER
COMPTROLLER

AUDREY HIDANO
DEPUTY COMPTROLLER

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

December 14, 2018

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Thirtieth 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, 2018. 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 2018, Hawaii's economic indicators were mostly positive. Visitor arrivals and expenditures, State general fund tax revenues, wage and salary jobs, personal income (through the fourth quarter of 2017), private building authorizations and construction in progress expenditures all increased compared to third quarter 2017. Only government contracts awarded decreased in the quarter.

Labor

Since the fourth quarter of 2010, Hawaii's jobs increased for the 32nd consecutive quarter. During the first nine months of 2018, Hawaii's total civilian employment averaged 671,750 persons, an increase of 2,100 persons or 0.3% over the same period in 2017. The number of wage and salary jobs was up 11,100 to 667,000 for an increase of 1.7%. Job increases were most notable in food services and drinking places (4,400), health care and social assistance (2,500), and professional and business services (2,000). A few sectors experienced declines including state government (600), retail (400), and manufacturing (300). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 2.2% for the first nine months of 2018, compared to 2.5% for the same period in 2017.

Taxes

The State General Fund tax revenues increased $317.3 million, or 6.4%, during the first nine months of 2018 compared to the same period in 2017. Among its components, net individual income tax collections increased $274.1 million or 16.0%, general excise and use tax (GET) collections increased $25.1 million or 1.0%, and transient accommodations tax (TAT) collections were up $72.2 million or 18.3%. Net corporate income tax revenues decreased $14.3 million or 26.8%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $4.5 billion, or 3.0% in the first half of 2018 compared to the same period in 2017. Among its components, the fastest growth was seen in wages and salaries which increased $1.9 billion or 2.6%, dividends, interest and rent which increased $1.3 billion or 4.0%, and personal current transfer receipts which increased $0.8 billion or 3.6%. Contributions for government social insurance, which are subtracted from personal income, increased by 3.1%.

Prices

Honolulu's consumer price index (CPI) increased 1.6% for the first half of 2018 compared to the same period in 2017, lower than the 2.5% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in transportation housing (4.3%), food and beverage (2.1%), housing (1.8%), other goods and services (1.7%) and recreation (0.9%). Prices decreased for education and communication (2.5%) and apparel (2.8%).

Recent Developments in Hawaii's Major Industries

Visitor Industry

In the first nine months of 2018, total visitor arrivals by air increased 465,000 or 6.7% compared to the same period of 2017. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 9.0% while international arrivals increased 1.9%. Total visitor days (visitor arrivals multiplied by average length of stay) increased 6.5% in the first nine months of 2018 compared to the same period of 2017 and total visitor spending increased $1.21 billion or 9.8% over the same period. Statewide hotel occupancy rate averaged 81.0% in the first nine months of 2018, 0.3% higher than the average rate during the same period of 2017.

Construction
Hawaii's construction industry has been one of the steady contributors to job growth over the past few years. However, in the first nine months of 2018, the construction sector showed no change from the same period of 2017. 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 2018 and into 2019. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. The November 2018 Blue Chip Economic Consensus Forecasts expects real GDP growth in 2019 to increase 2.6% for the U.S. and 1.1% for Japan.

For 2019, the growth rate of visitor arrivals, visitor days and visitor expenditures are expected to be 1.8%, 2.1% and 4.2%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 0.9% in 2019. Real Personal Income is expected to increase 1.7% in 2019 with real GDP projected to increase 1.2% in 2019.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.3% in 2019. The State GDP deflator is forecast to grow 2.3% in 2019.

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 2017 (Act 49, SLH 2017), and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

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

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. Of the 14 collective bargaining units, 13 include State employees. Units 2, 3, 4, 8, 9, 11, 13 and 14 have collective bargaining agreements in effect through June 30, 2019. Units 1, 5, 6, 7 and 10 have collective bargaining agreements in effect through June 30, 2021.

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, 2018. 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, 2017. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

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

ACKNOWLEDGEMENTS

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

Respectfully submitted,

RODERICK K. BECKER
Comptroller, State of Hawaii

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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PART II: FINANCIAL SECTION

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, 2018, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements (pages 28–114) 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%	82%
Aggregate Discretely Presented Component Units	24%	38%
Fiduciary Funds	87%	8%

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. 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, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2017, the State of Hawaii adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statements No. 45 and 57.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 14–26), budgetary comparison information (pages 118–121 and 132–138), Schedule of the Proportionate Share of the Net Pension Liability (page 122), Schedule of Pension Contributions (page 123), Schedule of the Proportionate Share of the Net OPEB Liability (page 124), Schedule of OPEB Contributions (page 125) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 128–131 and 139–143), introductory section (pages 1–8) and statistical section (pages 146–179) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, 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, 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 the effectiveness of 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 14, 2018

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, 2018. 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 No. 75
During fiscal year 2018, the State implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statements No. 45 and 57*.

The adoption of Statement No. 75 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 2017 Government-Wide financial statements to reflect the reporting of net OPEB liability in accordance with the provisions of Statement No. 75.

Net position as of July 1, 2017 decreased by $2,335,456,000 to a negative $1,271,059,000, reflecting the retrospective effect of adoption.

Net OPEB liability of $6,897,187,000, deferred outflow of resources related to OPEB of $518,720,000, and deferred inflows of resources of $12,994,000 were reported as of June 30, 2018. Refer to Note 11 for more information regarding the State's OPEB.

Government-Wide Highlights
The liabilities of the State exceeded its assets at June 30, 2018 by $2.0 billion (net position). Unrestricted net position, which may be used to meet the State's ongoing obligations to citizens and creditors, was a negative $10.3 billion, a decrease of $3.5 billion from the previous year. Net position of governmental activities and business-type activities decreased by $1.0 billion and increased by $326.3 million, respectively, due to current year activity. The combined decrease to the State was $718.4 million from the prior fiscal year.

Fund Highlights
At June 30, 2018, the State's Governmental Funds reported combined ending fund balances of $3.5 billion, an increase of $39.0 million from the prior fiscal year. Of this amount, $1.5 billion, or 42.6%, of total fund balances was in the General Fund, and the remaining $2.0 billion represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net fund position of $4.7 billion at June 30, 2018, an increase of $326.3million during the fiscal year.

Liabilities
The State's liabilities increased during the current year to $26.5 billion, an increase of $3.6 billion. During fiscal 2018, the State issued General Obligation Refunding bonds in the amount of $293.2 million to advance refund $255.7 million of previously issued outstanding General Obligation bonds for financing capital projects. In addition, the State issued $631.1 million in General Obligation bonds and $143.8 million in taxable General Obligation bonds.

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statements No. 45 and 57*, the State's liability for postemployment benefits other than pension increased to $6.9 billion, an increase of $145.2 million for the fiscal year ended June 30, 2018.

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 28–30 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 32–35 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 36–40 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 41–42 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 50–114 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents a section of required supplementary information (RSI) 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.

Other Supplementary Information

The combining financial statements referred to earlier are presented in the supplementary information immediately following the RSI 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 supplementary information.

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 liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by $2.0 billion as of June 30, 2018, and net position decreased $3.1 billion, or 286.8% from June 30, 2017 balances as previously reported. The net position of the governmental activities decreased by $1.0 billion, or 18.5%, and business-type activities had an increase of $326.3 million, or 7.5%. In addition to the fiscal year 2018 activity, net position was affected by the retrospective implementation of Statement No. 75. The following table was derived from the Government-Wide Statement of Net Position.

Summary Schedule of Net Position
June 30, 2018 and 2017
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	$ 5,094,004	$ 5,207,215	$ 3,374,748	$ 3,300,133	$ 8,468,752	$ 8,507,348
Capital assets, net	9,824,732	9,592,218	3,972,570	3,460,684	13,797,302	13,052,902
Total assets	$ 14,918,736	$ 14,799,433	$ 7,347,318	$ 6,760,817	$ 22,266,054	$ 21,560,250
Deferred outflows of resources						
Deferred loss on refunding	$ 160,332	$ 235,855	$ 4,069	$ 5,693	$ 164,401	$ 241,548
Deferred outflows on net pension liability	1,591,159	2,160,068	53,194	75,708	1,644,353	2,235,776
Deferred outflows on net other postemployment benefits liability	502,442	-	16,278	-	518,720	-
Total deferred outflows of resources	$ 2,253,933	$ 2,395,923	$ 73,541	$ 81,401	$ 2,327,474	$ 2,477,324
Liabilities						
Long-term liabilities	$ 22,322,613	$ 19,040,552	$ 2,394,343	$ 2,104,167	$ 24,716,956	$ 21,144,719
Other liabilities	1,444,960	1,452,779	319,984	260,401	1,764,944	1,713,180
Total liabilities	$ 23,767,573	$ 20,493,331	$ 2,714,327	$ 2,364,568	$ 26,481,900	$ 22,857,899
Deferred inflows of resources						
Deferred inflows on net pension liability	$ 84,148	$ 111,400	$ 3,966	$ 3,878	$ 88,114	$ 115,278
Deferred inflows on net other postemployment benefits liability	12,684	-	310	-	12,994	-
Total deferred inflows of resources	$ 96,832	$ 111,400	$ 4,276	$ 3,878	$ 101,108	$ 115,278
Net position						
Net investment in capital assets	$ 2,661,730	$ 2,787,289	$ 2,183,188	$ 2,022,844	$ 4,844,918	$ 4,810,133
Restricted	2,028,259	1,799,903	1,444,009	1,309,392	3,472,268	3,109,295
Unrestricted	(11,381,725)	(7,996,567)	1,075,059	1,141,536	(10,306,666)	(6,855,031)
Total net position	$ (6,691,736)	$ (3,409,375)	$ 4,702,256	$ 4,473,772	$ (1,989,480)	$ 1,064,397

Analysis of Net Position

By far, the largest portion of the State's net position ($4.8 billion or negative 243.5%) 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 ($3.5 billion or negative 174.5%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $10.3 billion or negative 518.1% represents unrestricted net position.

At June 30, 2018, 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 net other postemployment benefit liability of $6.7 billion and net pension liability of $6.5 billion.

Changes in Net Position

The State's net position decreased by $718.4 million, or 56.5%, during the year fiscal ended June 30, 2018. Approximately 58.9% of the State's total revenues came from taxes, while 26.3% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 16.3% 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.

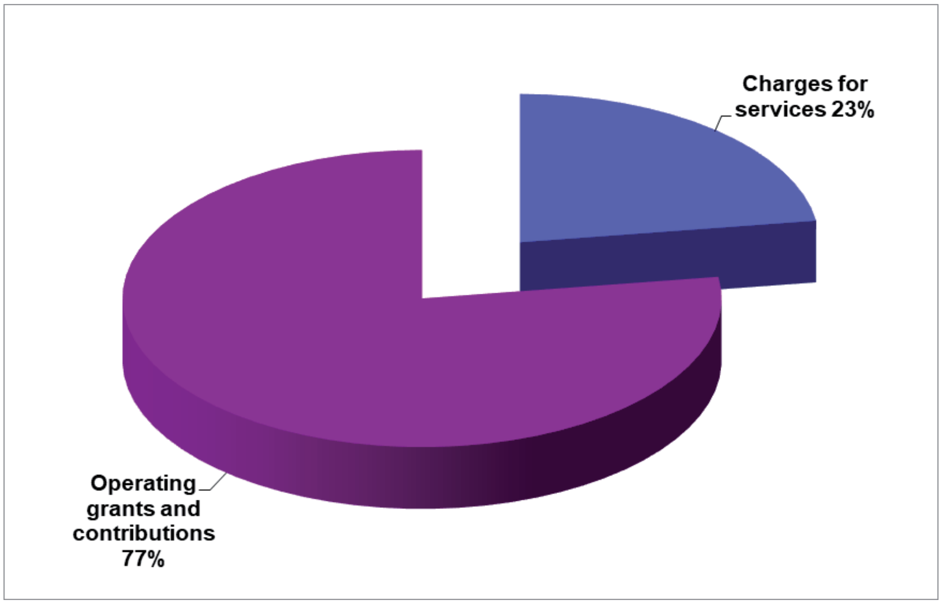
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net position changed during the fiscal year.

Summary Schedule of Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017
(Amounts in thousands)

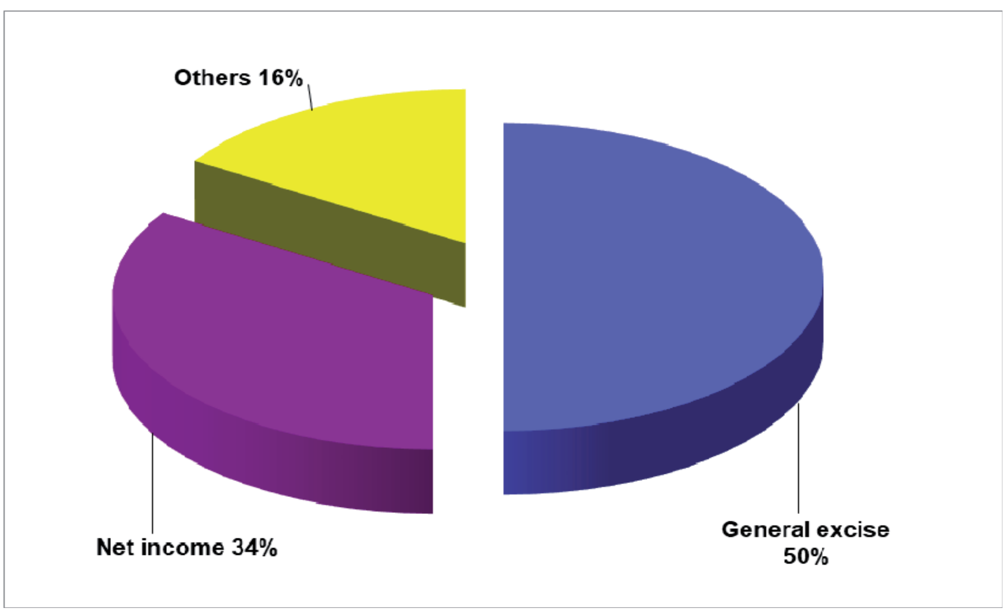
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services	$ 924,936	$ 789,513	$ 1,057,427	$ 956,924	$ 1,982,363	$ 1,746,437
Operating grants and contributions	3,154,479	3,068,752	-	-	3,154,479	3,068,752
Capital grants and contributions	-	-	37,956	51,091	37,956	51,091
General revenues						
Taxes	7,140,491	6,655,094	-	-	7,140,491	6,655,094
Investment income and other	(209,632)	30,676	27,352	25,324	(182,280)	56,000
Total revenues	11,010,274	10,544,035	1,122,735	1,033,339	12,133,009	11,577,374
Expenses						
General government	920,547	631,052	-	-	920,547	631,052
Public safety	639,888	552,671	-	-	639,888	552,671
Highways	614,847	457,374	-	-	614,847	457,374
Conservation of natural resources	118,637	161,924	-	-	118,637	161,924
Health	874,898	889,216	-	-	874,898	889,216
Welfare	3,542,771	3,481,679	-	-	3,542,771	3,481,679
Lower education	3,404,645	3,157,517	-	-	3,404,645	3,157,517
Higher education	950,843	899,199	-	-	950,843	899,199
Other education	23,827	27,248	-	-	23,827	27,248
Culture and recreation	89,647	106,875	-	-	89,647	106,875
Urban redevelopment and housing	392,921	245,819	-	-	392,921	245,819
Economic development and assistance	170,200	161,077	-	-	170,200	161,077
Interest expense	311,340	212,042	-	-	311,340	212,042
Airports	-	-	429,884	408,517	429,884	408,517
Harbors	-	-	92,978	101,180	92,978	101,180
Unemployment compensation	-	-	177,009	173,735	177,009	173,735
Nonmajor proprietary fund	-	-	96,548	110,907	96,548	110,907
Total expenses	12,055,011	10,983,693	796,419	794,339	12,851,430	11,778,032
Change in net position	(1,044,737)	(439,658)	326,316	239,000	(718,421)	(200,658)
Net position						
Beginning of year, as previously reported	(3,409,375)	(2,872,081)	4,473,772	4,235,461	1,064,397	1,363,380
Adjustment for change in accounting principle	(2,237,624)	(97,636)	(97,832)	(689)	(2,335,456)	(98,325)
Beginning of year, as restated	(5,646,999)	(2,969,717)	4,375,940	4,234,772	(1,271,059)	1,265,055
End of year	$ (6,691,736)	$ (3,409,375)	$ 4,702,256	$ 4,473,772	$ (1,989,480)	$ 1,064,397

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

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2018



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2018



Analysis of Changes in Net Position

The State's net position decreased by $718.4 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 $1.0 billion and increase in net position of Unemployment Compensation Fund of $21.8 million, Airports of $198.6 million, Harbors of $72.3 million, and Nonmajor Proprietary Funds of $33.6 million.

Governmental Activities

Governmental activities decreased the State's net position by $1.0 billion. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2018	**2017**
General revenues		
Taxes	$ 7,140,491	$ 6,655,094
Interest and investment income and other	(209,632)	30,676
Total general revenues	6,930,859	6,685,770
Expenses, net of program revenues		
General government	569,220	309,953
Public safety	510,970	418,062
Highways	423,411	309,835
Conservation of natural resources	(8,017)	62,823
Health	616,966	623,694
Welfare	1,041,241	1,049,109
Lower education	3,086,271	2,848,595
Higher education	950,843	899,199
Other education	23,827	27,248
Culture and recreation	71,335	90,222
Urban redevelopment and housing	280,613	200,188
Economic development and assistance	97,576	74,458
Interest expense	311,340	212,042
Total governmental activities expenses, net of program revenues	7,975,596	7,125,428
Increase (decrease) in governmental activities net position	$ (1,044,737)	$ (439,658)

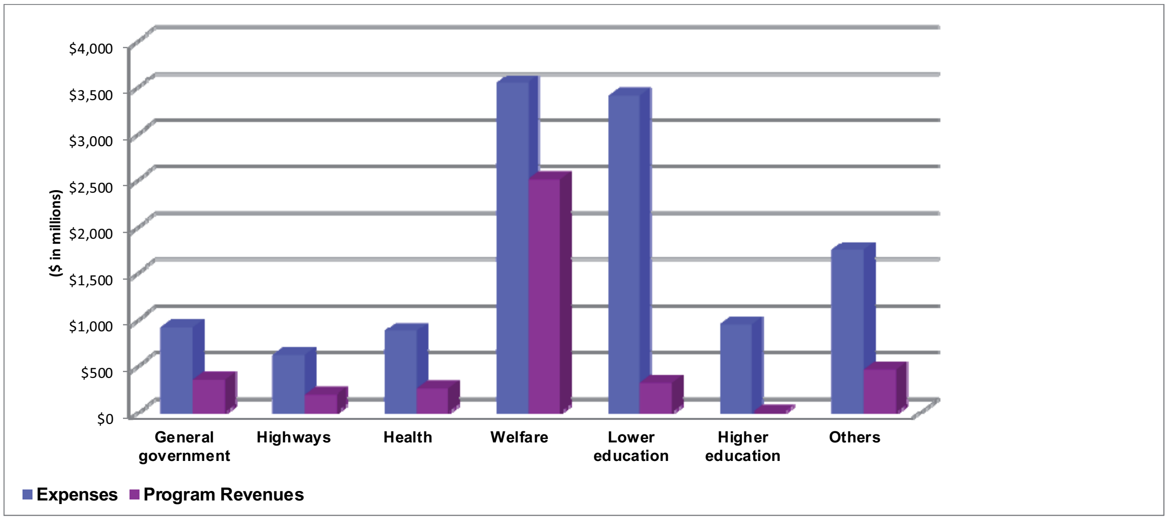
Tax revenues increased by $485.4 million, or 7.3%, from the previous fiscal year. The increase was primarily due to an increase in general excise tax of $364.4 million corporations and individuals net income taxes of $76.9 million due to growth in the State economy.

On July 1, 2017, the operations of Maui Memorial Medical Center, Kula Hospital, and Lanai Community Hospital were transferred from HHSC to Kaiser Permanente resulting in a $250.7 million transfer of net pension liability to the State.

Lower education net expenses increased $237.7 million or 8.3%. This change is primarily due to an increase in expenses for the school-based budgeting and heat abatement and energy efficiency projects. General government expenses increased $258.9 million, or 83.7%.

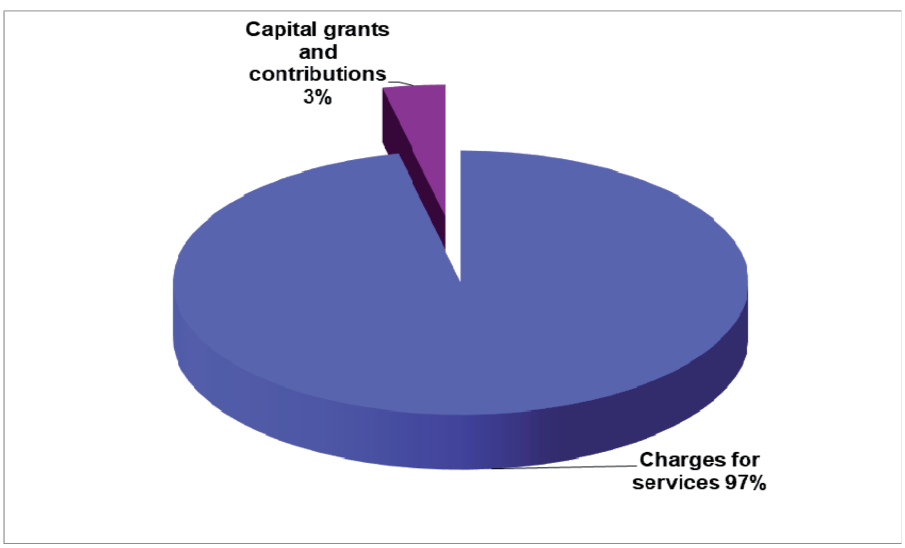
A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental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

Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2018

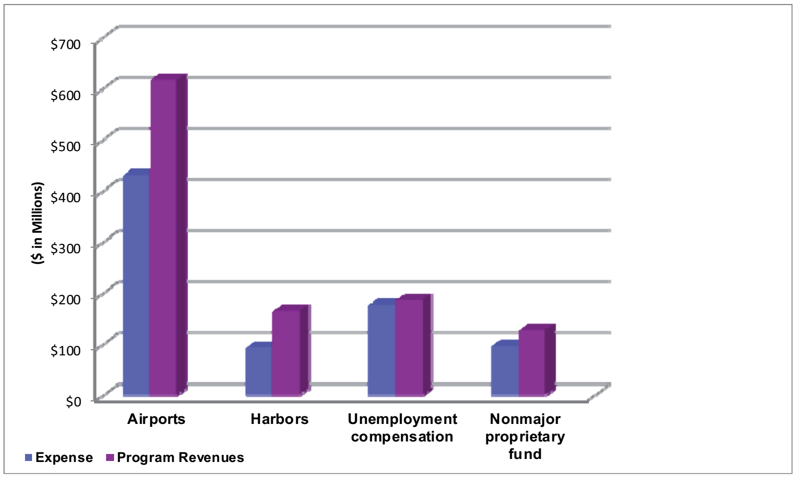


Business-Type Activities
The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2018



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2018



Business-type activities increased the State's net position by $326.3 million in fiscal 2018, compared to an increase of $239.0 million in fiscal 2017. Key elements of this increase are as follows:

- Airports' net position increased $198.6 million compared to an increase of $136.2 million in the prior fiscal year. Charges for current services increased by $76.6 million primarily due to the increase in landing fees and aeronautical revenues from an increase in passenger traffic. Operating and capital grants and contributions increased $5.6 million mainly due to the increase in federal capital grants.

- Harbors' net position increased $72.3 million in fiscal 2018 compared to an increase of $36.7 million in fiscal 2017. Charges for current services increased by $27.5 million, while expenses decreased $8.2 million.

- The Unemployment Compensation Fund's net position increased $21.8 million compared to an increase of $14.8 million in the prior fiscal year. The change was primarily due to an increase in unemployment tax revenues of $10.0 million.

- The Nonmajor Proprietary Fund's net position increased $33.6 million in fiscal 2018 compared to an increase of $51.3 million in fiscal 2017.

- Key elements of the State's business-type activities for the fiscal years ended June 30, 2018 and 2017 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues: Charges for Services		Program Revenues: Operating and Capital Grants and Contributions		Program Revenues: Total		Expenses		Program Revenues Net of Expenses	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Airports	$ 587,602	$ 511,018	$ 29,140	$ 23,576	$ 616,742	$ 534,594	$ 429,884	$ 408,517	$ 186,858	$ 126,077
Harbors	165,111	137,620	153	300	165,264	137,920	92,978	101,180	72,286	36,740
Unemployment compensation	186,239	176,212	-	-	186,239	176,212	177,009	173,735	9,230	2,477
Nonmajor proprietary funds	118,475	132,074	8,663	27,215	127,138	159,289	96,548	110,907	30,590	48,382
Total	$ 1,057,427	$ 956,924	$ 37,956	$ 51,091	$ 1,095,383	$ 1,008,015	$ 796,419	$ 794,339	$ 298,964	$ 213,676

Financial Analysis of the State's Individual Funds

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

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

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of $3.5 billion. Of this amount, $25.7 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $805.5 million has been committed to specific purposes. An additional $1.7 billion has been assigned to specific purposes by management. The unassigned fund balance was $906.1 million at fiscal year end.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was $1.5 billion compared to $1.7 billion end of fiscal 2017. The fund balance of the State's Capital Projects Fund decreased $39.2 million during the fiscal year. The Capital Projects Fund decrease is a result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is $567.8 million and is reflected on the balance sheet as Due to Component Units. The fund balance of the Med-Quest Special Fund increased $11.4 million and other Nonmajor Governmental Funds increased $217.0 million.

Proprietary Funds
The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net position of $198.6 million, Harbors had an increase in net position of $72.3 million, the Unemployment Compensation Fund had an increase in net position of $21.8 million, and the Nonmajor Proprietary Funds had an increase in net position of $33.6 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights
The General Fund revenues were $179.0 million, or 2.4%, more than the final budget. The positive variance was attributed to favorable tax revenues of $169.0 million and favorable non-tax revenues of $9.9 million. Corporate income tax, Individual income tax, and inheritance and estate taxes all collected more than what was projected by $45.8 million, $110.6 million, and $10.1 million, respectively. The favorable variance in non-tax revenues is mainly comprised of charges for current services and debt service reimbursements due to refunding.

The difference between the final budget and actual expenditures on a budgetary basis was $239.8 million. This difference is mostly due to $90.2 million in public safety emergency flood relief funds carried forward to the next fiscal year. The general government variance of $65.0 million is mostly due to savings from reductions to debt service payments from bond refunding and savings in health premiums and retirement payments due to lower than projected employee growth and enrollment in the State's health plans.

Also contributing to the positive variance was $21.9 million of appropriations made to the State Legislature that can be carried over to the next fiscal year. As in previous years, the positive variance in lower education resulted when the Department of Education carried over $48.4 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations. Spending restrictions imposed on all executive branch departments resulted in positive variances across all functions of government.

Capital Assets

The State's capital assets for its governmental and business-type activities as of June 30, 2018, amounted to $13.8 billion (net of accumulated depreciation of $12.6 billion), an increase of $744.4 million from fiscal 2017. The increase is due to an increase in governmental activities assets of $684.8 million and in business-type assets of $652.2 million offset by increases in governmental activities and business-type activities accumulated depreciation of $452.3 million and $140.4 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2018, included the following:

- $530.6 million for various capital improvement projects and repair and maintenance of public school facilities throughout the State.
- $308.0 million for the new Kapalama container harbor terminal.
- $232.1 million for various capital improvements at airports statewide.
- $104.2 million for various highway improvement projects throughout the State.

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

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $10.1 billion. Of this amount, $7.9 billion comprises debt backed by the full faith and credit of the State and $2.2 billion (i.e., revenue bonds) is revenue-bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt
June 30, 2018 and 2017
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	$ 7,912,206	$ 7,635,827	$ 23,255	$ 25,377	$ 7,935,461	$ 7,661,204
Revenue bonds	633,073	692,742	1,567,305	1,375,442	2,200,378	2,068,184
Total	$ 8,545,279	$ 8,328,569	$ 1,590,560	$ 1,400,819	$ 10,135,839	$ 9,729,388

The State's total long-term debt increased by $406.5 million, or 4.2%, during the current fiscal year. The increase resulted from issuances of general obligation bonds and revenue bonds (see Notes 4 and 5 to the basic financial statements).

As of June 30, 2018, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa1), Standard and Poor's Corporation (AA+), and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2018 was $569.3 million.

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

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for October 2018 was 2.3% while the seasonally adjusted national unemployment rate was 3.7%. One year ago, the State's seasonally adjusted unemployment rate stood at 2.0% while the seasonally adjusted national unemployment rate was 4.1%.

The Council of Revenues in September 2018 kept the State's General Fund tax revenue growth rate for fiscal year 2019 at 5.0%.

Cumulative general fund tax revenues for the first five months of fiscal 2019 was $2.8 billion, an increase of $128.2 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 2.2%.

During August and September of 2018, there was significant damage to infrastructure on the Big Island due to several weather events. An estimate of the damage is not known at this time.

The State is optimistic about the recovery of Hawaii's economy but management remains cautious about its sustainability in the face of numerous uncertainties. Therefore, the Governor has imposed a 5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch for fiscal year 2019.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

State of Hawaii
Statement of Net Position
June 30, 2018
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 527,462	$ 1,527,185	$ 2,054,647	$ 1,046,560
Receivables				
Taxes	339,622	51,503	391,125	-
Accounts and accrued interest, net	-	55,651	55,651	182,145
Notes, loans, mortgages and contributions, net	97,524	530,656	628,180	658,099
Federal government	20,612	10,456	31,068	373
Premiums	-	52,190	52,190	-
Drug rebate	48,929	-	48,929	-
Other, net	29,293	52,450	81,743	11,891
Total receivables	535,980	752,906	1,288,886	852,508
Internal balances	1,617	(1,617)	-	-
Due from component units	230,110	-	230,110	-
Due from primary government	-	-	-	577,425
Investments	3,788,518	55,808	3,844,326	1,039,672
Inventories				
Materials and supplies	-	203	203	20,181
Developments in progress and dwelling units	-	-	-	33,947
Total inventories	-	203	203	54,128
Restricted assets	-	1,032,989	1,032,989	164,892
Other assets				
Prepaid expenses	4,976	7,274	12,250	18,943
Other	5,341	-	5,341	121,257
Total other assets	10,317	7,274	17,591	140,200
Capital assets				
Land and land improvements	2,345,569	2,137,773	4,483,342	545,208
Infrastructure	9,945,196	-	9,945,196	297,660
Construction in progress	1,366,622	1,452,919	2,819,541	361,061
Buildings, improvements and equipment	5,909,858	3,117,232	9,027,090	4,923,239
Intangible assets – software	153,687	-	153,687	-
Accumulated depreciation and amortization	(9,896,200)	(2,735,354)	(12,631,554)	(2,856,477)
Total capital assets, net	9,824,732	3,972,570	13,797,302	3,270,691
Total assets	14,918,736	7,347,318	22,266,054	7,146,076
Deferred outflows of resources				
Deferred loss on refunding	160,332	4,069	164,401	15,079
Deferred outflows on net pension liability	1,591,159	53,194	1,644,353	514,033
Deferred outflows on net other postemployment benefits liability	502,442	16,278	518,720	206,884
Total deferred outflows of resources	$ 2,253,933	$ 73,541	$ 2,327,474	$ 735,996

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

State of Hawaii
Statement of Net Position
June 30, 2018
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Liabilities				
Vouchers and contracts payable	$ 406,419	$ 44,545	$ 450,964	$ 138,943
Other accrued liabilities	359,793	232,822	592,615	105,050
Due to component units	577,425	-	577,425	-
Due to primary government	-	-	-	230,110
Due to federal government	700	-	700	-
Unearned revenue	-	-	-	44,025
Premiums payable	-	42,617	42,617	-
Other	100,623	-	100,623	14,775
Long-term liabilities				
Due within one year				
Payable from restricted assets – revenue bonds payable, net	-	57,535	57,535	-
General obligation (GO) bonds payable	569,079	2,228	571,307	-
Notes, mortgages and installment contracts payable	-	-	-	12,000
Accrued vacation and retirement benefits payable	80,492	6,127	86,619	46,795
Revenue bonds payable, net	61,768	-	61,768	30,120
Reserve for losses and loss adjustment costs	37,413	819	38,232	10,035
Capital lease obligations	6,973	812	7,785	4,645
Lease revenue certificates of participation	-	7,331	7,331	-
Customer facility charge revenue bonds	-	5,030	5,030	-
Due more than one year				
Prepaid airport use charge fund	-	19,194	19,194	-
GO bonds payable	7,343,127	21,027	7,364,154	-
Notes, mortgages and installment contracts payable	-	-	-	32,607
Accrued vacation and retirement benefits payable	153,255	9,443	162,698	58,189
Revenue bonds payable, net	571,305	1,504,740	2,076,045	816,846
Reserve for losses and loss adjustment costs	209,841	4,359	214,200	19,196
Capital lease obligations	122,924	25,464	148,388	4,939
Lease revenue certificates of participation	-	211,372	211,372	-
Unearned revenue	-	-	-	20,616
Estimated future costs of land sold	-	-	-	40,721
Loan payable	-	76,000	76,000	-
Net pension liability	6,499,819	211,957	6,711,776	2,235,748
Net other postemployment benefits liability	6,666,282	230,905	6,897,187	2,384,157
Other	335	-	335	93,947
Total liabilities	23,767,573	2,714,327	26,481,900	6,343,464
Deferred inflows of resources				
Deferred inflows on net pension liability	84,148	3,966	88,114	83,110
Deferred inflows on net other postemployment benefits liability	12,684	310	12,994	3,540
Total deferred inflows of resources	96,832	4,276	101,108	86,650
Net position				
Net investment in capital assets	2,661,730	2,183,188	4,844,918	2,513,680
Restricted for				
Capital maintenance projects	207,467	-	207,467	-
Health and welfare	225,094	-	225,094	-
Natural resources	162,530	-	162,530	-
Native Hawaiian programs	367,940	-	367,940	-
Education	180,096	-	180,096	-
Regulatory and economic development	280,428	-	280,428	-
Administrative support	560,796	-	560,796	-
Other purposes	43,908	-	43,908	-
Bond requirements and other	-	1,444,009	1,444,009	1,124,624
Unrestricted	(11,381,725)	1,075,059	(10,306,666)	(2,186,346)
Total net position	$ (6,691,736)	$ 4,702,256	$ (1,989,480)	$ 1,451,958

State of Hawaii
Statement of Activities
Year Ended June 30, 2018
(Amounts in thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Position			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary government								
Governmental activities								
General government	$ 920,547	$ 319,043	$ 32,284	$ -	$ (569,220)	$ -	$ (569,220)	
Public safety	639,888	83,022	45,896	-	(510,970)	-	(510,970)	
Highways	614,847	13,293	178,143	-	(423,411)	-	(423,411)	
Conservation of natural resources	118,637	98,220	28,434	-	8,017	-	8,017	
Health	874,898	126,046	131,886	-	(616,966)	-	(616,966)	
Welfare	3,542,771	173,665	2,327,865	-	(1,041,241)	-	(1,041,241)	
Lower education	3,404,645	52,892	265,482	-	(3,086,271)	-	(3,086,271)	
Higher education	950,843	-	-	-	(950,843)	-	(950,843)	
Other education	23,827	-	-	-	(23,827)	-	(23,827)	
Culture and recreation	89,647	9,063	9,249	-	(71,335)	-	(71,335)	
Urban redevelopment and housing	392,921	25,720	86,588	-	(280,613)	-	(280,613)	
Economic development and assistance	170,200	23,972	48,652	-	(97,576)	-	(97,576)	
Interest expense	311,340	-	-	-	(311,340)	-	(311,340)	
Total governmental activities	12,055,011	924,936	3,154,479	-	(7,975,596)	-	(7,975,596)	
Business-type activities								
Airports	429,884	587,602	-	29,140	-	186,858	186,858	
Harbors	92,978	165,111	-	153	-	72,286	72,286	
Unemployment compensation	177,009	186,239	-	-	-	9,230	9,230	
Nonmajor proprietary funds	96,548	118,475	-	8,663	-	30,590	30,590	
Total business-type activities	796,419	1,057,427	-	37,956	-	298,964	298,964	
Total primary government	$ 12,851,430	$ 1,982,363	$ 3,154,479	$ 37,956	(7,975,596)	298,964	(7,676,632)	
Component units								
University of Hawaii	$ 1,789,804	$ 390,526	$ 437,586	$ -				$ (961,692)
Hawaii Housing Finance and Development Corporation	49,962	77,036	10,699	-				37,773
Hawaii Public Housing Authority	145,778	23,781	90,782	11,903				(19,312)
Hawaii Health Systems Corporation	701,944	446,883	764	25,139				(229,158)
Hawaii Tourism Authority	105,234	10,508	-	-				(94,726)
Hawaii Community Development Authority	7,615	2,731	-	-				(4,884)
Hawaii Hurricane Relief Fund	6	-	-	-				(6)
Total component units	$ 2,800,343	$ 951,465	$ 539,831	$ 37,042				(1,272,005)
General revenues								
Taxes								
General excise tax					3,553,975	-	3,553,975	-
Net income tax – corporations and individuals					2,407,338	-	2,407,338	-
Public service companies tax					117,641	-	117,641	-
Transient accommodations tax					304,521	-	304,521	108,500
Tobacco and liquor tax					157,988	-	157,988	-
Liquid fuel tax					85,211	-	85,211	-
Tax on premiums of insurance companies					162,318	-	162,318	-
Vehicle weight and registration tax					135,080	-	135,080	-
Rental motor/tour vehicle surcharge tax					54,846	-	54,846	-
Franchise tax					15,712	-	15,712	-
Other tax					145,861	-	145,861	-
Interest and investment income					36,527	27,352	63,879	37,616
Payments from the primary government, net					-	-	-	1,290,797
Gifts and subsidies					-	-	-	39,895
Other					4,538	-	4,538	(11,110)
Transfer agreement from State, net					(250,697)	-	(250,697)	428,749
Total general revenues					6,930,859	27,352	6,958,211	1,894,447
Change in net position					(1,044,737)	326,316	(718,421)	622,442
Net position								
Beginning of year, as previously reported					(3,409,375)	4,473,772	1,064,397	1,899,388
Adjustment for change in accounting principle					(2,237,624)	(97,832)	(2,335,456)	(1,069,872)
Beginning of year, as restated					(5,646,999)	4,375,940	(1,271,059)	829,516
End of year					$ (6,691,736)	$ 4,702,256	$ (1,989,480)	$ 1,451,958

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

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State of Hawaii
Governmental Funds
Balance Sheet
June 30, 2018
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 136,303	$ 10,441	$ 3,832	$ 376,884	$ 527,460
Receivables					
Taxes	302,350	-	-	-	302,350
Notes and loans, net of allowance for doubtful accounts of $44,348	1,380	-	-	96,143	97,523
Federal government	-	-	20,612	-	20,612
Drug rebate	-	-	48,929	-	48,929
Medical assistance	-	-	1,292	-	1,292
Other	7,901	-	-	-	7,901
Due from other funds	90,172	-	-	-	90,172
Due from proprietary funds	20	1,597	-	-	1,617
Due from component units	6,000	-	-	-	6,000
Investments	1,407,702	650,353	38,741	1,691,722	3,788,518
Other assets	3,882	-	-	1,450	5,332
Total assets	$ 1,955,710	$ 662,391	$ 113,406	$ 2,166,199	$ 4,897,706
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	$ 197,870	$ 133,325	$ 2,393	$ 72,830	$ 406,418
Other accrued liabilities	274,873	-	43,286	41,630	359,789
Due to federal government	-	-	-	700	700
Due to other funds	-	-	44,291	45,881	90,172
Due to component units	5,047	567,846	-	-	572,893
Payable from restricted assets					
Matured bonds and interest payable	-	-	-	335	335
Total liabilities	477,790	701,171	89,970	161,376	1,430,307
Fund balances					
Restricted	-	18,353	-	7,300	25,653
Committed	-	6,304	-	799,198	805,502
Assigned	503,201	-	23,436	1,203,548	1,730,185
Unassigned	974,719	(63,437)	-	(5,223)	906,059
Total fund balances	1,477,920	(38,780)	23,436	2,004,823	3,467,399
Total liabilities and fund balances	$ 1,955,710	$ 662,391	$ 113,406	$ 2,166,199	$ 4,897,706

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

State of Hawaii
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018
(Amounts in thousands)

Total fund balance – Governmental funds		$ 3,467,399
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of		
Land and land improvements		2,345,569
Infrastructure		9,945,196
Construction in progress		1,366,622
Buildings, improvements and equipment		5,909,858
Intangible assets – software		153,687
Accumulated depreciation and amortization		(9,896,200)
		9,824,732
Accrued interest and other payables are not recognized in governmental funds.		(100,623)
Other assets and liabilities are not available to pay or be used for current-period expenditures and are not recognized in governmental funds, such as unearned revenue and settlement receivables.		286,465
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of		
General obligation bonds payable		(7,912,206)
Accrued vacation payable		(233,747)
Revenue bonds payable		(633,073)
Reserve for losses and loss adjustment costs		(247,254)
Other postemployment benefits liability		(6,666,282)
Net pension liability		(6,499,819)
Long-term transactions with component units		(4,532)
Capital lease obligations		(129,897)
		(22,326,810)
Deferred outflows of resources are for future periods and are not reported in the funds. Those deferred outflows consist of		
Deferred loss on refunding		160,332
Deferred outflows on net pension liability		1,591,159
Deferred outflows on other postemployment benefits liability		502,442
		2,253,933
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of		
Deferred inflows on net pension liability		(84,148)
Deferred inflows on other postemployment benefits liability		(12,684)
		(96,832)
Net position of governmental activities		$ (6,691,736)

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

State of Hawaii
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2018
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes					
General excise tax	$ 3,420,476	$ -	$ -	$ 133,499	$ 3,553,975
Net income tax – corporations and individuals	2,456,674	-	-	-	2,456,674
Public service companies tax	117,641	-	-	-	117,641
Transient accommodations tax	304,521	-	-	-	304,521
Tobacco and liquor tax	131,296	-	-	26,692	157,988
Liquid fuel tax	-	-	-	85,211	85,211
Tax on premiums of insurance companies	159,814	-	-	2,504	162,318
Vehicle weight and registration tax	-	-	-	135,080	135,080
Rental motor/vehicle surcharge tax	2	-	-	54,844	54,846
Franchise tax	13,712	-	-	2,000	15,712
Other	100,529	-	-	45,332	145,861
Total taxes	6,704,665	-	-	485,162	7,189,827
Interest and investment income	13,870	-	-	22,657	36,527
Charges for current services	200,240	-	-	277,477	477,717
Intergovernmental	13,018	-	1,667,529	1,198,170	2,878,717
Rentals	20	-	-	35,446	35,466
Fines, forfeitures and penalties	23,353	-	-	15,414	38,767
Licenses and fees	1,074	-	-	45,992	47,066
Revenues from private sources	2,882	-	77,680	104,099	184,661
Other	108,380	-	65,787	253,899	428,066
Total revenues	7,067,502	-	1,810,996	2,438,316	11,316,814
Expenditures					
Current					
General government	567,869	95,783	-	143,380	807,032
Public safety	430,954	21,825	-	127,201	579,980
Highways	115,233	239,879	-	254,426	609,538
Conservation of natural resources	64,986	37,235	-	55,418	157,639
Health	577,749	44,438	-	205,405	827,592
Welfare	1,186,888	113	1,685,769	623,204	3,495,974
Lower education	2,485,351	339,071	-	401,853	3,226,275
Higher education	766,764	184,079	-	-	950,843
Other education	9,970	-	-	13,857	23,827
Culture and recreation	56,148	6,045	-	42,771	104,964
Urban redevelopment and housing	21,105	8,812	-	94,375	124,292
Economic development and assistance	45,527	58,179	-	63,908	167,614
Housing	244,787	11,599	-	-	256,386
Other	3,284	682	-	8,422	12,388
Debt service	-	-	-	785,668	785,668
Total expenditures	6,576,615	1,047,740	1,685,769	2,819,888	12,130,012
Excess (deficiency) of revenues over (under) expenditures	490,887	(1,047,740)	125,227	(381,572)	(813,198)
Other financing sources (uses)					
Issuance of GO and refunding GO bonds – par	-	775,000	-	293,243	1,068,243
Issuance of GO and refunding GO bonds – premium	117	-	-	95,357	95,474
Issuance of revenue and refunding revenue bonds – par	-	-	-	30,940	30,940
Issuance of revenue and refunding revenue bonds – premium	-	-	-	5,347	5,347
Other financing uses – other	-	(961)	-	-	(961)
Payment to refunded bond escrow agent	-	-	-	(424,887)	(424,887)
Transfers in	155,213	238,799	3,761	894,042	1,291,815
Transfers out	(874,368)	(4,343)	(117,603)	(295,501)	(1,291,815)
Total other financing sources (uses)	(719,038)	1,008,495	(113,842)	598,541	774,156
Net change in fund balances	(228,151)	(39,245)	11,385	216,969	(39,042)
Fund balances					
Beginning of year	1,706,071	465	12,051	1,787,854	3,506,441
End of year	$ 1,477,920	$ (38,780)	$ 23,436	$ 2,004,823	$ 3,467,399

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

State of Hawaii
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2018
(Amounts in thousands)

Total net change in fund balances – Governmental funds	$	(39,042)
Amounts reported for governmental activities in the statement of activities are different because		
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are		
Capital asset additions		1,162,040
Capital asset disposals		(477,273)
Accumulated depreciation on disposals		15,615
Depreciation expense		(467,868)
Excess of capital outlay over depreciation expense		232,514
Debt proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, this is the amount of proceeds received from general obligation and revenue bonds issued.		(1,200,005)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of		
Bond principal retirement		850,635
Capital lease additions, net		13,725
Total long-term debt repayment		864,360
Because some revenues will not be collected for several months after the State's fiscal year end, they are not considered available revenues and are deferred in the governmental funds.		(49,337)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		
Change in accrued vacation payable		(4,748)
Change in reserve for losses and loss adjustment costs		(48,935)
Change in accrued interest on bonds payable		(8,572)
Change in accrued interest on capital leases		(2,005)
Amortization of bond premium and deferred amount on refunding		50,705
Net pension activity		(701,574)
Net other postemployment benefits activity		(138,098)
Total		(853,227)
Change in net position of governmental activities	$	(1,044,737)

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

State of Hawaii
Proprietary Funds
Statement of Fund Net Position
June 30, 2018
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Assets					
Current assets					
Cash and cash equivalents	$ 584,797	$ 185,531	$ 533,365	$ 223,492	$ 1,527,185
Investments	-	-	-	55,808	55,808
Restricted assets – cash and short-term investments	131,771	34,401	-	-	166,172
Receivables					
Taxes	235	-	51,268	-	51,503
Accounts and accrued interest, net of allowance for doubtful accounts of $8,308	36,729	18,456	-	466	55,651
Promissory note receivable, net of allowance for doubtful accounts of $2,977	-	392	-	40,319	40,711
Federal government	10,090	-	-	366	10,456
Premiums	-	-	-	52,190	52,190
Other	32,728	-	-	19,722	52,450
Due from other proprietary funds	20,569	-	-	-	20,569
Materials and supplies inventory	203	-	-	-	203
Prepaid expenses and other assets	-	1,998	-	5,276	7,274
Total current assets	817,122	240,778	584,633	397,639	2,040,172
Noncurrent assets					
Capital assets					
Land and land improvements	1,537,738	600,035	-	-	2,137,773
Construction in progress	1,307,280	145,639	-	-	1,452,919
Buildings and improvements	2,204,041	561,699	-	-	2,765,740
Equipment	311,837	26,526	-	13,129	351,492
	5,360,896	1,333,899	-	13,129	6,707,924
Less: Accumulated depreciation	(2,310,555)	(412,532)	-	(12,267)	(2,735,354)
Net capital assets	3,050,341	921,367	-	862	3,972,570
Promissory note receivable	-	-	-	489,945	489,945
Restricted assets – net direct financing leases	21,878	-	-	-	21,878
Restricted assets – cash and cash equivalents	368,713	186,654	-	-	555,367
Restricted assets – investments	289,572	-	-	-	289,572
Total noncurrent assets	3,730,504	1,108,021	-	490,807	5,329,332
Total assets	4,547,626	1,348,799	584,633	888,446	7,369,504
Deferred outflows of resources					
Deferred loss on refunding	1,454	2,615	-	-	4,069
Deferred outflows on net pension liability	41,547	8,259	-	3,388	53,194
Deferred outflows on net other postemployment benefits liability	12,797	2,507	-	974	16,278
Total deferred outflows of resources	$ 55,798	$ 13,381	$ -	$ 4,362	$ 73,541

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

State of Hawaii
Proprietary Funds
Statement of Fund Net Position
June 30, 2018
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Liabilities					
Current liabilities					
Vouchers and contracts payable	$ 30,031	$ 8,916	$ 4,815	$ 783	$ 44,545
Payable from restricted assets –					
contracts payable, accrued interest and other	184,836	21,229	-	-	206,065
Other accrued liabilities	19,779	-	-	1,869	21,648
Due to other proprietary funds	-	20,569	-	-	20,569
Due to primary government	20	1,597	-	-	1,617
Benefit claims payable	-	-	-	5,109	5,109
General obligation bonds payable, current portion	-	2,228	-	-	2,228
Reserve for losses and loss adjustment costs	726	93	-	-	819
Capital lease obligations	-	812	-	-	812
Lease revenue certificates of participation	7,331	-	-	-	7,331
Customer facility charge revenue bonds	5,030	-	-	-	5,030
Accrued vacation, current portion	5,138	752	-	237	6,127
Payable from restricted assets – revenue bond payable	40,756	16,779	-	-	57,535
Premiums payable	-	-	-	42,617	42,617
Total current liabilities	293,647	72,975	4,815	50,615	422,052
Noncurrent liabilities					
General obligation bonds payable	-	21,027	-	-	21,027
Accrued vacation	6,941	1,910	-	592	9,443
Revenue bonds payable, net of unamortized					
bond premium and bond discount	1,227,923	276,817	-	-	1,504,740
Reserve for losses and loss adjustment cost	3,535	824	-	-	4,359
Capital lease obligations	-	25,464	-	-	25,464
Lease revenue certificates of participation	211,372	-	-	-	211,372
Loans payable	76,000	-	-	-	76,000
Net pension liability	165,660	34,413	-	11,884	211,957
Net other postemployment benefits liability	178,995	38,005	-	13,905	230,905
Prepaid airport use charge fund	19,194	-	-	-	19,194
Total noncurrent liabilities	1,889,620	398,460	-	26,381	2,314,461
Total liabilities	2,183,267	471,435	4,815	76,996	2,736,513
Deferred inflows of resources					
Deferred inflows on net pension liability	2,793	562	-	611	3,966
Deferred inflows on net other postemployment benefits liability	240	49	-	21	310
Total deferred inflows of resources	3,033	611	-	632	4,276
Net position					
Net investment in capital assets	1,601,471	580,855	-	862	2,183,188
Restricted for bond requirements and other	521,392	204,791	-	717,826	1,444,009
Unrestricted	294,261	104,488	579,818	96,492	1,075,059
Net position	$ 2,417,124	$ 890,134	$ 579,818	$ 815,180	$ 4,702,256

State of Hawaii
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2018
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Operating revenues					
Concession fees	$ 181,726	$ -	$ -	$ -	$ 181,726
Unemployment compensation	-	-	186,239	-	186,239
Aviation fuel tax	2,613	-	-	-	2,613
Airport use charges	86,059	-	-	-	86,059
Rentals	153,159	27,684	-	-	180,843
Services and others	-	136,039	-	-	136,039
Administrative fees	-	-	-	4,080	4,080
Premium revenue – self insurance	-	-	-	86,023	86,023
Experience refunds, net	-	-	-	25,241	25,241
Other	7,538	1,388	-	3,131	12,057
Total operating revenues	431,095	165,111	186,239	118,475	900,920
Operating expenses					
Personnel services	183,806	21,922	-	7,842	213,570
Depreciation and amortization	113,698	27,019	-	293	141,010
Repairs and maintenance	50,959	4,124	-	164	55,247
Airports operations	41,611	-	-	-	41,611
Harbors operations	-	23,467	-	-	23,467
General administration	22,936	10,089	-	4,876	37,901
Unemployment compensation	-	-	177,009	-	177,009
Claims	-	-	-	80,585	80,585
Other	488	-	-	2,788	3,276
Total operating expenses	413,498	86,621	177,009	96,548	773,676
Operating income	17,597	78,490	9,230	21,927	127,244
Nonoperating revenues (expenses)					
Interest and investment income	11,767	-	12,619	2,966	27,352
Interest expense	(16,386)	(6,347)	-	-	(22,733)
Federal grants	2,875	-	-	-	2,875
Gain (loss) on disposal of capital assets	35,889	(10)	-	-	35,879
Rental car customer and passenger facility charges	121,366	-	-	-	121,366
Other	(748)	-	-	-	(748)
Total nonoperating revenues (expenses)	154,763	(6,357)	12,619	2,966	163,991
Income before capital contributions	172,360	72,133	21,849	24,893	291,235
Capital contributions	26,265	153	-	8,663	35,081
Change in net position	198,625	72,286	21,849	33,556	326,316
Net position					
Beginning of year, as previously reported	2,292,714	834,673	557,969	788,416	4,473,772
Adjustment for change in accounting principle	(74,215)	(16,825)	-	(6,792)	(97,832)
Beginning of year, as restated	2,218,499	817,848	557,969	781,624	4,375,940
End of year	$ 2,417,124	$ 890,134	$ 579,818	$ 815,180	$ 4,702,256

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

State of Hawaii
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2018
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Cash flows from operating activities					
Cash received from customers	$ 429,810	$ 180,864	$ -	$ -	$ 610,674
Cash received from taxes	-	-	179,375	-	179,375
Cash received from employers and employees for premiums and benefits	-	-	-	638,406	638,406
Cash paid to suppliers	(204,391)	(38,418)	-	(4,318)	(247,127)
Cash paid to employees	(98,439)	(18,684)	-	(7,817)	(124,940)
Cash paid for unemployment compensation	-	-	(177,189)	-	(177,189)
Cash paid for premiums and benefits payable	-	-	-	(595,110)	(595,110)
Other cash receipts	-	-	5,057	-	5,057
Net cash provided by operating activities	126,980	123,762	7,243	31,161	289,146
Cash flows from noncapital financing activities					
Proceeds from federal operating grants	3,052	-	-	4,529	7,581
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(419,823)	(112,455)	-	(61)	(532,339)
Proceeds from disposal of capital assets	35,889	-	-	-	35,889
Proceeds from federal, state and capital grants and contributions	23,054	-	-	3,733	26,787
Proceeds from issuance of bonds	-	22,425	-	-	22,425
Proceeds from customer facility charge revenue bonds	249,805	-	-	-	249,805
Repayment of general obligation and revenue bonds principal	(38,935)	(40,407)	-	-	(79,342)
Bond issue costs paid	(2,076)	-	-	-	(2,076)
Payments for lease revenue certificates of participation	(6,346)	-	-	-	(6,346)
Interest paid on outstanding debt	(65,336)	-	-	-	(65,336)
Proceeds from passenger facility charges program	43,321	-	-	-	43,321
Proceeds from rental car customer facility charges program	75,797	-	-	-	75,797
Interest paid on bonds	-	(14,927)	-	-	(14,927)
Principal paid on capital lease obligation	-	(717)	-	-	(717)
Receipts – other	1,328	-	-	-	1,328
Net cash provided by (used in) capital and related financing activities	(103,322)	(146,081)	-	3,672	(245,731)
Cash flows from investing activities					
Proceeds from sales and maturities of investments	305,821	-	-	5	305,826
Interest from and change in fair value of investments	6,415	2,192	12,618	2,294	23,519
Purchase of investments	(444,971)	-	-	(18,687)	(463,658)
Principal repayments on notes receivable	-	-	-	51,314	51,314
Disbursement of note receivable proceeds	-	-	-	(60,587)	(60,587)
Interest income from notes receivable	-	-	-	1,835	1,835
Administrative loan fees	-	-	-	4,010	4,010
Net cash provided by (used in) investing activities	(132,735)	2,192	12,618	(19,816)	(137,741)
Net increase (decrease) in cash and cash equivalents	(106,025)	(20,127)	19,861	19,546	(86,745)
Cash and short-term investments, including restricted amounts					
Beginning of year	1,191,306	426,713	513,504	203,946	2,335,469
End of year	$ 1,085,281	$ 406,586	$ 533,365	$ 223,492	$ 2,248,724

(continued)

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

State of Hawaii
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2018
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
Reconciliation of operating income to net cash provided by operating activities					
Operating income	$ 17,597	$ 78,490	$ 9,230	$ 21,927	$ 127,244
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation and amortization	113,698	27,019	-	293	141,010
Provision for uncollectible accounts	3,201	(1,401)	-	-	1,800
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	2,291	-	-	-	2,291
Premium reserves held by insurance companies	-	-	-	17,344	17,344
Principal forgiveness of loans	-	-	-	2,097	2,097
Interest income from loans	-	-	-	(1,789)	(1,789)
Administrative loan fees	-	-	-	(4,078)	(4,078)
Pension expense	-	-	-	29	29
Changes in assets, deferred outflows, liabilities and deferred inflows					
Receivables	(24,023)	(3,210)	(1,807)	(4,583)	(33,623)
Prepaid and other expenses	-	-	-	232	232
Other current assets	3	-	-	-	3
Net deferred outflows/inflows of resources	4,939	1,166	-	764	6,869
Vouchers and contracts payable	4,674	(510)	(180)	(252)	3,732
Net pension liability	(6,497)	(1,040)	-	(370)	(7,907)
Other postemployment benefits liability	11,866	2,418	-	546	14,830
Other accrued liabilities	(769)	20,830	-	(1,440)	18,621
Benefit claims payable	-	-	-	441	441
Net cash provided by operating activities	$ 126,980	$ 123,762	$ 7,243	$ 31,161	$ 289,146
Supplemental information					
Noncash investing, capital, and financing activities					
Amortization of bond discount, bond premium and loss on refunding	$ (2,138)	$ (725)	$ -	$ -	$ (2,863)
Interest payments relating to special facility revenue bonds	1,222	-	-	-	1,222
Amortization of certificates of participation premium	(764)	-	-	-	(764)
Amounts included in contracts payable for the acquisition of capital assets	142,353	5,350	-	-	147,703
Interest capitalized in capital assets	51,011	4,744	-	-	55,755
Capital contributions	-	153	-	-	153
In-kind contribution from the Environmental Protection Agency	-	-	-	289	289

(concluded)

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

State of Hawaii
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2018
(Amounts in thousands)

	Agency Funds	OPEB Trust Fund
Assets		
Cash and cash equivalents	$ 111,991	$ 195,717
Receivables – taxes	12,875	-
Investments		
Certificates of deposit	86,278	-
U.S. government securities	175,173	174,688
Equity securities	-	480,095
Mutual funds	134,957	-
Commingled funds	28,346	1,241,782
Alternative investments	-	279,812
Derivatives	-	(194)
Invested securities lending collateral	-	14,468
Other assets, primarily due from individuals, businesses and counties	88,505	-
Total assets	638,125	2,386,368
Liabilities and Net Position		
Liabilities		
Vouchers payable	10,540	-
Due to individuals, businesses and counties	627,585	-
Securities lending collateral	-	14,468
Other accrued liabilities	-	1,418
Total liabilities	638,125	15,886
Net position restricted for OPEB	$ -	$ 2,370,482

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

State of Hawaii
Fiduciary Funds
Statement of Changes in Fiduciary Net Position – OPEB Trust Fund
Year Ended June 30, 2018
(Amounts in thousands)

Additions	
Employer contributions	$ 444,073
Investment income	
Investing activities	
Interest	40,913
Net appreciation in the fair value of investments	110,079
	150,992
Less: Investment expenses	4,290
Net investment income from investing activities	146,702
Securities lending activities	
Securities lending income	2,229
Less: Securities lending expenses	196
Net investment income from securities lending activities	2,033
Total net investment income	148,735
Net increase in fiduciary net position	592,808
Net position	
Beginning of year	1,777,674
End of year	$ 2,370,482

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

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State of Hawaii
Component Units
Statement of Net Position
June 30, 2018
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
Assets				
Current assets				
Cash and cash equivalents	$ 122,877	$ 575,184	$ 97,059	$ 125,510
Receivables				
Accounts and accrued interest, net of allowance for doubtful accounts of $64,870	84,936	32,200	430	63,119
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of $1,150	19,041	13,466	-	-
Federal government	-	-	373	-
Other, net of allowance for doubtful accounts of $136	-	2,048	214	9,629
Due from primary government	1,269	9,901	95,968	53,790
Investments	315,050	-	-	7,293
Inventories – materials and supplies	8,428	-	574	11,179
Prepaid expenses and other assets	15,831	1,750	48	-
Total current assets	567,432	634,549	194,666	270,520
Restricted assets				
Cash and cash equivalents	-	54,553	-	11,737
Investments	-	77,710	-	-
Deposits, funded reserves and other	-	1,007	-	-
Total restricted assets	-	133,270	-	11,737
Capital assets				
Land and land improvements	194,742	49,903	25,340	7,815
Infrastructure	253,346	-	-	-
Construction in progress	221,921	-	77,648	44,540
Buildings, improvements and equipment	3,067,834	159,842	676,774	775,223
Less: Accumulated depreciation	(1,609,428)	(127,582)	(424,391)	(474,588)
Total capital assets, net	2,128,415	82,163	355,371	352,990
Other assets				
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of $6,612	32,114	569,066	8,717	-
Due from primary government	402,918	2,946	-	-
Inventories – developments in progress and dwelling units	-	33,947	-	-
Investments	535,495	897	-	-
Other assets	119,842	-	-	1,064
Total other assets	1,090,369	606,856	8,717	1,064
Total assets	3,786,216	1,456,838	558,754	636,311
Deferred outflows of resources				
Deferred loss on refunding	14,737	342	-	-
Deferred outflows on net pension liability	391,134	2,953	8,897	109,443
Deferred outflows on net other postemployment benefits liabiiity	119,782	782	2,825	83,150
Total deferred outflows of resources	$ 525,653	$ 4,077	$ 11,722	$ 192,593

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

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 97,122	$ 28,466	$ 342	$ 1,046,560
58	428	974	182,145
-	-	-	32,507
-	-	-	373
-	-	-	11,891
-	10,633	-	171,561
-	-	180,137	502,480
-	-	-	20,181
1,310	4	-	18,943
98,490	39,531	181,453	1,986,641
19,885	-	-	86,175
-	-	-	77,710
-	-	-	1,007
19,885	-	-	164,892
131,497	135,911	-	545,208
-	44,314	-	297,660
10,151	6,801	-	361,061
217,010	26,556	-	4,923,239
(154,627)	(65,861)	-	(2,856,477)
204,031	147,721	-	3,270,691
-	15,695	-	625,592
-	-	-	405,864
-	-	-	33,947
800	-	-	537,192
-	351	-	121,257
800	16,046	-	1,723,852
323,206	203,298	181,453	7,146,076
-	-	-	15,079
1,606	-	-	514,033
345	-	-	206,884
$ 1,951	$ -	$ -	$ 735,996

(continued)

State of Hawaii
Component Units
Statement of Net Position
June 30, 2018
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
Liabilities				
Current liabilities				
Vouchers and contracts payable	$ 63,458	$ 260	$ 6,674	$ 64,544
Other accrued liabilities	93,608	8,148	2,998	-
Due to primary government	6,000	-	-	-
Unearned revenue	43,256	385	231	-
Notes, mortgages and installation contracts payable	-	14	-	11,986
Accrued vacation and retirement benefits payable	31,669	-	-	14,871
Revenue bonds payable, net	18,770	11,350	-	-
Reserve for losses and loss adjustment costs	6,103	-	-	3,932
Capital lease obligations	2,103	-	-	2,542
Other liabilities	6,873	-	1,666	1,280
Total current liabilities	271,840	20,157	11,569	99,155
Noncurrent liabilities				
Notes, mortgages and installment contracts payable	8,200	115	-	24,292
Accrued vacation and retirement benefits payable	44,837	-	-	12,840
Revenue bonds payable, net	528,840	288,006	-	-
Reserve for losses and loss adjustment costs	11,096	-	-	8,100
Capital lease obligations	-	-	-	4,939
Unearned revenue	-	20,616	-	-
Estimated future cost of land sold	-	40,721	-	-
Net pension liability	1,648,600	9,917	37,036	530,456
Net other postemployment benefits liability	1,783,860	10,207	39,896	541,845
Other liabilities	60,217	1,798	1,773	19,220
Total noncurrent liabilities	4,085,650	371,380	78,705	1,141,692
Total liabilities	4,357,490	391,537	90,274	1,240,847
Deferred inflows of resources				
Deferred inflows on net pension liability	51,162	958	869	29,331
Deferred inflows on net other postemployment benefits liability	2,335	14	55	1,125
Total deferred inflows of resources	53,497	972	924	30,456
Net position				
Net investment in capital assets	1,598,660	51,088	355,370	317,035
Restricted	967,419	102,084	3,729	99
Unrestricted	(2,665,197)	915,234	120,179	(759,533)
Total net position	$ (99,118)	$ 1,068,406	$ 479,278	$ (442,399)

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

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 3,398	$ 609	$ -	$ 138,943
112	184	-	105,050
224,110	-	-	230,110
-	153	-	44,025
-	-	-	12,000
123	132	-	46,795
-	-	-	30,120
-	-	-	10,035
-	-	-	4,645
-	1,360	3,596	14,775
227,743	2,438	3,596	636,498
-	-	-	32,607
221	291	-	58,189
-	-	-	816,846
-	-	-	19,196
-	-	-	4,939
-	-	-	20,616
-	-	-	40,721
6,157	3,582	-	2,235,748
5,564	2,785	-	2,384,157
-	10,939	-	93,947
11,942	17,597	-	5,706,966
239,685	20,035	3,596	6,343,464
600	190	-	83,110
7	4	-	3,540
607	194	-	86,650
43,806	147,721	-	2,513,680
41,059	10,234	-	1,124,624
-	25,114	177,857	(2,186,346)
$ 84,865	$ 183,069	$ 177,857	$ 1,451,958

(concluded)

State of Hawaii
Component Units
Statement of Activities
Year Ended June 30, 2018
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
Expenses	$ 1,789,804	$ 49,962	$ 145,778	$ 701,944
Program revenues				
Charges for services	390,526	77,036	23,781	446,883
Operating grants and contributions	437,586	10,699	90,782	764
Capital grants and contributions	-	-	11,903	25,139
Total program revenues	828,112	87,735	126,466	472,786
Net program revenues (expenses)	(961,692)	37,773	(19,312)	(229,158)
General revenues (expenses)				
Interest and investment income	37,129	-	-	804
Transient accommodations tax	-	-	-	-
Payments from State, net	949,541	205,250	24,242	112,302
Gifts and subsidies	39,895	-	-	-
Transfer agreement from State, net	-	-	-	428,749
Other	(12,927)	-	1,095	531
Net general revenues (expenses)	1,013,638	205,250	25,337	542,386
Change in net position	51,946	243,023	6,025	313,228
Net position				
Beginning of year, as previously reported	729,527	830,100	487,471	(588,725)
Adjustment for change in accounting principle	(880,591)	(4,717)	(14,218)	(166,902)
Beginning of year, as restated	(151,064)	825,383	473,253	(755,627)
End of year	$ (99,118)	$ 1,068,406	$ 479,278	$ (442,399)

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

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 105,234	$ 7,615	$ 6	$ 2,800,343
10,508	2,731	-	951,465
-	-	-	539,831
-	-	-	37,042
10,508	2,731	-	1,528,338
(94,726)	(4,884)	(6)	(1,272,005)
210	175	(702)	37,616
108,500	-	-	108,500
-	3,058	(3,596)	1,290,797
-	-	-	39,895
-	-	-	428,749
191	-	-	(11,110)
108,901	3,233	(4,298)	1,894,447
14,175	(1,651)	(4,304)	622,442
73,456	185,398	182,161	1,899,388
(2,766)	(678)	-	(1,069,872)
70,690	184,720	182,161	829,516
$ 84,865	$ 183,069	$ 177,857	$ 1,451,958

1. Summary of Significant Accounting Policies

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

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

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

Executive:

- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resource Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Discretely Presented Component Units

The Component Units column in the basic financial statements includes the financial data for the State's discretely presented Component Units. They are reported in a separate column to emphasize their legal separation from the State. The discretely presented Component Units are:

- ***University of Hawaii*** – The University of Hawaii (UH) is Hawaii's sole public higher education system. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH.

  The UH is comprised of ten campuses and provides a broad range of degree (baccalaureate to post-doctoral level) programs, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui and Kauai, the UH offers certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the UH houses more than a hundred centers with a research, instruction or public service purpose. The UH is also engaged in instructional research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

  The UH Board of Regents is appointed by the Governor of the State of Hawaii. The UH is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The UH's complete financial statements are available online at: *http://www.hawaii.edu*.

- ***Hawaii Housing Finance and Development Corporation*** – The Hawaii Housing Finance and Development Corporation (HHFDC) was established by Act 196, SLH 2005, as amended by Act 180, SLH 2006. The HHFDC is a corporate body placed within the Department of Business Economic Development and Tourism (DBEDT) for administrative purposes. The HHFDC's mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development. Tools and resources include housing tax credits, low interest construction loans, equity gap loans, developable land, and expedited land use approvals.

  The HHFDC's Board of Directors is appointed by the Governor of the State of Hawaii. The HHFDC is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HHFDC's complete financial statements are available online at: *http://www.dbedt.hawaii.gov/hhfdc*.

- ***Hawaii Public Housing Authority*** – The Hawaii Public Housing Authority (HPHA) was established by Act 196, SLH 2005, as amended by Act 180, SLH 2006. The HPHA is administratively attached to the Department of Human Services. Its mission is to provide safe, decent and sanitary dwellings for low and moderate income residents of the State of Hawaii and to operate its housing program in accordance with federal and State of Hawaii laws and regulations.

  The HPHA's Board of Directors is appointed by the Governor of the State of Hawaii. The HPHA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HPHA's complete financial statements are available online at: *http://www.hpha.hawaii.gov*.

- ***Hawaii Health Systems Corporation*** – Act 262, SLH 1996, transferred all facilities previously under the Department of Health – Division of Community Hospitals to the Hawaii Health Systems Corporation (HHSC). The HHSC is administratively attached to the Department of Health. Its mission is to provide and enhance accessible and comprehensive healthcare services that are quality-driven, customer-focused, and cost-effective. It operates the following facilities:

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

  West Hawaii Region:
  Kona Community Hospital
  Kohala Hospital

  Kauai Region:
  Kauai Veterans Memorial Hospital
  Samuel Mahelona Memorial Hospital

  Oahu Region:
  Leahi Hospital
  Maluhia

  Kahuku Medical Center

  On July 1, 2017, the operations of Maui Memorial Medical Center, Kula Hospital, and Lanai Community Hospital were transferred from HHSC to Kaiser Permanente. As a result of this transfer, certain liabilities related to employees at these facilities (including pension and other postemployment benefits liabilities) were transferred from HHSC to the State.

  The HHSC's Board of Directors is appointed by the Governor of the State of Hawaii. The HHSC is a public body corporate and politic and an instrumentality and agency of the State of Hawaii that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HHSC's complete financial statements are available online at: *http://www.hhsc.org*.

- ***Hawaii Tourism Authority*** – The Hawaii Tourism Authority (HTA) was established by Act 156, SLH 1998. The HTA is administratively attached to DBEDT. The HTA is responsible for developing and implementing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment taxes, and lesser-known and underutilized destinations.

  Effective July 2002, in accordance with Executive Order No. 3817, the HTA assumed control and management of the Hawaii Convention Center (Center). Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

  The HTA's Board of Directors is appointed by the Governor of the State of Hawaii. The HTA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. Information for obtaining the HTA's complete financial statements may be obtained from the Hawaii Tourism Authority, 1801 Kalakaua Avenue, Honolulu, Hawaii 96815.

- ***Hawaii Community Development Authority*** – The Hawaii Community Development Authority (HCDA) was established by HRS Chapter 206E to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in the urban areas of the State of Hawaii. The HCDA was established as a body corporate and a public instrumentality of the State and is administratively attached to DBEDT. The HCDA has three Community Development Districts: Kaka‘ako, Kalaeloa and He‘eia.

  The HCDA’s Board of Directors is appointed by the Governor of the State of Hawaii. The HCDA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. Information for obtaining the HCDA’s complete financial statements may be obtained from the Hawaii Community Development Authority, 547 Queen Street, Honolulu, Hawaii 96813.

- ***Hawaii Hurricane Relief Fund*** – The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to and operates in accordance with HRS Chapter 431P. The HHRF was established as a public body and a body corporate and politic and is administratively attached to the Department of Commerce and Consumer Affairs.

  The HHRF was primarily organized to provide residential and commercial hurricane property insurance coverage to Hawaii consumers in situations where insurance companies will not underwrite such business in the State. Due to the increase in availability of hurricane insurance coverage from the private sector, the HHRF ceased writing policies effective December 1, 2000. However, it was determined that the HHRF should not be dissolved as it may need to reenter the insurance market in the future.

  In the event of dissolution of the HHRF, the net monies within the hurricane reserve trust fund shall revert to the State General Fund after any payments on behalf of licensed property and casualty insurers or the State that are required to be made pursuant to any federal disaster insurance program enacted to provide insurance or reinsurance for hurricane risks.

  The HHRF’s Board of Directors is appointed by the Governor of the State of Hawaii. The HHRF is financially accountable, poses a financial burden or benefit to the State, and is therefore included as a discretely presented Component Unit. Information for obtaining the HHRF’s complete financial statements may be obtained from the Department of Commerce and Consumer Affairs, 335 Merchant Street, Honolulu, Hawaii 96813.

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

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental Funds Financial Statements
The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-

assessed tax revenues primarily consist of income and general excise taxes. Other revenues, which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits and franchise taxes.

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

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

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements
The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. The financial statements of the Other Postemployment Benefits (OPEB) Trust Fund are reported as a fiduciary fund using the economic resource measurement focus and the accrual basis of accounting. Agency Funds do not have a measurement focus and report only assets and liabilities.

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

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

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

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

- ***General Fund*** – This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- ***Capital Projects Fund*** – This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.
- ***Med-Quest Special Revenue Fund*** – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- ***Special Revenue Funds*** – These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.
- ***Debt Service Fund*** – This fund accounts for the financial resources obtained and used for the payment of principal and interest on long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

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

- ***Department of Transportation – Airports Division*** (Airports) – Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.
- ***Department of Transportation – Harbors Division*** (Harbors) – Harbors maintains and operates the State's commercial harbors system.
- ***Unemployment Compensation Fund*** – This fund accounts for the unemployment compensation benefits to qualified recipients.

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

Fiduciary Fund Types –

- ***Agency Funds*** – Agency Funds account for retiree healthcare benefits, which includes medical, dental and life insurance coverage as well as various taxes, deposits and property held by the State, pending distribution to other governments and individuals.
- ***OPEB Trust Fund*** – This fund accounts for plan assets and related expenses from the pre-funding contributions made by the State and counties. The OPEB Trust Fund meets the criteria for plans that are administered as trusts or equivalent arrangements.

Component Units – Component Units are comprised of the following:

- ***UH*** – Comprises of the State's public institutions of higher education.
- ***HHFDC*** – Finances housing programs for residents of the State.
- ***HPHA*** – Manages state housing programs.
- ***HHSC*** – Provides quality health care for the people of the State.
- ***HTA*** – Manages the State's convention center as well as markets the State's visitor industry.
- ***HCDA*** – Coordinates private and public community development for residents of the State.
- ***HHRF*** – Funds, assesses and provides, when necessary, hurricane property insurance to residents of the State.

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

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

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

Investments
The State's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles.

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

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

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

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

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

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. The Primary Government's capitalization threshold is $1,000,000 for purchased and internally generated software and $100,000 for other intangible assets. Component units and major enterprise funds establish separate capitalization thresholds and estimated useful lives, as appropriate. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

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

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years
Computer software	5–15 years
Other intangible assets	30 years

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

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The State defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method.

The deferred outflow of resources related to pensions and OPEB resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, and changes in proportion which will be amortized over five years, and the State's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans which will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent fiscal year. The deferred inflow of resources related to pension and OPEB resulted from differences between expected and actual experiences and changes in proportion of the pension and OPEB plans which will be amortized over five years.

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

Long-Term Obligations
In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net position. Initial-issue bond premiums and discounts, as well as prepaid insurance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bond issuance costs, except any portion related to prepaid insurance costs, are expensed in the period incurred. Amortization of bond premiums or discounts, prepaid insurance costs, and deferred amounts on refunding is included in interest expense.

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

Net Position and Fund Balance
In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net position is reported in three categories: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position represents net position restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and includes unspent proceeds of bonds issued to acquire or construct capital assets.

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

The State classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments. Sources of these externally enforceable legal restrictions include creditors, grantors or other governments.

- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action (i.e., legislation) of the State's Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.

- **Assigned** – Balances that are constrained by management to be used for specific purposes, as authorized by the Hawaii Revised Statutes, but are not restricted or committed. For general fund only, encumbrance balances at fiscal year-end are classified as assigned.

- **Unassigned** – Residual balances that are not contained in the other classifications. The General Fund is the only fund that reports a positive unassigned fund balance.

The State spends restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the State would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The following table presents the State's fund balance by major function at June 30, 2018 (amounts expressed in thousands):

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Restricted for					
Welfare	$ -	$ -	$ -	$ 7,300	$ 7,300
Highways	-	27,789	-	-	27,789
Education	-	(9,436)	-	-	(9,436)
	-	18,353	-	7,300	25,653
Committed to					
General government	-	-	-	466,531	466,531
Public safety	-	-	-	71,159	71,159
Highways	-	6,304	-	-	6,304
Conservation of natural resources	-	-	-	44,018	44,018
Health	-	-	-	196,308	196,308
Welfare	-	-	-	3,273	3,273
Culture and recreation	-	-	-	5,829	5,829
Urban development and housing	-	-	-	12,080	12,080
	-	6,304	-	799,198	805,502
Assigned to					
General government	33,709	-	-	92,508	126,217
Public safety	13,424	-	-	58,671	72,095
Highways	496	-	-	207,467	207,963
Conservation of natural resources	18,609	-	-	123,774	142,383
Health	87,760	-	-	-	87,760
Welfare	210,297	-	23,436	-	233,733
Education	120,825	-	-	179,673	300,498
Culture and recreation	3,684	-	-	1,515	5,199
Urban development and housing	5,092	-	-	355,861	360,953
Economic development	9,305	-	-	184,079	193,384
	503,201	-	23,436	1,203,548	1,730,185
Unassigned	974,719	(63,437)	-	(5,223)	906,059
Total	$ 1,477,920	$ (38,780)	$ 23,436	$ 2,004,823	$ 3,467,399

The following describes the purposes, by function, for the most significant fund balances:

- **Urban development and housing** – To develop and deliver Hawaiian home lands to native Hawaiians by identifying and assessing the needs of beneficiaries of the Hawaiian Homes Commission Act; to develop, market and manage lands not immediately needed; to develop lands for homesteading and income-producing purposes; and to develop waiting lists of applicants for homestead leases.
- **Highways** – To provide a safe, efficient, accessible and sustainable inter-modal transportation system that ensures the mobility of people and enhances and/or preserves economic prosperity and the quality of life. This is accomplished through planning, designing and supervising the construction and maintenance of the State Highway System.

- **Education** – For the public education system, to serve the community by developing the academic achievement, character and social-emotional well-being of the State's students to the fullest potential; to work with partners, families and communities to ensure that all students reach their aspirations from early-learning through college, career and citizenship. For the public charter commission, to authorize high-quality public charter schools throughout the State.
- **Health** – To administer programs designed to protect, preserve, care for, and improve the physical and mental health of the people of the State.

Pensions
For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ERS, and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

Postemployment Benefits Other Than Pensions
For purposes of measuring the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund, and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at their fair value.

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

Medicare and Medicaid Reimbursements
Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State administration's opinion is that adequate provision has been made for any adjustments that may result from such reviews.

Fair Value Measurements
The State measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3** – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Risk Management
The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1,000,000 per occurrence of property losses, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime and cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $200,000,000, except for terrorism, which is $50,000,000 per occurrence. The annual aggregate limit for general liability losses is $9,000,000 per occurrence, $50,000,000 for cyber liability losses and, for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35,000,000 per occurrence and $39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

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

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

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

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

Newly Issued Accounting Pronouncements

GASB Statement No. 75
During fiscal year 2018, the State implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statements No. 45 and 57.* Statement No. 75 establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Statement No. 75 replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

The adoption of Statement No. 75 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 2017 government-wide financial statements to reflect the reporting of a net OPEB liability in accordance with the provisions of Statement No. 75. Net OPEB liability for governmental activities and business type activities of $6,543,080,000 and $227,928,000, respectively, and deferred outflows of resources related to OPEB for governmental activities and business type activities of $504,654,000 and $12,197,000, respectively, were reported as of July 1, 2017. Refer to Note 11 for more information regarding the State's OPEB.

GASB Statement No. 81
During fiscal year 2018, the State implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement did not have a material effect on State's financial statements.

GASB Statement No. 83
The GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 84

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 85

During fiscal year 2018, the State implemented GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 86

During fiscal year 2018, the State implemented GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasement of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 88

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 89

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement replaces paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The State has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 90

The GASB issued Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The State has not yet determined the effect this Statement will have on its financial statements.

2. Cash and Investments

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

Cash

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

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) for the Primary Government as of June 30, 2018 was $2,054,647,000 and $1,011,111,000, respectively, and unrestricted cash for the Fiduciary Funds as of June 30, 2018 was $307,708,000.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to approximately $2,662,236,000 at June 30, 2018. The entire amount represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $532,462,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized, and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments

The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance (Budget and Finance). The pool's investment options are limited to investments listed in the HRS.

At the end of each year, Budget and Finance allocates the investment pool amount to each of the participants including those participants who are part of the Proprietary Funds and Fiduciary Funds. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The EUTF maintains a separate investment pool. The EUTF board is responsible for safekeeping these monies and has appointed an Investment Committee responsible for investing EUTF assets in compliance with HRS Sections 87A-24(2) and 88-119. Money is invested in accordance with EUTF's investment policy.

The following table presents the fair value of the State's investments by level of input at June 30, 2018 (amounts expressed in thousands):

		Fair Value Measurements Using		
	Reported Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments − Primary government				
Investments by fair value level				
U.S. government securities	$ 2,538,307	$ 505,588	$ 2,032,719	$ -
Mutual funds	55,808	55,808	-	-
Total investments by fair value level	2,594,115	$ 561,396	$ 2,032,719	$ -
Investments measured at amortized cost				
Certificates of deposit	1,250,211			
Total investments	$ 3,844,326			
Investments – Fiduciary funds				
Investments by fair value level				
Equity securities	$ 480,095	$ 480,095	$ -	$ -
U.S. government securities	349,861	34,891	314,970	-
Mutual funds	134,957	134,957	-	-
Derivatives	(194)	-	(194)	-
	964,719	$ 649,943	$ 314,776	$ -
Investments at net asset value (NAV)				
Commingled funds				
Domestic equity	491,598			
International equity	466,546			
Domestic core fixed income	68,673			
Domestic inflation-linked fixed income	243,311			
Alternative investments	279,812			
Total investments at fair value	2,514,659			
Investments measured at amortized cost				
Certificates of deposit	86,278			
Total investments	$ 2,600,937			
Invested securities lending collateral at NAV				
Money market fund	$ 14,468			

Cash and Cash Equivalents, Certificates of Deposit, and Repurchase Agreements
The State considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts reported in the Statement of Net Position for cash equivalents, certificates of deposit, and repurchase agreements are measured at amortized cost.

The following methods and assumptions were used by the State in estimating the fair value of its financial instruments:

- ***Debt securities*** – Debt securities held by the State consist of U.S. government obligations including U.S. Treasury bills and U.S. Treasury notes and bonds. The fair value of these investments are based on quoted prices in active markets or other observable inputs, including pricing matrices. These investments are categorized in either Level 1 or 2 of the fair value hierarchy.

- ***Mutual funds*** – The mutual funds held by the State are open-ended mutual funds that are registered with the Securities Exchange Commission (SEC). The fair value of these mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. These investments are categorized in Level 1 of the fair value hierarchy.
- ***Commingled funds*** – Investments in commingled funds are valued at the NAV of units of a bank commingled investment vehicle. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.
- ***Money market funds*** – Investments in money market funds are valued at the NAV of the custodian bank liquid asset portfolio. NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the State's investments have fluctuated since June 30, 2018.

	Fair Value	Unfunded Commitments	Redemption Frequency	Required Redemption Notice
Investments measured at NAV				
Commingled funds				
Domestic equity	$ 491,598	None	Daily/Quarterly	Same as trade date
International equity	466,546	None	Daily	Trade date – 1 month
Domestic core fixed income	68,673	None	Daily	Trade date – 2
Domestic inflation-linked fixed income	243,311	None	Daily	Trade date – 2
Alternative investments	279,812	92,451	Monthly/Quarterly	Various up to trade date – 15
Total investments measured at NAV	$ 1,549,940			
Invested securities lending collateral				
Money market fund	$ 14,468			Same as trade date

- ***Domestic equity*** – Northern Trust Russell 3000 Index Fund – Lending – primary objective is to approximate the risk and return characteristics of the Russell 3000 Index. This Index is commonly used to represent the broad U.S. equity market.
- ***International equity*** – Northern Trust Common All Country World Index (ACWI) EX-US Fund – Lending – primary objective is to provide investment results that approximate the overall performance of the MSCI All Country World ex-US Index.
- ***Domestic core fixed income*** – BlackRock U.S. Debt Index Fund B – primary objective is to provide investment results that correspond generally to the price and yield performance of Barclays U.S. Aggregate Bond Index.
- ***Domestic inflation-linked fixed income*** – BlackRock U.S. Inflation-Linked Bond Fund B – primary objective is to maximize real return by investing in inflation-linked fixed income securities issued by the U.S. government.
- ***Money market fund*** – The Northern Trust Corporation Liquid Asset Portfolio is a money market fund that seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market investments.

The following table presents the State's investments by maturity period at June 30, 2018 (amounts expressed in thousands):

	Reported Value	Maturity (in years) Less than 1	1–5	>5
Investments − Primary government				
Certificates of deposit	$ 1,250,211	$ 1,184,854	$ 65,357	$ -
U.S. government securities	2,538,307	808,923	1,729,384	-
	3,788,518	$ 1,993,777	$ 1,794,741	$ -
Mutual funds	55,808			
Total investments	$ 3,844,326			
Investments – Fiduciary funds				
Certificates of deposit	$ 86,278	$ 81,768	$ 4,510	$ -
U.S. government securities	349,861	55,827	294,034	-
Derivatives	(194)	-	(194)	-
	435,945	$ 137,595	$ 298,350	$ -
Equity securities	480,095			
Mutual funds	134,957			
Commingled funds	1,270,128			
Alternative investments	279,812			
Total investments	$ 2,600,937			

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

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

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

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

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The EUTF's asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the State arises from the international equity investment holdings, including commingled funds, common stocks, and exchange traded funds.

Securities Lending
The EUTF participates in a securities lending program administered by its custodian bank, Northern Trust. Under this program, which is permissible by State statutes and EUTF's investment policy, certain equity securities are lent to participating broker-dealers and banks (borrowers). In return, the EUTF receives cash, securities and/or letters of credit as collateral at 102% to 105% of the principal plus accrued interest for reinvestment. The collateral is marked to market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided. Accordingly, management believes that the EUTF has no credit risk exposure to borrowers because the amounts the EUTF owed the borrowers equaled or exceeded the amounts the borrowers owed the EUTF. The contract with the EUTF requires the custodian bank to indemnify the EUTF. In the event a borrower goes into default, the custodian bank will liquidate the collateral to purchase replacement securities. Any shortfall between the replacement securities cost and the collateral value is covered by the custodian bank. All securities loans can be terminated on demand within a period specified in each agreement by either the EUTF or the borrowers.

Cash collateral is invested in a separate account by the custodian bank using approved lender's investment guidelines. As such, maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. The EUTF does not impose any restrictions on the amount of loans the bank custodian makes on behalf of the EUTF. The securities lending program in which the EUTF participates only allows pledging or selling securities in the case of borrower default.

At June 30, 2018, the total securities lent for collateral amounted to $145,213,000. The total cash and noncash collateral received amounted to $14,468,000 and $135,959,000, respectively.

Each of the four commingled funds held in the EUTF investment pool participates in securities lending.

3. Capital Assets

For the fiscal year ended June 30, 2018, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance at July 1, 2017	Additions	Deductions	Balance at June 30, 2018
Capital assets not being depreciated				
Land and land improvements	$ 2,310,617	$ 35,102	$ (150)	$ 2,345,569
Construction in progress	1,185,215	637,189	(455,782)	1,366,622
Total capital assets not being depreciated	3,495,832	672,291	(455,932)	3,712,191
Capital assets being depreciated				
Infrastructure	9,720,538	224,658	-	9,945,196
Buildings and improvements	4,964,812	128,703	(710)	5,092,805
Equipment	695,809	136,388	(15,144)	817,053
Intangible assets – software	159,174	-	(5,487)	153,687
Total capital assets being depreciated	15,540,333	489,749	(21,341)	16,008,741
Less: Accumulated depreciation and amortization				
Infrastructure	(6,098,837)	(230,615)	-	(6,329,452)
Buildings and improvements	(2,775,919)	(147,649)	248	(2,923,320)
Equipment	(488,474)	(72,025)	15,367	(545,132)
Intangible assets – software	(80,717)	(17,579)	-	(98,296)
Total accumulated depreciation and amortization	(9,443,947)	(467,868)	15,615	(9,896,200)
Total capital assets, net	$ 9,592,218	$ 694,172	$ (461,658)	$ 9,824,732

	Business-type Activities			
	Balance at July 1, 2017	Additions	Deductions	Balance at June 30, 2018
Capital assets not being depreciated				
Land and land improvements	$ 642,159	$ 33,997	$ (1)	$ 676,155
Construction in progress	1,156,095	615,042	(318,218)	1,452,919
Total capital assets not being depreciated	1,798,254	649,039	(318,219)	2,129,074
Capital assets being depreciated				
Land and improvements	1,441,092	20,526	-	1,461,618
Buildings and improvements	2,482,429	283,311	-	2,765,740
Equipment	333,907	18,247	(662)	351,492
Total capital assets being depreciated	4,257,428	322,084	(662)	4,578,850
Less: Accumulated depreciation				
Land and improvements	(923,264)	(41,156)	-	(964,420)
Buildings and improvements	(1,404,457)	(82,376)	-	(1,486,833)
Equipment	(267,277)	(17,478)	654	(284,101)
Total accumulated depreciation	(2,594,998)	(141,010)	654	(2,735,354)
Total capital assets, net	$ 3,460,684	$ 830,113	$ (318,227)	$ 3,972,570

Depreciation expense for the fiscal year ended June 30, 2018, was charged to functions/ programs of the Primary Government as follows (amounts expressed in thousands):

Governmental activities	
Highways	$ 214,713
Lower education	125,281
General government	28,654
Urban redevelopment and housing	24,679
Public safety	21,929
Welfare	20,251
Conservation of natural resources	15,905
Health	7,376
Economic development and assistance	5,532
Culture and recreation	3,548
Total depreciation expense – governmental activities	$ 467,868
Business-type activities	
Airports	$ 113,698
Harbors	27,019
EUTF	91
DWTLF	1
WPCF	201
Total depreciation expense – business-type activities	$ 141,010

4. General Obligation Bonds Payable

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt is being retired from the resources of the Proprietary Funds – Airports and Harbors and is recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues contain call provisions except Series DO, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT, issued November 24, 2009; Series DY, issued February 18, 2010; Series EL, issued November 21, 2013; Series EW and EX, issued October 29, 2015; Series FJ, issued October 13, 2016; and Series FR, issued December 12, 2017. Stated interest rates range from 0.60% to 5.00%.

During fiscal year 2018, the State issued two separate offerings of general obligation bonds.

- On December 12, 2017, the State issued $293,243,064 of general obligation refunding bonds of 2017 Series FQ, FR and FS.
- On February 14, 2018, the State issued $631,215,000 of general obligation bonds of 2018 Series FT, and $143,785,000 of taxable general obligation bonds of 2018 Series FU and FV.

New issues Series FT and FU were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method. The bonds within Series FU are subject to optional redemption. The following bonds are subject to optional redemption with restrictions: within Series FS that mature on or after October 1, 2028; and within Series FT that mature on or after January 1, 2029.

Refunding Series FQ, FR and FS have interest rates of 1.64% to 2.95% and were used to advance refund $255,690,000 of certain general obligation bonds previously issued. The net proceeds of $293,243,000 related to the issuance of Series FQ, FR and FS were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the previously issued outstanding general obligation bonds Series DZ, EE, EH and EO. As a result, these series or portions of these series are considered to be defeased and the related liabilities have been removed from the Government-Wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 16 years by $23,003,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $18,372,000.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust, to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2018, $1,733,275,000 of bonds outstanding is considered defeased. At June 30, 2018, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 6,837,603
Noncallable	356,350
Total general obligation bonds outstanding	7,193,953
Add: unamortized bond premium	741,508
Less: Amount recorded as a liability of proprietary funds – Harbors	(23,255)
Amount recorded in the governmental activities of the primary government	$ 7,912,206

A summary of general obligation bonds outstanding by series as of June 30, 2018, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
DK	May 20, 2008	4.000%	May 1, 2019	$ 375,000	$ 415
DN	December 16, 2008	4.250%–5.000%	August 1, 2018–2019	100,000	6,970
DO	December 16, 2008	4.250%–5.000%	August 1, 2018	101,825	14,760
DQ	June 23, 2009	3.600%–5.000%	June 1, 2019–2026	500,000	43,805
DR	June 23, 2009	4.000%–5.000%	June 1, 2019	225,410	42,060
DS	November 5, 2009	0.600%–1.450%	September 15, 2018–2024	32,000	20,640
DT	November 24, 2009	3.250%–5.000%	November 1, 2018–2019	204,140	74,480
DX	February 18, 2010	4.290%–5.530%	February 1, 2019–2030	500,000	405,910
DY	February 18, 2010	4.000%–5.000%	February 1, 2019–2020	221,625	80,575
DZ	December 7, 2011	3.500%–5.000%	December 1, 2018–2031	800,000	111,170
EA	December 7, 2011	2.500%–5.000%	December 1, 2018–2023	403,455	316,380
EE	December 4, 2012	1.000%–5.000%	November 1, 2018–2032	444,000	220,280
EF	December 4, 2012	5.000%	November 1, 2018–2024	396,990	355,605
EG	December 4, 2012	1.300%–3.625%	November 1, 2018–2032	26,000	24,630
EH	November 21, 2013	4.000%–5.000%	August 1, 2018–2033	635,000	401,605
EL	November 21, 2013	1.000%–5.000%	August 1, 2018–2023	50,860	44,400
EM	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	25,000	25,000
EN	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	29,795	29,795
EO	November 25, 2014	3.000%–5.000%	August 1, 2019–2034	575,000	546,130
EP	November 25, 2014	5.000%	August 1, 2019–2026	209,015	209,015
EQ	November 25, 2014	2.035%–3.915%	August 1, 2019–2034	25,000	25,000
ET	October 29, 2015	2.000%–5.000%	October 1, 2018–2035	190,000	190,000
EU	October 29, 2015	2.000%–3.500%	October 1, 2018–2035	35,000	35,000
EW	October 29, 2015	5.000%	October 1, 2018	34,950	34,950
EX	October 29, 2015	2.000%–4.000%	October 1, 2019–2025	25,035	25,035
EY	October 29, 2015	5.000%	October 1, 2020–2027	212,120	212,120
EZ	October 29, 2015	5.000%	October 1, 2019–2028	215,590	215,590
FA	October 29, 2015	1.330%–4.400%	October 1, 2018–2035	25,000	25,000
FB	April 14, 2016	3.000%–5.000%	April 1, 2019–2036	500,000	500,000
FC	April 14, 2016	1.380%–1.750%	April 1, 2019–2021	25,000	15,185
FE	April 14, 2016	3.000%–5.000%	October 1, 2019–2028	219,690	219,690
FF	April 14, 2016	1.309%–2.902%	October 1, 2019–2028	119,730	119,730
FG	October 13, 2016	3.000%–5.000%	October 1, 2019–2036	375,000	375,000
FH	October 13, 2016	3.000%–5.000%	October 1, 2021–2031	379,295	379,295
FI	October 13, 2016	2.000%–5.000%	October 1, 2021–2033	2,710	2,710
FJ	October 13, 2016	1.000%–1.921%	October 1, 2018–2022	25,000	25,000
FK	May 24, 2017	2.000%–5.000%	May 1, 2020–2037	575,000	575,000
FN	May 24, 2017	5.000%	October 1, 2021–2031	229,355	229,355
FO	May 24, 2017	1.850%–2.250%	May 1, 2020–2021	37,500	37,500
FP	May 24, 2017	1.850%–3.940%	May 1, 2020–2037	7,500	7,500
FR	December 12, 2017	1.820%–2.180%	October 1, 2018–2021	15,090	15,090
FS	December 12, 2017	2.220%–2.950%	October 1, 2022–2033	275,363	275,363
FT	February 14, 2018	3.000%–5.000%	January 1, 2022–2038	631,215	631,215
FU	February 14, 2018	2.200%–2.750%	January 1, 2019–2021	50,000	50,000
					$ 7,193,953

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

A summary of the general obligation bond premium activity for fiscal year 2018 is as follows (amounts expressed in thousands):

Balance – July 1, 2017	$ 770,784
GO bond series FT – FU	95,474
Defeased bond series DZ, EE, EH, EO	(15,930)
Current-year amortization	(108,820)
Balance – June 30, 2018	$ 741,508

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

Fiscal Year	**Principal**	**Interest**	**Total**
2019	$ 468,557	$ 308,564	$ 777,121
2020	498,398	290,364	788,762
2021	455,414	269,067	724,481
2022	460,172	249,092	709,264
2023	462,620	228,312	690,932
2024–2028	2,208,530	826,733	3,035,263
2029–2033	1,771,927	365,035	2,136,962
2034–2038	845,080	76,870	921,950
	$ 7,170,698	$ 2,614,037	$ 9,784,735

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

Fiscal Year	**Principal**	**Interest**	**Total**
2019	$ 2,228	$ 1,153	$ 3,381
2020	2,337	1,044	3,381
2021	2,451	930	3,381
2022	2,573	808	3,381
2023	2,700	680	3,380
2024–2028	10,966	1,350	12,316
	$ 23,255	$ 5,965	$ 29,220

The State Constitution limits the amount of general obligation bonds which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2018 was $569,333,000.

At June 30, 2018, general obligation bonds authorized but unissued were approximately $2,171,562,000.

5. Revenue Bonds Payable

Governmental Activities

Revenue bonds are payable from and collateralized by each Department's revenues generated from certain capital improvement projects. On August 25, 2017, the Department of Hawaiian Home Lands (DHHL) issued $30,940,000 in State of Hawaii Revenue Bonds, Series 2017, with interest rates ranging from 3.00% to 5.00% to refund State of Hawaii Revenue Bonds, Series 2009 previously issued by DHHL. The bonds are payable on April 1 and October 1, commencing 2018 through 2032.

On September 8, 2016, the Department of Transportation – Highways Division (Highways) issued $103,395,000 in State of Hawaii Highway Revenue Bonds of 2016, Series A, with interest rates ranging from 1.25% to 5.0% to provide funds for certain highway capital improvement projects. The bonds are payable annually on January 1 through 2036.

On September 8, 2016, Highways issued $101,090,000 in State of Hawaii Highway Revenue Bonds of 2016, Series B, with interest rates ranging from 2.0% to 5.0% to refund certain outstanding Highway Revenue Bonds. The bonds are payable annually on January 1, commencing 2021 through 2030.

On November 13, 2014, the DBEDT issued $150,000,000 in State of Hawaii Green Energy Market Securitization Bonds of 2014, Series A, to provide funds for environmentally beneficial projects. The Series A is comprised of Tranche A-1 for $50,000,000 and Tranche A-2 for $100,000,000. The interest rate for Tranche A-1 is 1.467%, with bonds payable semi-annually on January 1 and July 1 through 2020. The interest rate for Tranche A-2 is 3.242%, with bonds payable semi-annually beginning July 1, 2020 through January 1, 2029. Both tranches have a final maturity date which is two years later than the scheduled final payment date to allow for any final true-ups for balances owed.

On August 14, 2014, Highways issued $103,375,000 in State of Hawaii Highway Revenue Bonds of 2014, Series A, with interest rates ranging from 2.0% to 5.0% to provide funds for certain highway capital improvement projects. The bonds are payable annually on January 1 through 2034.

On August 14, 2014, Highways issued $32,285,000 in State of Hawaii Highway Revenue Bonds of 2014, Series B, with interest rates ranging from 3.0% to 5.0% to advance refund $36,195,000 of certain highway revenue bonds previously issued. The bonds are payable annually January 1 through 2026.

On August 14, 2014, Highways issued $28,020,000 in State of Hawaii Highway Revenue Bonds of 2014, Series C, with interest rates ranging from 0.4% to 1.6% to advance refund $26,435,000 of certain highway revenue bonds previously issued. The final payment date for the bonds was January 1, 2018.

On December 15, 2011, Highways issued $112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 0.75% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2032.

On December 15, 2011, Highways issued $5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4.0% to advance refund $5,400,000 of certain outstanding highway revenue bonds previously issued. The bond is payable on January 1, 2023.

On December 17, 2008, Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.0% to 6.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2029.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3.0% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable annually on July 1 through 2021.

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

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

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bond of 2011, and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above) were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions.

The following is a summary of the State's revenue bonds issued and outstanding at June 30, 2018 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways					
1998	July 1, 1998	5.50%	July 1, 2018	$ 94,920	$ 14,160
2005 B	March 15, 2005	5.25%	July 1, 2018–2021	123,915	27,630
2008	December 17, 2008	5.00%–5.25%	January 1, 2019–2029	125,175	11,940
2011A	December 15, 2011	2.00%–5.00%	January 1, 2019–2032	112,270	47,485
2011B	December 15, 2011	4.00%	January 1, 2023	5,095	5,095
2014A	August 14, 2014	4.00%–5.00%	January 1, 2019–2034	103,375	90,285
2014B	August 14, 2014	4.00%–5.00%	January 1, 2019–2026	32,285	26,905
2016A	September 8, 2016	1.25%–5.00%	January 1, 2019–2036	103,395	98,460
2016B	September 8, 2016	2.00%–5.00%	January 1, 2021–2030	101,090	100,270
DHHL					
2017	August 25, 2017	3.00%–5.00%	April 1, 2019–2032	30,940	29,840
DBEDT					
2014A-A1	November 13, 2014	1.467%	July 1, 2022	50,000	21,925
2014A-A2	November 13, 2014	3.242%	January 1, 2031	100,000	100,000
					573,995
Add: Unamortized bond premium					59,078
					$ 633,073

A summary of the revenue bond premium activity for fiscal year 2018 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance – July 1, 2017	$ 61,641
Current-year additions	5,347
Defeased bonds	313
Current-year amortization	(8,223)
Balance – June 30, 2018	$ 59,078

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

Fiscal Year	Principal	Interest	Total
2019	$ 53,992	$ 24,262	$ 78,254
2020	41,324	22,388	63,712
2021	42,381	20,718	63,099
2022	40,065	19,013	59,078
2023	37,107	17,425	54,532
2024–2028	200,326	62,649	262,975
2029–2033	128,960	21,736	150,696
2034–2036	29,840	2,172	32,012
	$ 573,995	$ 190,363	$ 764,358

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

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

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2018 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2010A, refunding	2.00%–5.25%	2039	$ 478,980	$ 476,785
2010B, refunding	3.00%–5.00%	2020	166,000	64,795
2011, refunding	2.00%–5.00%	2024	300,885	189,985
2015A, non-refunding	4.125%–5.00%	2045	235,135	235,135
2015B, non-refunding	4.00%	2045	9,125	9,125
			$ 1,190,125	975,825
Add: Unamortized premium				26,403
Less: Unamortized discount				(51)
				1,002,177
Less: Current portion				(45,786)
Noncurrent portion				$ 956,391

Airports Special Facility Leases and Revenue Bonds
Airports entered into two special facility lease agreements with Continental Airlines, Inc. (Continental) in November 1997 and July 2000. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000 and $16,600,000, respectively. The $16,600,000 special facility revenue bond was called in full on May 18, 2015. The remaining bond is payable solely from and collateralized solely by certain rentals and other monies derived from the special facility.

$25,255,000 Issue
The bonds bear interest at 5.625% per annum, and are subject to redemption on or after November 15, 2007 at the option of Airports upon the request of Continental at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100% plus interest, if the facilities are destroyed or damaged extensively.

Interest-only payments of $611,000 are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

Special facility revenue bonds payable at June 30, 2018 consisted of $21,725,000, and is classified as noncurrent.

The special facility lease is accounted for and recorded as a direct financing lease. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

In July 2017, Airports issued $249,805,000 of Airports system customer facility charge revenue bonds (Customer Facility Charge Revenue Bonds, Series 2017A) at interest rates ranging from 1.70% to 4.14%. The Series 2017 Bonds are being issued for the costs of design, development and construction of consolidated rental motor vehicle projects at certain airports and to fund the Rolling Coverage Fund Requirement and the Debt Service Reserve Fund Requirement for the Series 2017 Bonds and to pay certain costs of issuance relating to the Series 2017 bonds. The Bonds are special limited obligations of the State, payable solely from and secured by the receipts from collection of the Rental Motor Vehicle Customer Facility Charge imposed by the State on rental motor vehicle customers who use or benefit from rental car facilities at all airports in the Airports system.

Harbors Revenue Bonds
The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from 102% to 100% of face value.

The following is a summary of the Harbors' revenue bonds issued and outstanding as of June 30, 2018 (amounts expressed in thousands):

				Current			
Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2018	Due January 1, 2019	Total	Noncurrent
2010	July 1, 2040	3.00%–5.75%	$ 201,390	$ 5,495	$ -	$ 5,495	$ 160,275
2013	July 1, 2029	3.25%	23,615	3,105	-	3,105	16,615
2016	January 1, 2031	1.99%–3.09%	113,660	1,015	7,140	8,155	99,965
			$ 338,665	$ 9,615	$ 7,140	16,755	276,855
Add: Unamortized premium						24	(38)
						$ 16,779	$ 276,817

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

Fiscal Year	Principal	Interest	Total
2019	$ 62,540	$ 70,226	$ 132,766
2020	65,070	67,559	132,629
2021	67,205	64,726	131,931
2022	70,100	61,714	131,814
2023	73,245	58,538	131,783
2024–2028	293,235	250,040	543,275
2029–2033	208,445	194,673	403,118
2034–2038	237,070	141,845	378,915
2039–2043	269,070	77,514	346,584
2044–2048	194,985	16,775	211,760
	$ 1,540,965	$ 1,003,610	$ 2,544,575

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the twelve-month and six-month periods, respectively, preceding the date on which the payments are due.

Revenue Bonds Authorized, but Unissued
At June 30, 2018, revenue bonds authorized, but unissued, were approximately $5,200,929,000.

Special Purpose Revenue Bonds
HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2018 amounted to approximately $1,335,472,000. At June 30, 2018, special purpose revenue bonds of $1,082,399,000 were authorized, but unissued.

6. Changes in Long-Term Liabilities

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

	Governmental Activities				
	Balance July 1, 2017 As Restated	Additions	Deductions	Balance June 30, 2018	Due Within One Year
General obligation bonds payable	$ 6,865,043	$ 1,068,243	$ (762,588)	$ 7,170,698	$ 468,557
Add: Unamortized premium	770,784	95,474	(124,750)	741,508	100,522
Total general obligation bonds payable	7,635,827	1,163,717	(887,338)	7,912,206	569,079
Revenue bonds payable	631,101	30,941	(88,047)	573,995	53,992
Add: Unamortized premium	61,641	5,347	(7,910)	59,078	7,776
Total revenue bonds payable	692,742	36,288	(95,957)	633,073	61,768
Accrued vacation payable	228,999	113,698	(108,950)	233,747	80,492
Reserve for losses and loss adjustment costs	198,319	87,133	(38,198)	247,254	37,413
Net pension liability	6,339,905	760,140	(600,226)	6,499,819	-
Net other postemployment benefits liability	6,543,080	640,540	(517,338)	6,666,282	-
Capital lease obligations	143,622	15,125	(28,850)	129,897	6,973
Total	$ 21,782,494	$ 2,816,641	$ (2,276,857)	$ 22,322,278	$ 755,725

	Business-type Activities				
	Balance July 1, 2017 As Restated	Additions	Deductions	Balance June 30, 2018	Due Within One Year
General obligation bonds payable, net	$ 25,377	$ -	$ (2,122)	$ 23,255	$ 2,228
Revenue bonds payable	1,345,955	272,230	(77,220)	1,540,965	62,540
Add: Unamortized premium, net	29,487	-	(3,147)	26,340	25
Total revenue bonds payable	1,375,442	272,230	(80,367)	1,567,305	62,565
Accrued vacation and retirement benefits payable	14,973	6,754	(6,157)	15,570	6,127
Reserve for losses and loss adjustment costs	4,902	1,692	(1,416)	5,178	819
Net pension liability	219,863	6,497	(14,403)	211,957	-
Net other postemployment benefits liability	208,941	33,960	(11,996)	230,905	-
Capital lease obligations	252,806	-	(7,827)	244,979	8,143
Prepaid airport use charge fund	16,903	6,791	(4,500)	19,194	-
Loan payable	76,000	-	-	76,000	-
Total	$ 2,195,207	$ 327,924	$ (128,788)	$ 2,394,343	$ 79,882

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's governmental funds. Approximately 81%, 18% and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2018.

7. Interfund Receivables and Payables

Interfund receivables and payables consisted of the following at June 30, 2018 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds		
General Fund		
Special Revenue Funds	$ 45,881	$ -
Med-Quest Special Revenue Fund	44,291	-
Proprietary Fund	20	-
	90,192	-
Capital Projects Fund		
Proprietary Fund	1,597	-
Med-Quest Special Revenue Fund		
General Fund	-	44,291
Nonmajor Governmental Funds		
General Fund	-	45,881
Proprietary Funds		
Airports	-	20
Harbors	-	1,597
	-	1,617
	$ 91,789	$ 91,789

The interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occurred, transactions are recorded, and payment between funds are made.

8. Transfers

Transfers between funds occur when a fund receiving revenues, transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers between funds occur. For the fiscal year ended June 30, 2018, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds		
General Fund		
Med-Quest Special Revenue Fund	$ 115,521	$ 3,761
Capital Projects Fund	-	72,418
Nonmajor Governmental Funds	39,692	798,189
	155,213	874,368
Capital Projects Fund		
General Fund	72,418	-
Nonmajor Governmental Funds	166,381	4,343
	238,799	4,343
Med-Quest Special Revenue Fund		
General Fund	3,761	115,521
Nonmajor Governmental Funds	-	2,082
	3,761	117,603
Nonmajor Governmental Funds		
General Fund	798,189	39,692
Capital Projects Fund	4,343	166,381
Med-Quest Special Revenue Fund	2,082	-
Other Nonmajor Governmental Funds	89,428	89,428
	894,042	295,501
	$ 1,291,815	$ 1,291,815

The General Fund transferred approximately $707,851,000 to the Nonmajor Governmental Funds for debt service payments and approximately $94,099,000 to subsidize various Special Revenue Funds' programs, and approximately $72,418,000 to the Capital Projects Fund to finance capital projects. Approximately $166,381,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. Leases

Lease Commitments

Governmental Activities

The State leases office facilities and equipment under various operating leases expiring through fiscal 2028. Future minimum lease commitments for noncancelable operating leases as of June 30, 2018, were as follows (amounts expressed in thousands):

Fiscal Year		
2019	$	20,193
2020		17,008
2021		12,387
2022		7,482
2023		2,643
2024–2028		1,255
Total future minimum lease payments	$	60,968

Rent expenditures for operating leases for the fiscal year ended June 30, 2018 amounted to approximately $36,847,000.

On July 25, 2017, the State issued $15,125,000 in Certificates of Participation (COPS) 2017 Series A to fully refund $24,500,000 of the 2009 Series A Certificate which proceeds were used to purchase the Kapolei State Office Building and Capitol District Building. Wells Fargo Bank, NA was paid $18,739,000 by the Bank of New York Mellon Trust Company, NA on August 25, 2017 from the net proceeds of $20,292,000 which include original issue premium of $2,614,000 and funds on hand of $2,553,000. The remaining amounts of $152,000 was used as cost of issuance and $1,401,000 was deposited to the Certificate Reserve Fund. Payments of principal and interest commenced on November 1, 2017 and will be payable every May 1 and November 1 until 2031 with interest rates ranging from 2% to 4% until 2022 and fixed at 5% starting in 2023.

An equipment lease purchase agreement between the Department of Transportation Highways Division and Johnson Controls, Inc. was entered into on July 8, 2015 to fund the construction, acquisition and installation of energy conservation systems throughout the State. The proceeds of $60,286,091 were deposited into an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the Highways Division. Payments commenced on August 1, 2017 and continue through August 1, 2031 at an interest rate of 2.63%.

An equipment lease purchase agreement between DAGS and Banc of America Public Capital Corp. was entered into on August 1, 2013, to fund the construction, acquisition and installation of energy conservation systems throughout the State. The proceeds of $18,835,000 were deposited in an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the State. Payments commenced on March 20, 2014 and continue through September 20, 2033 at an interest rate of 3.63%.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of $25,512,000 in an escrow fund. Payments commenced on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the DAGS and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of $12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

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

	Principal	Interest	Total
Fiscal Year			
2019	$ 6,973	$ 4,733	$ 11,706
2020	7,774	4,460	12,234
2021	6,481	4,154	10,635
2022	7,037	3,898	10,935
2023	7,762	3,620	11,382
2024–2028	46,482	13,048	59,530
2029–2033	46,389	3,941	50,330
2034	999	18	1,017
Total future minimum lease payments	$ 129,897	$ 37,872	$ 167,769

Capital assets acquired under these capital leases are as follows (amounts expressed in thousands):

Asset type	
Buildings and improvements	$ 56,245
Equipment	117,010
Total assets	$ 173,255

Business-Type Activities

Airports – Lease Revenue Certificates of Participation
Airports entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the energy performance contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of $167,740,000 at interest rates ranging from 3.00% to 5.25%.

On April 13, 2016, Airports entered into a lease agreement with Johnson Controls, Inc. amending the Energy Performance Contract dated December 19, 2013 to finance improvements to Daniel K. Inouye International Airport's cooling infrastructure. The costs relating to the lease and installation of certain equipment to implement the third amendment to the Energy Performance Contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of $8,056,521 at an interest rate of 1.74%.

On March 31, 2017, Airports entered into a lease agreement with Johnson Controls, Inc. amending the Energy Performance Contract dated December 19, 2013 to finance improvements to the lighting infrastructure at multiple airports. The costs relating to the purchase and installation of certain equipment to implement the fourth amendment to the Energy Performance Contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of $51,473,427 at an interest rate of 2.87%.

The lease revenue COPS are payable from revenue derived by Airports from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State. The COPS represent participation in equipment lease rent payments made by the Department of Transportation. Lease rent payments to holders of the COPS are payable from revenues and aviation fuel taxes, subordinate in right of payments of debt service on bonds.

At June 30, 2018, the outstanding balance of the lease revenue COPS and the unamortized premium were approximately $216,180,000 and $2,524,000, respectively. Future lease rent payments for the lease revenue COPS as of June 30, 2018 are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2019	$ 7,331	$ 9,389	$ 16,720
2020	10,301	9,040	19,341
2021	12,116	8,551	20,667
2022	13,753	7,982	21,735
2023	15,204	7,343	22,547
2024–2028	105,920	23,643	129,563
2029–2033	49,079	3,037	52,116
2034	2,476	53	2,529
	$ 216,180	$ 69,038	$ 285,218

Lease Rentals

Airports – Airport-Airline Lease Agreement
The DOT and the airline companies serving the Airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Airports – Prepaid Airport Use Charge Fund
The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal years 1996 through 2018 have been transferred to the PAUCF.

Airports – Aviation Fuel Tax
In May 1996, the Department of Taxation issued a tax information release which stated that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to approximately $2,613,000 for fiscal year 2018.

Airports – System Rates and Charges
Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees amounted to approximately $88,663,000 for fiscal year 2018. Airport landing fees are shown, net of aviation fuel tax credits of approximately $2,604,000, for fiscal year 2018 on the statement of revenues, expenses and changes in net position, which resulted in net airport landing fees of approximately $86,059,000 for fiscal year 2018. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. Airport interisland landing fees for signatory airlines were set at 46% of the airport landing fees for overseas flights for fiscal year 2018, and are scheduled to increase 1% annually until it reaches 100%.
- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately $74,082,000 for fiscal year 2018. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per enplaning or deplaning passenger.
- Exclusive use premise charges amounted to approximately $59,014,000 for fiscal year 2018, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately $29,523,000 for fiscal year 2018.
- Airports system support charges amounted to $0 for fiscal year 2018, and were established to recover all remaining residual costs of the Airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of Airports system support charges for overseas flights.

Airports – Other Operating Leases
Airports leases certain building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2018 was approximately $90,586,000.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kahului retail concession, accounted for approximately 22% of total concession fees revenues for the fiscal year ended June 30, 2018.

DFS was awarded a ten-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883.

Effective October 31, 2014, the in-bond concession lease agreement was amended and the lease was extended through May 31, 2027. The amended lease contract provides (1) for the period from June 1, 2017 through May 31, 2019, $40 million, (2) for the period of June 1, 2019 through May 31, 2020, $47.5 million, (3) for the period June 1, 2020 through May 31, 2021, 85% of the actual annual fee paid and payable (either minimum annual guarantee (MAG) rent or percentage rent) for the previous year, (4) for the period of June 1, 2021 through May 31, 2022, the same as the previous year, (5) for the period of June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable for the previous year, and (6) for the period from June 1, 2023 through May 31, 2027, the same as the MAG rent for the period of June 1, 2022 through May 31, 2023. The percentage fee for the extension period will be set at 30% of gross receipts from on-airport sales and 18% of gross receipts from off-airport sales. Percentage fee for merchandise converted from duty free status to duty paid status shall be 1.25%, and the concession fee for items that are “High Price/Low Margin Merchandise” shall be 2.5% of the gross receipts from the sale. In addition, DFS agreed to pay $27.9 million for improvements to the Central Waiting Lobby Building at Daniel K. Inouye International Airport.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Daniel K. Inouye International Airport, with the term commencing on April 1, 2009, and scheduled to terminate on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) MAG rent (85% of the actual annual fee paid for the preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period, the MAG rent was $12 million. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the MAG rent be $12 million for the period April 1, 2015 through March 31, 2016 and, for each subsequent year thereafter, the MAG rent will be 85% of the actual annual fee paid for the preceding year.

Harbors – Leasing Operations
Harbors leases land, wharf and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every five to ten years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2018 amounted to $27,684,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2018 (amounts expressed in thousands):

	Proprietary Funds		
	Airports	Harbors	Total
Fiscal Year			
2019	$ 101,030	$ 5,175	$ 106,205
2020	103,074	5,152	108,226
2021	52,928	5,206	58,134
2022	45,373	5,270	50,643
2023	39,687	5,186	44,873
2024–2028	146,259	24,812	171,071
2029–2033	108,029	22,261	130,290
2034–2038	66,885	14,774	81,659
2039–2043	65,725	10,706	76,431
2044–2048	66,551	5,888	72,439
2049–2053	-	2,617	2,617
2054–2058	-	2,388	2,388
2059	-	87	87
	$ 795,541	$ 109,522	$ 905,063

Net Investment in Direct Financing Leases
Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2018, net investments in direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 31,972
Less: Amount representing interest	(11,457)
	20,515
Cash with trustee and other	1,363
	$ 21,878

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2018, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2019	$ 1,222
2020	1,222
2021	1,222
2022	1,222
2023	1,222
2024–2028	27,224
	$ 33,334

10. Significant Transactions With Component Units

Hawaii Housing Finance and Development Corporation
Amounts payable from the State to the HHFDC represent amounts due from DHHL related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $1,700,000 payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights at the net present value of the estimated future cash flows from the State using an imputed interest rate. As of June 30, 2018, the principal amount due to the HHFDC is approximately $4,532,000.

Hawaii Health Systems Corporation
The amount due to the State of $19,008,000 at June 30, 2018 is comprised of cash advances that was assumed by the HHSC.

Hawaii Tourism Authority
During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's transient accommodations tax (TAT) revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the Convention Center Authority (CCA) and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253, SLH 2002. In accordance with Act 253, the Convention Center Fund was placed within the HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided the HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the HTA by the CCA. The terms of the payment plan require the HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. The payment plan is not directly related to the actual debt service on the general obligation bonds issued to finance the Hawaii Convention Center. The HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund.

At June 30, 2018, the outstanding principal and aggregate interest amounts required to be reimbursed by the HTA were $160,225,000 and $63,885,000, respectively. Effective July 1, 2018, Act 086, SLH 2018, forgave the remaining outstanding amount on the debt service payments.

For the year ended June 30, 2018, the HTA was required to reimburse Budget and Finance approximately $26,427,000 for principal and interest.

Hawaii Hurricane Relief Fund

In 2002, Act 179, SLH 2002, provided that all interest and dividends earned from the principal in the hurricane reserve trust fund be transferred and deposited into the State General Fund each year that the hurricane reserve trust fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2018, interest and dividends earned and earmarked for transfer into the State General Fund amounted to $3,596,000.

11. Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS's website: *http://www.ers.ehawaii.gov*.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

<u>Noncontributory Class</u>

- <u>*Retirement Benefits*</u> – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

  Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

  Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

  Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the

12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

  Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

  For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

  Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

- *Death Benefits* – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/ reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

- *Disability and Death Benefits* – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2018 were 28% for police officers and firefighters and 18% for all other employees. Contributions to the pension plan from the State was approximately $470,548,000 for the fiscal year ended June 30, 2018.

On May 18, 2017, the Governor signed into law Act 17, SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase beginning July 1, 2017. The rate for police and firefighters increases to 31% on July 1, 2018; 36% on July 1, 2019; and 41% on July 1, 2020, and the rate for all other employees' increases to 19% on July 1, 2018; 22% on July 1, 2019; and 24% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary

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

At June 30, 2018, the State reported a liability of approximately $6.7 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2017, the State's proportion was 56.6073% which was an increase of 0.0076% from its proportion measured as of June 30, 2016.

There was no change in actuarial assumptions as of June 30, 2016 to June 30, 2017. There were no changes between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2018, the State recognized pension expense of approximately $902,844,000. At June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 111,786	$ (71,104)
Changes in assumptions	1,030,572	-
Net difference between projected and actual earnings on pension plan investments	900	-
Changes in proportion and differences between State contributions and proportionate share of contributions	30,547	(17,010)
State contributions subsequent to the measurement date	470,548	-
Total	$ 1,644,353	$ (88,114)

At June 30, 2018, the approximate $470,548,000 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

Year ending June 30,	
2019	$ 250,603
2020	373,001
2021	313,666
2022	146,079
2023	2,342
	$ 1,085,691

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on December 12, 2016, based on the most recent experience study dated July 5, 2016:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

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

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS's Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Strategic allocation (risk-based classes)		
Broad growth	63.0%	5.8%
Principal protection	7.0%	0.2%
Real return	10.0%	3.6%
Crisis risk offset	20.0%	3.1%
Total investments	100.0%	

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts expressed in thousands):

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
State's proportionate share of the net pension liability	$ 8,700,518	$ 6,711,776	$ 5,071,956

Pension Plan Fiduciary Net Position
The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS's financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. The ERS's complete financial statements are available at *http://www.ers.ehawaii.gov*.

Payables to the Pension Plan
At June 30, 2018, the amount payable to the ERS was $8,789,000.

Postemployment Health Care and Life Insurance Benefits

Plan Description
The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the

State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

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

Employees Covered by Benefit Terms
At July 1, 2017, the following number of plan members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	35,374
Inactive plan members entitled to but not yet receiving benefits	8,124
Active plan members	50,101
Total plan members	93,599

Contributions
Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the State was $516,850,000 for the fiscal year ended June 30, 2018. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the State reported a net OPEB liability of approximately $6.9 billion. The net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2018, the State recognized OPEB expense of approximately $656,020,000. At June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on OPEB plan investments	$ -	$ (12,994)
State contributions subsequent to the measurement date	518,720	-
Total	$ 518,720	$ (12,994)

At June 30, 2018, the approximate $518,720,000 reported as deferred outflows of resources related to OPEB resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ending June 30,		
2019	$	(3,248)
2020		(3,248)
2021		(3,248)
2022		(3,250)
	$	(12,994)

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five-year period ended June 30, 2015:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rates of 6.60%, 6.60% and 9.00%; declining to a rate of 4.86% after 14 years
HMO*	Initial rates of 9.00%; declining to a rate of 4.86% after 14 years
Contribution	Initial rates of 2.00% and 5.00%; declining to a rate of 4.70% after 14 years
Dental	3.50%
Vision	2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drug

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	19.0%	5.50%
International Equity	19.0%	7.00%
U.S. Microcap	7.0%	7.00%
Private Equity	10.0%	9.25%
REITs	6.0%	5.85%
Core Real Estate	10.0%	3.80%
Global Options	7.0%	5.50%
Core Bonds	3.0%	0.55%
Long Treasuries	7.0%	1.90%
Trend Following	7.0%	1.75%
TIPS	5.0%	0.50%
Total investments	100.0%	

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.56% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA Index”). Beginning with the fiscal year 2019 contribution, the State’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan’s fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF’s financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued EUTF financial report. The EUTF’s complete financial statements are available at *http://eutf.hawaii.gov*.

Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2017.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance, as restated	$ 7,126,528	$ 355,521	$ 6,771,007
Service cost	173,123	-	173,123
Interest on the total OPEB liability	525,677	-	525,677
Employer contributions	-	516,850	(516,850)
Net investment income	-	51,748	(51,748)
Benefit payments	(259,904)	(259,904)	-
Administrative expense	-	(133)	133
Other	-	4,155	(4,155)
Net changes	438,896	312,716	126,180
Ending balance	$ 7,565,424	$ 668,237	$ 6,897,187

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

The following table presents the State's net OPEB liability calculated using the discount rate of 7.00%, as well as what the State's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate (amounts expressed in thousands):

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
State's proportionate share of the net OPEB liability	$ 8,095,108	$ 6,897,187	$ 5,927,820

The following table presents the State's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the State's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate (amounts expressed in thousands):

	1% Decrease	Healthcare Trend Rate	1% Increase
State's proportionate share of the net OPEB liability	$ 5,872,005	$ 6,897,187	$ 8,191,082

Payables to the OPEB Plan

At June 30, 2018, the amount payable to the EUTF was $28,470,000, consisting of the State's employer contributions.

12. Commitments and Contingencies

Commitments

General Obligation Bonds

The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2018, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds		
Agriculture	$	5,425
Natural Resources		36,226
	$	41,651

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2018, accumulated sick leave was approximately $1,251,087,000.

Intergovernmental Expenditures

In accordance with HRS Section 237D-6.5, as amended by Act 1, SLH Special Session 2017, $103,000,000 transient accommodation tax revenues collected are to be distributed annually to the counties.

Pursuant to HRS Section 248-2.7, the State has established a mass transit Special Fund. For the period beginning on January 1, 2018 to December 31, 2030, transient accommodations tax and surcharge on state tax revenues allocated to the mass transit special fund pursuant to HRS Sections 237D-2(e), and 248-2.6 shall be deposited into the special fund. As of June 30, 2018, the City and County of Honolulu has adopted an ordinance for a surcharge.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. These amounts generally will become liabilities in future periods.

Significant encumbrances at June 30, 2018 include (amounts expressed in thousands):

Fund Type		
General	$	590,200
Capital Projects		2,789,925
Med-Quest Special Revenue		38,665
Other Governmental		1,694,461
	$	5,113,251

Guarantees of Indebtedness
The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $233,500,000 for aquaculture/agriculture loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units – HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2018.

Proprietary Fund Type – Enterprise Funds

Construction and Service Contracts
At June 30, 2018, the Enterprise Funds had commitments of approximately $869,914,000 for construction and service contracts.

Contingencies
The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the years ended June 30, 2018, 2017 and 2016 approximated $5,948,000, $6,368,000 and $10,795,000, respectively.

Tobacco Settlement
In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement (MSA) will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State received approximately $26,039,000 during the fiscal year ended June 30, 2018. As of June 30, 2018, the State expects to receive $17,360,000 for the first six months of fiscal 2019.

The MSA requires the State to diligently enforce certain requirements enacted in the Tobacco Liability Act. Failure may result in a state losing a significant portion of its MSA payments. Participating tobacco manufacturers who have joined in the MSA are challenging whether the State of Hawaii diligently enforced the provisions of the Tobacco Liability Act for the entirety of 2004. Preliminary phases of the 2004 Diligent Enforcement Arbitration commenced, and in March 2018, the State agreed to a multi-million dollar arbitration settlement with the Tobacco Industry to avoid the expense and uncertainty of arbitrating each calendar year from 2004 through and including 2017. During the fiscal year ended June 30, 2018, the State received a lump sum arbitration settlement of approximately $58,711,000. The settlement was reduced by approximately $15,875,000 in a “one time” arbitration credit and other arbitration adjustments. The arbitration settlement also resulted in credits over a five-year period, beginning in 2018. As of June 30, 2018, the State expects reductions ranging from $5.1 million to $5.7 million during fiscal years 2019–2022.

Office of Hawaiian Affairs and Ceded Lands
In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii’s admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the Ceded Lands) to the State of Hawaii to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and

(5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law to better the conditions of native Hawaiians. In 1979, the Legislature adopted HRS Chapter 10 (Chapter 10), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the State new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

In OHA v. HHA, OHA filed suit on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) against the Hawaii Housing Authority (the HHA, since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA, and the Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in *OHA, et al. v. State of Hawaii, et al.,* Civil No. 94-0205-01 (1st Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii,* 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA*. On November 20, 2018, State Defendants and the Plaintiffs executed and filed with the First Circuit Court a stipulation for dismissal with prejudice of all claims and parties to this case.

The Housing Finance and Development Corporation and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. This corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

In *OHA v. State of Hawaii, UH, DLNR, Board of Land and Natural Resources (BLNR)*, Civil No. 17-1-1823-11 JPC (1st Cir.) letter dated May 31, 2016, addressed to the State's Attorney General and the vice president for Legal Affairs and General Counsel of the University of Hawaii, OHA gave notice, pursuant to HRS Section 673-3, of its intent to sue the State, the Department of Land and Natural Resources, and the University of Hawaii for the State's breach of its fiduciary duties as trustee of the public land trust, in connection with their management of Mauna Kea. OHA filed its Complaint for Declaratory Judgment and Injunctive Relief, Accounting, Restitution, and Damages on November 7, 2017. The complaint was served on the Attorney General for the State of Hawaii, DLNR and BLNR on December 20, 2017, and the Attorney General filed an answer to the complaint on January 9, 2018. The University filed a motion to dismiss the complaint on January 10, 2018, to which the State filed a substantive joinder on January 22, 2018. The hearing on the motion has been continued.

The State intends to defend vigorously against OHA's claim in *OHA v. HHA* and in *OHA v. State of Hawaii, UH, DLNR, BLNR*. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. The State is not aware of any other claims OHA may have or assert against the State. Resolution of all claims in favor of OHA and its beneficiaries could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

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

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

In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999.

On December 29, 1999, three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661.

Kalima et al. v. State of Hawaii et al., Civil No. 99-4771 12VSM (1st Cir.) (*Kalima I*). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.) (*Aguiar),* is pending and stayed.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674.

Kalima et al. v. State of Hawaii, et al., Civil No. 00-1-1041-03 (1st Cir.) (*Kalima II*). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*. *Kalima I, Kalima II* and *Aguiar* are collectively referred to under this caption as the "Individual Claims Cases."

The plaintiffs in *Kalima I* filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in *Kalima I* for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to make an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in *Kalima I* have since filed first and second amended complaints to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered, and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting list subclass' claims separately and first, and after a six-week bifurcated trial to determine liability only, the circuit judge for *Kalima II* ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL Website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 14, 2013. After a three-day trial completed on October 3, 2013, the court ruled in a minute order that (1) the annual fair market rental values used to calculate damages for claimants who applied for Oahu residential leases be based on 4% of the fee simple value of a 5,000 square foot lot in Maili, obtained from a "best fit" curve derived from actual fee simple Maili valuations from 1959 through July 8, 2013, (2) for damage calculations the rents adjust annually, and (3) that there are no increases for the consumer price index or other present value adjustments. However, to date, no proceeding or procedure has been scheduled or devised to apply the damages model to determine whether and how much each claimant would be awarded in damages. The parties have participated in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation to Participate in Private Mediation, etc., filed on September 13, 2013.

On January 20, 2015, Plaintiffs filed a motion for summary judgment to compute the damages of members of the Waiting List Damages Subclass (none of whom were named plaintiffs) who applied for a residential homestead on Oahu. The motion was heard on June 30, 2015. An order granting and denying the motion in part was entered on July 26, 2017. The court concluded the Plaintiffs' motion was premature, and entered an order which makes certain findings of facts about twelve members of the Waiting List Subclass, and rules on procedural issues raised in the motion.

The parties have agreed to make every effort to facilitate the entry of a final judgment in the case as expeditiously as possible. In furtherance of that effort, Plaintiffs filed seven motions in June and July of 2016. The State filed cross motions to three of Plaintiffs' motions, and opposed all Plaintiffs' motions. The circuit court heard all motions on September 2, 2016, and took them under advisement. Plaintiffs filed four additional motions and the State filed three additional motions, which were heard on November 4, 2016, December 12, 2016, and January 30, 2017, respectively.

The circuit court has entered orders granting (in whole or in part) eleven of Plaintiffs' motions and denying (in whole or in part) two of Plaintiffs' motions. The circuit court entered orders granting (in whole or in part) three of the State's motions and cross motions and denying (in whole or in part) three of the State's motions and cross motions and denying (in whole or in part) four of the State's motions and cross motions.

An HRCP Rule 54(b) Final Judgment was entered on January 9, 2018 in favor of the Waiting List Subclass and against the State, DHHL, the DHHL Trust Individual Claims Review Panel, and the Governor of the State of Hawaii. The parties anticipate that in due course, each side will take an appeal from the judgment and certain orders entered by the circuit court. State Defendants and the Plaintiffs, respectively, filed an appeal and a cross-appeal from the HRCP Rule 54(b) Final Judgment in favor of the Waiting List Subclass and against the State Defendants, in the Intermediate Court of Appeals. The opening and answering briefs in the appeal and cross-appeal were filed on July 25, 2018 and October 4, 2018, respectively. The reply briefs are to be filed on December 28, 2018.

Nelson – In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al.*, Civil No. 07-1-1663-08 BIA (1st Cir.) *(Nelson)*, the plaintiffs allege all defendants breached their duties under Article XII, Sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of Article XII, Sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (HHC Act) by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of Section 207(a) of the HHC Act.

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

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

On May 9, 2012, the Hawaii Supreme Court concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Hawaii Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. However, the Hawaii Supreme Court did uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. Pursuant to the Judgment on Appeal issued on July 25, 2013, the case was remanded to the circuit court for further proceedings.

On November 27, 2015, the circuit court issued its Findings of Fact, Conclusions of Law, and Order, which declared and ordered (1) the State has failed to provide sufficient funds to DHHL for its administrative and operating budget (budget) in violation of the State's constitutional duty, (2) the State must fulfill its constitutional duty by appropriating sufficient general funds to DHHL for its budget so that DHHL does not need to use or rely on revenue from general leases, and (3) although what is "sufficient" will change over the years, the sufficient sums that the legislature is constitutionally obligated to appropriate in general funds for DHHL's budget (not including significant repairs) is more than $28 million for fiscal year 2015–2016. The circuit court also ruled that prior to 2012, DHHL breached its trust duties by failing to take all reasonable efforts, including filing suit, to obtain all the funding it needs for its budget, and shall prospectively fulfill its constitutional duties and trust responsibilities and are enjoined from violating these obligations.

On December 21, 2015, after judgment was entered, the State filed a motion for reconsideration or to alter or amend the judgment and order, which the court granted in part and denied in part. The court rejected the State's position that (1) the legislature, not the courts, has the exclusive prerogative to decide what is a "sufficient sum" for DHHL's budget under Article XII, Section 1, and (2) there was insufficient evidence to support the court's conclusion that the "sufficient sum" for DHHL's budget is more than $28 million for fiscal year 2015–2016. The court granted reconsideration with the State's position that the judicial courts lack the authority, under the separation of powers doctrine, to order the legislative branch to appropriate any particular amount of funds to DHHL. The court amended its original Order to state that $9,632,000 is not sufficient and that the State is required to fund DHHL's expenses by making sufficient general funds available to DHHL for fiscal year 2015–2016.

Plaintiffs filed a motion for reconsideration which the court denied. The State filed a notice of appeal and the Plaintiff filed a notice of cross-appeal, both filed in the Intermediate Court of Appeals. Briefing in both appeals is completed, and on February 23, 2017, the Legislature was allowed, and filed an amicus curiae brief in support of the State's positions. On March 8, 2017, in response to the DHHL's application for transfer, the Hawaii Supreme Court transferred the appeal and cross-appeal from the Intermediate Court of Appeals to the Hawaii Supreme Court. The Hawaii Supreme Court heard oral arguments in the appeal and cross-appeal on July 6, 2017. By its decision filed on February 9, 2018, the Hawaii Supreme Court vacated and remanded the case to the circuit court after holding that the circuit court is to use a baseline of $1.3 to $1.6 million, adjusted for inflation, to determine whether the State provided sufficient sums for DHHL's administrative and operating budget. The case is pending assignment in the circuit court.

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

Hawaii Employer-Union Health Benefits Trust Fund
In June 2006, certain retired public employees (Plaintiffs) filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the EUTF, and the EUTF's Board of Trustees (collectively, the Defendants). *See Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii (Civil No. 06-1-1141-06). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents.

Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A-23) did not require that retiree health benefits reasonably approximate those provided to active employees. *See Everson v. State*, 122 Hawai'i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al*.) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. In January 2011, the Defendants filed an answer denying the substantive allegations of the Second Amended Complaint.

On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs' Motion for Class Action Certification. The class certified is all employees (and their dependent-beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post-retirement health benefits as a retiree or dependent-beneficiary of such a retiree. This includes: (a) those who have not yet received any post-retirement health benefits from Defendants as a retiree or dependent-beneficiary of such a retiree; and (b) those who have received any post-retirement health benefits from Defendants since July 1, 2003 as a retiree or dependent-beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent-beneficiary of a retiree who is or was a member of the class.

On December 10, 2012, Plaintiffs filed Plaintiffs' Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants' Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs' claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the First Circuit Court on October 30, 2013, and taken under advisement. On October 16, 2014, the Court issued an Order Denying Plaintiffs' Motion for Partial Summary Judgment and Order Granting State Defendants' Motion for Partial Summary Judgment (Order). The Court ruled that Plaintiffs' accrued health benefits have not been reduced, diminished or impaired inasmuch as the health benefits that retirees received under the Hawaii Public Employees Health Fund. Plaintiffs filed a motion for reconsideration of the Order or alternatively for an interlocutory appeal. On November 13, 2014, the Court issued a minute order denying the motion. On State Defendants' motion, the case was transferred to the Hawaii Supreme Court. Briefing was completed in October 2015. In October 2016, the Hawaii Supreme Court issued an opinion affirming the circuit court's decision in the State's favor, but also ruled that the State was not entitled to judgment as a matter of law, and remanded the case to the trial court. Plaintiffs filed their Third Amended Complaint on December 28, 2017. Since that time, the parties have conducted discovery and have filed several motions, including motions related to the purported class of plaintiffs. The State's motion to decertify the class was granted; therefore, later in the litigation, Plaintiffs will need to file a new motion to certify the class in this case. On December 3, 2018, Plaintiffs consequently filed a Motion for Recertification of the Class and for Certification of a Damages Subclass, which is set for hearing on February 6, 2019. The State Defendants intend to continue to vigorously defend against Plaintiffs' claims in this lawsuit. Resolution of the Plaintiffs' claims in their favor could have a material adverse effect on the State's financial condition.

Tax Foundation of Hawaii
On October 21, 2015, the Tax Foundation of Hawaii filed a declaratory action challenging the State's 10% deduction, pursuant to HRS Section 248-2.6(a), from the surcharge on Honolulu's general excise tax that funds the Honolulu rail project. The Tax Foundation argued that only administrative costs of the surcharge could be retained by the State and the rest of the funds should be paid to the City and County of Honolulu.

The State's Motion to Dismiss was granted during the circuit court proceedings, based on the exclusion for tax controversies in the declaratory judgment act. However, the Tax Foundation appealed and the case was transferred to the Hawaii Supreme Court. Oral arguments were held on July 6, 2017. Following the 2017 Special Session of the Legislature, the State submitted an HRAP Rule 28(j) letter to the Court reporting the enactment of Act 1 (S.B. 4), 29th Leg., 1st Spec. Sess. (2017). The appeal is pending.

Although the case involves injunctive relief, the Tax Foundation also requested reimbursement to the City and County of Honolulu of prior deductions from the surcharge. Therefore, it is unclear how much potential liability the State is facing. The 10% deduction totals $184.2 million from January 2007 to January 2016. Consequently, an adverse ruling from the Supreme Court could be significant. The State intends to vigorously contest all claims in this case.

13. Risk Management

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

Property Insurance
The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $200,000,000, except for terrorism, which is $50,000,000 per occurrence and a $10,000 deductible.

Crime Insurance
The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services and losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)
Liability claims up to $10,000 and automobile claims up to $15,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $9,000,000 and for crime loss, $10,000,000 with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are typically paid from legislative appropriations of the State's General Fund.

Cyber Liability Insurance
The State is insured for various types of cyber-related activities with a loss limit of $50,000,000 with a deductible of $500,000 per occurrence. This policy includes (with sub-limits) system failure business interruption, dependent business interruption, dependent business interruption system failure, and Payment Card Industry – Data Security Standard coverage.

Medical Insurance
The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $35,000,000 per occurrence and $39,000,000 in aggregate.

Self-Insured Risks
The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to $15,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

Reserve for Losses and Loss Adjustment Costs
A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2018, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net position, as those losses will be liquidated with future expendable resources. The estimated losses are generally paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs for governmental activities at June 30, 2018 and 2017, respectively (amounts expressed in thousands):

	2018	2017
Unpaid losses and loss adjustment costs		
Beginning of the fiscal year	$ 198,319	$ 166,565
Incurred losses and loss adjustment costs		
Provision for insured events of current fiscal year	82,875	68,349
Change in provision for insured events of prior fiscal years	4,258	680
Total incurred losses and loss adjustment costs	87,133	69,029
Payments		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(9,443)	(12,283)
Losses and loss adjustment costs attributable to insured events of prior fiscal year	(28,755)	(24,992)
Total payments	(38,198)	(37,275)
Unpaid losses and loss adjustment costs		
End of the fiscal year	$ 247,254	$ 198,319

14. Subsequent Events

Department of Transportation – Airports Division
In August 2018, Airports issued $414,685,000 of airports system revenue bonds. The Series 2018A bond was issued for $388,560,000 with a fixed interest rate of 5.00%. The Series 2018B bond was issued for $26,125,000 and has interest rates ranging from 3.00% to 5.00%. The Series 2018A and B bonds were issued for the purpose of funding the costs of capital improvement projects at certain facilities of the Airports System. The Bonds are special limited obligations of the State, payable solely from and secured solely by the revenues derived by the State from the ownership and operation of the Airports System and the receipts from aviation fuel taxes imposed by the State.

In August 2018, Airports executed two forward delivery bond purchase contracts relating to its $93,175,000 Airports System Revenue Bonds, Refunding Series 2018C and $142,150,000 Airports System Revenue Bonds, Refunding Series 2018D. Subject to the terms of such contracts, Airports expects to issue and deliver the Series 2018C Bonds and the Series 2018D Bonds in April 2020 to refund $245,385,000 of outstanding Series 2010A Bonds on July 1, 2020. Airports entered into these agreements with the respective purchasers for the purpose of effecting a refunding of an outstanding issue that cannot be advance refunded.

On August 9, 2018, the purchaser agreed to purchase the Series 2018C Bonds in the principal amount of $93,175,000 for the amount of $93,175,000. The Series 2018C Bonds will bear an interest rate of 3.58% and maturity dates ranging from 2021-2028.

On August 9, 2018, the purchaser agreed to purchase the Series 2018D Bonds in the principal amount of $142,150,000 at a price of $154,466,536. The Series 2018D Bonds will bear an interest rate of 5.00% with maturity dates ranging from 2029-2034.

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

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

State of Hawaii
General Fund
Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2018
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget – Positive (Negative)
Revenues				
Taxes				
General excise tax	$ 3,500,999	$ 3,389,640	$ 3,395,566	$ 5,926
Net income tax				
Corporations	85,199	85,298	131,119	45,821
Individuals	2,245,521	2,319,257	2,429,836	110,579
Inheritance and estate tax	51,385	19,300	29,351	10,051
Liquor permits and tax	51,550	51,923	51,383	(540)
Public service companies tax	162,839	126,016	117,641	(8,375)
Tobacco tax	87,418	83,212	79,914	(3,298)
Tax on premiums of insurance companies	158,000	166,000	159,814	(6,186)
Franchise tax (banks and other financial institutions)	25,550	8,346	13,712	5,366
Transient accommodations tax	280,169	325,183	315,264	(9,919)
Other taxes, primarily conveyances tax	28,205	52,266	71,882	19,616
Total taxes	6,676,835	6,626,441	6,795,482	169,041
Non-taxes				
Interest and investment income	10,112	10,012	13,870	3,858
Charges for current services	351,311	310,736	327,295	16,559
Intergovernmental	12,461	12,625	13,018	393
Rentals	699	249	20	(229)
Fines, forfeitures and penalties	23,450	21,719	23,353	1,634
Licenses and fees	1,025	1,025	1,074	49
Revenues from private sources	3,001	3,001	2,882	(119)
Debt service requirements	32,501	26,513	46,477	19,964
Other	259,375	405,877	373,714	(32,163)
Total non-taxes	693,935	791,757	801,703	9,946
Total revenues	7,370,770	7,418,198	7,597,185	178,987
Expenditures				
General government	2,857,580	3,011,705	2,946,670	65,035
Public safety	288,647	417,195	326,372	90,823
Conservation of natural resources	54,169	54,603	49,780	4,823
Health	511,809	516,211	509,773	6,438
Hospitals	110,901	110,901	110,901	-
Welfare	1,198,578	1,198,387	1,183,364	15,023
Lower education	1,702,284	1,741,129	1,690,910	50,219
Higher education	475,957	487,370	485,167	2,203
Other education	6,535	8,062	7,924	138
Culture and recreation	50,864	52,110	51,134	976
Economic development and assistance	36,965	38,937	36,365	2,572
Housing	31,812	241,825	241,377	448
Other	27,121	23,293	22,215	1,078
Total expenditures	7,353,222	7,901,728	7,661,952	239,776
Excess (deficiency) of revenues over (under) expenditures	17,548	(483,530)	(64,767)	418,763
Other financing sources – Transfers in	46,270	56,368	63,213	6,845
Excess (deficiency) of revenues and other sources over (under) expenditures	$ 63,818	$ (427,162)	$ (1,554)	$ 425,608

State of Hawaii
Med-Quest Special Revenue Fund
Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2018
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget – Positive (Negative)
Revenues – non-taxes				
Intergovernmental	$ -	$ -	$ 974	$ 974
Revenues from private sources	-	-	77,590	77,590
Other	-	-	3,856	3,856
Total revenues – non-taxes	-	-	82,420	82,420
Total revenues	-	-	82,420	82,420
Expenditures				
Welfare	93,698	93,699	70,622	23,077
Total expenditures	93,698	93,699	70,622	23,077
Excess (deficiency) of revenues over (under) expenditures	$ (93,698)	$ (93,699)	$ 11,798	$ 105,497

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2017 (Act 049, SLH 2017) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2017–2019 biennial budget and executive supplemental budget.

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

The final legally adopted budgets in the accompanying General Fund and Special Revenue Fund Schedules of Revenues and Expenditures – Budget and Actual (Budgetary Basis) represent the original appropriations, transfers and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detailed level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2018, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund and Special Revenue Fund are presented in the General Fund and Special Revenue Fund schedules of revenues and expenditures – budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

State of Hawaii
General Fund and Med-Quest Special Revenue Fund
Reconciliation of the Budgetary to GAAP Basis
Year Ended June 30, 2018
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2018 follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess (deficiency) of revenues and other sources over (under) expenditures – actual (budgetary basis)	$ (64,767)	$ 11,798
Transfers	782,250	112,076
Reserve for encumbrances at fiscal year end*	525,212	-
Expenditures for liquidation of prior fiscal year encumbrances	(444,903)	(582,446)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(73,210)	595,601
Tax refunds payable	(1,472)	-
Accrued liabilities	(110,077)	85,029
Accrued revenues	(122,146)	(96,831)
Excess of revenues over expenditures – GAAP basis	$ 490,887	$ 125,227

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

State of Hawaii
Schedule of the Proportionate Share of the Net Pension Liability
Last Ten Fiscal Years*
(Amounts in millions)

	2018	2017	2016	2015	2014
State of Hawaii, excluding UH					
State's proportion of the net pension liability	56.607%	56.600%	57.238%	58.483%	57.638%
State's proportionate share of the net pension liability	$ 7,331	$ 7,567	$ 4,999	$ 4,689	$ 5,148
State's covered payroll	$ 2,559	$ 2,496	$ 2,424	$ 2,341	$ 2,177
State's proportionate share of the net pension liability as a percentage of its covered payroll	286.5%	303.2%	206.2%	200.3%	236.5%
Plan fiduciary net position as a percentage of total net pension liability	54.8%	51.3%	62.4%	63.9%	58.0%
UH					
Proportion of the net pension liability	12.730%	12.750%	13.110%	13.600%	13.750%
Proportionate share of the net pension liability	$ 1,649	$ 1,704	$ 1,145	$ 1,090	$ 1,228
Covered payroll	$ 587	$ 569	$ 565	$ 551	$ 518
Proportionate share of the net pension liability as a percentage of its covered payroll	280.9%	299.5%	202.7%	197.8%	237.1%
Plan fiduciary net position as a percentage of total net pension liability	54.8%	51.3%	62.4%	63.9%	58.0%

* Information for 2009–2013 is unavailable.

State of Hawaii
Schedule of Pension Contributions
Last Ten Fiscal Years*
(Amounts in millions)

	2018	2017	2016	2015	2014
State of Hawaii, excluding UH					
Statutorily required contribution	$ 470	$ 445	$ 432	$ 410	$ 380
Contributions in relation to the contractually required contribution	470	445	432	410	380
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
State's covered payroll	$ 2,540	$ 2,559	$ 2,496	$ 2,424	$ 2,341
Contributions as a percentage of covered payroll	18.5%	17.4%	17.3%	16.9%	16.2%
UH					
Statutorily required contribution	$ 111	$ 99	$ 97	$ 94	$ 88
Contributions in relation to the contractually required contribution	111	99	97	94	88
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 587	$ 587	$ 569	$ 565	$ 551
Contributions as a percentage of covered payroll	18.9%	16.9%	17.0%	16.6%	16.0%

* Information for 2009–2013 is unavailable.

State of Hawaii
Schedule of the Proportionate Share of the Net OPEB Liability
Last Ten Fiscal Years*
(Amounts in thousands)

	2018
Total OPEB liability	
Service cost	$ 220,828
Interest	670,530
Benefit payments	(331,522)
Net change in total OPEB liability	559,836
Total OPEB liability – beginning	9,634,350
Total OPEB liability – ending	$ 10,194,186
Plan fiduciary net position	
Employer contributions	$ 659,271
Net investment income	66,007
Benefit payments	(331,522)
Administrative expense	(169)
Other	5,300
Net change in plan fiduciary net position	398,887
Plan fiduciary net position – beginning	480,629
Plan fiduciary net position – ending	$ 879,516
Net OPEB liability – ending	$ 9,314,670
Plan fiduciary net position as a percentage of total OPEB liability	9.44%
Covered payroll	$ 2,559,162
Net OPEB liability as a percentage of covered payroll	363.97%

* Information for 2009–2017 is unavailable.

State of Hawaii
Schedule of OPEB Contributions
Last Ten Fiscal Years*
(Amounts in thousands)

	2018
Actuarially determined contribution	$ 770,297
Contributions in relation to the actuarially determined contribution	682,605
Contribution deficiency	$ 87,692
Covered payroll	$ 2,559,162
Contributions as a percentage of covered payroll	27%

Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry age normal
Amortization method**	Level percent, closed
Remaining amortization period	27 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	7.0%
Projected salary increases	3.5%
Healthcare inflation rates	
PPO***	9.0% initial, 5.0% after 8 years
HMO***	7.0% initial, 5.0% after 8 years
Dental	4.0%
Vision	3.0%
Medicare Part B	3.0% initial, 5.0% after 2 years

* Information for 2009–2017 is unavailable.

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

*** Blended rates for medical and prescription drug.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways – Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources – Accounts for programs related to the conservation, development and utilization of agriculture, aquaculture, water, land and other natural resources of the State.

Health – Accounts for programs related to mental health, nutrition services, communicable disease and for other public health services.

Human Services – Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education – Accounts for programs related to instructional education, school food services and student driver education.

Economic Development – Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment – Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory – Accounts for programs related to consumer protection, business registration and cable television regulation.

Hawaiian Programs – Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support – Accounts for programs of certain administrative agencies.

All Other – Accounts for programs related to water recreation, inmate stores, and driver training and education.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

State of Hawaii
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018
(Amounts in thousands)

	Special Revenue Funds					
	Highways	Natural Resources	Health	Human Services	Education	Economic Development
Assets						
Cash and cash equivalents	$ 20,513	$ 13,360	$ 20,135	$ 5,229	$ 60,243	$ 139,025
Notes and loans receivable, net	-	20,364	-	-	-	10,631
Investments	207,402	135,083	203,587	52,872	145,595	21,880
Other assets	1,450	-	-	-	-	-
Total assets	$ 229,365	$ 168,807	$ 223,722	$ 58,101	$ 205,838	$ 171,536
Liabilities and Fund Balances						
Liabilities						
Vouchers and contracts payable	$ 14,904	$ 3,523	$ 20,956	$ 7,889	$ 12,089	$ 1,533
Other accrued liabilities	6,994	2,405	6,248	445	13,653	776
Due to federal government	-	-	-	700	-	-
Due to other funds	-	350	-	43,927	-	-
Payable from restricted assets – Matured bonds and interest payable	-	-	-	-	-	-
Total liabilities	21,898	6,278	27,204	52,961	25,742	2,309
Fund balances						
Restricted	-	-	-	7,300	-	-
Committed	-	44,018	196,308	3,273	-	-
Assigned	207,467	118,511	-	-	180,096	169,227
Unassigned	-	-	210	(5,433)	-	-
Total fund balances	207,467	162,529	196,518	5,140	180,096	169,227
Total liabilities and fund balances	$ 229,365	$ 168,807	$ 223,722	$ 58,101	$ 205,838	$ 171,536

Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 1,715	$ 9,039	$ 28,411	$ 74,288	$ 4,591	$ 376,549	$ 335	$ 376,884
-	-	65,148	-	-	96,143	-	96,143
17,345	91,394	276,895	493,247	46,422	1,691,722	-	1,691,722
-	-	-	-	-	1,450	-	1,450
$ 19,060	$ 100,433	$ 370,454	$ 567,535	$ 51,013	$ 2,165,864	$ 335	$ 2,166,199
$ 2,501	$ 864	$ 2,513	$ 3,141	$ 2,917	$ 72,830	$ -	$ 72,830
1,706	3,221	-	3,553	2,629	41,630	-	41,630
-	-	-	-	-	700	-	700
-	-	-	45	1,559	45,881	-	45,881
-	-	-	-	-	-	335	335
4,207	4,085	2,513	6,739	7,105	161,041	335	161,376
-	-	-	-	-	7,300	-	7,300
-	71,159	12,080	472,360	-	799,198	-	799,198
14,853	25,189	355,861	88,436	43,908	1,203,548	-	1,203,548
-	-	-	-	-	(5,223)	-	(5,223)
14,853	96,348	367,941	560,796	43,908	2,004,823	-	2,004,823
$ 19,060	$ 100,433	$ 370,454	$ 567,535	$ 51,013	$ 2,165,864	$ 335	$ 2,166,199

State of Hawaii
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2018
(Amounts in thousands)

	Special Revenue Funds					
	Highways	Natural Resources	Health	Human Services	Education	Economic Development
Revenues						
Taxes						
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -
Tobacco and liquor taxes	-	-	24,800	-	-	-
Liquid fuel tax	83,239	250	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Vehicle weight and registration tax	129,308	-	5,772	-	-	-
Rental motor/tour vehicle surcharge tax	54,844	-	-	-	-	-
General excise tax	-	-	-	-	-	-
Other	-	15,172	1,291	-	-	3,872
Total taxes	267,391	15,422	31,863	-	-	3,872
Interest and investment income	2,393	1,620	1,119	9	307	1,250
Charges for current services	4,402	37,528	48,555	282	39,663	16,447
Intergovernmental	24,065	20,947	124,089	636,612	261,361	5,688
Rentals	1,000	9,572	-	-	469	1,178
Fines, forfeitures and penalties	5,734	108	1,257	-	-	-
Licenses and fees	2,157	812	3,003	100	1,060	-
Revenues from private sources	-	26	25,725	36	12,565	224
Other	154,077	6,709	3,203	1,865	4,914	3,586
Total revenues	461,219	92,744	238,814	638,904	320,339	32,245
Expenditures						
Current						
General government	-	5,063	225	-	-	-
Public safety	-	1,651	-	110	-	-
Highways	254,426	-	-	-	-	-
Conservation of natural resources	-	55,355	-	-	-	-
Health	-	-	205,405	-	-	-
Welfare	-	-	-	607,041	-	-
Lower education	-	-	-	-	395,573	-
Other education	-	-	-	13,857	-	-
Culture and recreation	-	12,983	-	-	2,021	-
Urban redevelopment and housing	-	-	-	2,416	-	-
Economic development and assistance	-	2,025	-	86	-	23,231
Other	617	-	-	-	-	-
Debt service	-	-	-	-	-	-
Total expenditures	255,043	77,077	205,630	623,510	397,594	23,231
Excess (deficiency) of revenues over (under) expenditures	206,176	15,667	33,184	15,394	(77,255)	9,014
Other financing sources (uses)						
Issuance of GO and refunding GO bonds – par	-	-	-	-	-	-
Issuance of GO and refunding GO bonds – premium	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds – par	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds – premium	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-
Transfers in	56	4,120	819	1,441	89,134	-
Transfers out	(228,332)	(674)	(15,763)	(15,386)	-	(13,387)
Total other financing sources (uses)	(228,276)	3,446	(14,944)	(13,945)	89,134	(13,387)
Net change in fund balances	(22,100)	19,113	18,240	1,449	11,879	(4,373)
Fund balances						
Beginning of year	229,567	143,416	178,278	3,691	168,217	173,600
End of year	$ 207,467	$ 162,529	$ 196,518	$ 5,140	$ 180,096	$ 169,227

Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ -	$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ 2,000
-	-	-	1,892	-	26,692	-	26,692
-	-	-	-	1,722	85,211	-	85,211
-	2,504	-	-	-	2,504	-	2,504
-	-	-	-	-	135,080	-	135,080
-	-	-	-	-	54,844	-	54,844
-	-	-	133,499	-	133,499	-	133,499
1,371	-	-	23,626	-	45,332	-	45,332
1,371	4,504	-	159,017	1,722	485,162	-	485,162
82	505	6,926	8,275	171	22,657	-	22,657
2,435	27,732	3,422	68,269	28,742	277,477	-	277,477
38,827	206	17,349	27,409	41,617	1,198,170	-	1,198,170
1	-	17,264	965	4,997	35,446	-	35,446
1,028	4,928	-	150	2,209	15,414	-	15,414
-	37,967	-	265	628	45,992	-	45,992
-	-	4,987	60,500	36	104,099	-	104,099
550	613	69,241	4,070	5,071	253,899	-	253,899
44,294	76,455	119,189	328,920	85,193	2,438,316	-	2,438,316
-	14,815	-	107,701	15,576	143,380	-	143,380
4,202	47,985	-	22,272	50,981	127,201	-	127,201
-	-	-	-	-	254,426	-	254,426
-	-	-	25	38	55,418	-	55,418
-	-	-	-	-	205,405	-	205,405
-	-	-	14,942	1,221	623,204	-	623,204
-	-	-	6,280	-	401,853	-	401,853
-	-	-	-	-	13,857	-	13,857
-	-	-	12,319	15,448	42,771	-	42,771
-	-	91,959	-	-	94,375	-	94,375
38,566	-	-	-	-	63,908	-	63,908
2,057	-	-	5,748	-	8,422	-	8,422
-	-	-	-	-	-	785,668	785,668
44,825	62,800	91,959	169,287	83,264	2,034,220	785,668	2,819,888
(531)	13,655	27,230	159,633	1,929	404,096	(785,668)	(381,572)
-	-	-	-	-	-	293,243	293,243
-	-	-	-	-	-	95,357	95,357
-	-	-	-	-	-	30,940	30,940
-	-	-	-	-	-	5,347	5,347
-	-	-	-	-	-	(424,887)	(424,887)
-	70	-	8,576	4,193	108,409	785,633	894,042
-	(3,681)	(1,987)	(12,651)	(3,640)	(295,501)	-	(295,501)
-	(3,611)	(1,987)	(4,075)	553	(187,092)	785,633	598,541
(531)	10,044	25,243	155,558	2,482	217,004	(35)	216,969
15,384	86,304	342,698	405,238	41,426	1,787,819	35	1,787,854
$ 14,853	$ 96,348	$ 367,941	$ 560,796	$ 43,908	$ 2,004,823	$ -	$ 2,004,823

State of Hawaii
Nonmajor Special Revenue Funds
Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2018
(Amounts in thousands)

	Highways			Natural Resources		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenue						
Taxes						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax						
Highways	88,647	83,239	(5,408)	250	250	-
Vehicle registration fee tax	44,513	46,162	1,649	-	-	-
State vehicle weight tax	80,237	83,145	2,908	-	-	-
Rental/tour vehicle surcharge tax	55,423	54,844	(579)	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	6,800	6,800	-
Environmental response tax	-	-	-	3,800	3,872	72
Transient accommodations tax	-	-	-	-	4,500	4,500
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	268,820	267,390	(1,430)	10,850	15,422	4,572
Non-taxes						
Interest and investment income	1,829	2,376	547	1,099	1,365	266
Charges for current services	40,155	4,402	(35,753)	29,617	37,374	7,757
Intergovernmental	36,133	17,813	(18,320)	-	45	45
Rentals	1,000	1,000	-	8,639	9,572	933
Fines, forfeitures and penalties	5,624	5,734	110	88	108	20
Licenses and fees	2,186	2,157	(29)	682	812	130
Revenues from private sources	-	-	-	306	26	(280)
Other	63	26,441	26,378	3,113	10,064	6,951
Total non-taxes	86,990	59,923	(27,067)	43,544	59,366	15,822
Total revenues	355,810	327,313	(28,497)	54,394	74,788	20,394
Expenditures						
General government	-	-	-	6,586	6,174	412
Public safety	-	-	-	1,421	888	533
Highways	334,376	259,446	74,930	-	-	-
Conservation of natural resources	-	-	-	70,699	50,579	20,120
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Culture and recreation	-	-	-	10,577	8,017	2,560
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	1,842	617	1,225	-	-	-
Total expenditures	336,218	260,063	76,155	89,283	65,658	23,625
Excess (deficiency) of revenues over (under) expenditures	$ 19,592	$ 67,250	$ 47,658	$ (34,889)	$ 9,130	$ 44,019

Health			Human Services		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
5,624	5,772	148	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
25,000	24,800	(200)	-	-	-
-	-	-	-	-	-
1,060	1,291	231	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
31,684	31,863	179	-	-	-
437	932	495	-	9	9
87,672	86,023	(1,649)	305	282	(23)
2,075	1,135	(940)	240	887	647
-	-	-	-	-	-
1,087	1,257	170	-	-	-
2,315	3,003	688	128	100	(28)
36,745	25,725	(11,020)	35	36	1
380	2,183	1,803	-	1,453	1,453
130,711	120,258	(10,453)	708	2,767	2,059
162,395	152,121	(10,274)	708	2,767	2,059
289	226	63	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
209,621	150,157	59,464	-	-	-
-	-	-	2,735	1,155	1,580
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
209,910	150,383	59,527	2,735	1,155	1,580
$ (47,515)	$ 1,738	$ 49,253	$ (2,027)	$ 1,612	$ 3,639

(continued)

State of Hawaii
Nonmajor Special Revenue Funds
Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2018
(Amounts in thousands)

	Education			Economic Development		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenue						
Taxes						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax						
Highways	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	3,800	3,872	72
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	3,800	3,872	72
Non-taxes						
Interest and investment income	54	219	165	1,406	833	(573)
Charges for current services	43,635	34,916	(8,719)	17,377	16,447	(930)
Intergovernmental	5	2,026	2,021	-	186	186
Rentals	65	469	404	1,996	1,109	(887)
Fines, forfeitures and penalties	-	-	-	-	-	-
Licenses and fees	754	1,060	306	-	-	-
Revenues from private sources	226	315	89	2,643	224	(2,419)
Other	2,018	13,257	11,239	1,358	942	(416)
Total non-taxes	46,757	52,262	5,505	24,780	19,741	(5,039)
Total revenues	46,757	52,262	5,505	28,580	23,613	(4,967)
Expenditures						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	99,585	58,074	41,511	-	-	-
Culture and recreation	4,000	875	3,125	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	140,717	20,651	120,066
Other	-	-	-	-	-	-
Total expenditures	103,585	58,949	44,636	141,817	20,651	121,166
Excess (deficiency) of revenues over (under) expenditures	$ (56,828)	$ (6,687)	$ 50,141	$ (113,237)	$ 2,962	$ 116,199

Employment			Regulatory		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
$ -	$ (328)	$ (328)	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,200	1,404	204	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	2,000	2,504	504
1,200	1,076	(124)	4,000	4,504	504
11,000	14	(10,986)	243	504	261
1,790	2,435	645	23,700	27,732	4,032
-	1,895	1,895	-	-	-
-	1	1	-	-	-
5	994	989	2,862	4,928	2,066
-	-	-	37,642	37,967	325
-	-	-	-	-	-
-	149	149	4,241	5,032	791
12,795	5,488	(7,307)	68,688	76,163	7,475
13,995	6,564	(7,431)	72,688	80,667	7,979
-	-	-	15,768	13,669	2,099
3,022	2,214	808	60,525	48,986	11,539
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
11,600	3,180	8,420	-	-	-
3,191	2,001	1,190	-	-	-
17,813	7,395	10,418	76,293	62,655	13,638
$ (3,818)	$ (831)	$ 2,987	$ (3,605)	$ 18,012	$ 21,617

(continued)

State of Hawaii
Nonmajor Special Revenue Funds
Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Year Ended June 30, 2018
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenue						
Taxes						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax						
Highways	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	1,652	1,892	240
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,652	1,892	240
Non-taxes						
Interest and investment income	80	285	205	843	7,891	7,048
Charges for current services	-	28	28	60,911	69,593	8,682
Intergovernmental	-	-	-	-	-	-
Rentals	17,111	16,180	(931)	5,782	5,901	119
Fines, forfeitures and penalties	-	-	-	225	150	(75)
Licenses and fees	-	-	-	80	249	169
Revenues from private sources	-	4,987	4,987	1,734	60,500	58,766
Other	5,165	10,543	5,378	12,342	11,719	(623)
Total non-taxes	22,356	32,023	9,667	81,917	156,003	74,086
Total revenues	22,356	32,023	9,667	83,569	157,895	74,326
Expenditures						
General government	-	-	-	105,173	40,511	64,662
Public safety	-	-	-	20,289	19,224	1,065
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	285	-	285
Health	-	-	-	-	-	-
Welfare	-	-	-	675	559	116
Lower education	-	-	-	7,290	6,280	1,010
Culture and recreation	-	-	-	14,138	12,143	1,995
Urban redevelopment and housing	18,012	11,210	6,802	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	-	-	-	24,250	6,173	18,077
Total expenditures	18,012	11,210	6,802	172,100	84,890	87,210
Excess (deficiency) of revenues over (under) expenditures	$ 4,344	$ 20,813	$ 16,469	$ (88,531)	$ 73,005	$ 161,536

All Other			Total Special Revenue Funds		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ (328)	$ (328)
-	-	-	88,897	83,489	(5,408)
-	-	-	50,137	51,934	1,797
-	-	-	80,237	83,145	2,908
-	-	-	55,423	54,844	(579)
-	-	-	1,200	1,404	204
-	-	-	26,652	26,692	40
-	-	-	6,800	6,800	-
-	-	-	8,660	9,035	375
-	-	-	-	4,500	4,500
-	-	-	2,000	2,000	-
-	-	-	2,000	2,504	504
-	-	-	322,006	326,019	4,013
46	66	20	17,037	14,494	(2,543)
9,311	17,118	7,807	314,473	296,350	(18,123)
1,457	1,151	(306)	39,910	25,138	(14,772)
-	-	-	34,593	34,232	(361)
2,461	2,137	(324)	12,352	15,308	2,956
700	628	(72)	44,487	45,976	1,489
34	36	2	41,723	91,849	50,126
7,590	8,844	1,254	36,270	90,627	54,357
21,599	29,980	8,381	540,845	613,974	73,129
21,599	29,980	8,381	862,851	939,993	77,142
19,729	16,632	3,097	147,545	77,212	70,333
21,194	13,127	8,067	107,551	84,439	23,112
-	-	-	334,376	259,446	74,930
-	-	-	70,984	50,579	20,405
-	-	-	209,621	150,157	59,464
1,550	1,221	329	4,960	2,935	2,025
-	-	-	106,875	64,354	42,521
20,319	14,383	5,936	49,034	35,418	13,616
-	-	-	18,012	11,210	6,802
-	-	-	152,317	23,831	128,486
-	-	-	29,283	8,791	20,492
62,792	45,363	17,429	1,230,558	768,372	462,186
$ (41,193)	$ (15,383)	$ 25,810	$ (367,707)	$ 171,621	$ 539,328

(concluded)

State of Hawaii
Nonmajor Special Revenue Funds
Reconciliation of the Budgetary to GAAP Basis
Year Ended June 30, 2018
(Amounts in thousands)

Excess of revenues over expenditures – actual (budgetary basis)	$	171,621
Reserve for encumbrance at year end*		160,126
Expenditures for liquidation of prior fiscal year encumbrances		(504,822)
Expenditures for unbudgeted programs, principally expenditures for capital projects accounts and revolving funds		351,200
Transfers		226,438
Accrued liabilities		(433,618)
Accrued revenues		433,151
Excess of revenues over expenditures – GAAP basis	$	404,096

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

State of Hawaii
Nonmajor Proprietary Funds
Combining Statement of Fund Net Position
June 30, 2018
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
Assets				
Current assets				
Cash and cash equivalents	$ 27,256	$ 170,394	$ 25,842	$ 223,492
Investments	55,808	-	-	55,808
Receivables				
Accounts and accrued interest	-	358	108	466
Promissory note receivable	-	31,060	9,259	40,319
Federal government	-	-	366	366
Premiums	52,190	-	-	52,190
Other	17,421	1,453	848	19,722
Prepaid expenses and other assets	5,276	-	-	5,276
Total current assets	157,951	203,265	36,423	397,639
Capital assets – equipment	10,559	61	2,509	13,129
Less: Accumulated depreciation	(10,137)	(52)	(2,078)	(12,267)
Net capital assets	422	9	431	862
Promissory note receivable	-	321,166	168,779	489,945
Total noncurrent assets	422	321,175	169,210	490,807
Total assets	158,373	524,440	205,633	888,446
Deferred outflows of resources				
Deferred outflows on net pension liability	1,623	1,013	752	3,388
Deferred outflows on net other postemployment benefits liability	543	220	211	974
Total deferred outflows of resources	$ 2,166	$ 1,233	$ 963	$ 4,362
Liabilities				
Current liabilities				
Vouchers and contracts payable	$ 474	$ 145	$ 164	$ 783
Other accrued liabilities	1,869	-	-	1,869
Benefits claims payable	5,109	-	-	5,109
Accrued vacation, current portion	109	70	58	237
Premiums payable	42,617	-	-	42,617
Total current liabilities	50,178	215	222	50,615
Noncurrent liabilities				
Accrued vacation	246	194	152	592
Net pension liability	5,696	3,758	2,430	11,884
Net other postemployment benefits liability	7,414	3,706	2,785	13,905
Total noncurrent liabilities	13,356	7,658	5,367	26,381
Total liabilities	63,534	7,873	5,589	76,996
Deferred inflows of resources				
Deferred inflows on net pension liability	82	45	484	611
Deferred inflows on net other postemployment benefits liability	9	7	5	21
Total deferred inflows of resources	91	52	489	632
Net position				
Net investment in capital assets	422	9	431	862
Restricted for bond requirements and other	-	517,739	200,087	717,826
Unrestricted	96,492	-	-	96,492
Total net position	$ 96,914	$ 517,748	$ 200,518	$ 815,180

State of Hawaii
Nonmajor Proprietary Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2018
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
Operating revenues				
Administrative fees	$ -	$ 1,721	$ 2,359	$ 4,080
Premium revenue – self insurance	86,023	-	-	86,023
Experience refunds, net	25,241	-	-	25,241
Other	1,342	1,317	472	3,131
Total operating revenues	112,606	3,038	2,831	118,475
Operating expenses				
Personnel services	4,781	1,578	1,483	7,842
Depreciation	91	1	201	293
Repairs and maintenance	79	-	85	164
General administration	3,044	846	986	4,876
Claims	80,585	-	-	80,585
Other	359	8	2,421	2,788
Total operating expenses	88,939	2,433	5,176	96,548
Operating income (loss)	23,667	605	(2,345)	21,927
Nonoperating revenues				
Interest and investment income	980	1,630	356	2,966
Income (loss) before capital contributions	24,647	2,235	(1,989)	24,893
Capital contributions	-	2,278	6,385	8,663
Change in net position	24,647	4,513	4,396	33,556
Net position				
Beginning of year, as previously reported	75,586	515,097	197,733	788,416
Adjustment for change in accounting principle	(3,319)	(1,862)	(1,611)	(6,792)
Beginning of year, as restated	72,267	513,235	196,122	781,624
End of year	$ 96,914	$ 517,748	$ 200,518	$ 815,180

State of Hawaii
Nonmajor Proprietary Funds
Combining Statement of Cash Flows
Year Ended June 30, 2018
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
Cash flows from operating activities				
Cash received from employers and employees for premiums and benefits	$ 638,406	$ -	$ -	$ 638,406
Cash paid to suppliers	(2,876)	(128)	(1,314)	(4,318)
Cash paid to employees	(4,219)	(1,788)	(1,810)	(7,817)
Cash paid for premiums and benefits payable	(595,110)	-	-	(595,110)
Net cash provided by (used in) operating activities	36,201	(1,916)	(3,124)	31,161
Cash flows from noncapital financing activities				
Proceeds from federal operating grants	-	-	4,529	4,529
Cash flows from capital financing activities				
Purchase of equipment	(61)	-	-	(61)
State capital contributions	-	2,070	1,663	3,733
Net cash provided by (used in) capital financing activities	(61)	2,070	1,663	3,672
Cash flows from investing activities				
Purchase of investments	(18,687)	-	-	(18,687)
Principal repayments on notes receivable	-	32,891	18,423	51,314
Disbursement of notes receivable proceeds	-	(19,170)	(41,417)	(60,587)
Interest income from notes receivable	-	1,355	480	1,835
Administrative loan fees	-	1,725	2,285	4,010
Proceeds from sales and maturities of investments	5	-	-	5
Interest from and change in fair value of investments	982	981	331	2,294
Net cash provided by (used in) investing activities	(17,700)	17,782	(19,898)	(19,816)
Net increase (decrease) in cash and cash equivalents	18,440	17,936	(16,830)	19,546
Cash and cash equivalents, including restricted amounts				
Beginning of year	8,816	152,458	42,672	203,946
End of year	$ 27,256	$ 170,394	$ 25,842	$ 223,492
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 23,667	$ 605	$ (2,345)	$ 21,927
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	91	1	201	293
Principal forgiveness of loan	-	208	1,889	2,097
Interest income from loans	-	(1,317)	(472)	(1,789)
Administrative loan fees	-	(1,719)	(2,359)	(4,078)
Non-imposed fringe benefits	-	15	14	29
Premium reserves held by insurance companies	17,344	-	-	17,344
Change in assets, deferred outflows, liabilities and deferred inflows				
Receivables	(4,581)	(4)	2	(4,583)
Prepaid and other expenses	232	-	-	232
Net deferred outflows/inflows of resources	160	360	244	764
Vouchers and contracts payable	14	(16)	(250)	(252)
Net pension liability	(190)	(93)	(87)	(370)
Other postemployment benefits liability	463	44	39	546
Other accrued liabilities	(1,440)	-	-	(1,440)
Benefits claim payable	441	-	-	441
Net cash provided by (used in) operating activities	$ 36,201	$ (1,916)	$ (3,124)	$ 31,161
Supplemental information				
Noncash investing, capital and financing activities				
In-kind contribution from the Environmental Protection Agency	$ -	$ 208	$ 81	$ 289

State of Hawaii
Fiduciary Funds
Combining Statement of Fiduciary Net Position – Agency Funds
June 30, 2018
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
Assets				
Cash and cash equivalents	$ 229	$ 101,212	$ 10,550	$ 111,991
Receivables – taxes	-	-	12,875	12,875
Investments	2,312	327,327	95,115	424,754
Other assets, primarily due from individuals, businesses and counties	7,808	80,697	-	88,505
Total assets	$ 10,349	$ 509,236	$ 118,540	$ 638,125
Liabilities				
Vouchers payable	$ 10,349	$ 14	$ 177	$ 10,540
Due to individuals, businesses and counties	-	509,222	118,363	627,585
Total liabilities	$ 10,349	$ 509,236	$ 118,540	$ 638,125

State of Hawaii
Fiduciary Funds
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Year Ended June 30, 2018
(Amounts in thousands)

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Tax collections				
Assets				
Cash and cash equivalents	$ 4,332	$ 9,365,681	$ (9,369,784)	$ 229
Due from individuals, businesses and counties	3,224	9,370,265	(9,365,681)	7,808
Investments	57,558	2,312	(57,558)	2,312
Total assets	$ 65,114	$ 18,738,258	$ (18,793,023)	$ 10,349
Liabilities				
Vouchers payable	$ 65,114	$ 10,349	$ (65,114)	$ 10,349
Total liabilities	$ 65,114	$ 10,349	$ (65,114)	$ 10,349
Custodial				
Assets				
Cash and cash equivalents	$ 106,581	$ 4,628,315	$ (4,633,684)	$ 101,212
Due from individuals, businesses and counties	82,571	632,583	(634,457)	80,697
Investments	281,902	198,788	(153,363)	327,327
Total assets	$ 471,054	$ 5,459,686	$ (5,421,504)	$ 509,236
Liabilities				
Vouchers payable	$ 50	$ 14	$ (50)	$ 14
Due to individuals, businesses and counties	471,004	4,938,829	(4,900,611)	509,222
Total liabilities	$ 471,054	$ 4,938,843	$ (4,900,661)	$ 509,236
Other				
Assets				
Cash and cash equivalents	$ 7,856	$ 45,808	$ (43,114)	$ 10,550
Receivables	51,290	12,875	(51,290)	12,875
Investments	99,623	95,115	(99,623)	95,115
Total assets	$ 158,769	$ 153,798	$ (194,027)	$ 118,540
Liabilities				
Vouchers payable	$ 60	$ 178	$ (61)	$ 177
Due to individuals, businesses and counties	158,709	7,394	(47,740)	118,363
Total liabilities	$ 158,769	$ 7,572	$ (47,801)	$ 118,540
Total – All agency funds				
Assets				
Cash and cash equivalents	$ 118,769	$ 14,039,804	$ (14,046,582)	$ 111,991
Receivables	51,290	12,875	(51,290)	12,875
Due from individuals, businesses and counties	85,795	10,002,848	(10,000,138)	88,505
Investments	439,083	296,215	(310,544)	424,754
Total assets	$ 694,937	$ 24,351,742	$ (24,408,554)	$ 638,125
Liabilities				
Vouchers payable	$ 65,224	$ 10,541	$ (65,225)	$ 10,540
Due to individuals, businesses and counties	629,713	4,946,223	(4,948,351)	627,585
Total liabilities	$ 694,937	$ 4,956,764	$ (5,013,576)	$ 638,125

PART III: STATISTICAL SECTION

State of Hawaii
Statistical Section (Unaudited)
June 30, 2018

This Part of the State's comprehensive annual financial report presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information on the State's overall financial health.

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

State of Hawaii
Financial Trends Information
Net Position by Component (Accrual Basis of Accounting)
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Governmental activities					
Net investment in capital assets	$ 2,661,730	$ 2,787,289	$ 2,727,055	$ 2,826,649	$ 2,772,220
Restricted	2,028,259	1,799,903	1,591,701	1,445,824	1,128,678
Unrestricted	(11,381,725)	(7,996,567)	(7,190,837)	(7,379,890)	(3,096,065)
Total governmental activities net position	$ (6,691,736)	$ (3,409,375)	$ (2,872,081)	$ (3,107,417)	$ 804,833
Business-type activities					
Net investment in capital assets	$ 2,183,188	$ 2,022,844	$ 1,871,554	$ 1,773,613	$ 1,653,902
Restricted	1,444,009	1,309,392	1,305,799	1,227,441	1,160,551
Unrestricted	1,075,059	1,141,536	1,058,108	995,207	1,050,981
Total business-type activities net position	$ 4,702,256	$ 4,473,772	$ 4,235,461	$ 3,996,261	$ 3,865,434
Primary government					
Net investment in capital assets	$ 4,844,918	$ 4,810,133	$ 4,598,609	$ 4,600,262	$ 4,426,122
Restricted	3,472,268	3,109,295	2,897,500	2,673,265	2,289,229
Unrestricted	(10,306,666)	(6,855,031)	(6,132,729)	(6,384,683)	(2,045,084)
Total primary government net position	$ (1,989,480)	$ 1,064,397	$ 1,363,380	$ 888,844	$ 4,670,267

Notes: Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statements No. 68 and No. 71.

Amounts prior to fiscal 2017 have not been restated for GASB Statement No. 82.

Amounts prior to fiscal 2018 have not been restated for GASB Statement No. 75.

2013	2012	2011	2010	2009
$ 2,863,379	$ 2,794,481	$ 3,326,245	$ 3,118,606	$ 3,298,144
1,051,548	930,294	917,730	655,238	641,031
(2,669,391)	(2,394,874)	(2,384,187)	(1,306,716)	(471,543)
$ 1,245,536	$ 1,329,901	$ 1,859,788	$ 2,467,128	$ 3,467,632
$ 1,599,483	$ 1,560,267	$ 1,476,136	$ 1,469,676	$ 1,527,018
1,068,146	966,042	956,894	922,846	782,569
899,740	649,583	579,383	493,163	597,624
$ 3,567,369	$ 3,175,892	$ 3,012,413	$ 2,885,685	$ 2,907,211
$ 4,462,862	$ 4,354,748	$ 4,802,381	$ 4,588,282	$ 4,825,162
2,119,694	1,896,336	1,874,624	1,578,084	1,423,600
(1,769,651)	(1,745,291)	(1,804,804)	(813,553)	126,081
$ 4,812,905	$ 4,505,793	$ 4,872,201	$ 5,352,813	$ 6,374,843

State of Hawaii
Financial Trends Information
Changes in Net Position (Accrual Basis of Accounting)
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
Expenses					
Governmental activities					
General government	$ 920,547	$ 631,052	$ 688,394	$ 595,278	$ 567,941
Public safety	639,888	552,671	485,985	504,343	533,727
Highways	614,847	457,374	399,997	426,142	554,039
Conservation of natural resources	118,637	161,924	107,740	89,176	101,587
Health	874,898	889,216	878,610	871,563	849,493
Welfare	3,542,771	3,481,679	3,343,392	3,196,602	2,879,813
Lower education	3,404,645	3,157,517	2,840,782	2,729,789	2,685,037
Higher education	950,843	899,199	673,217	761,837	693,292
Other education	23,827	27,248	23,379	21,664	21,766
Culture and recreation	89,647	106,875	106,511	84,265	104,303
Urban redevelopment and housing	392,921	245,819	122,981	115,653	137,160
Economic development and assistance	170,200	161,077	163,935	179,485	166,455
Interest expense	311,340	212,042	210,204	247,059	239,760
Total governmental activities expenses	12,055,011	10,983,693	10,045,127	9,822,856	9,534,373
Business-type activities					
Airports	429,884	408,517	377,393	350,041	346,699
Harbors	92,978	101,180	93,088	87,031	89,327
Unemployment compensation	177,009	173,735	144,481	186,893	244,947
Nonmajor proprietary funds	96,548	110,907	112,323	112,209	87,031
Total business-type activities expenses	796,419	794,339	727,285	736,174	768,004
Total primary government expenses	$ 12,851,430	$ 11,778,032	$ 10,772,412	$ 10,559,030	$ 10,302,377
Program revenues					
Governmental activities					
Charges for services					
General government	$ 319,043	$ 289,116	$ 209,598	$ 248,915	$ 223,066
Health	126,046	143,363	136,429	136,547	130,338
Other	479,847	357,034	371,823	314,099	287,937
Operating grants and contributions	3,154,479	3,068,752	2,986,842	2,809,460	2,660,770
Capital grants and contributions	-	-	113,006	139,977	97,290
Total governmental activities program revenues	4,079,415	3,858,265	3,817,698	3,648,998	3,399,401
Business-type activities					
Charges for services					
Airports	587,602	511,018	459,269	434,489	404,442
Unemployment compensation	186,239	176,212	187,215	239,375	353,546
Others	283,586	269,694	218,552	238,852	203,979
Capital grants and contributions	37,956	51,091	80,173	72,140	98,628
Total business-type activities program revenues	1,095,383	1,008,015	945,209	984,856	1,060,595
Total primary government program revenues	$ 5,174,798	$ 4,866,280	$ 4,762,907	$ 4,633,854	$ 4,459,996
Net (expense) revenue					
Governmental activities	$ (7,975,596)	$ (7,125,428)	$ (6,227,429)	$ (6,173,858)	$ (6,134,972)
Business-type activities	298,964	213,676	217,924	248,682	292,591
Total primary government net expenses	$ (7,676,632)	$ (6,911,752)	$ (6,009,505)	$ (5,925,176)	$ (5,842,381)

Notes: Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statements No. 68 and No. 71.

Amounts prior to fiscal 2017 have not been restated for GASB Statement No. 82.

Amounts prior to fiscal 2018 have not been restated for GASB Statement No. 75.

2013	2012	2011	2010	2009
$ 531,839	$ 552,788	$ 535,434	$ 421,327	$ 564,356
451,946	502,002	471,459	538,110	464,897
490,091	516,924	450,548	466,322	487,391
52,208	96,349	89,021	81,561	119,705
813,190	773,288	816,525	858,476	843,826
2,798,053	2,464,582	2,553,829	2,348,190	2,140,202
2,592,125	2,598,444	2,545,980	2,616,768	2,656,592
654,611	672,716	707,381	700,335	878,126
20,086	16,753	14,018	14,034	29,935
94,679	111,628	108,697	108,247	106,583
173,677	23,888	66,144	101,505	145,710
172,602	209,460	238,315	209,611	158,808
241,677	243,938	239,836	210,243	127,576
9,086,784	8,782,760	8,837,187	8,674,729	8,723,707
366,918	353,541	354,368	336,127	347,089
90,548	84,826	80,355	68,291	124,611
336,931	468,610	561,548	686,141	437,553
66,119	169,166	250,346	256,205	38,672
860,516	1,076,143	1,246,617	1,346,764	947,925
$ 9,947,300	$ 9,858,903	$ 10,083,804	$ 10,021,493	$ 9,671,632
$ 267,081	$ 266,878	$ 270,078	$ 231,629	$ 206,431
56,963	32,339	46,215	98,547	99,788
170,603	121,928	112,479	111,295	119,126
2,589,537	2,370,437	2,837,464	2,598,141	2,260,551
96,184	97,322	132,825	144,445	145,771
3,180,368	2,888,904	3,399,061	3,184,057	2,831,667
431,708	343,279	387,484	324,577	290,464
507,096	533,963	535,243	486,476	169,976
215,243	272,317	341,707	344,889	84,692
64,313	85,899	75,324	98,099	103,195
1,218,360	1,235,458	1,339,758	1,254,041	648,327
$ 4,398,728	$ 4,124,362	$ 4,738,819	$ 4,438,098	$ 3,479,994
$ (5,906,416)	$ (5,893,856)	$ (5,438,126)	$ (5,490,672)	$ (5,892,040)
357,844	159,315	93,141	(92,723)	(299,598)
$ (5,548,572)	$ (5,734,541)	$ (5,344,985)	$ (5,583,395)	$ (6,191,638)

(continued)

State of Hawaii
Financial Trends Information
Changes in Net Position (Accrual Basis of Accounting)
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
General revenues and other changes in net position					
Governmental activities					
Taxes					
General excise tax	$ 3,553,975	$ 3,189,599	$ 3,192,469	$ 3,021,418	$ 2,816,346
Net income tax – corporations and individuals	2,407,338	2,330,408	2,160,872	2,073,015	1,840,890
Public service companies tax	117,641	122,159	152,760	163,481	166,179
Transient accommodations tax	304,521	299,712	233,082	202,345	188,721
Tobacco and liquor tax	157,988	160,906	161,239	165,137	155,990
Liquid fuel tax	85,211	84,933	89,702	88,449	88,707
Tax on premiums of insurance companies	162,318	166,836	154,690	147,767	139,074
Vehicle weight and registration tax	135,080	132,974	130,051	125,113	124,686
Rental motor/tour vehicle surcharge tax	54,846	53,189	54,873	51,941	42,853
Franchise tax	15,712	11,174	14,691	19,930	38,983
Other tax	145,861	103,204	109,072	76,222	96,131
Interest and investment income	36,527	30,676	22,564	16,024	13,163
Other	4,538	-	(13,300)	-	-
Transfer agreement from State, net	(250,697)	-	-	-	-
Total governmental activities	6,930,859	6,685,770	6,462,765	6,150,842	5,711,723
Business-type activities					
Interest and investment income	27,352	25,324	21,276	17,567	12,805
Other	-	-	-	-	-
Total business-type activities	27,352	25,324	21,276	17,567	12,805
Total primary government	$ 6,958,211	$ 6,711,094	$ 6,484,041	$ 6,168,409	$ 5,724,528
Changes in net position					
Governmental activities	$ (1,044,737)	$ (439,658)	$ 235,336	$ (23,016)	$ (423,249)
Business-type activities	326,316	239,000	239,200	266,249	305,396
Total primary government	$ (718,421)	$ (200,658)	$ 474,536	$ 243,233	$ (117,853)

Note: Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statements No. 68 and No. 71.

Amounts prior to fiscal 2017 have not been restated for GASB Statement No. 82.

Amounts prior to fiscal 2018 have not been restated for GASB Statement No. 75.

2013	2012	2011	2010	2009
$ 2,991,792	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756
1,795,683	1,633,085	1,477,624	1,408,965	1,366,576
163,930	150,528	117,940	157,661	126,069
186,377	138,529	60,839	32,635	14,408
161,066	170,824	173,851	149,596	135,388
87,645	88,842	91,265	82,780	88,006
133,585	119,472	140,586	105,848	95,181
121,605	98,187	59,476	58,659	59,392
52,112	106,417	43,892	40,401	39,751
22,673	7,229	33,682	20,666	28,075
80,081	70,873	67,799	32,165	19,215
25,502	5,347	55,852	124,516	(42,051)
-	-	-	(3,034)	305
-	-	-	-	-
5,822,051	5,363,969	4,830,786	4,490,168	4,341,071
14,633	4,164	33,587	68,950	4,639
19,000	-	-	-	-
33,633	4,164	33,587	68,950	4,639
$ 5,855,684	$ 5,368,133	$ 4,864,373	$ 4,559,118	$ 4,345,710
$ (84,365)	$ (529,887)	$ (607,340)	$ (1,000,504)	$ (1,550,969)
391,477	163,479	126,728	(23,773)	(294,959)
$ 307,112	$ (366,408)	$ (480,612)	$ (1,024,277)	$ (1,845,928)

(concluded)

State of Hawaii
Financial Trends Information
Fund Balances – Governmental Funds (Modified Accrual Basis of Accounting)
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
General Fund					
Reserved	N/A	N/A	N/A	N/A	N/A
Unreserved	N/A	N/A	N/A	N/A	N/A
Total General Fund	N/A	N/A	N/A	N/A	N/A
All other governmental funds					
Reserved	N/A	N/A	N/A	N/A	N/A
Unreserved, reported in					
Capital projects fund	N/A	N/A	N/A	N/A	N/A
Special revenue funds	N/A	N/A	N/A	N/A	N/A
Total all other governmental funds	N/A	N/A	N/A	N/A	N/A
General Fund (under GASB 54)					
Assigned fund balance	$ 503,201	$ 400,529	$ 394,581	$ 205,242	$ 256,483
Unassigned fund balance	974,719	1,305,542	1,400,783	1,384,053	1,079,180
Total General Fund	$ 1,477,920	$ 1,706,071	$ 1,795,364	$ 1,589,295	$ 1,335,663
All other governmental funds (under GASB 54)					
Restricted fund balance	$ 25,653	$ 110,750	$ 15,557	$ 25,370	$ 27,145
Committed fund balance	805,502	688,980	401,313	449,290	497,932
Assigned fund balance	1,226,984	1,117,520	1,199,080	1,009,503	739,279
Unassigned fund balance	(68,660)	(116,880)	(340,671)	(576,980)	(588,405)
Total all other governmental funds	$ 1,989,479	$ 1,800,370	$ 1,275,279	$ 907,183	$ 675,951

Note: Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement No. 54. Fund balance has not been restated for prior years.

N/A Not applicable.

2013	2012	2011	2010	2009
N/A	N/A	N/A	$ 243,485	$ 272,557
N/A	N/A	N/A	(210,551)	(87,537)
N/A	N/A	N/A	$ 32,934	$ 185,020
N/A	N/A	N/A	$ 2,275,968	$ 2,801,012
N/A	N/A	N/A	(1,651,855)	(2,019,696)
N/A	N/A	N/A	293,625	255,844
N/A	N/A	N/A	$ 917,738	$ 1,037,160
$ 271,020	$ 236,779	$ 210,164	N/A	N/A
1,154,253	570,659	346,882	N/A	N/A
$ 1,425,273	$ 807,438	$ 557,046	N/A	N/A
$ 21,854	$ 109	$ 21,582	N/A	N/A
486,240	518,374	600,125	N/A	N/A
612,762	532,466	339,337	N/A	N/A
(611,097)	(408,575)	(766,665)	N/A	N/A
$ 509,759	$ 642,374	$ 194,379	N/A	N/A

State of Hawaii
Financial Trends Information
Changes in Fund Balances – Governmental Funds
(Modified Accrual Basis of Accounting)
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
Revenues					
Taxes					
General excise tax	$ 3,553,975	$ 3,189,599	$ 3,192,469	$ 3,021,418	$ 2,816,346
Net income tax – corporations and individuals	2,456,674	2,286,017	2,157,879	2,047,327	1,840,963
Public service companies tax	117,641	122,159	152,760	163,481	166,179
Transient accommodations tax	304,521	299,712	233,082	202,345	188,721
Tobacco and liquor tax	157,988	160,906	161,239	165,137	155,990
Liquid fuel tax	85,211	84,933	89,702	88,449	88,707
Tax on premiums of insurance companies	162,318	166,836	154,690	147,767	139,074
Vehicle weight and registration tax	135,080	132,974	130,051	125,113	124,686
Rental motor/tour vehicle surcharge tax	54,846	53,189	54,873	51,941	42,853
Franchise tax	15,712	11,174	14,691	19,930	38,983
Other	145,861	103,204	109,072	76,222	96,131
Total taxes	7,189,827	6,610,703	6,450,508	6,109,130	5,698,633
Interest and investment income (loss)	36,527	30,676	22,564	16,024	13,163
Charges for current services	477,717	460,211	431,181	384,380	363,791
Intergovernmental	2,878,717	2,938,557	2,995,768	2,803,989	2,650,876
Rentals	35,466	35,530	32,371	31,127	31,846
Fines, forfeitures and penalties	38,767	39,203	35,738	37,201	33,087
Licenses and fees	47,066	46,893	45,738	42,463	47,209
Revenues from private sources	184,661	105,857	126,450	121,366	112,916
Other	428,066	248,389	169,533	191,472	173,483
Total revenues	11,316,814	10,516,019	10,309,851	9,737,152	9,125,004
Expenditures					
Current					
General government	807,032	701,083	673,236	573,820	543,129
Public safety	579,980	531,545	479,047	484,960	519,954
Highways	609,538	461,523	389,744	455,563	403,559
Conservation of natural resources	157,639	180,697	181,563	145,516	108,703
Health	827,592	873,703	876,820	855,797	828,088
Welfare	3,495,974	3,442,279	3,349,414	3,192,807	2,945,370
Lower education	3,226,275	2,973,583	2,828,013	2,619,156	2,603,774
Higher education	950,843	899,199	673,217	761,837	693,292
Other education	23,827	27,248	23,379	21,664	21,766
Culture and recreation	104,964	104,655	101,351	96,676	107,846
Urban redevelopment and housing	124,292	63,807	54,446	71,384	65,228
Economic development and assistance	167,614	179,127	159,483	176,919	158,379
Housing	256,386	133,010	58,381	48,565	63,683
Other	12,388	10,613	20,193	15,179	29,818
Debt service					
Principal	464,518	484,274	444,791	444,791	458,983
Interest and others	321,150	296,482	315,321	289,524	278,315
Total expenditures	12,130,012	11,362,828	10,628,399	10,254,158	9,829,887
Excess of expenditures over revenues	(813,198)	(846,809)	(318,548)	(517,006)	(704,883)
Other financing sources (uses)					
Proceeds from borrowing and refunding	1,200,004	2,161,677	1,835,677	1,518,709	948,190
Payments to escrow agent	(424,887)	(879,070)	(989,950)	(516,839)	(185,560)
Transfers in	1,291,815	1,444,931	1,276,279	1,171,272	1,066,780
Transfers out	(1,291,815)	(1,444,931)	(1,276,279)	(1,171,272)	(1,066,780)
Other	(961)	-	46,986	-	18,835
Total other financing sources	774,156	1,282,607	892,713	1,001,870	781,465
Net change in fund balances	$ (39,042)	$ 435,798	$ 574,165	$ 484,864	$ 76,582
Total debt service as a percent of noncapital expenditures	7.0%	7.3%	7.6%	7.7%	7.9%

2013	2012	2011	2010	2009
$ 2,991,792	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756
1,804,409	1,633,412	1,473,188	1,408,965	1,373,893
163,930	150,528	117,940	157,661	126,069
186,377	138,529	60,839	32,635	14,408
161,066	170,824	173,851	149,596	135,388
87,645	88,842	91,265	82,780	88,006
133,585	119,472	140,586	105,848	95,181
121,605	98,187	59,476	58,659	59,392
52,112	106,417	43,892	40,401	39,751
22,673	7,229	33,682	20,666	28,075
80,079	70,873	67,799	32,165	19,215
5,805,273	5,358,949	4,770,498	4,368,686	4,390,134
25,502	5,347	55,854	124,518	(42,051)
369,269	337,765	348,108	364,893	357,078
2,372,480	2,238,639	2,567,266	2,432,369	2,090,058
28,633	25,421	23,319	19,712	21,107
36,802	35,083	34,712	35,982	33,888
46,839	46,390	41,557	36,641	33,324
104,670	65,085	54,857	57,850	63,401
235,516	152,091	343,318	182,367	246,369
9,024,984	8,264,770	8,239,489	7,623,018	7,193,308
408,538	487,596	487,848	436,290	597,210
432,024	454,957	423,716	457,058	435,414
418,991	414,629	376,780	442,971	442,421
92,601	98,428	93,600	88,873	120,693
779,755	729,841	757,482	801,923	798,026
2,773,241	2,443,936	2,526,743	2,315,726	2,119,481
2,358,763	2,330,130	2,208,303	2,325,066	2,454,668
654,611	672,716	707,380	700,335	878,127
20,086	16,753	14,018	14,033	29,912
107,940	109,974	117,306	108,536	107,302
66,243	48,484	73,789	115,796	179,819
157,468	147,445	158,104	166,320	169,547
112,614	46,133	61,352	24,153	1,909
32,716	12,108	12,223	4,460	1,175
399,382	313,721	191,244	179,624	204,604
288,267	274,039	266,737	248,551	197,118
9,103,240	8,600,890	8,476,625	8,429,715	8,737,426
(78,256)	(336,120)	(237,136)	(806,697)	(1,544,118)
1,066,848	1,600,308	-	1,150,482	1,174,768
(503,372)	(565,801)	-	(619,708)	(349,697)
1,033,917	950,717	921,433	721,810	761,393
(1,033,917)	(950,717)	(921,433)	(721,810)	(761,393)
-	-	37,889	4,415	-
563,476	1,034,507	37,889	535,189	825,071
$ 485,220	$ 698,387	$ (199,247)	$ (271,508)	$ (719,047)
8.0%	7.2%	5.7%	5.4%	4.8%

State of Hawaii
Revenue Capacity Information
Personal Income by Industry
Ten Years Ended June 30, 2018
(Amounts in millions)

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
Farm earnings	$ 284	$ 274	$ 284	$ 318	$ 349
Nonfarm wage and salary worker					
Goods-producing industries					
Forestry, fishing-related activities and other	94	87	76	76	66
Mining	35	35	39	41	37
Construction	4,372	4,391	4,038	3,542	3,328
Manufacturing – durable and nondurable goods	959	921	918	878	833
Subtotal goods – producing industries	5,460	5,434	5,071	4,537	4,264
Service-producing industries					
Transportation, communication and utilities	2,965	2,714	2,639	2,424	2,316
Trade	4,659	4,574	4,419	4,130	4,089
Information	766	711	742	718	711
Finance, insurance and real estate	3,373	3,192	3,051	3,110	3,267
Service	21,051	19,595	19,087	17,608	17,126
State and local government	6,907	6,970	6,949	6,426	6,089
Federal government	8,505	8,491	8,614	8,400	8,139
Subtotal service-producing industries	48,226	46,247	45,501	42,816	41,737
Total nonfarm wage and salary worker	53,686	51,681	50,572	47,353	46,001
Other (1)	22,506	21,042	19,814	19,092	18,270
Total personal income	$ 76,476	$ 72,997	$ 70,670	$ 66,763	$ 64,620
Total direct income tax rate (2)	N/A	N/A	N/A	N/A	N/A

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.

(2) The total direct rate for personal income is not available.

Source: State of Hawaii Department of Business, Economic Development and Tourism – Data Book and Quarterly Statistical and Economic Report (QSER)
Bureau of Economic Analysis – SQ5N Personal Income by major source and earnings by major NAICS industry.

2013	2012	2011	2010	2009
$ 243	$ 288	$ 288	$ 250	$ 232
60	60	42	45	36
39	35	33	51	44
3,236	3,046	2,843	2,598	2,714
804	767	768	766	807
4,139	3,908	3,686	3,460	3,601
2,178	1,889	1,783	1,718	1,714
3,929	3,768	3,666	3,651	3,636
692	645	711	732	657
2,752	2,329	2,081	2,014	2,044
16,423	15,438	15,075	14,901	14,514
5,873	5,425	5,327	5,609	5,609
8,507	10,094	9,531	9,252	9,077
40,354	39,588	38,174	37,877	37,251
44,493	43,496	41,860	41,337	40,852
18,473	16,144	15,981	14,661	13,329
$ 63,209	$ 59,928	$ 58,129	$ 56,248	$ 54,413
N/A	N/A	N/A	N/A	N/A

State of Hawaii
Revenue Capacity Information
Personal Income Tax Rates
Ten Years Ending December 31, 2018

	Top Income Tax Rate is Applied to Taxable Income in Excess of					
Year	**Top Rate**	**Single**	**Top Rate**	**Married Filing Jointly**	**Top Rate**	**Head of Household**
2018	8.25% + $3,214	$ 48,000	8.25% + $6,427	$ 96,000	8.25% + $4,820	$ 72,000
2017	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000
2016	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2015	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2014	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2013	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2012	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2011	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2010	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2009	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000

Source: State of Hawaii, Department of Taxation.

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State of Hawaii
Revenue Capacity Information
Taxable Sales by Industry
Ten Years Ended June 30, 2018
(Amounts in millions)

	Fiscal Year Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Taxable sales by activities					
Retailing	$ 35,454	$ 30,747	$ 29,498	$ 29,987	$ 31,152
Services	16,375	14,162	13,667	13,361	13,795
Contracting	8,914	8,418	8,185	7,322	7,046
Hotel rentals	5,527	4,898	4,442	4,328	4,279
All other rentals	8,171	6,669	6,474	6,544	6,472
All other (4%)	6,545	5,918	5,407	5,486	5,683
Subtotal	80,986	70,812	67,673	67,028	68,427
Producing	359	324	295	321	436
Manufacturing	640	731	734	716	1,876
Wholesaling	17,590	14,462	13,864	14,294	14,675
Use (0.5%)	7,640	6,799	7,354	7,127	6,489
Services (intermediary)	903	870	708	716	1,096
Insurance solicitors	650	495	485	489	485
Subtotal	27,782	23,681	23,440	23,663	25,057
Total all activities	$ 108,768	$ 94,493	$ 91,113	$ 90,691	$ 93,484

General excise and use tax is imposed on the gross income received by the business, as follows:

- 4% of sales of tangible personal property, services, contracting, theater amusement and broadcasting, commissions, transient accommodation rentals, other rentals, interest, and other business activities;
- 0.5% of sales from wholesaling, manufacturing, producing, wholesale services, and imports for resale;
- 0.15% on insurance producer commissions.

Source: State of Hawaii, Department of Taxation – Monthly Tax Collection Reports.

2013		2012		2011		2010		2009
$ 29,636		$ 29,095		$ 25,887		$ 23,919		$ 24,318
12,985		12,696		11,944		11,154		11,059
7,547		6,253		5,687		5,864		7,631
3,871		3,431		3,024		2,606		2,812
6,377		6,154		5,999		5,778		6,094
5,337		5,160		4,825		4,360		4,375
65,753		62,789		57,366		53,681		56,289
399		401		370		340		405
639		681		698		704		809
14,430		14,442		13,121		12,207		12,502
8,867		8,005		6,669		6,430		6,883
628		653		577		572		611
464		477		480		502		535
25,427		24,659		21,915		20,755		21,745
$ 91,180		$ 87,448		$ 79,281		$ 74,436		$ 78,034

State of Hawaii
Revenue Capacity Information
Sales Tax Revenue Payers by Industry
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,									
	2018		2017		2016		2015		2014	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	$ 1,418,176	41.8%	$ 1,229,860	38.0%	$ 1,179,911	36.8%	$ 1,199,488	39.4%	$ 1,246,061	43.3%
Services	655,007	19.3%	566,466	17.5%	546,684	17.1%	534,442	17.5%	551,784	19.2%
Contracting	356,576	10.5%	336,717	10.4%	327,394	10.2%	292,874	9.6%	281,839	9.8%
Theater, amusement, etc.	19,182	0.6%	17,248	0.5%	15,931	0.5%	15,955	0.5%	15,619	0.5%
Interest	142,359	4.2%	134,441	4.2%	1	0.0%	1	0.0%	3	0.0%
Commissions	55,832	1.6%	49,209	1.5%	44,777	1.4%	45,619	1.5%	45,125	1.6%
Hotel rentals	221,084	6.5%	195,919	6.0%	177,671	5.5%	173,100	5.7%	171,162	5.9%
All other rentals	326,823	9.6%	266,758	8.2%	258,977	8.1%	261,743	8.6%	258,886	9.0%
Use (4%)	44,390	1.3%	35,845	1.1%	35,620	1.1%	39,884	1.3%	40,277	1.4%
All other (4%)	-	0.0%	-	0.0%	119,948	3.7%	118,014	3.9%	126,306	4.4%
Producing	1,794	0.1%	1,619	0.1%	1,473	0.0%	1,605	0.1%	2,181	0.1%
Manufacturing	3,201	0.1%	3,657	0.1%	3,670	0.1%	3,581	0.1%	9,380	0.3%
Wholesaling	87,952	2.6%	72,309	2.2%	69,322	2.2%	71,471	2.3%	73,373	2.5%
Use (0.5%)	38,201	1.1%	33,996	1.1%	36,872	1.2%	35,634	1.2%	32,446	1.1%
Services (Intermediary)	4,514	0.1%	4,352	0.1%	3,539	0.1%	3,578	0.1%	5,480	0.2%
Insurance solicitors	975	0.0%	743	0.0%	728	0.0%	733	0.0%	728	0.0%
Unallocated collections	19,500	0.6%	290,086	9.0%	383,736	12.0%	250,484	8.2%	19,893	0.7%
Total	$ 3,395,566	100.0%	$ 3,239,225	100.0%	$ 3,206,254	100.0%	$ 3,048,206	100.0%	$ 2,880,543	100.0%

Source: State of Hawaii, Department of Taxation – Monthly Tax Collection Reports.

Note: Information for number of filers is not available

2013		2012		2011		2010		2009	
Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
$ 1,185,446	40.3%	$ 1,163,805	43.1%	$ 1,035,465	41.5%	$ 956,761	41.3%	$ 972,728	40.1%
519,419	17.6%	507,864	18.8%	477,753	19.3%	446,142	19.3%	442,356	18.3%
301,875	10.3%	250,122	9.3%	227,497	9.1%	234,562	10.1%	305,241	12.6%
15,986	0.5%	15,776	0.6%	14,945	0.6%	13,378	0.6%	13,557	0.6%
3	0.0%	4	0.0%	74	0.0%	191	0.0%	339	0.0%
42,064	1.4%	38,848	1.4%	36,574	1.5%	33,024	1.4%	35,230	1.5%
154,837	5.3%	137,222	5.1%	120,954	4.8%	104,260	4.5%	112,484	4.6%
255,074	8.7%	246,151	9.1%	239,944	9.6%	231,123	10.0%	243,762	10.1%
41,015	1.4%	41,797	1.6%	37,316	1.5%	34,484	1.5%	34,088	1.4%
114,396	3.9%	109,989	4.1%	104,073	4.2%	93,327	4.0%	91,761	3.8%
1,997	0.1%	2,004	0.1%	1,850	0.1%	1,697	0.1%	2,023	0.1%
3,194	0.1%	3,402	0.1%	3,488	0.1%	3,517	0.2%	4,045	0.2%
72,149	2.4%	72,210	2.7%	65,608	2.6%	61,036	2.6%	62,509	2.6%
44,337	1.5%	40,026	1.5%	33,347	1.3%	32,152	1.4%	34,415	1.4%
3,139	0.1%	3,265	0.1%	2,886	0.1%	2,862	0.1%	3,054	0.1%
697	0.0%	716	0.0%	721	0.0%	753	0.0%	803	0.0%
188,859	6.4%	64,750	2.4%	93,312	3.7%	67,165	2.9%	61,855	2.6%
$ 2,944,487	100.0%	$ 2,697,951	100.0%	$ 2,495,807	100.0%	$ 2,316,434	100.0%	$ 2,420,250	100.0%

State of Hawaii
Debt Capacity Information
Ratios of Outstanding Debt by Type
Ten Years Ended June 30, 2018
(Amounts in thousands except per capita data)

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
Governmental activities					
General obligation bonds	$ 7,912,206	$ 7,635,827	$ 6,953,431	$ 6,503,281	$ 5,784,139
Revenue bonds	633,073	692,742	615,120	666,202	412,725
Capital leases	129,897	143,622	149,477	96,175	102,622
Total governmental activities	8,675,176	8,472,191	7,718,028	7,265,658	6,299,486
Business-type activities					
General obligation bonds	23,255	25,377	27,400	29,332	31,176
Revenue bonds	1,567,305	1,375,442	1,429,980	1,218,943	1,278,137
Lease revenue certificates of participation	244,979	252,806	179,985	172,864	173,771
Total business-type activities	1,835,539	1,653,625	1,637,365	1,421,139	1,483,084
Total primary government	$ 10,510,715	$ 10,125,816	$ 9,355,393	$ 8,686,797	$ 7,782,570
Hawaii total personal income	$ 76,476,000	$ 72,997,000	$ 71,767,000	$ 66,763,000	$ 64,620,000
Debt as a percentage of personal income	13.7%	13.9%	13.0%	13.0%	12.0%
Hawaii population	1,435	1,428	1,429	1,432	1,420
Amount of debt per capita	$ 7,325	$ 7,091	$ 6,547	$ 6,066	$ 5,481

Source: State of Hawaii, Comprehensive Annual Financial Reports.
State of Hawaii, Department of Business, Economic Development and Tourism – QSER.

Note: Details regarding the State’s outstanding debt can be found in the notes to basic financial statements.

2013	2012	2011	2010	2009
$ 5,534,921	$ 5,475,348	$ 4,987,544	$ 5,157,198	$ 4,779,666
441,150	468,180	378,625	400,215	420,605
89,879	95,340	100,520	64,385	71,685
6,065,950	6,038,868	5,466,689	5,621,798	5,271,956
32,934	34,611	36,221	37,362	38,329
1,326,112	1,370,314	1,410,624	1,248,680	861,423
-	-	-	-	-
1,359,046	1,404,925	1,446,845	1,286,042	899,752
$ 7,424,996	$ 7,443,793	$ 6,913,534	$ 6,907,840	$ 6,171,708
$ 63,209,000	$ 59,928,000	$ 58,129,000	$ 56,248,000	$ 54,413,000
11.7%	12.4%	11.9%	12.3%	11.3%
1,404	1,392	1,375	1,300	1,295
$ 5,288	$ 5,348	$ 5,028	$ 5,314	$ 4,766

State of Hawaii
Debt Capacity Information
Ratios of Net General Bonded Debt Outstanding
Ten Years Ended June 30, 2018
(Amounts in thousands except ratio data)

Fiscal Year	Taxable Sales (1)	Population (2)	General Obligation Bonded Debt (3)(4)	Less: Debt Services Monies Available (3)	Net General Obligation Bonded Debt	Percentage of Taxable Sales	Net General Obligation Bonded Debt Per Capita
2018	$ 108,768,000	1,435	$ 7,170,698	$ -	$ 7,170,698	6.6%	$ 4,997
2017	94,493,000	1,428	6,865,043	35	6,865,008	7.3%	4,807
2016	91,113,000	1,429	6,294,325	35	6,294,290	6.9%	4,405
2015	90,691,000	1,432	5,963,928	35	5,963,893	6.6%	4,165
2014	93,484,000	1,420	5,784,139	35	5,784,104	6.2%	4,073
2013	91,181,000	1,404	5,534,921	63	5,534,858	6.1%	3,942
2012	87,448,000	1,392	5,475,348	64	5,475,284	6.3%	3,933
2011	79,281,000	1,375	4,987,544	109	4,987,435	6.3%	3,627
2010	74,436,000	1,300	5,157,198	118	5,157,080	6.9%	3,967
2009	78,034,000	1,295	4,779,666	68	4,779,598	6.1%	3,691

(1) **Source:** State of Hawaii, Department of Taxation.

(2) **Source:** State of Hawaii, Department of Business, Economic Development and Tourism – Census Data.

(3) **Source:** State of Hawaii, Department of Accounting and General Services, Accounting Division.

(4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

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State of Hawaii
Debt Capacity Information
Legal Debt Margin Information
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
Average general fund revenues of the three preceding fiscal years	$ 7,359,330	$ 6,997,106	$ 6,577,966	$ 6,294,642	$ 5,987,800
Constitutional debt limit percentage	18.5%	18.5%	18.5%	18.5%	18.5%
Constitutional debt limit for total principal and interest payable in a current or future year	1,361,476	1,294,465	1,216,924	1,164,509	1,107,743
Less: Total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2020)	(792,143)	(739,852)	(712,592)	(693,934)	(693,677)
Legal debt margin	$ 569,333	$ 554,613	$ 504,332	$ 470,575	$ 414,066
Legal debt margin as a percentage of the debt limit	41.8%	42.8%	41.4%	40.4%	37.4%

The formula for the legal debt limit is contained in Article VII, Section 13 of the State Constitution.

2013	2012	2011	2010	2009
$ 5,659,152	$ 5,197,547	$ 4,992,943	$ 5,032,973	$ 5,126,782
18.5%	18.5%	18.5%	18.5%	18.5%
1,046,943	961,546	923,694	931,100	948,455
(693,592)	(667,041)	(618,711)	(610,255)	(563,266)
$ 353,351	$ 294,505	$ 304,983	$ 320,845	$ 385,189
33.8%	30.6%	33.0%	34.5%	40.6%

State of Hawaii
Debt Capacity Information
Pledge Revenue Coverage
Ten Years Ended June 30, 2018
(Amounts in thousands)

	Fiscal Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenue bonds – Airports										
Gross revenue (1)	$ 466,317	$ 431,726	$ 381,404	$ 355,948	$ 341,155	$ 385,841	$ 319,542	$ 322,639	$ 295,087	$ 288,583
Less: Operating expenses (2)	299,799	288,644	259,223	253,581	246,982	244,328	230,224	218,290	214,208	233,896
Net available revenue	166,518	143,082	122,181	102,367	94,173	141,513	89,318	104,349	80,879	54,687
Debt services										
Principal	40,755	38,935	37,290	35,725	34,210	40,305	30,579	25,370	23,615	22,310
Interest (3)	46,454	45,182	42,532	41,671	23,414	40,705	34,440	35,319	21,300	17,453
Total debt services	87,209	84,117	79,822	77,396	57,624	81,010	65,019	60,689	44,915	39,763
Coverage (4)	191%	170%	153%	132%	163%	175%	137%	172%	180%	138%
Revenue bonds – Harbors										
Gross revenue (5)	$ 170,560	$ 140,052	$ 131,858	$ 124,663	$ 122,379	$ 114,640	$ 104,678	$ 88,018	$ 74,155	$ 80,896
Less: Operating expenses (6)	53,543	53,396	47,133	43,132	43,837	44,048	41,202	37,650	36,930	47,814
Net available revenue	117,017	86,656	84,725	81,531	78,542	70,592	63,476	50,368	37,225	33,082
Debt services	29,114	31,176	31,187	31,176	31,528	31,531	27,770	27,965	23,226	23,167
Coverage (4)	402%	278%	272%	262%	249%	224%	229%	180%	160%	143%
Revenue bonds – Highways										
Gross revenue	N/A	N/A	N/A	N/A	$ 255,431	$ 256,102	$ 232,543	$ 197,142	$ 184,852	$ 189,498
Less: Operating expenses	N/A	N/A	N/A	N/A	205,872	184,696	173,811	165,857	179,400	189,987
Net available revenue	N/A	N/A	N/A	N/A	49,559	71,406	58,732	31,285	5,452	(489)
Debt services										
Principal	40,765	37,790	34,920	31,890	28,825	27,170	22,465	21,570	20,535	16,150
Interest	21,186	19,320	20,571	19,402	19,036	20,245	18,906	17,195	18,028	15,823
Total debt services	61,951	57,110	55,491	51,292	47,861	47,415	41,371	38,765	38,563	31,973
Coverage (7)	N/A	N/A	N/A	N/A	104%	151%	142%	81%	14%	-2%
Revenue bonds – Department of Hawaiian Home Lands										
Revenue	$ 17,564	$ 15,867	$ 14,730	$ 15,230	$ 15,763	$ 12,585	$ 12,078	$ 12,036	$ 11,939	$ -
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	17,564	15,867	14,730	15,230	15,763	12,585	12,078	12,036	11,939	-
Debt services										
Principal	1,100	850	810	775	740	710	680	655	640	-
Interest	887	2,163	2,201	2,237	2,270	2,301	2,328	2,254	2,370	-
Total debt services	1,987	3,013	3,011	3,012	3,010	3,011	3,008	2,909	3,010	-
Coverage (4)	884%	527%	489%	506%	524%	418%	402%	414%	397%	0%

(1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.

(2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal and replacement plus amounts required to be paid into the General Fund for general obligation bond requirements.

(3) For purposes of calculating the debt service requirement, interest payment for Airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.

For fiscal years 2016, 2015 and 2014, Airports transferred $4,000,000, $18,500,000 and $19,000,000, respectively, of available funds from the Prepaid Airport Use Charge Fund into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required to be deposited to the interest account, pursuant to the provisions of Section 6.01 in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

(4) Revenue bond indentures require a minimum debt service coverage percentage of 125%.

(5) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.

(6) Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.

(7) Highways revenue bond indentures require a minimum debt service coverage percentage of 100% during a routine year, 200% during the year bonds are issued, and 135% is required for any year Highways' funds are transferred out (i.e., General Fund).

N/A Not available

Coverage equals net available revenue divided by debt services.

Source: Airports Audited Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Airports Division.
Harbors Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Harbors Division.
Highways Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Highways Division.
DHHL Audited Financial Statements and Schedules of the State of Hawaii, Department of Hawaiian Home Lands.

State of Hawaii
Demographic and Economic Information
Demographic and Economic Statistics
Ten Years Ended June 30, 2018

	Fiscal Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Population (in thousands)										
State	1,435	1,428	1,429	1,432	1,420	1,404	1,392	1,375	1,300	1,298
Percentage change	0.49%	-0.07%	-0.21%	0.85%	1.14%	0.86%	1.24%	5.77%	0.15%	0.85%
National	327,734	325,719	323,128	321,419	318,857	316,129	313,914	311,592	308,746	307,007
Percentage change	0.62%	0.80%	0.53%	0.80%	0.86%	0.71%	0.75%	0.92%	0.57%	0.86%
Total personal income (in millions)										
State	$ 76,476	$ 72,997	$ 70,670	$ 66,763	$ 64,620	$ 63,209	$ 59,928	$ 58,129	$ 56,248	$ 54,413
Percentage change	4.77%	3.29%	5.85%	3.32%	2.23%	5.47%	3.09%	3.34%	3.37%	0.43%
National	$ 17,189,635	$ 16,152,011	$ 15,725,128	$ 14,991,944	$ 14,420,041	$ 13,904,502	$ 13,150,560	$ 12,691,347	$ 12,530,101	$ 12,015,535
Percentage change	6.42%	2.71%	4.89%	3.97%	3.71%	5.73%	3.62%	1.29%	4.28%	(1.72%)
Per capita personal income (in thousands)										
State	$ 53,293	$ 51,118	$ 49,454	$ 46,622	$ 45,507	$ 45,021	$ 43,052	$ 42,276	$ 43,268	$ 42,018
Percentage change	4.25%	3.37%	6.07%	2.45%	1.08%	4.57%	1.84%	(2.29%)	3.21%	0.42%
National	$ 52,450	$ 49,589	$ 48,665	$ 46,643	$ 45,224	$ 43,984	$ 41,892	$ 40,731	$ 40,584	$ 39,138
Percentage change	5.77%	1.90%	4.34%	3.14%	2.82%	4.99%	2.85%	0.36%	3.69%	(2.56%)
Resident civilian labor force and employment										
Civilian labor force employed	669,642	672,675	660,942	645,092	624,638	615,546	615,333	591,329	587,304	594,500
Unemployed	14,508	19,800	22,563	27,729	30,142	33,913	43,321	39,941	41,600	43,250
Unemployment rate	2.10%	2.90%	3.30%	4.10%	4.60%	5.20%	6.60%	6.30%	6.60%	6.80%

Source: State of Hawaii, Department of Business, Economic Development and Tourism – QSER.
Bureau of Economic Analysis – Regional Economic Accounts.
State of Hawaii, Department of Labor and Industrial Relations –
Hawaii Workforce Infonet (HWI).

Note: The Per Capita Personal Income amount is computed by dividing Personal Income by Population, multiplied by 1,000.

State of Hawaii
Demographic and Economic Information
Ten Largest Private Sector Employers
June 30, 2018 and June 30, 2009

2018			2009		
Employer	Employees	Percentage of Total State Employment	Employer	Employees	Percentage of Total State Employment
Bank of Hawaii	2,163	0.3%	Alexander & Baldwin, Inc.	2,386	0.4%
First Hawaiian Bank	2,271	0.3%	Hawaii Pacific Health	5,300	0.9%
Hawaii Pacific Health	6,961	1.0%	Hawaiian Airlines	3,700	0.6%
Hawaiian Airlines	5,590	0.8%	Hawaiian Electric Industries, Inc.	3,560	0.6%
Hawaiian Electric Industries, Inc.	3,880	0.6%	Hilton Waikoloa Village	2,766	0.5%
Kaiser Permanente Hawaii	2,651	0.4%	Kaiser Permanente Hawaii	3,396	0.6%
Kamehameha Schools	2,204	0.3%	Kyo-ya Co., Ltd	3,851	0.6%
Kokusai Kogyo Kanri Kabushiki Kaisha – U.S. Operations	2,927	0.4%	Outrigger Enterprise Group	3,123	0.5%
Outrigger Enterprise Group	3,177	0.5%	Starwood Hotels and Resort Hawaii	2,425	0.4%
The Queen's Health Systems	7,187	1.0%	The Queen's Health Systems	5,059	0.8%

Source: Hawaii Business, Annual August Issue.
State of Hawaii, Department of Labor and Industrial Relations – HWI – Labor (Total State Employees).

Note: Total Annual Average Employment for Hawaii for fiscal year 2018 – 685,000 and for fiscal year 2009 – 614,000.

Listed alphabetically.

State of Hawaii
Demographic and Economic Information
State Employees by Function
Ten Years Ended June 30, 2018

	Fiscal Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government	4,517	4,538	4,537	4,571	4,572	4,419	4,394	4,381	4,381	4,752
Public safety	3,265	3,336	3,316	3,197	3,175	2,981	2,903	2,864	2,880	3,089
Transportation	2,229	2,234	2,263	2,295	2,254	2,275	2,202	2,160	2,158	2,290
Conservation of natural resources	1,051	1,008	1,015	1,007	1,007	972	929	941	983	1,146
Health	5,325	5,127	6,544	6,731	6,813	7,136	6,919	6,876	6,863	7,266
Welfare	1,957	1,940	1,913	1,927	1,941	1,940	1,800	1,788	1,848	2,404
Lower education	22,016	21,531	21,841	21,707	21,797	21,976	22,065	21,917	22,090	22,675
Higher education	8,647	8,620	8,746	8,802	9,080	8,978	8,795	8,687	8,732	9,066
Other education	508	486	496	488	492	-	454	473	482	516
Urban redevelopment and housing	132	130	118	123	127	116	127	130	146	154
Economic development and assistance	814	730	749	761	759	781	815	816	835	1,141
Total	50,461	49,680	51,538	51,609	52,017	51,574	51,403	51,033	51,398	54,499

Source: State of Hawaii, Department of Human Resources Development.

State of Hawaii
Operating Information
Operating Indicators by Function
Ten Years Ended June 30, 2018

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
General government					
Tax Commission					
Total individual net income returns	808,183	704,250	768,261	715,706	737,205
Number of individual net income returns filed electronically	552,464	536,273	529,527	509,409	483,817
Percentage of individual net income returns transmitted electronically	68.36%	76.15%	68.93%	71.18%	65.63%
Public safety					
Inmate population					
In-state facilities	4,017	4,052	4,584	4,683	4,456
Out-of-state facilities	1,460	1,617	1,386	1,341	1,363
Total	5,477	5,669	5,970	6,024	5,819
Conservation and natural resources					
Parks and Recreation					
Number of state-owned parks	52	54	54	52	51
Health					
Environmental health					
Air quality sites monitored	20	14	14	14	13
Water quality stations	187	169	160	161	173
Revolving loan funds	192	186	176	159	149
Mental health					
Adult consumers served	8,328	9,295	7,828	8,282	10,408
Individuals with developmental disabilities served	2,956	2,863	2,738	2,705	2,615
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF)					
Families per-month average	4,813	5,750	6,918	8,102	8,927
Average time on assistance	18.1	18.1	18.1	17.5	N/A
Monthly benefits paid for the month of July (in millions)	$ 2.26	$ 2.98	$ 3.90	$ 3.60	$ 4.10
General assistance					
Individuals per month	5,575	5,651	5,676	5,699	5,598
Food stamp program					
Number of persons participating	164,788	170,850	173,780	191,918	193,565
Number of households participating	84,297	85,491	87,636	96,502	98,440
Benefits issued (in millions)	$ 39.78	$ 40.26	$ 40.23	$ 49.90	$ 43.39
Medicaid programs					
Med-Quest enrollment	353,058	352,991	350,358	332,197	325,510

2013	2012	2011	2010	2009
612,373	703,262	747,237	665,057	682,178
397,178	430,421	388,463	322,515	308,366
64.86%	61.20%	51.99%	48.49%	45.20%
4,438	4,396	4,423	4,047	3,928
1,415	1,677	1,667	1,940	2,077
5,853	6,073	6,090	5,987	6,005
53	53	53	53	53
14	12	14	13	14
173	193	201	290	349
133	120	109	107	102
10,728	11,062	11,194	14,633	15,772
2,599	2,558	2,438	2,661	2,879
10,075	10,300	10,014	9,448	8,661
14.6	13.5	13.0	15.0	14.0
$ 5.47	$ 6.42	$ 6.17	$ 5.29	$ 3.46
5,687	5,633	5,298	5,068	5,014
187,062	172,676	154,496	133,043	109,268
94,649	86,418	77,133	66,885	54,925
$ 40.33	$ 37.18	$ 33.42	$ 28.74	$ 20.22
292,423	287,902	272,218	259,307	235,203

(continued)

State of Hawaii
Operating Information
Operating Indicators by Function
Ten Years Ended June 30, 2018

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
Lower education					
Number of schools	292	290	290	289	288
Number of students	180,837	181,550	181,995	182,384	185,273
Staff					
Classroom teachers	12,033	11,782	11,747	11,663	11,781
Librarians	143	149	160	173	185
Counselors	653	634	634	623	625
Administrators	1,036	995	943	914	833
Other support staff	9,277	9,039	9,113	9,052	9,014
Total	23,142	22,599	22,597	22,425	22,438
Higher education					
Enrollment					
Number of credit students	51,063	51,674	53,418	55,756	57,052
Degrees earned					
Certificates/Associate Degrees/Advanced Professional certificates	4,912	5,102	5,192	4,830	5,158
Bachelor's degrees	4,693	4,735	4,841	4,599	4,408
Master's degrees/Professional diploma	1,035	1,040	1,126	1,035	1,179
Doctor's degrees/First Professional	513	482	472	579	467
Other	62	49	49	61	66
Total	11,215	11,408	11,680	11,104	11,278
Degrees by campus/college					
University of Hawaii at Manoa	4,726	4,712	5,104	4,923	4,949
University of Hawaii at Hilo	942	955	893	905	806
University of Hawaii at West Oahu	613	623	474	439	352
Hawaii Community College	586	576	693	569	669
Honolulu Community College	778	900	886	725	683
Kapiolani Community College	1,276	1,356	1,383	1,335	1,513
Kauai Community College	211	258	248	264	203
Leeward Community College	1,102	1,019	1,057	1,000	1,090
Maui Community College	638	668	594	575	660
Windward Community College	343	341	348	369	353
Total	11,215	11,408	11,680	11,104	11,278

N/A Not available.

Source: General Government – State of Hawaii, Department of Taxation.
Public Safety – State of Hawaii, Department of Public Safety.
Conservation of Natural Resources – State of Hawaii, Department of Land and Natural Resources.
Health – State of Hawaii, Department of Health.
Welfare – State of Hawaii, Department of Human Services.
Lower Education – State of Hawaii, Department of Education.
Higher Education – University of Hawaii.

2013	2012	2011	2010	2009
286	286	287	286	289
183,251	181,213	178,208	178,649	177,871
11,632	11,458	11,046	11,262	11,294
192	199	204	225	249
629	627	618	646	660
823	806	734	728	747
8,987	8,975	8,408	8,607	8,654
22,263	22,065	21,010	21,468	21,604
58,941	60,295	60,330	60,090	57,945
4,097	3,638	3,324	3,025	2,785
4,236	4,055	3,796	3,593	3,705
1,095	1,287	1,269	1,216	1,185
508	494	496	351	354
65	154	103	106	55
10,001	9,628	8,988	8,291	8,084
4,737	4,767	4,675	4,414	4,496
809	915	731	601	614
349	301	255	242	221
552	452	405	426	386
551	565	559	486	504
1,193	987	851	783	702
216	196	208	162	163
770	721	657	608	503
601	560	482	416	364
223	164	165	153	131
10,001	9,628	8,988	8,291	8,084

(concluded)

State of Hawaii
Operating Information
Capital Assets Statistics by Function
Ten Years Ended June 30, 2018

	Fiscal Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government										
Department of Accounting and General Services										
Buildings	79	79	81	79	78	74	74	74	74	74
Vehicles	644	644	673	650	650	608	600	592	582	602
Department of the Attorney General										
Buildings	6	6	6	6	6	5	5	5	5	5
Vehicles	3	3	4	3	3	3	3	3	3	3
The Judiciary										
Buildings	19	19	19	19	19	19	18	18	18	18
Vehicles	-	18	18	18	18	18	18	17	16	15
Other departments										
Buildings	21	21	21	23	23	22	24	24	24	23
Vehicles	3	3	3	3	4	4	4	4	4	4
Public safety										
Department of Public Safety										
Buildings and correction facilities	76	76	76	77	75	74	74	74	73	72
Vehicles	353	290	302	306	279	274	277	278	277	262
Department of Defense										
Buildings	99	99	99	99	98	98	97	97	96	96
Vehicles	121	108	104	96	128	118	112	81	79	79
Department of Commerce and Consumer Affairs										
Buildings	4	4	4	4	4	4	4	4	4	4
Vehicles	-	-	-	-	-	-	-	-	1	-
Highways										
Department of Transportation										
Highway lane miles	2,489	2,489	2,487	2,477	2,488	N/A	N/A	N/A	2,497	2,479
Highway bridges	752	752	752	752	752	N/A	N/A	N/A	752	752
Buildings	40	40	40	39	37	36	36	34	34	34
Vehicles	1,101	1,043	989	971	982	984	951	958	968	963

(continued)

N/A Not available

Source: Buildings and Vehicles – State of Hawaii, Department of Accounting and General Services.
Lane Miles – State of Hawaii, Department of Transportation.
Land Area and Highway Bridges – State of Hawaii, Data Book 2018.

	Fiscal Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Conservation of natural resources										
Department of Land and Natural Resources										
Land area (in square miles)	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423
Buildings	97	97	97	97	96	94	93	95	95	95
Vehicles	927	886	855	824	785	788	756	758	732	731
Department of Agriculture										
Buildings	33	33	33	33	32	32	32	32	32	32
Vehicles	163	159	161	164	166	167	170	176	186	186
Health										
Department of Health										
Buildings	73	73	74	74	74	74	74	74	74	72
Vehicles	269	258	241	230	227	238	252	259	280	284
Welfare										
Department of Human Services										
Buildings	18	18	18	18	18	18	18	18	18	18
Vehicles	95	99	99	104	116	110	107	111	111	117
Lower education										
Department of Education										
Buildings	8	8	8	8	8	8	8	8	8	8
Other education										
Department of Education – libraries										
Buildings	38	38	39	38	38	38	34	34	34	34
Vehicles	33	29	29	29	25	27	28	27	28	28
Urban redevelopment and housing										
Department of Hawaiian Home Lands										
Buildings	19	19	19	18	18	18	18	18	18	17
Vehicles	47	42	39	36	33	37	33	34	34	34
Economic development and assistance										
Department of Business, Economic Development and Tourism										
Buildings	32	32	32	32	32	32	33	33	33	33
Vehicles	32	30	32	32	28	30	32	33	34	34
Department of Labor and Industrial Relations										
Buildings	8	8	8	8	8	8	8	8	8	8
Vehicles	2	2	2	2	2	2	2	2	2	2

(concluded)

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APPENDIX C

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

ARTICLE VII
TAXATION AND FINANCE
LAPSING OF APPROPRIATIONS

Section 11. All appropriations for which the source is general obligation bond funds or general funds shall be for specified periods. No such appropriation shall be made for a period exceeding three years; provided that appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities. Any such appropriation or any portion of any such appropriation that is unencumbered at the close of the fiscal period for which the appropriation is made shall lapse; provided that no appropriation for which the source is general obligation bond funds nor any portion of any such appropriation shall lapse if the legislature determines that the appropriation or any portion of the appropriation is necessary to qualify for federal aid financing and reimbursement. Where general obligation bonds have been authorized for an appropriation, the amount of the bond authorization shall be reduced in an amount equal to the amount lapsed.

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

1. The term "bonds" shall include bonds, notes and other instruments of indebtedness.

2. The term "general obligation bonds" means all bonds for the payment of the principal and interest of which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, includes reimbursable general obligation bonds.

3. The term "net revenues" or "net user tax receipts" means the revenues or receipts derived from:

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

b. Any payments or return on security under a loan program or a loan thereunder, after the costs of operation and administration of the loan program, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made.

4. The term "dam and reservoir owner" means any person who has a right to, title to, or an interest in, a dam, a reservoir, or the property upon which a dam, a reservoir, or appurtenant work is located or proposed to be located.

5. The term "person" means an individual, firm, partnership, corporation, association, cooperative or other legal entity, governmental body or agency, board, bureau or other instrumentality thereof, or any combination of the foregoing.

6. The term "rates, rentals and charges" means all revenues and other moneys derived from the operation or lease of a public undertaking, improvement or system, or derived from any payments or return on security under a loan program or a loan thereunder; provided that insurance premium payments, assessments and surcharges, shall constitute rates, rentals and charges of a state property insurance program.

7. The term "reimbursable general obligation bonds" means general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be

derived for the payment of the principal and interest as reimbursement to the general fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund is required by law to be made from the revenue of the political subdivision.

8. The term “revenue bonds” means all bonds payable from the revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law, including a loan program to provide loans to a state property insurance program providing hurricane insurance coverage to the general public.

9. The term “special purpose revenue bonds” means all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law.

10. The term “user tax” means a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system; provided that mortgage recording taxes shall constitute user taxes of a state property insurance program.

The legislature, by a majority vote of the members to which each house is entitled, shall authorize the issuance of all general obligation bonds, bonds issued under special improvement statutes and revenue bonds issued by or on behalf of the State and shall prescribe by general law the manner and procedure for such issuance. The legislature by general law shall authorize political subdivisions to issue general obligation bonds, bonds issued under special improvement statutes and revenue bonds and shall prescribe the manner and procedure for such issuance. All such bonds issued by or on behalf of a political subdivision shall be authorized by the governing body of such political subdivision.

Special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist:

1. Manufacturing, processing or industrial enterprises;

2. Utilities serving the general public;

3. Health care facilities provided to the general public by not for profit corporations;

4. Early childhood education and care facilities provided to the general public by not for profit corporations;

5. Low and moderate income government housing programs;

6. Not for profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities;

7. Agricultural enterprises; or

8. Dam and Reservoir Owners; provided that the bonds are issued for and the proceeds are used to offer loans to assist dam and reservoir owners to improve their facilities to protect public safety and provide significant benefits to the general public as important water sources, each of which is hereinafter referred to in this paragraph as a special purpose entity.

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature;

and provided further that the State may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds to assist not for profit private nonsectarian and sectarian elementary schools, secondary schools, colleges, and universities, dam and reservoir owners, or agricultural enterprises, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds. If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision. No special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person or persons under contract or from any security for such contract or contracts or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof. The governor shall provide the legislature in November of each year with a report on the cumulative amount of all special purpose revenue bonds authorized and issued, and such other information as may be necessary.

DEBT LIMIT; EXCLUSIONS

Section 13. General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed: a sum equal to twenty percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance until June 30, 1982; and thereafter, a sum equal to eighteen and one half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance. Effective July 1, 1980, the legislature shall include a declaration of findings in every general law authorizing the issuance of general obligation bonds that the total amount of principal and interest, estimated for such bonds and for all bonds authorized and unissued and calculated for all bonds issued and outstanding, will not cause the debt limit to be exceeded at the time of issuance. Any bond issue by or on behalf of the State may exceed the debt limit if an emergency condition is declared to exist by the governor and concurred to by a two-thirds vote of the members to which each house of the legislature is entitled. For the purpose of this paragraph, general fund revenues of the State shall not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded as permitted by this section.

A sum equal to fifteen percent of the total of the assessed values for tax rate purposes of real property in each political subdivision, as determined by the last tax assessment rolls pursuant to law, is established as the limit of the funded debt of such political subdivision that is outstanding and unpaid at any time.

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

In determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision under Section 12, the following shall be excluded:

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

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan

thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for any political subdivision, whether issued before or after the effective date of this section, but only for as long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the effective date of this section, the consent of the governing body of the political subdivision has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such political subdivision.

8. Bonds constituting instruments of indebtedness under which the State or any political subdivision incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under this section; provided that the State or political subdivision shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State or political subdivision as provided by law.

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

The total outstanding indebtedness of the State or funded debt of any political subdivision and the exclusions therefrom permitted by this section shall be made annually and certified by law or as provided by law. For the purposes of Section 12 and this section, amounts received from on-street parking may be considered and treated as revenues of a parking undertaking.

Nothing in Section 12 or in this section shall prevent the refunding of any bond at any time.

APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII

As of January 1, 2019

GENERAL OBLIGATION BONDS AND GENERAL OBLIGATION REFUNDING BONDS OF THE STATE OF HAWAII
ISSUED AND OUTSTANDING

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
May 20, 2008	$ 375,000,000, Series DK	4.000%	May 1,	2019	75,000.00	
		4.250%	May 1	2019	130,000.00	
		5.000%	May 1,	2019	210,000.00	$ 415,000.00
December 16, 2008	$ 100,000,000, Series DN	5.000%	August 1,	2019	1,825,000.00	$ 1,825,000.00
June 23, 2009	$ 500,000,000, Series DQ	5.000%	June 1,	2019	25,945,000.00	
		3.600%	June 1,	2020	435,000.00	
		5.000%	June 1,	2020	5,495,000.00	
		5.000%	June 1,	2026	11,930,000.00	$ 43,805,000.00
June 23, 2009	$ 225,410,000, Series DR	4.000%	June 1,	2019	3,805,000.00	
		4.250%	June 1,	2019	15,195,000.00	
		5.000%	June 1,	2019	23,060,000.00	$ 42,060,000.00
November 5, 2009	$ 32,000,000, Series DS, QSCB tax credit bonds	0.800%	September 15,	2019	2,880,000.00	
		1.000%	September 15,	2020	2,920,000.00	
		1.200%	September 15,	2021	2,960,000.00	
		1.300%	September 15,	2022	2,960,000.00	
		1.350%	September 15,	2023	3,000,000.00	
		1.450%	September 15,	2024	3,040,000.00	$ 17,760,000.00
November 24, 2009	$ 204,140,000, Series DT	3.500%	November 1,	2019	4,250,000.00	
		4.500%	November 1,	2019	18,250,000.00	
		5.000%	November 1,	2019	15,590,000.00	$ 38,090,000.00
February 18, 2010	$ 500,000,000, Series DX, BABs, Optional Make-Whole Redemptions	4.290%	February 1,	2019	25,760,000.00	
		4.450%	February 1,	2020	26,865,000.00	
		4.600%	February 1,	2021	28,060,000.00	
		4.800%	February 1,	2022	29,350,000.00	

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
			4.950%	February 1,	2023	30,760,000.00	
			5.100%	February 1,	2024	32,280,000.00	
			5.230%	February 1,	2025	33,930,000.00	
			5.330%	February 1,	2026	35,705,000.00	
			5.430%	February 1,	2027	37,605,000.00	
			5.480%	February 1,	2028	39,650,000.00	
			5.510%	February 1,	2029	41,820,000.00	
			5.530%	February 1,	2030	44,125,000.00	$ 405,910,000.00
February 18, 2010	$	221,625,000, Series DY	4.000%	February 1,	2019	9,000,000.00	
			5.000%	February 1,	2019	30,350,000.00	
			4.000%	February 1,	2020	11,485,000.00	
			5.000%	February 1,	2020	29,740,000.00	$ 80,575,000.00
December 7, 2011	$	800,000,000, Series DZ	5.000%	December 1,	2019	18,095,000.00	
			5.000%	December 1,	2020	23,560,000.00	
			5.000%	December 1,	2021	11,170,000.00	
			3.500%	December 1,	2025	4,400,000.00	
			4.000%	December 1,	2030	10,565,000.00	
			4.000%	December 1,	2031	7,045,000.00	$ 74,835,000.00
December 7, 2011	$	403,455,000, Series EA, refunding	3.000%	December 1,	2019	2,940,000.00	
			4.000%	December 1,	2019	13,440,000.00	
			5.000%	December 1,	2019	32,675,000.00	
			3.000%	December 1,	2020	2,745,000.00	
			4.000%	December 1,	2020	16,635,000.00	
			5.000%	December 1,	2020	31,980,000.00	
			3.000%	December 1,	2021	950,000.00	
			4.000%	December 1,	2021	20,165,000.00	
			5.000%	December 1,	2021	32,650,000.00	
			3.250%	December 1,	2022	1,875,000.00	
			4.000%	December 1,	2022	13,765,000.00	
			5.000%	December 1,	2022	40,680,000.00	
			3.000%	December 1,	2023	1,000,000.00	
			5.000%	December 1,	2023	58,110,000.00	$ 269,610,000.00
December 4, 2012	$	444,000,000, Series EE	1.000%	November 1,	2019	1,000,000.00	
			3.000%	November 1,	2019	2,645,000.00	
			4.000%	November 1,	2019	150,000.00	
			5.000%	November 1,	2019	17,085,000.00	
			2.000%	November 1,	2020	2,620,000.00	
			4.000%	November 1,	2020	1,125,000.00	
			5.000%	November 1,	2020	18,110,000.00	
			5.000%	November 1,	2021	21,195,000.00	

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
			5.000%	November 1,	2022	1,080,000.00	
			5.000%	November 1,	2025	15,260,000.00	
			5.000%	November 1,	2029	10,220,000.00	
			3.000%	November 1,	2030	35,285,000.00	
			4.000%	November 1,	2031	36,545,000.00	
			4.000%	November 1,	2032	38,040,000.00	$ 200,360,000.00
December 4, 2012	$	396,990,000, Series EF, refunding	5.000%	November 1,	2019	45,735,000.00	
			5.000%	November 1,	2020	48,080,000.00	
			5.000%	November 1,	2021	50,550,000.00	
			5.000%	November 1,	2022	53,140,000.00	
			5.000%	November 1,	2023	55,865,000.00	
			5.000%	November 1,	2024	58,730,000.00	$ 312,100,000.00
December 4, 2012	$	26,000,000, Series EG, taxable	1.600%	November 1,	2019	1,405,000.00	
			1.950%	November 1,	2020	1,430,000.00	
			2.150%	November 1,	2021	1,460,000.00	
			2.250%	November 1,	2022	1,490,000.00	
			2.450%	November 1,	2023	1,525,000.00	
			2.600%	November 1,	2024	1,565,000.00	
			2.750%	November 1,	2025	1,610,000.00	
			2.850%	November 1,	2026	1,655,000.00	
			3.375%	November 1,	2027	1,705,000.00	
			3.050%	November 1,	2028	1,760,000.00	
			3.150%	November 1,	2029	1,815,000.00	
			3.250%	November 1,	2030	1,875,000.00	
			3.350%	November 1,	2031	1,940,000.00	
			3.625%	November 1,	2032	2,010,000.00	$ 23,245,000.00
November 21, 2013	$	635,000,000, Series EH	4.000%	August 1,	2019	11,945,000.00	
			5.000%	August 1,	2019	16,535,000.00	
			5.000%	August 1,	2020	29,880,000.00	
			5.000%	August 1,	2021	9,680,000.00	
			4.000%	August 1,	2022	9,480,000.00	
			4.000%	August 1,	2023	600,000.00	
			5.000%	August 1,	2023	13,045,000.00	
			5.000%	August 1,	2024	26,905,000.00	
			5.000%	August 1,	2025	37,970,000.00	
			4.000%	August 1,	2026	28,705,000.00	
			4.000%	August 1,	2027	30,945,000.00	
			5.000%	August 1,	2028	31,625,000.00	
			5.000%	August 1,	2029	45,590,000.00	
			5.000%	August 1,	2030	12,415,000.00	
			4.000%	August 1,	2031	7,260,000.00	
			5.000%	August 1,	2031	9,760,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
		5.000%	August 1,	2032	25,445,000.00	
		4.000%	August 1,	2033	17,530,000.00	
		5.000%	August 1,	2033	9,140,000.00	$ 374,455,000.00
November 21, 2013	$ 50,860,000, Series EL, refunding	1.500%	August 1,	2019	1,500,000.00	
		3.000%	August 1,	2019	275,000.00	
		5.000%	August 1,	2019	5,150,000.00	
		4.000%	August 1,	2020	7,210,000.00	
		3.000%	August 1,	2021	1,600,000.00	
		5.000%	August 1,	2021	5,930,000.00	
		4.000%	August 1,	2022	7,860,000.00	
		3.000%	August 1,	2023	1,600,000.00	
		5.000%	August 1,	2023	6,605,000.00	$ 37,730,000.00
November 21, 2013	$ 25,000,000, Series EM	2.450%	August 1,	2019	1,215,000.00	
		2.750%	August 1,	2020	1,250,000.00	
		3.100%	August 1,	2021	1,285,000.00	
		3.350%	August 1,	2022	1,330,000.00	
		3.500%	August 1,	2023	1,375,000.00	
		3.750%	August 1,	2024	1,425,000.00	
		3.900%	August 1,	2025	1,480,000.00	
		4.050%	August 1,	2026	1,540,000.00	
		4.200%	August 1,	2027	1,605,000.00	
		4.350%	August 1,	2028	1,675,000.00	
		4.450%	August 1,	2029	1,750,000.00	
		4.650%	August 1,	2030	1,835,000.00	
		4.700%	August 1,	2031	1,920,000.00	
		4.750%	August 1,	2032	2,015,000.00	
		4.800%	August 1,	2033	2,110,000.00	$ 23,810,000.00
November 21, 2013	$ 29,795,000, Series EN, QSCB	2.450%	August 1,	2019	1,865,000.00	
	-Direct Payment	2.750%	August 1,	2020	1,865,000.00	
		3.100%	August 1,	2021	1,865,000.00	
		3.350%	August 1,	2022	1,865,000.00	
		3.500%	August 1,	2023	1,865,000.00	
		3.750%	August 1,	2024	1,865,000.00	
		3.900%	August 1,	2025	1,860,000.00	
		4.050%	August 1,	2026	1,860,000.00	
		4.200%	August 1,	2027	1,860,000.00	
		4.350%	August 1,	2028	1,860,000.00	
		4.450%	August 1,	2029	1,860,000.00	
		4.650%	August 1,	2030	1,860,000.00	
		4.700%	August 1,	2031	1,860,000.00	
		4.750%	August 1,	2032	1,860,000.00	
		4.800%	August 1,	2033	1,860,000.00	$ 27,930,000.00

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
November 25, 2014	$	575,000,000, Series EO	3.000%	August 1,	2019	7,810,000.00	
			5.000%	August 1,	2019	16,685,000.00	
			4.000%	August 1,	2020	9,510,000.00	
			5.000%	August 1,	2020	16,110,000.00	
			5.000%	August 1,	2021	23,110,000.00	
			5.000%	August 1,	2022	22,905,000.00	
			3.000%	August 1,	2023	2,095,000.00	
			5.000%	August 1,	2023	10,560,000.00	
			4.000%	August 1,	2024	5,305,000.00	
			5.000%	August 1,	2024	25,720,000.00	
			3.000%	August 1,	2025	730,000.00	
			5.000%	August 1,	2025	31,850,000.00	
			4.000%	August 1,	2026	440,000.00	
			5.000%	August 1,	2026	30,825,000.00	
			3.000%	August 1,	2027	2,130,000.00	
			5.000%	August 1,	2027	33,845,000.00	
			5.000%	August 1,	2028	37,795,000.00	
			5.000%	August 1,	2029	37,695,000.00	
			3.250%	August 1,	2029	2,020,000.00	
			5.000%	August 1,	2030	41,735,000.00	
			4.000%	August 1,	2031	23,750,000.00	
			5.000%	August 1,	2031	20,000,000.00	
			4.000%	August 1,	2032	25,740,000.00	
			5.000%	August 1,	2032	20,000,000.00	
			4.000%	August 1,	2033	27,815,000.00	
			5.000%	August 1,	2033	20,000,000.00	
			3.500%	August 1,	2034	7,890,000.00	
			5.000%	August 1,	2034	20,000,000.00	
			4.000%	August 1,	2034	22,060,000.00	$ 546,130,000.00
November 25, 2014	$	209,015,000, Series EP, refunding	5.000%	August 1,	2019	21,790,000.00	
			5.000%	August 1,	2020	22,905,000.00	
			5.000%	August 1,	2021	24,080,000.00	
			5.000%	August 1,	2022	25,315,000.00	
			5.000%	August 1,	2023	26,615,000.00	
			5.000%	August 1,	2024	27,980,000.00	
			5.000%	August 1,	2025	29,410,000.00	
			5.000%	August 1,	2026	30,920,000.00	$ 209,015,000.00
November 25, 2014	$	25,000,000, Series EQ, taxable,	2.035%	August 1,	2019	1,230,000.00	
		Make-Whole Optional Redemption	2.368%	August 1,	2020	1,260,000.00	
			2.648%	August 1,	2021	1,290,000.00	
			2.787%	August 1,	2022	1,325,000.00	
			2.957%	August 1,	2023	1,365,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
		3.107%	August 1,	2024	1,405,000.00	
		3.257%	August 1,	2025	1,450,000.00	
		3.357%	August 1,	2026	1,500,000.00	
		3.507%	August 1,	2027	1,555,000.00	
		3.537%	August 1,	2028	1,610,000.00	
		3.637%	August 1,	2029	1,665,000.00	
		3.715%	August 1,	2030	1,730,000.00	
		3.765%	August 1,	2031	1,795,000.00	
		3.815%	August 1,	2032	1,865,000.00	
		3.865%	August 1,	2033	1,940,000.00	
		3.915%	August 1,	2034	2,015,000.00	$ 25,000,000.00
October 29, 2015	$ 190,000,000, Series ET	5.000%	October 1,	2019	7,700,000.00	
		2.000%	October 1,	2020	7,975,000.00	
		4.000%	October 1,	2021	8,220,000.00	
		4.000%	October 1,	2022	8,555,000.00	
		3.000%	October 1,	2023	8,860,000.00	
		5.000%	October 1,	2024	9,220,000.00	
		5.000%	October 1,	2025	9,695,000.00	
		4.000%	October 1,	2026	10,140,000.00	
		4.000%	October 1,	2027	10,555,000.00	
		3.000%	October 1,	2028	5,000,000.00	
		5.000%	October 1,	2028	5,990,000.00	
		3.000%	October 1,	2029	11,385,000.00	
		5.000%	October 1,	2030	11,850,000.00	
		5.000%	October 1,	2031	12,460,000.00	
		3.250%	October 1,	2032	12,980,000.00	
		4.000%	October 1,	2033	13,460,000.00	
		4.000%	October 1,	2034	14,010,000.00	
		4.000%	October 1,	2035	14,585,000.00	$ 182,640,000.00
October 29, 2015	$ 35,000,000, Series EU, Green Bonds	3.000%	October 1,	2019	1,570,000.00	
		2.000%	October 1,	2020	1,610,000.00	
		3.000%	October 1,	2021	1,650,000.00	
		2.000%	October 1,	2022	1,695,000.00	
		3.000%	October 1,	2023	1,735,000.00	
		2.000%	October 1,	2024	1,780,000.00	
		3.000%	October 1,	2025	1,825,000.00	
		2.500%	October 1,	2026	1,875,000.00	
		3.000%	October 1,	2027	1,930,000.00	
		3.000%	October 1,	2028	1,985,000.00	
		3.000%	October 1,	2029	2,050,000.00	
		3.125%	October 1,	2030	2,110,000.00	
		3.250%	October 1,	2031	2,180,000.00	
		3.250%	October 1,	2032	2,250,000.00	
		3.250%	October 1,	2033	2,325,000.00	

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
			3.375%	October 1,	2034	2,405,000.00	
			3.500%	October 1,	2035	2,490,000.00	$ 33,465,000.00
October 29, 2015	$	25,035,000, Series EX, refunding	4.000%	October 1,	2019	3,245,000.00	
			4.000%	October 1,	2020	3,375,000.00	
			2.000%	October 1,	2021	3,480,000.00	
			3.000%	October 1,	2022	3,565,000.00	
			3.000%	October 1,	2023	3,675,000.00	
			3.000%	October 1,	2024	3,790,000.00	
			3.000%	October 1,	2025	3,905,000.00	$ 25,035,000.00
October 29, 2015	$	212,120,000, Series EY, refunding	5.000%	October 1,	2020	22,110,000.00	
			5.000%	October 1,	2021	23,245,000.00	
			5.000%	October 1,	2022	24,440,000.00	
			5.000%	October 1,	2023	25,690,000.00	
			5.000%	October 1,	2024	27,010,000.00	
			5.000%	October 1,	2025	28,395,000.00	
			5.000%	October 1,	2026	29,850,000.00	
			5.000%	October 1,	2027	31,380,000.00	$ 212,120,000.00
October 29, 2015	$	215,590,000, Series EZ, refunding	5.000%	October 1,	2019	17,040,000.00	
			5.000%	October 1,	2020	17,910,000.00	
			5.000%	October 1,	2021	18,830,000.00	
			5.000%	October 1,	2022	19,795,000.00	
			5.000%	October 1,	2023	20,810,000.00	
			5.000%	October 1,	2024	21,880,000.00	
			5.000%	October 1,	2025	23,000,000.00	
			5.000%	October 1,	2026	24,180,000.00	
			5.000%	October 1,	2027	25,420,000.00	
			5.000%	October 1,	2028	26,725,000.00	$ 215,590,000.00
October 29, 2015	$	25,000,000, Series FA, taxable,	3.000%	October 1,	2019	1,090,000.00	
		Make-Whole Optional Redemption	1.950%	October 1,	2020	1,115,000.00	
			2.270%	October 1,	2021	1,140,000.00	
			2.530%	October 1,	2022	1,170,000.00	
			2.680%	October 1,	2023	1,200,000.00	
			4.000%	October 1,	2024	1,240,000.00	
			3.050%	October 1,	2025	1,285,000.00	
			3.150%	October 1,	2026	1,325,000.00	
			3.350%	October 1,	2027	1,370,000.00	
			3.500%	October 1,	2028	1,415,000.00	
			3.650%	October 1,	2029	1,465,000.00	
			3.750%	October 1,	2030	1,520,000.00	
			3.950%	October 1,	2031	1,580,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
		4.050%	October 1,	2032	1,645,000.00	
		4.180%	October 1,	2033	1,715,000.00	
		4.300%	October 1,	2034	1,790,000.00	
		4.400%	October 1,	2035	1,870,000.00	$ 23,935,000.00
April 14, 2016	$ 500,000,000, Series FB	5.000%	April 1,	2019	18,465,000.00	
		5.000%	April 1,	2020	19,385,000.00	
		5.000%	April 1,	2021	20,355,000.00	
		5.000%	April 1,	2022	21,375,000.00	
		5.000%	April 1,	2023	22,485,000.00	
		5.000%	April 1,	2024	23,610,000.00	
		5.000%	April 1,	2025	24,785,000.00	
		4.000%	April 1,	2026	26,025,000.00	
		5.000%	April 1,	2027	27,020,000.00	
		4.000%	April 1,	2028	28,370,000.00	
		4.000%	April 1,	2029	29,505,000.00	
		4.000%	April 1,	2030	30,685,000.00	
		4.000%	April 1,	2031	31,910,000.00	
		3.000%	April 1,	2032	33,190,000.00	
		3.000%	April 1,	2033	34,140,000.00	
		3.000%	April 1,	2034	35,165,000.00	
		3.000%	April 1,	2035	36,220,000.00	
		3.000%	April 1,	2036	37,310,000.00	$ 500,000,000.00
April 14, 2016	$ 25,000,000, Series FC, taxable,	1.380%	April 1,	2019	4,990,000.00	
	Make-Whole Optional Redemption	1.660%	April 1,	2020	5,055,000.00	
		1.750%	April 1,	2021	5,140,000.00	$ 15,185,000.00
April 14, 2016	$ 219,690,000, Series FE, refunding	5.000%	October 1,	2019	17,400,000.00	
		4.000%	October 1,	2020	450,000.00	
		5.000%	October 1,	2020	17,840,000.00	
		3.000%	October 1,	2021	1,870,000.00	
		5.000%	October 1,	2021	17,340,000.00	
		5.000%	October 1,	2022	20,175,000.00	
		4.000%	October 1,	2023	1,480,000.00	
		5.000%	October 1,	2023	19,720,000.00	
		5.000%	October 1,	2024	22,280,000.00	
		3.000%	October 1,	2025	225,000.00	
		5.000%	October 1,	2025	23,195,000.00	
		5.000%	October 1,	2026	24,620,000.00	
		5.000%	October 1,	2027	25,885,000.00	
		4.000%	October 1,	2028	200,000.00	
		5.000%	October 1,	2028	27,010,000.00	$ 219,690,000.00

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
April 14, 2016	$	119,730,000, Series FF, refunding,	1.309%	October 1,	2019	10,905,000.00	
		taxable,	1.505%	October 1,	2020	11,060,000.00	
		Make-Whole Optional Redemption	1.934%	October 1,	2021	11,255,000.00	
			2.074%	October 1,	2022	11,480,000.00	
			2.255%	October 1,	2023	11,730,000.00	
			2.402%	October 1,	2024	12,010,000.00	
			2.552%	October 1,	2025	12,310,000.00	
			2.652%	October 1,	2026	12,635,000.00	
			2.802%	October 1,	2027	12,985,000.00	
			2.902%	October 1,	2028	13,360,000.00	$ 119,730,000.00
October 13, 2016	$	375,000,000, Series FG	3.000%	October 1,	2019	10,640,000.00	
			5.000%	October 1,	2019	2,880,000.00	
			3.000%	October 1,	2020	1,100,000.00	
			5.000%	October 1,	2020	12,995,000.00	
			3.000%	October 1,	2021	100,000.00	
			5.000%	October 1,	2021	14,705,000.00	
			3.000%	October 1,	2022	2,315,000.00	
			5.000%	October 1,	2022	13,225,000.00	
			4.000%	October 1,	2023	5,000,000.00	
			5.000%	October 1,	2023	11,285,000.00	
			4.000%	October 1,	2024	340,000.00	
			5.000%	October 1,	2024	16,755,000.00	
			4.000%	October 1,	2025	1,125,000.00	
			5.000%	October 1,	2025	16,835,000.00	
			4.000%	October 1,	2026	5,000,000.00	
			5.000%	October 1,	2026	13,855,000.00	
			5.000%	October 1,	2027	19,795,000.00	
			5.000%	October 1,	2028	20,810,000.00	
			5.000%	October 1,	2029	21,875,000.00	
			5.000%	October 1,	2030	22,995,000.00	
			5.000%	October 1,	2031	24,180,000.00	
			4.000%	October 1,	2032	25,285,000.00	
			4.000%	October 1,	2033	26,320,000.00	
			4.000%	October 1,	2034	27,395,000.00	
			4.000%	October 1,	2035	28,515,000.00	
			4.000%	October 1,	2036	29,675,000.00	$ 375,000,000.00
October 13, 2016	$	379,295,000, Series FH, refunding	3.000%	October 1,	2021	15,000,000.00	
			5.000%	October 1,	2021	11,715,000.00	
			5.000%	October 1,	2022	27,935,000.00	
			5.000%	October 1,	2023	29,360,000.00	
			5.000%	October 1,	2024	30,875,000.00	
			5.000%	October 1,	2025	32,455,000.00	
			5.000%	October 1,	2026	34,115,000.00	
			5.000%	October 1,	2027	35,870,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
		5.000%	October 1,	2028	37,710,000.00	
		5.000%	October 1,	2029	39,645,000.00	
		4.000%	October 1,	2030	41,460,000.00	
		4.000%	October 1,	2031	43,155,000.00	$ 379,295,000.00
October 13, 2016	$ 2,710,000, Series FI, refunding	2.000%	October 1,	2021	165,000.00	
		2.000%	October 1,	2022	170,000.00	
		3.000%	October 1,	2023	175,000.00	
		3.000%	October 1,	2024	185,000.00	
		3.000%	October 1,	2025	185,000.00	
		3.000%	October 1,	2026	195,000.00	
		5.000%	October 1,	2027	200,000.00	
		5.000%	October 1,	2028	210,000.00	
		5.000%	October 1,	2029	220,000.00	
		5.000%	October 1,	2030	235,000.00	
		5.000%	October 1,	2031	240,000.00	
		5.000%	October 1,	2032	255,000.00	
		5.000%	October 1,	2033	275,000.00	$ 2,710,000.00
October 13, 2016	$ 25,000,000, Series FJ, taxable	1.151%	October 1,	2019	4,925,000.00	
		1.370%	October 1,	2020	4,990,000.00	
		1.620%	October 1,	2021	5,060,000.00	
		1.921%	October 1,	2022	5,155,000.00	$ 20,130,000.00
May 24, 2017	$ 575,000,000, Series FK	3.000%	May 1,	2020	2,000,000.00	
		4.000%	May 1,	2020	19,675,000.00	
		2.000%	May 1,	2021	3,610,000.00	
		4.000%	May 1,	2021	18,915,000.00	
		3.000%	May 1,	2022	4,335,000.00	
		4.000%	May 1,	2022	19,020,000.00	
		2.000%	May 1,	2023	590,000.00	
		4.000%	May 1,	2023	10,000,000.00	
		5.000%	May 1,	2023	13,655,000.00	
		3.000%	May 1,	2024	1,300,000.00	
		4.000%	May 1,	2024	6,000,000.00	
		5.000%	May 1,	2024	18,040,000.00	
		3.000%	May 1,	2025	535,000.00	
		4.000%	May 1,	2025	1,225,000.00	
		5.000%	May 1,	2025	24,760,000.00	
		3.000%	May 1,	2026	695,000.00	
		4.000%	May 1,	2026	85,000.00	
		5.000%	May 1,	2026	27,045,000.00	
		3.000%	May 1,	2027	475,000.00	
		4.000%	May 1,	2027	1,375,000.00	
		5.000%	May 1,	2027	27,350,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
		3.000%	May 1,	2028	500,000.00	
		5.000%	May 1,	2028	30,135,000.00	
		4.000%	May 1,	2029	10,000,000.00	
		5.000%	May 1,	2029	22,155,000.00	
		3.000%	May 1,	2030	5,000,000.00	
		4.000%	May 1,	2030	28,665,000.00	
		4.000%	May 1,	2031	34,960,000.00	
		4.000%	May 1,	2032	36,360,000.00	
		3.250%	May 1,	2033	15,000,000.00	
		5.000%	May 1,	2033	22,815,000.00	
		5.000%	May 1,	2034	39,445,000.00	
		4.000%	May 1,	2035	41,415,000.00	
		4.000%	May 1,	2036	43,070,000.00	
		3.500%	May 1,	2037	20,000,000.00	
		4.000%	May 1,	2037	24,795,000.00	$ 575,000,000.00
May 24, 2017	$ 229,355,000, Series FN, refunding	5.000%	October 1,	2021	16,035,000.00	
		5.000%	October 1,	2022	16,860,000.00	
		5.000%	October 1,	2023	17,725,000.00	
		5.000%	October 1,	2024	18,630,000.00	
		5.000%	October 1,	2025	19,590,000.00	
		5.000%	October 1,	2026	20,590,000.00	
		5.000%	October 1,	2027	21,650,000.00	
		5.000%	October 1,	2028	22,760,000.00	
		5.000%	October 1,	2029	23,925,000.00	
		5.000%	October 1,	2030	25,150,000.00	
		5.000%	October 1,	2031	26,440,000.00	$ 229,355,000.00
May 24, 2017	$ 37,500,000, Series FO, taxable,	1.850%	May 1,	2020	18,580,000.00	
	Make-Whole Optional Redemption	2.250%	May 1,	2021	18,920,000.00	$ 37,500,000.00
May 24, 2017	$ 7,500,000, Series FP, taxable,	1.850%	May 1,	2020	325,000.00	
	Make-Whole Optional Redemption	2.100%	May 1,	2021	330,000.00	
		2.400%	May 1,	2022	335,000.00	
		2.600%	May 1,	2023	345,000.00	
		2.800%	May 1,	2024	355,000.00	
		2.950%	May 1,	2025	365,000.00	
		3.050%	May 1,	2026	375,000.00	
		3.200%	May 1,	2027	385,000.00	
		3.300%	May 1,	2028	400,000.00	
		3.400%	May 1,	2029	410,000.00	
		3.550%	May 1,	2030	425,000.00	
		3.650%	May 1,	2031	440,000.00	
		3.700%	May 1,	2032	455,000.00	
		3.740%	May 1,	2033	475,000.00	

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
			3.790%	May 1,	2034	490,000.00	
			3.840%	May 1,	2035	510,000.00	
			3.890%	May 1,	2036	530,000.00	
			3.940%	May 1,	2037	550,000.00	$ 7,500,000.00
December 21, 2017	$	15,090,000, Series FR, Direct Purchase,	2.000%	October 1,	2019	3,730,000.00	
		refunding	2.110%	October 1,	2020	3,810,000.00	
			2.180%	October 1,	2021	3,890,000.00	$ 11,430,000.00
December 21, 2017	$	275,363,064.26, Series FS, Direct	2.220%	October 1,	2022	19,970,635.58	
		Purchase, refunding	2.270%	October 1,	2023	20,424,123.43	
			2.340%	October 1,	2024	20,900,472.76	
			2.390%	October 1,	2025	21,400,747.22	
			2.460%	October 1,	2026	21,926,178.14	
			2.520%	October 1,	2027	22,479,106.88	
			2.580%	October 1,	2028	23,059,815.25	
			2.660%	October 1,	2029	23,672,126.14	
			2.730%	October 1,	2030	24,318,918.66	
			2.810%	October 1,	2031	25,002,152.13	
			2.880%	October 1,	2032	25,723,855.90	
			2.950%	October 1,	2033	26,484,932.17	$ 275,363,064.26
February 14, 2018	$	631,215,000, Series FT	4.000%	January 1,	2022	1,665,000.00	
			5.000%	January 1,	2022	23,025,000.00	
			3.000%	January 1,	2023	1,395,000.00	
			5.000%	January 1,	2023	24,515,000.00	
			4.000%	January 1,	2024	1,875,000.00	
			5.000%	January 1,	2024	25,305,000.00	
			4.000%	January 1,	2025	4,775,000.00	
			5.000%	January 1,	2025	23,745,000.00	
			3.000%	January 1,	2026	1,300,000.00	
			5.000%	January 1,	2026	28,595,000.00	
			4.000%	January 1,	2027	85,000.00	
			5.000%	January 1,	2027	31,280,000.00	
			4.000%	January 1,	2028	1,035,000.00	
			5.000%	January 1,	2028	31,900,000.00	
			5.000%	January 1,	2029	34,570,000.00	
			5.000%	January 1,	2030	36,295,000.00	
			5.000%	January 1,	2031	38,110,000.00	
			4.000%	January 1,	2032	20,000,000.00	
			5.000%	January 1,	2032	20,020,000.00	
			3.250%	January 1,	2033	760,000.00	
			5.000%	January 1,	2033	41,060,000.00	
			4.000%	January 1,	2034	20,000,000.00	
			5.000%	January 1,	2034	23,895,000.00	

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Amount Due	Outstanding Principal
			3.250%	January 1,	2035	25,000,000.00	
			5.000%	January 1,	2035	20,890,000.00	
			3.375%	January 1,	2036	6,280,000.00	
			5.000%	January 1,	2036	41,470,000.00	
			4.000%	January 1,	2037	20,000,000.00	
			5.000%	January 1,	2037	30,035,000.00	
			5.000%	January 1,	2038	52,335,000.00	$ 631,215,000.00
February 14, 2018	$	50,000,000, Series FU, taxable,	2.375%	January 1,	2020	16,605,000.00	
		Make-Whole Optional Redemption	2.750%	January 1,	2021	17,000,000.00	$ 33,605,000.00
		Total of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding					$6,880,153,064.26

* Does not reflect the expected issuance on February 21, 2019 of $431,665,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2019, Series FW, $75,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2019, Series FX and $68,335,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2019, Series FY.

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APPENDIX E

PENDING LITIGATION

Office of Hawaiian Affairs and Ceded Lands

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law, to better the conditions of native Hawaiians. Article XII, Sections 4, 5 and 6, Hawaii Constitution. In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the State new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

OHA v. HHA. OHA filed suit on July 27, 1995 (*OHA v. HHA, et al*., Civil No. 95-2682-07 (1st Cir.)) against the Hawaii Housing Authority (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in *OHA, et al. v. State of Hawaii, et al*., Civil No. 94-0205-01 (1st Cir.). On November 20, 2018, State Defendants and the Plaintiffs executed and filed with the First Circuit Court a stipulation for dismissal with prejudice of all claims and parties to this case.

The HFDC and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. As more fully described under "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix A, this corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

The Office of Hawaiian Affairs v. State of Hawaii; University of Hawaii; Department of Land & Natural Resources; Board of Land & Natural Resources, Civil No. 17-1-1823-11 JPC (1st Cir.). By the letter dated May 31, 2016, addressed to the State's Attorney General and to the Vice-President for Legal Affairs and General Counsel of the University of Hawaii ("UH"), the Office of Hawaiian Affairs gave notice, pursuant to HRS Section 673-3, of its intent to sue the State, the Department of Land and Natural Resources ("DLNR"), and the UH for the State's breach of its fiduciary duties as trustee of the public land trust, in connection with their management of Mauna Kea. OHA filed its Complaint for Declaratory Judgment & Injunctive Relief, Accounting, Restitution, and Damages on November 7, 2017. The complaint was served on the Attorney General for the State, and DLNR and BLNR on December 20, 2017. The Attorney General filed an answer to the complaint for the State, DLNR and BLNR on January 9, 2018. The University filed a motion to dismiss the complaint on January 10, 2018, to which the State filed a substantive joinder on January 22, 2018. The hearing on the motion has been continued.

The State intends to defend vigorously against OHA's claims in *OHA v. HHA* and in *The Office of Hawaiian Affairs v. State of Hawaii; University of Hawaii; Department of Land & Natural Resources; Board of Land & Natural Resources*. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. The State is not aware of any other claims OHA may have or assert against the State. 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.

Department of Hawaiian Home Lands

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

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

In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999.

On December 29, 1999, three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima et al. v. State of Hawaii et al*., Civil No. 994771-12VSM (1st Cir.) ("Kalima I"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in Kalima I that are common to the questions of law presented in their suits. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al*., Civil No. 99-612 (3rd Cir.) ("Aguiar"), is pending and stayed.

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

The plaintiffs in Kalima I filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in Kalima I for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to take an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in Kalima I have since filed first and second amended complaints to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules (3) receiving allegedly uninhabitable homesteads (4) allegedly lost applications (5) allegedly defectively constructed homes or infrastructure (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead (7) the manner in which the loans were administered (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting list subclass' claims separately and first, and after a six week bifurcated trial to determine liability only, the circuit judge for Kalima II ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL Website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 4 and 14, 2013. After a three day trial completed on October 3, 2013, the court ruled in a minute order that the annual fair market rental values based on four percent of the fee simple value of a 5,000 square foot lot in Maili, obtained from a "best fit" curve derived from actual fee simple Maili valuations from 1959 through July 8, 2013, could be used to calculate damages for claimants who applied for Oahu residential leases, that for damage calculations the rents adjust annually, and that there are no increases for the consumer price index or other present value adjustments. By a third order entered on October 11, 2013, the court certified a Waiting List Damages Subclass defined as "All chapter 674 Plaintiffs who were on the Department of Hawaiian Home Lands waiting list for a homestead and who submitted a claim to the Hawaiian Home Lands Trust Individual Claims Panel because they were not awarded a homestead in a prompt and efficient manner and suffered actual direct monetary out of pocket loss. The parties have participated in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation to Participate in Private Mediation etc., filed on September 13, 2013. To date, no settlement has been reached.

Plaintiffs filed a motion for summary judgment to compute the damages of twelve members of the Waiting List Damages Subclass (none of whom were named plaintiffs) who applied for a residential homestead on Oahu, on January 14, 2015, which the State opposed. The motion was heard on June 30, 2015. An order granting and denying the motion in part was entered on July 26, 2017. The court concluded the Plaintiffs' motion was premature, and entered an order which makes certain findings of facts about twelve members of the Waiting List Subclass, and rules on procedural issues raised in the motion.

The parties have agreed to make every effort to facilitate the entry of a Rule 54(b) judgment disposing of the claims for damages of the members of the waiting list damages subclass, as expeditiously as possible. In furtherance of that effort, Plaintiffs filed the following motions: (1) Plaintiffs' Motion for Partial Summary Judgment on Native Hawaiian Blood Quantum for Waiting List Subclass Members Whose Applications Were Accepted by DHHL on June 2, 2016; (2) Motion for Summary Judgment Regarding the Method for Determining Damages Rules for Inter-Island Application Transfers and Intra-Island Application Redesignations filed on June 6, 2016; (3) Motion for Reconsideration of Court's Ruling That Pins 168, 1496, 1309, 530 and 1875 Refused a Homestead Award Verbally Announced on June 30, 2015 filed June 29, 2016; (4) Motion for Sanctions and To Adopt Method for Calculating Damages in Cases Where Defendants Have Lost Application and Award Files filed on June 29, 2016; (5) Plaintiffs' Motion to Set Commencement Date of Homestead Leases for Unimproved or Unsubdivided Lots at Final Subdivision Approval filed June 30, 2016; (6) Plaintiffs Motion to Establish Class List and Waiting Lit Subclass List filed July 1, 2016; and (7) Plaintiffs' Motion to Exclude Proof of Individual out of Pocket Loss in the Claims Administration Process as Judge Hifo Found and Concluded as a Matter of Law That All Waiting List Subclass Members had Actual Out of Pocket Expense filed July 1, 2016. State Defendants filed cross motions to Plaintiffs' motions (1) (2) and (7), and opposed all Plaintiffs' motions. The circuit court heard all motions on September 2, 2016, and took them under advisement. The parties were permitted to file additional motions on or before September 16, 2016. Plaintiffs filed four additional motions: (8) To Determine Damages for Waiting List Subclass members in the Event of Transfer, Succession, and Death; (9) To Adopt Method to Compute Agricultural and Pastoral Damages; (10) To Establish a Claims Administration Process; and (11) For Entry of Judgment for Waiting List Damages Subclass and to Decertify Subclasses 2-9. State Defendants filed three additional motions: (12) For an Order Requiring Substitution for Deceased Class Members; (13) For Adoption of Rules Barring Damages for Claimants Who Resided on Hawaiian Homesteads, and Limiting Damages for Claimants Who Resided Together While Waiting; and (14) Allowing Discovery of Waiting list Damages Subclass members. The additional motions were heard on November 4, 2016, December 12, 2016, and January 30, 2017.

The circuit court entered orders granting (in whole or in part) Plaintiffs' motions 1 (on 6/19/2017), 2 (on 6/15/2017), 3 (on 7/26/2017), 4 (on 10/6/2017), 5 (on 6/15/2017), 6 (on 7/16/2017), 7 (on 6/15/2017), 8 (on 6/15/2017), 9 (on 7/26/2017), 10 (on 7/26/2017), 11 (on 11/6/2017); denying (in whole or in part) Plaintiffs' motions 1 (on 6/19/2017), 2 (on 6/15/2017); granting State Defendants' motion 14 (on 6/19/2017); denying (in whole or in part) State Defendants' motions 12 (on 6/19/2017), 13 (on 6/15/2017), 14 (on 6/19/2017); granting (in whole or in part) State Defendants' cross motions to Plaintiffs' motions 1 (on 6/19/2017), 7 (on 6/6/2017); and denying (in whole or in part) State Defendants' cross motions to Plaintiffs' motion 2 (on 6/15/2017).

An HRCP Rule 54(b) Final Judgment was entered on January 9, 2018 in favor of the Waiting List Subclass and against the State of Hawaii, State of Hawaii Department of Hawaiian Home Lands, the State of Hawaii Hawaiian Home Lands Trust Individual Claims Review Panel, and the Governor of the State of Hawaii. State Defendants and the Plaintiffs, respectively, filed an appeal and a cross-appeal from the HRCP Rule 54(b) Final Judgment in favor of the Waiting List Subclass and against the State Defendants, in the Intermediate Court of Appeals. The opening briefs in the appeal and cross-appeal were filed on July 25, 2018, and the answering briefs were filed on October 4, 2018. The reply briefs were filed on December 28, 2018. Oral argument has not yet been scheduled.

Plaintiffs filed an Application for Transfer to the Supreme Court of Hawaii on December 31, 2018, and State Defendants informed the Supreme Court that they did not oppose the application in a response to the application filed on January 7, 2019.

Nelson. In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al*., Civil No. 07-1-1663-08 BIA (1st Cir.) ("Nelson"), the plaintiffs allege all defendants breached their duties under Article XII, Sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of Article XII, Sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of Section 207(a) of the HHC Act.

The Nelson plaintiffs asked the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in Article XII, Section 1 of the Hawaii Constitution. A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed.

On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

The Hawaii Supreme Court, on May 9, 2012, concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." The case was remanded to the circuit court for further proceedings.

A trial in circuit court was held, and, on November 27, 2015, the circuit court issued its Findings of Fact, Conclusions of Law and Order. That Order declared and ordered the following: 1) the State of Hawai'i has failed to provide sufficient funds to the Department of Hawaiian Home Lands for its administrative and operating budget in violation of the State's constitutional duty to do so under article XII, section 1 of the Hawai'i Constitution; 2) the State of Hawai'i must fulfill its constitutional duty by appropriating sufficient general funds to the Department of Hawaiian Home Lands for its administrative and operating budget so that the Department does not need to use or rely on revenue directly or indirectly from general leases to pay for these expenses; 3) although what is "sufficient" will change over the years, the sufficient sums that the legislature is constitutionally obligated to appropriate in general funds for DHHL's administrative and operating budget (not including significant repairs) is more than $28 million for fiscal year 2015-16. The Court also ruled that 4) prior to 2012, the DHHL Defendants breached their trust duties by failing to take all reasonable efforts — including filing suit — to obtain all the funding it needs for its administrative and operating budget, and 5) the defendants shall prospectively fulfill their constitutional duties and trust responsibilities; they are enjoined from violating these obligations. (The circuit court also ordered that plaintiffs could collect their costs from the State of Hawaii. The Clerk taxed costs in the amount of $12,117.66. State Defendants filed a motion to reduce taxation of costs, which motion was partially granted, the circuit court reducing taxed costs to $11,942.96.) After judgment was entered, the State Defendants filed a motion for reconsideration or to alter or amend the judgment and order on December 21, 2015. The circuit court granted the State's motion for reconsideration in part and denied it in part. The circuit court rejected State Defendants' position that the legislature, and not the courts, has the exclusive prerogative to decide what is a "sufficient sum" for DHHL's administrative and operating (A&O) budget under Article XII, Section 1. It also rejected State Defendants' position that there was insufficient evidence to support the circuit court's conclusion that the "sufficient sum" for DHHL's A&O budget is more than $28 million for fiscal year 2015-16.

The circuit court, however, granted reconsideration with respect to State Defendants' position that the judicial courts lack the authority, under separation of powers doctrine, to order the legislative branch to appropriate any particular amount of funds to DHHL, by amending paragraphs 3 and 5 of its original Order. Amended paragraph 3 no longer mentions the legislature, and does not mention more than $28 million. It instead only states that $9,632,000 is not sufficient, and that the State of Hawai'i is required to fund DHHL's A&O expenses by making sufficient general funds available to DHHL for its A&O budget for fiscal year 2015-16. Paragraph 5 was amended to say only that the Defendants "must fulfill their constitutional duty and trust responsibilities" (but without the original line saying Defendants "shall prospectively" fulfill those duties and responsibilities), and the original line saying Defendants are "enjoined from violating these obligations" was removed.

Plaintiffs filed a motion for reconsideration asking the circuit court to add into its revised order a statement saying that "Sufficient sums for DHHL's (A&O) budget (not including significant repairs) is more than $28 million for fiscal year 2015-16." The motion was denied. State Defendants filed a notice of appeal, and Plaintiffs filed a notice of cross-appeal. (The circuit court also taxed the State of Hawai'i an additional $386.34.) The appeal and cross-appeal were filed in the Intermediate Court of Appeals. The parties filed briefs in both appeals, and the Legislature requested, was allowed, and filed an amicus curiae brief in support of the State Defendants' positions on February 23, 2017. On March 8, 2017, in response to the DHHL Defendants' application for transfer, the Hawaii Supreme Court transferred the appeal and cross-appeal from the Intermediate Court of Appeals to the Hawaii Supreme Court. By its decision filed on February 9, 2018, in Nelson v. Hawaiian Homes Commission, 141 Hawaii 411, the

Hawaii Supreme Court vacated and remanded the case to the circuit court after holding that the circuit court is to use a baseline of \$1.3 to \$1.6 million, adjusted for inflation, to determine whether the State provided sufficient sums for DHHL's administrative and operating budget. The case is pending assignment in the circuit court.

Hawaii Employer Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (collectively, the "Defendants"). *See Marion Everson, et al. v. State of Hawaii, et al*., Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii ("Civil No. 06-1-1141-06"). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents.

Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A 23) did not require that retiree health benefits reasonably approximate those provided to active employees. *See Everson v. State*, 122 Hawai'i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (*nka James Dannenberg, et al. v. State of Hawaii, et al.*) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee beneficiaries and dependent beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory, and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs' Motion for Class Action Certification. The class certified is all employees (and their dependent beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post retirement health benefits as a retiree or dependent beneficiary of such a retiree. This includes: (a) those who have not yet received any post retirement health benefits from Defendants as a retiree or dependent beneficiary of such a retiree; and (b) those who have received any post retirement benefits from Defendants since July 1, 2003 as a retiree or dependent beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent beneficiary of a retiree who is or was a member of the class. On December 10, 2012, Plaintiff filed Plaintiffs' Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants' Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs' claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual, and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees and their dependents that are equivalent to those provided to other employee beneficiaries and dependent beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the First Circuit Court on October 30, 2013. On October 16, 2014, the court issued an order denying Plaintiffs' Motion for Partial Summary Judgment and granting State Defendants' Motion for Partial Summary Judgment. The one remaining claim was voluntarily dismissed by the Plaintiffs by stipulation and Plaintiffs timely appealed. Out of an abundance of caution, State Defendants cross-appealed in order to address some erroneous conclusions in the circuit court's summary judgment order, in the event Plaintiffs prevail on their appeal and a remand is necessary. On State Defendants' motion, the case was transferred to the Hawaii Supreme Court. Briefing on the appeal and cross-appeal was completed in October 2015. In May 2016, the case was argued before the Hawaii Supreme Court. In its opinion filed on October 21, 2016, 139 Hawai'i 39, 383 P.3d 1177, the Hawaii Supreme Court held: (1) benefits protected by Article XVI, Section 2 of the State Constitution, include retiree health benefits which accrue upon an employee's enrollment in the Employees' Retirement System (ERS), subject to any conditions precedent in place at the time of enrollment that must be satisfied; (2) Article XVI, Section 2 protects accrued health benefits, not parity between the health benefits of retirees and active employees; (3) the retirement health benefits that were promised to retirees at the time of their enrollment in the ERS is the starting point for determining what constitutes a retiree's accrued health benefits; (4) the legislature may change health benefits provided to retirees, as long as the changes do not diminish or impair a retiree's accrued health benefits; and (5) genuine issues of material facts precluded the court from determining whether the plaintiffs' accrued retirement health benefits had been diminished or impaired, and required a remand of the case to the circuit court for further proceedings to determine whether the plaintiffs' accrued retirement health benefits had been diminished or impaired.

Plaintiffs moved, and over the State Defendants' objections, were permitted to file a third amended complaint on December 28, 2017, to which all defendants filed answers by January 22, 2018. On June 7, 2018, State Defendants filed a Motion to Decertify the Class and a Motion for Partial Judgment on the Pleadings Regarding Contribution Caps. Plaintiffs filed a Motion for Partial Summary Judgment on Methodology for Measuring Diminishment & Impairment of Benefits and for Calculating Damages on June 8, 2018, and a Motion for Certification of Damages Subclass on June 20, 2018. All motions were heard on July 18, 2018, at which time Plaintiffs withdrew their motion for partial summary judgment on methodology. By orders entered on August 28, 2018, State Defendants' Motion to Decertify the Class was granted without prejudice to the Plaintiffs' filing a new class certification motion at a later time and Plaintiffs' Motion for Certification of Damages Subclass was denied without prejudice as premature. By a stipulation and order entered on November 19, 2018, State Defendants' motion for partial judgment on the pleadings was denied without prejudice as to the issue of ripeness, denied as to the issue of relation back, and denied without prejudice as to all remaining issues. Plaintiffs' thereafter filed a Motion for Re-Certification of the Class and For Certification of a Damages Subclass on December 3, 2018. The motion is scheduled to be heard on February 6, 2019; State Defendants' opposition was filed on January 28th and Plaintiffs reply must be filed by February 4th.

The State intends to vigorously defend against all claims brought against the State, the EUTF, and the EUTF Board in the case. 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.

Department of Taxation

On October 21, 2015, the Tax Foundation of the State of Hawaii filed a class action lawsuit against the State of Hawaii seeking a judicial determination that the ten percent withheld from the County Surcharge on State General Excise Tax under section 248-2.6(a), Hawaii Revised Statutes, is unconstitutional because it exceeds the actual cost for the State to assess, collect and distribute the County Surcharge to the City and County of Honolulu. *See Tax Foundation of the State of Hawaii v. State of Hawaii*, Case No. 15-1-2020-10 (1st Cir.). Since 2007, the Department of Budget and Finance has transferred $228.4 million from County Surcharge Proceeds into the General Fund (thru December 31, 2018). The circuit court entered a final judgment in favor of the State on June 1, 2016, and the plaintiff has appealed that ruling to the State Intermediate Court of Appeals and that ruling is pending. On January 13, 2017, the case was transferred from the State Intermediate Court of Appeals to the Hawaii Supreme Court. On July 6, 2017, the case was argued before the Hawaii Supreme Court and the Court has taken the case under advisement.

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

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$431,665,000 General Obligation Bonds of 2019, Series FW	**$75,000,000 Taxable General Obligation Bonds of 2019, Series FX**	**$68,335,000 Taxable General Obligation Bonds of 2019, Series FY**

(Base CUSIP: 419792)

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") in connection with the issuance of its $431,665,000 aggregate principal amount of General Obligation Bonds of 2019, Series FW (the "Tax-Exempt 2019 Bonds"), its $75,000,000 aggregate principal amount of Taxable General Obligation Bonds of 2019, Series FX and its $68,335,000 aggregate principal amount of Taxable General Obligation Bonds of 2019, Series FY (collectively, the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Finance of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to Section 403 of the Bond Certificate, the State covenants and agrees as follows:

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

Section 2. Definitions. In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

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

"Holder" shall mean the person in whose name any Bond shall be registered.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org.

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

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The State shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2019, provide to the MSRB an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than 15 business days prior to said date, the State shall provide the Annual Report to the Dissemination Agent (if other than the State).

(c) If the State is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the State shall provide to the MSRB a notice in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall (if the Dissemination Agent is other than the State), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Contents of Annual Reports. The State's Annual Report shall contain or include by reference updates of the following information included in Appendix B to the final Official Statement (the "Official Statement") dated February 6, 2019, relating to the Bonds:

(1) Summary of Total Indebtedness of the State of Hawaii;

(2) Revenue Projections; Certain Tax Collections — General Fund Tax Revenues; and

(3) Revenue Projections; Certain Tax Collections — Actual Collections and Distributions.

The audited financial statements of the State for the prior fiscal year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements, if available, without the State having to undertake to prepare unaudited financial statements exclusively for the purpose of satisfying this Section 4, in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Updates of Appendix B may involve adding additional financial and operating data, displaying data in a different format, or eliminating data that are no longer material.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been (i) available to the public on the MSRB's website or (ii) filed with the Securities and Exchange Commission. The State shall clearly identify each such other document so included by reference.

Section 5. Reporting of Listed Events.

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

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) modifications to rights of Bondholders, if material;

(4) bond calls, if material, and tender offers;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions, material notices of determinations with respect to the tax status of the Tax-Exempt 2019 Bonds or other material events affecting the tax-exempt status of the Tax-Exempt 2019 Bonds;

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

(9) unscheduled draws on the credit enhancements reflecting financial difficulties;

(10) substitution of credit or liquidity providers or their failure to perform;

(11) release, substitution or sale of property securing repayment of the Bonds, if material;

(12) bankruptcy, insolvency, receivership or similar event of the State;

(Note to clause 12: For the purposes of the event identified in clause 12 above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.)

(13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The State shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event (i) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (ii) in all events, file notice of such occurrence with the MSRB.

Section 6. Filings with MSRB. All Annual Reports, notices of Listed Events and other notices and information provided to the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements), accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate with respect to each Bond upon the legal defeasance or payment in full of such Bond. If the obligations of the State under this Disclosure Certificate with respect to all Bonds terminate prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5.

Section 8. Dissemination Agent. The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this, Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the State to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance.

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

Section 13. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By:_______________________________

Roderick K. Becker
Director of Finance
State of Hawaii

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Hawaii
	State of Hawaii General Obligation Bonds of 2019, Series FW
	State of Hawaii Taxable General Obligation Bonds of 2019, Series FX
	State of Hawaii Taxable General Obligation Bonds of 2019, Series FY
Date of Issuance:	February 21, 2019

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above named Bonds as required by its Continuing Disclosure Certificate dated February 21, 2019. [The State anticipates that the Annual Report will be filed by ___________.]

Dated:

STATE OF HAWAII

By: ____

Name: ______________________________________

Title: _______________________________________

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

February 21, 2019

State of Hawaii
Honolulu, Hawaii

$431,665,000 General Obligation Bonds of 2019, Series FW	**$75,000,000 Taxable General Obligation Bonds of 2019, Series FX**	**$68,335,000 Taxable General Obligation Bonds of 2019, Series FY**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of $431,665,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2019, Series FW (the "Series FW Bonds"), $75,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2019, Series FX (the "Series FX Bonds") and $68,335,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2019, Series FY (the "Series FY Bonds," and together with the Series FW Bonds and the Series FX Bonds, the "Bonds"), pursuant to a Certificate of the Director of Finance of the State dated February 6, 2019 (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

In such connection, we have reviewed the Certificate, the Tax Certificate of the State with respect to the Series FW Bonds, dated the date hereof (the "Tax Certificate"), certificates and opinions of the Attorney General and certificates of other officers of the State, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series FW Bonds to be included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code").

The rights and obligations of the State under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue or waiver severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds have been duly authorized and issued in accordance with the Constitution and laws of the State and constitute valid general obligations of the State.

2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid obligation of the State.

3. Interest and principal payments on the Bonds are a first charge on the General Fund of the State and the full faith and credit of the State are pledged to the punctual payment thereof.

4. Interest on the Series FW Bonds (including original issue discount treated as interest, if any) is excludable from gross income for federal income tax purposes, and interest on the Series FW Bonds is not a specific item of tax preference for purposes of the federal alternative tax imposed on individuals.

5. All of the Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and certain franchise taxes.

We observe that interest on the Series FX Bonds and the Series FY Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Code. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Very truly yours,

Katten Muchin Rosenman LLP

APPENDIX H

BOOK-ENTRY SYSTEM

Introduction.

The information in this Appendix H concerning The Depository Trust Company ("DTC"), and DTC's book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. Neither the State nor the Underwriters of the Bonds make any representation as to its accuracy or completeness. Capitalized terms used herein which are not otherwise defined herein shall have the meaning set forth in the front portion of the Official Statement.

DTC will act as the initial securities depository for the Bonds. The information set forth below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC and the State expressly disclaims any responsibility to update this Official Statement to reflect any such changes. The information herein concerning DTC has been obtained from sources that the State believes to be reliable, but neither the State nor the Underwriters take any responsibility for the accuracy or completeness of the information set forth herein. The State will have no responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of DTC or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Beneficial Owners should confirm the following information with DTC or the DTC Participants.

So long as Cede & Co. is the registered holder of the Bonds, as nominee of DTC, references in the Official Statement, to the Holders of the Bonds (other than as set forth under "Tax Matters") shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

THE STATE SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER, WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL AND INTEREST DUE ON THE BONDS; (III) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE HOLDERS OF THE BONDS UNDER THE INDENTURE; (IV) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

AS LONG AS THE BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, ANY NOTICES OF REDEMPTION AND ANY OTHER NOTICES WILL BE SENT ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

DTC.

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

DTC and Its Participants. DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve

System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

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

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Bonds (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC) (iv) any consent given or other action taken by DTC as owner of the Bonds or (v) any other event or purpose.

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STATE OF HAWAII • GENERAL OBLIGATION BONDS OF 2019, SERIES FW, TAXABLE SERIES FX AND TAXABLE SERIES FY

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