PRELIMINARY OFFICIAL STATEMENT DATED JULY 13, 2017

NEW ISSUE
BOOK-ENTRY ONLY

RATING:
Moody's: Aa3
(See "RATING" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2017 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is of the opinion that the Series 2017 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 amount, accrual or receipt of interest on, the Series 2017 Bonds. See "TAX MATTERS" in this Official Statement.

$35,165,000*
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Revenue Bonds, Series 2017

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

The State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2017 (the "Series 2017 Bonds"), are being issued by the Department of Hawaiian Home Lands of the State of Hawaii (the "Department"). The Series 2017 Bonds are issuable in fully registered, book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, security depository for the Series 2017 Bonds. Individual purchases of the Series 2017 Bonds will be made exclusively in book-entry form. Purchasers of the Series 2017 Bonds will not receive physical certificates representing their interests in the Series 2017 Bonds purchased. Payments of the principal or redemption price of and interest on the Series 2017 Bonds will be made directly to DTC or its nominee. Upon receipt of payments of such principal and interest, DTC will in turn remit such payments to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Series 2017 Bonds. Purchases of the Series 2017 Bonds may be made in denominations of $5,000 or any integral multiple thereof. See "THE SERIES 2017 BONDS – Book-Entry Only System."

Interest on the Series 2017 Bonds shall be payable on April 1 and October 1 of each year, commencing October 1, 2017. The Series 2017 Bonds are subject to redemption prior to maturity as herein described.

The Series 2017 Bonds will be issued under an Amended and Restated Master Bond Indenture, as supplemented by a Second Supplemental Indenture (together, and as further amended and supplemented from time to time, the "Indenture"), by and between the Department and The Bank of New York Mellon Trust Company, N.A., as Trustee and Paying Agent. The Series 2017 Bonds are being issued: (i) to refund all outstanding revenue bonds previously issued by the Department; (ii) to fund a Debt Reserve Account established under the Indenture; and (iii) to provide for the expenses of issuance of the Series 2017 Bonds.

The Series 2017 Bonds are limited special obligations of the Department payable solely from, and secured solely by, a pledge of proceeds of the Series 2017 Bonds held or set aside under the Indenture, the Revenues (as defined in the Indenture), and certain funds and accounts established under the Indenture. **Neither the State of Hawaii nor any department or political subdivision thereof, including the Department, is obligated to pay the principal or redemption price of and interest on the Series 2017 Bonds from any other source whatsoever, and neither the full faith and credit nor the taxing power of the State of Hawaii or any department or political subdivision thereof, including the Department, are pledged to such payments.**

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

Stifel

Dated: July __, 2017

* Preliminary, subject to change.

$35,165,000*
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Revenue Bonds, Series 2017

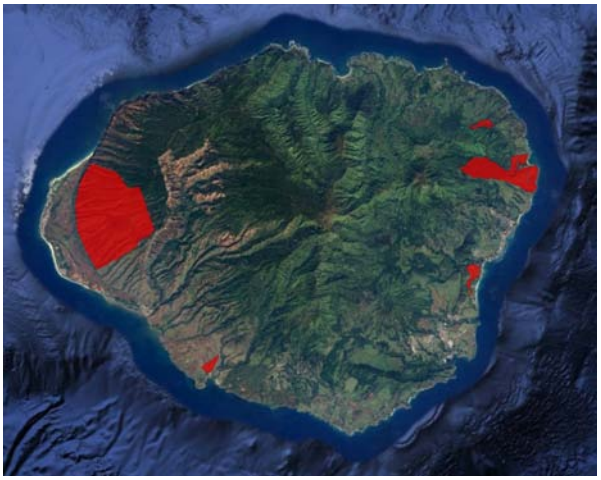
MATURITY SCHEDULE

Maturity Date (April 1)	Principal Amount*	Interest Rate	Yield	Maturity Date (April 1)	Principal Amount*	Interest Rate	Yield
2018	$2,025,000			2027	$2,005,000		
2019	1,410,000			2028	2,105,000		
2020	1,470,000			2029	2,210,000		
2021	1,500,000			2030	2,320,000		
2022	1,575,000			2031	2,435,000		
2023	1,650,000			2032	2,560,000		
2024	1,735,000			2033	2,685,000		
2025	1,820,000			2034	2,820,000		
2026	1,910,000			2035	930,000		

* Preliminary, subject to change.

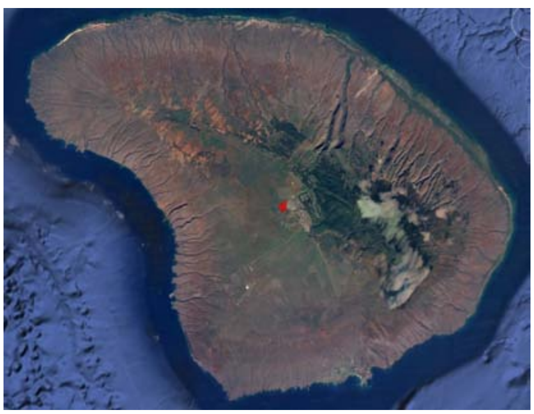
Map of Hawaiian Home Lands

<u>Kaua‘i</u>



<u>O‘ahu</u>

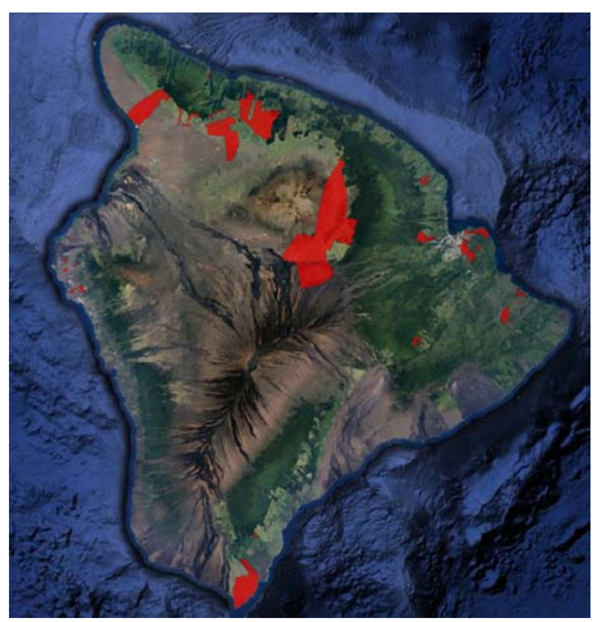
<u>Lāna‘i</u>



<u>Maui</u>

<u>Moloka‘i</u>

<u>Hawai‘i</u>



Red denotes Hawaiian home lands

STATE OF HAWAII

David Y. Ige, Governor
Shan S. Tsutsui, Lieutenant Governor

DEPARTMENT OF HAWAIIAN HOME LANDS

Jobie Masagatani, Chairman, Hawaiian Homes Commission

William J. Ailā, Jr.	Deputy to the Chairman
Dean T. Oshiro	Acting Homestead Services Administrator
Norman L. Sakamoto	Acting HHL Land Development Administrator
Peter K. Albinio, Jr.	Acting HHL Land Management Administrator
Rodney K.M. Lau	Administrative Services Officer
Pearl C. Teruya	Acting Fiscal Management Officer
Paula Aila	HHL Information & Community Relations Officer
Kaleo L. Manuel	Acting Planning Program Manager

HAWAIIAN HOMES COMMISSION

Jobie Masagatani, Chairman

Doreen Nāpua Canto	Kathleen Puamae‘ole “Pua” Chin
Gene Ross Davis	Wallace A. Ishibashi, Jr.
David B. Ka’apu	Michael P. Kahikina
Kāhele Richardson	Wren Wescoatt III

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2017 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2017 Bonds, and if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

THE SERIES 2017 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2017 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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$35,165,000*
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Revenue Bonds, Series 2017

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to furnish information concerning the Department of Hawaiian Home Lands of the State of Hawaii (the "Department"), and certain other information in connection with the offering and sale by the Department of $35,165,000* aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2017 (the "Series 2017 Bonds"). Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Indenture referred to below and in Appendix C hereto.

The Department is one of the State of Hawaii's principal executive departments, headed by an executive board known as the Hawaiian Homes Commission (the "Commission"). The Department is responsible for the management and disposition of lands set aside as "Hawaiian home lands" under the federal Hawaiian Homes Commission Act of 1920 (the "HHCA"). Reference is made to "THE DEPARTMENT OF HAWAIIAN HOME LANDS" herein for further information pertaining to the Department.

AUTHORITY AND PURPOSE

Authority for Issuance

The issuance of the Series 2017 Bonds by the Department is authorized under the terms of: (i) the HHCA; (ii) Part III of Chapter 39, Hawaii Revised Statutes (the "Bond Act"); (iii) Section 7 of Act 158, Session Laws of Hawaii 2008, and (iv) an authorizing resolution adopted by the Commission on June 20, 2017 (the "Series 2017 Resolution"). The Series 2017 Bonds will be issued pursuant to an Amended and Restated Master Bond Indenture, as supplemented by a Second Supplemental Indenture, each dated as of August 1, 2017 (together, and as amended and supplemented from time to time, the "Indenture"), between the Department and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee") and paying agent (in such capacity, the "Paying Agent").

Purpose and Security

The Series 2017 Bonds are being issued: (i) to refund all outstanding revenue bonds previously issued by the Department; (ii) to fund a Debt Reserve Account established under the Indenture; and (iii) to provide for the expenses of issuance of the Series 2017 Bonds.

The Series 2017 Bonds, together with any additional bonds hereafter issued under the Indenture ("Additional Bonds" and, together with the Series 2017 Bonds, "Bonds"), will be equally and ratably secured under the Indenture by a pledge of the Department's "Revenues" (as defined in the Indenture) and by the funds and accounts established with the Trustee under the Indenture (excluding the Rebate Account, which shall not secure the Bonds) as specified under the Indenture. Reference is made to "SECURITY AND SOURCES OF PAYMENTS FOR THE SERIES 2017 BONDS" and Appendix C – "Summary of Certain Provisions of the Indenture" for a further discussion of the security for the Series 2017 Bonds.

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* Preliminary, subject to change.

Plan of Refunding

In connection with the issuance of the Series 2017 Bonds, the Department will enter into an escrow agreement (the "Escrow Agreement") with The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"), for the purpose of refunding all of the Department's outstanding Revenue Bonds, Series 2009 (the "Refunded Bonds"). A portion of the proceeds of the Series 2017 Bonds will be deposited into an escrow fund (the "Escrow Fund") held by the Escrow Agent under the Escrow Agreement. The moneys and securities held in the Escrow Fund are to be applied to the payment of principal of, premium, if any, and interest on the Refunded Bonds. Pending application, moneys deposited in the Escrow Fund will be invested in noncallable direct obligations of the United States (the "Escrow Securities") which, together with cash held uninvested in the Escrow Fund, will be sufficient, without reinvestment, and will be applied to pay the principal or redemption price of and interest on the Refunded Bonds to and including their respective maturity dates or redemption dates. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Fund, in the amounts needed to pay the principal or redemption price of and interest on the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. The Escrow Securities will be purchased from the Treasury Department of the United States of America or in the open market, in either case at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), not to exceed the applicable yield permitted by such provisions. See "VERIFICATION."

Brief descriptions of the Series 2017 Bonds, the Indenture and other documents are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to the actual documents.

THE SERIES 2017 BONDS

General

The Series 2017 Bonds will be issued in the aggregate principal amount of $35,165,000* will be dated as of the date of their initial issuance and delivery, and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover of this Official Statement. The Series 2017 Bonds will be issued in minimum denominations of $5,000 principal amount. Interest will accrue from the date of issuance of the Series 2017 Bonds and will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2017 (each, an "Interest Payment Date").

Redemption Provisions

Optional Redemption. The Series 2017 Bonds maturing on or after April 1, 2028 are subject to redemption at the option of the Department on or after April 1, 2027 in whole or in part at any time, from any maturities selected by the Department at a redemption price equal to 100% of the principal amount of the Series 2017 Bonds or portions thereof to be redeemed, plus accrued interest to the date of redemption.

Selection of Series 2017 Bonds for Redemption. So long as the Book-Entry System for the Series 2017 Bonds is in effect (as described under "Book-Entry Only System" below), if less than all of the Series 2017 Bonds of any one maturity are to be redeemed, the particular Series 2017 Bonds or portions of Series 2017 Bonds of such maturity to be redeemed will be selected by DTC and its Participants in such manner as DTC and its Participants may determine. If the Book-Entry System for

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* Preliminary, subject to change.

the Series 2017 Bonds is no longer in effect, selection for redemption of less than all Series 2017 Bonds of any one maturity will be made by the Paying Agent by lot as provided in the Indenture.

Notice of Redemption. Notice of redemption of any Series 2017 Bond shall be mailed by the Paying Agent not less than thirty (30) days or more than sixty (60) days prior to the redemption date, by first class mail, postage prepaid, to the Owner of such Series 2017 Bond at his address as it appears on the Bond Register. A conditional notice of redemption may be given. If the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. If the conditions are not satisfied, the redemption shall not be made and the Paying Agent shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

Effect of Redemption. If a Series 2017 Bond is subject by its terms to redemption and has been duly called for redemption, if moneys for the payment of the redemption price of such Series 2017 Bond (or of the principal amount thereof to be redeemed) and the accrued interest on such Series 2017 Bond (or the principal amount thereof to be redeemed) are held for the purpose of such payment by the Paying Agent, and if all conditions (if any) to the redemption of such Series 2017 Bond have been satisfied, then such Series 2017 Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable on the applicable redemption date, and interest on such Series 2017 Bond (or the principal amount thereof to be redeemed) so called for redemption shall cease to accrue.

Debt Service Requirements

The following table sets forth the annual principal and interest requirements for the Series 2017 Bonds (assuming no optional redemptions):

Table 1
Debt Service Schedule

Period Ending June 30	Principal	Interest	Total
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			

Note: Totals may not agree due to rounding

Book-Entry Only System

Unless otherwise noted, the following description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 2017 Bonds, payment of interest and other payments on the Series 2017 Bonds to Participants (defined below) or Beneficial Owners (defined below) of the Series 2017 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2017 Bonds and other bond-related transactions by and among DTC, the Participants and Beneficial Owners of the Series 2017 Bonds is based solely on information furnished by DTC. Accordingly, the Department and the Underwriter do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Series 2017 Bonds. The Series 2017 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2017 Bond will be issued for each maturity of the Series 2017 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017 Bond ("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 Series 2017 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 Series 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2017 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 Series 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 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.

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 Series 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2017 Bond documents. For example, Beneficial Owners of Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 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 Series 2017 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of redemption proceeds, principal and interest with respect to the Series 2017 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 issuer or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to DTC is the responsibility of the Department, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2017 Bonds at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2017 Bonds are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2017 Bonds will be printed and delivered.

In reviewing this Official Statement it should be understood that while the Series 2017 Bonds are in the book-entry system, references in other sections of this Official Statement to Owners should be read to include the person for which a Direct or Indirect Participant acquires an interest in the Series 2017 Bonds, but: (i) all rights of ownership must be exercised through DTC and the system of book-entry; and (ii) notices that are to be given to Owners by the Department will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Direct Participants by its usual procedures so that the

Direct and Indirect Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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

Neither the Department nor the underwriter will have no responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or any Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest with respect to the Series 2017 Bonds, (iii) any notice which is permitted or required to be given to Owners under the Trust Agreement, (iv) the selection by DTC of any Direct Participant to receive payment in the event of a partial redemption of the Series 2017 Bonds, (v) any consent given or other action taken by DTC as Owner of the Series 2017 Bonds, or (vi) any other event or purpose.

Table 2
Estimated Sources and Uses of Funds

The proceeds of the Series 2017 Bonds, together with funds contributed by the Department, are expected to be applied as follows:

Sources:	
Principal Amount	$___________
Net Original Issue [Premium] [Discount]	
Prior Funds on Hand	___________
Total Sources	$___________
Uses:	
Escrow Fund Deposit	$
Debt Reserve Account Deposit	
Costs of Issuance*	___________
Total Uses	$___________

* Includes Underwriter's discount.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS

The following is a brief description of certain provisions of the Indenture pertaining to the security and sources of payment for the Series 2017 Bonds. Reference is made to Appendix C – "Summary of Certain Provisions of the Indenture" for further information regarding the security and sources of payment for the Series 2017 Bonds and for the definitions of certain terms used, but not otherwise defined, below.

General

The Series 2017 Bonds, and any series of Additional Bonds hereafter issued, shall be special limited obligations of the Department payable from and equally and ratably secured pursuant to the Indenture by a pledge of (i) the Revenues, and (ii) the Accounts therein (other than the Rebate Account, which shall not secure the Bonds), to the extent that such Accounts contain Revenues, including the interest, profits, earnings, and other income derived from the investment thereof, if any. Pursuant to the Indenture, the Bondowners shall have an irrevocable first lien on, and a prior and paramount security interest in, such Revenues and Accounts (to the extent that they contain Revenues). All Bonds shall be equally and ratably secured by such lien and pledge, without priority by reason of series, number, or date of Bonds, sale, execution, or delivery.

The term “Revenues” is defined in the Indenture to mean (i) revenues from Program Lands and related facilities under ownership of the State or operated and managed by the Department or such parts of either thereof as the Department may determine, including rents and other fees and charges presently or hereafter derived from or arising through the ownership, operation and management of Program Lands, and related facilities, and any other revenues pledged by the Department pursuant to a Supplemental Indenture in accordance with the provisions of the HHCA, the Bond Act and any other act of the Legislature; (ii) all interest, profits, earnings or other income derived from the investment of any moneys described in (i) held pursuant to the Indenture and required to be paid into the Accounts established in the Indenture; and (iii) any additional amounts specifically pledged or designated by the Department and deposited in the Accounts established herein as provided in a Supplemental Indenture, to the extent such money constitutes moneys described in (i). “Revenues” shall not include amounts on deposit in the Rebate Account or any interest, profits, earnings or other income derived from the investment thereof.

In addition, the terms “Program Lands” and “Undertaking,” as used in the definition of Revenues, are defined in the Indenture as follows:

“Program Lands” means “available lands” as such term is defined and used in the HHCA, but only to the extent such “available lands” are retained for management by the Department and not leased under Section 207(a) of the HHCA.

“Undertaking” means, to the extent permitted by the HHCA, and with the approval of the Governor, (i) the undertaking and carrying out the development of any Hawaiian Home Lands available for lease under and pursuant to Section 207 of the HHCA by assembling these lands in residential developments and providing for construction, reconstruction, improvement, alteration, or repair of Public Facilities therein, and (ii) the undertaking and carrying out the development of Program Lands for homestead, commercial, and multipurpose projects under and pursuant to Section 220.5 of the HHCA, as a developer under the HHCA or in association with a developer under an agreement entered into pursuant thereto and providing for the construction, reconstruction, improvement, alteration, or repair of Public Facilities therein, in each case as may be designated pursuant to a Supplemental Indenture.

Establishment of Accounts; Deposit of Revenues Therein

Pursuant to the Indenture, the Department will establish with the Trustee the following Accounts to be held by the Trustee in trust and administered by the Trustee in accordance with the Indenture:

- Construction Account;
- Debt Service Account;
- Debt Reserve Account; and
- Rebate Account.

There may be created and established from time to time a Separate Series Reserve Account for the Bonds of a Series which are not entitled to the benefits of the Debt Reserve Account. Such Separate Series Reserve Account may be created by the Supplemental Indenture authorizing the Series of Bonds.

In addition to the foregoing Accounts, the Indenture requires the Department to establish and maintain, for so long as any Bonds remain Outstanding, a Special Fund in the Treasury of the State pursuant to Section 213(d) of the HHCA and Section 39-62 of the Bond Act. The Department must deposit all Revenues upon receipt into the Special Fund and apply such Revenues: FIRST, to make the payments to the Trustee described in the next paragraph, when due; and SECOND, from time to time, but only after all payments then due to the Trustee (as described in the next paragraph) have been made, to make transfers or payments from time to time for such other purposes authorized under Section 39-62 of the Bond Act, and in such order of priority, as the Department shall determine.

Not later than the first Business Day of each month, the Department shall pay to the Trustee from Revenues in the Special Fund, sufficient funds to deposit in the Debt Service Account with respect to each Series of Bonds at least an amount which, if deposited in equal amounts in each month, will be equal to (1) the amount of interest coming due on all Outstanding Bonds of such Series on the next Interest Payment Date for such Series (based, if applicable, on the Assumed Long-Term Fixed Rate); *provided* that for the purpose of determining the amount required to be credited to the Debt Service Account, any amounts in the Debt Service Account derived from the Proceeds of the Bonds for payment of interest on such Bonds for such Interest Payment Date shall be deducted; and (2) the Principal Installment or Sinking Fund Installment coming due on all Outstanding Bonds of such Series on the next principal maturity or sinking fund redemption date for such Series, *provided* that the first such deposit with respect to any Series of Bonds shall not be due more than twelve (12) months before the first principal maturity or sinking fund redemption date for such Series. Nothing in the Indenture shall prohibit the Department from depositing in any month an amount greater than the amount required by the Indenture. Any provision of the Indenture to the contrary notwithstanding, so long as there shall be held in the Debt Service Account and the Debt Reserve Account an amount sufficient to pay in full all Bonds in accordance with their terms (including principal or applicable Redemption Price of and interest thereon), no credits shall be required to be made to the Debt Service Account.

At least five (5) Business Days prior to each Interest Payment Date (and otherwise as required for the purposes specified below), the Department shall pay to the Trustee from Revenues in the Special Fund sufficient funds to make the deposits described below. As soon as practicable after receipt of such payments, the Trustee shall credit the same to the following Accounts in the following order the amounts set forth below:

(1) in the Debt Service Account the amount, if any, together with amounts then on deposit in such account after giving effect to the monthly deposits described under the preceding paragraph, required to pay the interest and principal becoming due and payable on all Bonds then Outstanding on such Interest Payment Date; *provided* that for the purpose of determining the amount required to be credited to the Debt Service Account, any amounts in the Debt Service Account derived from the Proceeds of the Bonds for payment of capitalized interest on such Bonds for the then current Bond Year shall be deducted; and *provided further* that so long as there shall be held in the Debt Service Account and the Debt Reserve Account an amount sufficient to pay in full all Bonds in accordance with their terms (including principal or applicable Redemption Price of and interest thereon), no credits shall be required to be made to the Debt Service Account and the Debt Reserve Account;

(2) in the Debt Reserve Account the amount, if any, required to be deposited therein as provided in the Indenture (and described under "Debt Reserve Account" below); and (b) in each Separate Series Reserve Account the amount, if any, required to be deposited therein as provided in the Indenture (and described under "Separate Series Reserve Account" below); provided that so long as there shall be held in the Debt Service Account, the Debt Reserve Account and each Separate Series Reserve Account an amount sufficient to pay in full all

Outstanding Bonds in accordance with their terms (including principal or applicable Redemption Price of and interest thereon), no credits shall be required to be made to the Debt Service Account, the Debt Reserve Account and each Separate Series Reserve Account; and

(3) in the Rebate Account, the amount, if any, required to be deposited therein pursuant to the Indenture (and described under "Rebate Account" below).

Debt Service Account

The Trustee shall credit to the Debt Service Account the accrued interest on a Series of Bonds received on the date of delivery of such Bonds, interest capitalized from the Proceeds of Bonds received on the date of delivery of such Bonds, and such amounts as shall be transferred from any Escrow Fund. Unless otherwise provided in a Supplemental Indenture providing for the issuance of a Series of Bonds which are secured by a Support Facility, the Trustee shall transfer from the Debt Service Account to the Paying Agent: (i) on or before each Interest Payment Date for any of such Bonds, the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of the Redemption Price of and interest on the Bonds then to be redeemed. The Trustee shall also apply an amount equal to the accrued interest included in the purchase price of Bonds purchased by the Trustee or the Paying Agent on behalf of the Department for retirement, which amount shall be applied by the Trustee or transferred to the Paying Agent for application to such purchase thereof.

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may be applied by the Trustee, at the direction of the Department, to the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established. All such purchases of Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest.

In addition, the Department may direct the Trustee to transfer moneys from the Construction Account to the Debt Service Account for the purpose of purchasing or redeeming Bonds. In such event, the moneys so transferred shall be applied to the purchase or redemption of Bonds in accordance with the directions of the Department.

Notwithstanding the foregoing, amounts held in the Debt Service Account with respect to any Bonds of a Series may be used to reimburse any bank or financial institution which is a party to any Support Facility then in place for a draw on such Support Facility made to provide funds for the payment of principal and Redemption Price, if any, of and interest on such Bonds, as the case may be, to the extent provided in the Supplemental Indenture providing for the issuance thereof.

If, on or before an Interest Payment Date, the amount in the Debt Service Account shall be less than the amount required to be in such Account, the Trustee shall apply amounts to the extent necessary to provide funds sufficient to remedy such deficiency, from the following Accounts and in the following order of priority:

- First, from the Debt Reserve Account and each Separate Series Reserve Account; and
- Second, from the Construction Account.

Debt Reserve Account

The Indenture requires, to the extent that the Debt Reserve Account is required to be funded pursuant to a Supplemental Indenture, the Debt Reserve Account to be maintained in an amount equal to the Debt Reserve Requirement, which is defined in the Indenture as the least of (i) the maximum annual debt service requirements for all Outstanding Bonds, calculated in accordance with the Indenture, (ii) 125% of average annual debt service requirements for all Outstanding Bonds, or (iii) 10% of the initial proceeds of each series of Bonds; *provided* in no event shall such amount with respect to a series of Bonds, the interest on which is excluded from gross income for federal income tax purposes, exceed 10% of the Proceeds of such series of Bonds, or such greater amount as set forth in a Supplemental Indenture upon receipt by the Trustee of an opinion of Bond Counsel that such greater amount will not affect the exclusion of interest on such series of Bonds from gross income for federal income tax purposes. In connection with the issuance of the Series 2017 Bonds, an initial deposit will be made into the Debt Reserve Account in an amount equal to the Debt Reserve Requirement. Additional deposits will be required in connection with the issuance of any Additional Bonds (unless such Additional Bonds are secured by a Separate Series Reserve Account) to the extent necessary to increase the amount therein to the Debt Reserve Requirement for all Bonds to be Outstanding upon such issuance. In addition, in the event that the amount credited to the Debt Reserve Account is less than the Debt Reserve Requirement, the Department shall pay from Revenues to the Trustee, for credit to such Account, the amount necessary to restore the balance therein to the Debt Reserve Requirement. Such payment shall be made not later than five Business Days prior to the first Interest Payment Date which is at least six months after the occurrence of the deficiency.

In the event of a deficiency in the Debt Service Account, the Trustee shall transfer moneys from the Debt Reserve Account to the Debt Service Account in the amount necessary to make up the deficiency.

If the amount in the Debt Reserve Account exceeds the Debt Reserve Requirement, such excess may be transferred by the Trustee at the direction of the Department to the Debt Service Account to be allocated and applied in the same manner as other moneys in the Debt Service Account as described above. Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to pay in full all Bonds in accordance with their terms (including principal or applicable Redemption Price thereof and interest thereon), the moneys on credit to the Debt Reserve Account shall be transferred to the Debt Service Account for application to such payment.

When a series of Bonds is refunded in whole or in part or is otherwise paid so that all of the Bonds of such series are no longer Outstanding, moneys may be withdrawn from the Debt Reserve Account to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Bonds issued to refund such refunded Bonds; *provided* that immediately after such withdrawal or transfer there shall be on credit to the Debt Reserve Account an amount equal to the Debt Reserve Requirement.

In lieu of the credit of moneys to the Debt Reserve Account, the Department may cause to be so credited a surety bond or an insurance policy payable to the Department or the State for the benefit of the Owners of the Bonds or a letter of credit in an amount equal to the difference between the Debt Reserve Requirement and the amounts then on credit to the Debt Reserve Account. The surety bond, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any Interest Payment Date on which moneys will be required to be transferred from the Debt Reserve Account and applied to the payment of the principal of or interest on any Bonds and such transfer cannot be made by amounts credited to the Debt Reserve Account. The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in at least the second highest rating category by any Rating Agency. The letter of credit issuer shall be a bank or trust company which is rated in at least the second highest rating category by any Rating Agency (without taking into account any plus or minus designation or numerical modification used by the Rating Agency to indicate relative standby within a major rating category), and the obligations of the letter of credit provider shall be rated in the highest rating category of the Rating Agency. If a disbursement is made under a surety bond, insurance policy or letter of credit, the Department shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to credit to the Debt Reserve Account, moneys in the amount of the disbursement made under such surety bond, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the Debt Reserve Account equals the Debt Reserve Requirement. The Department shall not permit any surety bond, insurance policy, or letter of credit which has been established in lieu of a deposit into the Debt Reserve Account to terminate or expire prior to depositing to such Account the amount to have been satisfied by the surety bond, insurance policy, or letter of credit.

Separate Series Reserve Account

The Indenture permits the Department to establish with the Trustee a Separate Series Reserve Account for a particular Series of Bonds. If such an Account is established for a Series of Bonds, the Account shall be held as security solely for the Bonds of such Series, and such Bonds shall not be secured by the Debt Reserve Account or by any Separate Series Reserve Accounts established for other Series of Bonds.

If on the day preceding any principal or interest payment date, the amount in the Debt Service Account shall be less than Debt Service for the Bonds of a Series then Outstanding which are entitled to the benefit of a Separate Series Reserve Account, the Department shall pay out of such Separate Series Reserve Account to the Trustee for such Bonds the amount necessary to satisfy the deficiency for payment to the holders of such Bonds. Amounts so applied shall be derived first, from cash or Investments Securities on credit to such Separate Series Reserve Account and second, from draws or demands on Support Facilities held as a part thereof, such draws or demands to be made pro rata among all such Support Facilities based on the respective available amounts thereunder and upon the terms and conditions set forth in such Support Facilities.

Each Separate Series Reserve Account shall be maintained in the amount designated as the Separate Series Reserve Account Requirement under the Supplemental Indenture providing for the issuance of the Series of Bonds secured thereby. In the event that the amount credited to a Separate Series Reserve Account is less than the applicable Separate Series Reserve Account Requirement, the Department shall pay from Revenues to the Trustee, for credit to such Account, the amount necessary to restore the balance therein to the Separate Series Reserve Account Requirement. Such payment shall be made not later than five Business Days prior to the first Interest Payment Date which is at least six months after the occurrence of the deficiency.

Whenever the amounts on deposit in any Separate Series Reserve Account shall exceed the applicable Separate Series Reserve Account Requirement, the Department shall withdraw the amount of such excess and deposit such excess to the credit of the Debt Service Account.

Whenever the amount (exclusive of Support Facilities) in any Separate Series Reserve Account, together with the amount in the Debt Service Account attributable to Bonds entitled to the benefit of such Separate Series Reserve Account, is sufficient to pay in full the principal or Redemption Price, if any, of and interest on all such Outstanding Bonds in accordance with their terms, the funds on credit to such Separate Series Reserve Account shall be transferred to the Debt Service Account. Prior to said transfer, all Investment Securities held in such Separate Series Reserve Account shall be liquidated by the Department to the extent necessary to provide for timely payment of the principal or Redemption Price, if any, of and interest on such Bonds.

When Bonds of a Series entitled to the benefit of a Separate Series Reserve Account are refunded in whole or in part or are otherwise paid within the meaning of Article XI, moneys may be withdrawn from such Separate Series Reserve Account to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be; provided that immediately after such withdrawal or transfer there shall be on credit to such Separate Series Reserve Account an amount equal to the Separate Series Reserve Account Requirement for the Bonds then Outstanding which are entitled to the benefit of such Separate Series Reserve Account after taking into account such refunding or payment.

Each Separate Series Reserve Account Requirement shall be calculated or recalculated: (i) at the time of issuance of a Series of Bonds; (ii) at the time a Series of Bonds is retired in its entirety; (iii) at such other time as in the Opinion of Counsel is required to maintain the exclusion of interest on the tax-exempt Bonds from gross income for federal income taxation purposes.

The foregoing provisions may be modified in whole or in part with respect to any Series of Bonds entitled to the benefits of a Separate Series Reserve Account. Any such modification shall be set forth in the resolution authorizing such Series of Bonds or the related Supplemental Indenture.

Construction Account

The Construction Account shall be established for the purpose of paying Costs of Construction of Public Facilities, and other improvements authorized by law, for or to the Undertakings, including the Improvements to be funded by the issuance of the Series 2017 Bonds. In connection with the issuance of the Series 2017 Bonds, an initial deposit of Series 2017 Bond proceeds will be made into the Construction Account to fund the Costs of Construction of the Improvements. Additional deposits will be made, as appropriate, from the proceeds of Additional Bonds or from other funds provided by the Department.

To the extent that other moneys are not available therefor, amounts in the Construction Account shall be applied by the Trustee without further direction to the payment of the principal and Redemption Price of and interest on Bonds when due. At the direction of the Department, amounts in the Construction Account may also be transferred to the Debt Service Account to provide for the redemption of Bonds.

Rebate Account

If and to the extent necessary to comply with its covenants regarding maintaining the exclusion from gross income of interest on Bonds for federal income tax purposes, the Department shall establish a Rebate Account subject to such terms and provisions regarding credits to and withdrawals from the Rebate Account, the calculation of amounts to be credited thereto, investment of amounts on credit therein, if any, and such other terms and provisions the Department deems necessary to ensure compliance with the provisions of such covenant.

Additional Bonds and Refunding Bonds; Rate Covenant and Other Covenants of the Department

Additional Bonds and Refunding Bonds

The Indenture permits the issuance of Additional Bonds for the purpose of paying the Costs of Construction of the Public Facilities or other improvements authorized by law for or to be the Undertaking. The conditions for issuance of Additional Bonds include, among other things, receipt by the Trustee of the following documents:

(i) A Cash Flow Statement demonstrating that the Revenues will be at least equal to 1.25 times Aggregate Debt Service on all Outstanding Bonds, including the Bonds then proposed to be issued, in each of the five (5) full Fiscal Years following the date of issuance of such Bonds; provided, however, that the Trustee does not have a duty to review such Cash Flow Statement, is not considered to have notice of the content of such Cash Flow Statement or a default or Event of Default based on such content, and does not have a duty to verify the accuracy of such Cash Flow Statement. In estimating Revenues for the five (5) full Fiscal Years following the date of issuance of a Series of Bonds the consultant preparing such Cash Flow Statement shall only rely on Revenues estimated to be produced based on leases, contracts, and agreements in effect as of the date of the Cash Flow Statement, assuming all payments to the Department thereunder shall be made as and when due and payable, and only such increases or decreases in such payments to the Department as are contained in such leases, contracts, or agreements shall be effective during such period.

(ii) an Accountant's Certificate showing that Revenues produced in the most recent Fiscal Year or in the twelve months preceding the issuance of such Additional Bonds were at least equal to 1.25 times the maximum Aggregate Debt Service on Outstanding Bonds and such Additional Bonds; and

(iii) a Written Certificate of the Department stating that there does not exist any Event of Default and stating that no default exists in the payment of the Principal Installments or Redemption Price, if any, of or interest on any Bond.

The Indenture also permits the issuance of Refunding Bonds for the purpose of refunding any Outstanding Bonds, without satisfying the financial test set forth in subparagraph (i) above, if (a) the Department has satisfied the requirement set forth in subparagraph (ii) above, and (b) either (1) the maximum annual Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed maximum annual Debt Service in any Fiscal Year on the refunded Bonds by more than ten percent (10%), or (2) the Refunding Bonds are being issued to refund Commercial Paper.

Rate Covenant

The Department shall, at all times while any of the Bonds shall be Outstanding, impose, prescribe, and collect rates, rentals, fees and charges for the services of, and the facilities and commodities furnished by, and the properties constituting a part of, the Undertaking and Program Lands and revise such rates, rentals, fees and charges, so that the Undertaking shall be and always remain self-supporting. The rates, rentals, fees and charges prescribed for each Fiscal Year shall be such as will provide Revenues sufficient, in such Fiscal Year, to provide an amount at least equal to 1.25 times Aggregate Debt Service on Bonds for such Fiscal Year; *provided* that nothing contained in the foregoing shall affect at any time the rights and obligations of the Department or other parties under leases or other agreements currently in effect, or be construed to require any portion of the Undertaking to be self-supporting separate from the balance of the Undertaking.

Notwithstanding anything to the contrary in the foregoing, the failure by the Department to comply with the covenant as to rates set forth above shall not be deemed a default in the observance of a covenant hereunder if the Department presents a plan to, and is approved by, the Trustee, together with a Cash Flow Statement which demonstrates the projected effect of such plan, designed to remedy such failure within one hundred twenty (120) days of the earlier of (i) receipt of an audit pursuant to the Indenture which reveals such failure or (ii) notification or actual knowledge of such failure, and the Department implements such plan and pursues the same diligently until the failure is corrected; provided, however, that the Trustee does not have a duty to review such Cash Flow Statement, is not considered to have notice of the content of such Cash Flow Statement or a default or Event of Default based on such content, and does not have a duty to verify the accuracy of such Cash Flow Statement.

The Department will place on file with the Trustee, annually within one hundred fifty (150) days after the close of each Fiscal Year, so long as any Bonds are Outstanding, a statement in reasonable detail evidencing compliance with the foregoing covenant as to rates. Such statement may be prepared by an Authorized Officer, or as part of or in connection with the annual audit required by the Indenture.

Other Covenants

See Appendix C – "Summary of Certain Provisions of the Indenture" for a more complete summary of the above covenants, as well as other covenants applicable to the Department under the Indenture.

THE DEPARTMENT OF HAWAIIAN HOME LANDS

Purpose of the Department

Prince Jonah Kuhio Kalaniana'ole, delegate to Congress, secured United States Congressional passage of the Hawaiian Homes Commission Act of 1920 (the "HHCA"). On July 9, 1921, President Warren G. Harding signed into law the HHCA. The purpose of the HHCA is to return native Hawaiians to the lands set aside as Hawaiian home lands. The term "native Hawaiian" is defined in the HHCA as "any descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian Islands previous to 1778."

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

The Admission Act requires that, with certain exceptions, amendment to or repeal of the HHCA be made only with the consent of the United States. Amendments that increase benefits to lessees of Hawaiian home lands do not require consent. On the other hand, consent is expressly required for any changes in the qualifications of lessees. In 1986, the United States consented to amendments to the HHCA adopted by the State between 1959 and 1985 (Pub. L. No. 99-557, 100 Stat. 3143). In 1997 the United States consented to two additional amendments to the HHCA (Pub. L. 105-21, 111 Stat. 235), including a change to Section 209 of the HHCA relating to qualifications to succeed to a homestead lease. There have been twenty-nine other amendments to the HHCA since 1985. Two have been repealed (Act 75, SLH 1986; Act 152, SLH 1994), and the State Attorney General has opined that twenty-four other amendments fall within the exceptions to the consent requirements. There are three amendments, including the "purpose clause", that are subject to a separate hearing by the Senate Committee on Energy and Natural Resources.

Hawaiian Home Lands and Available Lands

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

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

Table 3
Distribution and Use of Hawaiian Home Lands
(As of June 30, 2016)

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

Source: State of Hawaii; Department of Hawaiian Home Lands

Organization of the Department

The Department is one of the State's principal executive departments, headed by an executive board known as the Hawaiian Homes Commission (the "Commission"). Commission members are appointed by the Governor and confirmed by the State Senate. At least four of the nine members of the Commission must be Hawaiians having not less than one-fourth part of the blood of the races that inhabited the Hawaiian Islands previous to 1778. The Chair of the Commission serves as the full-time administrator of the Department. Towards fulfilling the objectives of the HHCA, the Commission establishes policies regarding the homestead and general lease programs, the management of land under the HHCA, and other administrative issues. Policies and programs approved by the Commission are carried out by the Department.

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

Administration of the homestead lease program is vested in the Homestead Services Division. Homestead leases run for 99 years and are classified as residential, agricultural and pastoral. At present the Homestead Services Division has approved and offered approximately 9,855 leases on 45,566 acres. About 84% of these leases are residential leases. Applicants for homestead leases must be at least 18 years of age and have no less than one-half part of blood Hawaiian ancestry. Successors to homestead lessees must be at least one-fourth part of blood Hawaiian ancestry.

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

The Land Development Division is responsible for undertaking infrastructure development for homestead lands and developing lands for a variety of uses.

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

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

Goals and Plans of the Department

Slightly more than 22% of Hawaiian home lands (45,566 acres) are being used for homestead purposes, representing approximately 9,855 leases as of June 30, 2016. Because the number of applicants seeking homestead leases exceeds the number of homesteads available for lease, the Department continues to aggressively develop and award new homestead leases. Approximately 1,500 lots or units are projected to be completed from Fiscal Year 2018 to Fiscal Year 2023. Many of these awards will be offered as part of master-planned communities, and will include turnkey and owner-built homes, vacant lots, and undivided interest awards. Master-planned communities will also contain commercial areas to provide local employment opportunities to residents.

The Land Management Division of the Department has identified a selection of land inventory on every major island for commercial/industrial development in order to achieve self-sufficiency by 2021. These include proposed projects such as:

- 11-acre parcel in Hilo for commercial/industrial mixed use
- 9-acre parcel in Hilo for industrial mixed use
- 1.89-acre parcel in Moiliili, Oahu for commercial/residential mixed use development
- 50-acre parcel in Honokowai, Maui for commercial development
- 43-acre parcel in Kaleloa, Oahu for industrial park development
- 127-acre parcel in Kalaoa, Hawaii for commercial/industrial mixed use development
- 140-acre parcel in Hilo, Hawaii for industrial/business park development
- 15-acre parcel in Kapaa, Kauai for industrial use
- 3-acre parcel in Waianae, Oahu for industrial use

The Land Management Division recently completed negotiations for the following projects:

- 67.7 acres in Kapolei, Oahu with DeBartolo Hawaii
- 0.87 acre in Waiakea, East Hawaii with A & S Delivery II, Inc.
- 12.0 acres in Kawaihae, West Hawaii with Big Island Carbon LLC
- 15.5 acres in Waiakea, East Hawaii with Target/Safeway
- 1.01 acres in Shafter Flats, Oahu with Pacific Transfer LLC

Members of the Commission

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

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

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

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

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

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

Kathleen Puamaeʻole "Pua" Chin – Kauaʻi. Ms. Chin serves as Kauaʻi Island Utility Cooperative (KIUC) Executive Administrator and previously served as Administrative Assistant to the KIUC Board of Directors. Her term expires June 30, 2017.

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

David B. Ka'apu – West Hawaiʻi. Mr. Ka'apu is a practicing attorney at law in Kailua-Kona. His term expires June 30, 2017.

Management Personnel

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

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

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

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

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

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

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

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

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

Employee Relations and Pension Benefits

The State Constitution grants public employees the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawaii Revised Statutes, provides for 14 recognized bargaining units for all public employees throughout the State, including Department employees. Each of these bargaining units designates an employee organization as the exclusive representative of all employees of such unit in negotiations with the public employer.

As of June 30, 2017, the Department had 128 employees, 126 of whom were represented by the three public employee bargaining units referenced below, and two of whom (*i.e.*, the Chair of the Hawaiian Homes Commission and the Deputy to the Chair of the Hawaiian Homes Commission) were not represented by any bargaining unit. The bargaining units representing Department employees were:

Bargaining Unit	Employee Representative	Number of Employees Covered
01	United Public Workers Union	4
03	White-collar Employees	48
13	Professional and Scientific Employees	74

All regular employees of the State (including the Department) and each of its counties, including judges and elected officials, are entitled to receive pension benefits under the Employees' Retirement System of the State of Hawaii, a cost-sharing, multiple-employer defined benefit pension plan. In addition, retired Department employees also receive certain health care (medical, prescription drug, vision and dental) and life insurance benefits from the State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund").

See Appendix D – "General Information about the State of Hawaii—Employee Relations; State Employees' Retirement System" for more information about the bargaining units representing Department employees, the Employees' Retirement System, and the Trust Fund.

Summary Combined Statements of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types

Set forth below are combined statements of revenues, expenditures and changes in fund balance of the Department for the three years ended June 30, 2014 through 2016, taken from the audited financial statements of the Department for such years, and for the year ended June 30, 2017 (unaudited). Management of the Department has presented this statement in the manner below, which is not in accordance with generally accepted accounting principles, in order to facilitate comparison to results of operations of the prior years on a summarized basis.

Table 4
Combined Statements Of Revenues, Expenditures and Changes In Fund Balances – All Fund Types

	Years Ended June 30			
	2014	**2015**	**2016**	**2017** (unaudited)
Revenues:				
General Leases	$11,840,716	$11,332,302	$10,922,208	$11,553,657
Licenses and Permits	3,922,664	4,025,262	3,808,120	3,502,475
Interest and Investment income	6,450,231	6,222,021	5,791,679	6,432,204
Allotted appropriations [(1)(4)]	11,532,000	10,804,441	27,987,774	29,391,615
Sales of Homes	--	445,170	--	192,250
Intergovernmental revenues [(2)(3)]	10,487,788	20,473,805	14,841,055	17,381,086
Other revenues	2,445,924	2,800,149	4,382,326	1,690,724
Total Revenues:	**$46,679,323**	**$56,103,150**	**$67,733,162**	**$70,144,011**
Expenditures:				
Operating [(4)]	$20,293,475	$24,558,909	$27,419,839	$34,960,698
Capital projects/Home construction	25,441,697	31,127,367	16,220,685	15,150,217
Debt Service				
Principal	790,388	891,282	772,345	889,917
Interest	2,261,981	2,413,417	2,009,271	2,586,249
Total Expenditures:	**$48,787,541**	**$58,990,975**	**$46,422,140**	**$53,587,081**
Excess (deficiency) of revenues over (under) expenditures	(2,108,218)	(2,887,825)	21,311,022	16,556,930
Other Financing Sources (Uses)	30,000,000	29,382,999	--	--
Excess of revenues and other financing sources over expenditures and other financing uses	**$27,891,782**	**$26,495,174**	**$21,311,022**	**$16,556,930**
Lapsed appropriations	(190,049)	(35,247)	(210,079)	(321,180)
Net change in fund balances	27,701,733	26,459,927	21,100,943	16,235,750
Fund Balances at June 30	**$304,173,163**	**$330,633,090**	**$351,734,033**	**$367,969,783**

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(1) General funding has been appropriated by the State to finance the administrative and operating costs of the Department. State appropriations to the Department have increased from $9.6 million in Fiscal Year 2015 to $23 million in Fiscal Year 2017. For Fiscal Years 2018 and 2019, the State has appropriated $25.1 million annually in general fund support.

(2) Intergovernmental Revenues include an annual payment from the Office of Hawaiian Affairs (OHA) under a Memorandum of Agreement between OHA and the Department. Pursuant to the Memorandum of Agreement, OHA is obligated to make an annual payment to the Department for 30 years, commencing in 2009, in an amount equal to the lesser of $3 million or debt service on bonds issued by the Department to finance or refinance infrastructure for housing for native Hawaiians.

(3) The increase in Intergovernmental Revenues from Fiscal Year 2014 to Fiscal Year 2015 is due in part to a lump-sum settlement payment of $2.8 million made to the Department by a construction bonding company.

(4) Increases in Allotted Appropriations and Operating Expenditures in Fiscal Year 2017 are due in part to increases in federal funding and related federal fund expenditures that offset each other.

Source: State of Hawaii; Department of Hawaiian Home Lands

Outstanding Indebtedness

In December 2006, the Department issued $24.5 million aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2006 Series A (the "2006 COPs"), to finance the construction of an office building and conference facility for the Department in the City and County of Honolulu. The 2006 COPs represent undivided ownership interests in certain rental payment obligations of the Department under a 25-year Facility Lease Agreement dated as of December 1, 2006 (the "Facility Lease") entered into with respect to such facilities by Wells Fargo Bank, National Association, as Lessor, and the State of Hawaii, by its Department of Budget and Finance on behalf of its Department, as Lessee. The minimum lease payments under the Facility Lease are set forth in the notes to the audited financial statements included as Appendix A hereto. The Department is proceeding with a financing plan to refund all outstanding 2006 COPs concurrently with the issuance of the Series 2017 Bonds. The rental payments represented by the 2006 COPs are (and the rental payments represented by the refunding issue of COPs will be) payable from general fund appropriations by the State and are not (and will not be) secured by Revenues pledged as security for the Bonds under the Indenture.

As of June 30, 2016, there were $117,524 aggregate principal amount of outstanding reimbursable general obligation bonds of the State allocated to the Department. Principal and interest payments on such reimbursable general obligation bonds are made from the General Fund of the State. The Department reimburses the General Fund for its allocable share of such payments from the Hawaiian Home Operating Fund established under the HHCA.

The Department also guarantees certain loans obtained by lessees of homestead property from the Department and as of May 22, 2017 was contingently liable under such guarantees for $49,239,000 of loans. The HHCA limits the Department's authority to incur liability under such guarantees to a maximum of $100 million and is covered under the State's debt ceiling in the event of default. In the event that the Department is required to perform under any of these guarantees, funds are drawn from the Hawaiian Home General Loan Fund. For a more complete discussion of these guaranteed loans, see Note 13 - Commitments and Contingencies to the Department's audited financial statements for the Fiscal Year ended June 30, 2016, included as Appendix A hereto.

Management Discussion

The Department's primary sources of revenue include revenues from leasing and licensing of Department lands, interest and investment income, and annual appropriations from the State. The Department's 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 Department, are invested in securities prescribed in HRS Section 36-21.

Revenues from licenses and permits consist primarily of church licenses, easements, and revocable commercial and pasture leases. Interest and investment income, which totaled about $6,432,204 (unaudited) as of June 30, 2017, is derived primarily from interest earnings on the Department's cash investments and from interest payments to the Department on outstanding loans. These interest payments are from 953 loans, totaling $68,817,000 (unaudited), made to native Hawaiian lessees for the purposes which are specified in the HHCA. Interest and investment income in the Department's Administration Account and Special Fund are specifically available for payment of the Department's revenue bonds. As of June 30, 2017, interest and investment income in these accounts totaled $275,642.

Allotted appropriations represent funds that have been appropriated by the State and spent in that year for administrative and operating costs as well as various capital projects. Each year the Department submits a budget to the State for review. In each of the years in which a budget has been submitted, the State has generally appropriated the administrative and operating amounts requested. General Fund support for administrative and operating costs has increased from $9,632,000 in Fiscal Year 2014 to $23,925,340 in Fiscal Year 2017.

Operating expenditures for all governmental fund types and enterprise funds include salaries, supplies and other expenses related to the operation of the Department. Planning and design costs associated with projects that are determined to be unfeasible are expensed.

As mentioned above, the State appropriates funds to the Department for its administrative and operating costs and various capital projects. However, revenue is recognized only to the extent that authorized expenditures are incurred. The Department's administrative and operating costs have ranged between $20,293,475 in Fiscal Year 2014 and $18,352,870 (unaudited) in Fiscal Year 2017.

The cash balances maintained by the Department in its Administration Account and Special Fund provide additional sources of liquidity for the Department's debt service obligations. As of June 30, 2017, the Administration Account had a balance of approximately $39 million. In Fiscal Years 2018 and 2019, the Administration Account balance is projected to be $19 million and $30 million, respectively. As of June 30, 2017, the Special Fund had a balance of approximately $10 million. The Department is required to deposit all pledged revenues upon receipt into a Special Fund held by the State Treasury, and to transfer from the Special Fund to the Trustee on a regular basis amounts sufficient to satisfy the Department's debt service obligations for all outstanding bonds secured under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS—Establishment of Accounts; Deposit of Revenues Therein." The Department also deposits funds that are not pledged revenues into the Special Fund, including payments received from OHA under the OHA Agreement (see below for a discussion of these payments).

In December 2008, the Department and the Office of Hawaiian Affairs of the State of Hawaii ("OHA") entered into a Memorandum of Agreement (the "OHA Agreement") pursuant to which OHA agreed to pay the Department an annual fee for the Department's service in the planning, design and construction of infrastructure for homesteads for native Hawaiians. The fee is payable for 30 years, commencing in 2009, in an annual amount equal to the lesser of $3 million or debt service on bonds issued by the Department to finance or refinance infrastructure for housing for native Hawaiians. The fees received under the OHA Agreement do not constitute Revenues under the Indenture and are not pledged for payment of any Bonds (including the Series 2017 Bonds) issued thereunder. However, the Department may use these funds to pay debt service on outstanding indebtedness.

See "FINANCIAL STATEMENTS" herein for certain information regarding the pending audit of the Department's financial statements for the year ended June 30, 2016.

THE GENERAL LEASES AND AVAILABLE LANDS

Legislative Basis for General Leases

Since 1965, Section 204(a)(2) of the HHCA has authorized the Department to retain for management any "available lands" not required to be leased pursuant to Section 207(a) to "native Hawaiians" for residential, agricultural or pastoral purposes (the homestead leases). In its management of any retained available lands, the Department may dispose of those lands to the public, including native Hawaiians, by way of lease, license or permit, on the same terms, conditions, restrictions and uses applicable to the disposition of public lands in HRS Chapter 171. The Department may not, however, sell or dispose of those lands in fee simple, except under certain limited circumstances. The non-homestead leases issued by the Department pursuant to Section 204(a)(2) of the HHCA are referred to as "general leases" and the granting of such leases as "general leasing." The Department is authorized to enter into and carry out contracts to develop "available lands" for homestead, commercial, and multipurpose projects.

General leases are sold at public auction, except for general leases issued directly to other governmental agencies and non-profit 501(c)(3) organizations. Section 204(a)(2) of the HHCA requires general leases for business purposes to be leased in accordance with the lease rental limitation imposed by HRS Section 171-17(b). Section 171-17(b) provides that the lease rental of lands "shall be no less than the value determined by a disinterested appraiser or appraisers."

Section 220.5(b) of the HHCA also provides authority to enter into a project developer agreement with qualified developers to develop available lands for commercial projects, subject to requirements as set forth in this section and HRS Section 171-60(a)(3).

Nature of the General Leases

As of June 30, 2016, there were 121 general leases of land that were billed for approximately $13,616,100 in general lease rents. See Appendix B – "Schedule of Existing General Leases" for detailed information. The typical general lease has a term of 55 years. HRS Section 171-36(b) provides the Department with an option to extend industrial and commercial leases that were issued for less than 55 years authorized under HRS Section 171-36(a)(2), so that the aggregate of the original term and the extended term spans 55 years. The Department is waiting for approval from the U.S. Department of Interior to implement Section 228 of the HHCA which allows for a 20-year extension to industrial and commercial leases beyond the maximum lease term. Lease rents are subject to periodic adjustments and step-ups in annual rents. Lease rents are also negotiated from time to time and rents actually billed may differ from revenues received.

The following table identifies the top ten general leases based on annual rents as of June 30, 2016:

Table 5
Top 10 General Leases by Annual Rents
(As of June 30, 2016)

Lessee	Location	Primary Use	Ending Date	Annual General Lease Rent	Percentage of Total Annual General Lease Rents
DeBartolo Hawaii LLC [(1)]	O'ahu	Commercial	11/30/2079	$3,617,856	26.6%
Waiakea Center, Inc. [(2)]	Hawai'i	Commercial	10/14/2056	1,208,996	8.9
Lease Properties, LLC [(3)]	O'ahu	Industrial	10/09/2022	721,040	5.3
Safeway/Target [(4)]	Hawai'i	Commercial	06/17/2069	568,461	4.2
Home Depot U.S.A., Inc. [(5)]	Hawai'i	Commercial	12/15/2070	460,000	3.4
RCK Partners, LP [(6)]	O'ahu	Commercial	05/31/2045	407,076	3.0
U-Haul of Hawaii, Inc.	O'ahu	Industrial	10/09/2022	388,040	2.8
Kalaeloa Solar One LLC [(7)]	O'ahu	Alt. Energy	09/02/2032	335,200	2.5
Aloha Beach Resort	Kaua'i	Resort	05/17/2084	320,452	2.4
Ho Retail Properties I LP	Hawai'i	Commercial	09/30/2042	317,793	2.3
Total:				$8,344,914	61.3%

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(1) DeBartolo Hawaii development is a 67-acre retail and dining complex in West Oahu that includes over 100 stores and is anchored by Consolidated Theatres, Hampton Inn and Macy's. The Macy's store at this location is the first new construction Macy's built in the State of Hawaii.

(2) Waiakea Center is a power center shopping mall in Hilo, Hawaii that opened in 1997. It covers approximately 230,000 square feet and currently includes stores such as Ross, Walmart, Office Max, and Walgreens.

(3) Lease Properties is an affiliate of Watumull Properties Corp. that subleases industrial and commercial space to various tenants.

(4) Safeway and Target opened in 2011. The Target store at this location is one of two Target stores on the Island of Hawaii and covers approximately 154,000 square feet.

(5) Home Depot U.S.A., Inc. is one of two Home Depot stores on the Island of Hawaii.

(6) RCK Partners is a community shopping center with an indoor Chinatown Marketplace.

(7) Kalaeloa Solar One is a solar farm stationed on 36 acres on the Island of Oahu. The lease represents the Department's first large-scale commercial venture in renewable energy. The solar farm generates five megawatts of power. A purchase power agreement with Hawaiian Electric is currently in place.

Source: State of Hawaii; Department of Hawaiian Home Lands

The following table presents a summary of the general leases by classification:

Table 6
General Leases by Classification
(As of June 30, 2016)

Classification	Number of Leases	FY 2016 General Lease Rents Billed	Percentage of Total Annual General Lease Rents
Agriculture	2	$ 17,150	0.1%
Air Traffic Control Beacon	1	28,800	0.2
Alternative Energy	2	637,960	4.7
Church	1	1,345	0.0
Commercial	7	6,797,982	49.9
Community	6	73,722	0.5
Community/Com	3	--	0.0
Education	1	1,500	0.0
Government	4	2	0.0
Industrial	79	5,329,596	39.1
National Park	1	200,000	1.5
Office	1	1	0.0
Preschool	3	3	0.0
Public Service	2	57,516	0.4
Radio Receiver Site	1	40,720	0.3
Resort	3	320,452	2.4
Utility	4	109,351	0.8
Totals:	121	$13,616,100	100.0%

Source: State of Hawaii; Department of Hawaiian Home Lands (see also Appendix B – "Schedule of Existing General Leases")

The following table presents the lease revenue attributed to each island, based on the distribution of current general lease revenues. Approximately 56% of the revenues are concentrated in Hilo on the Island of Hawaii and in the Fort Shafter Flats area on Oahu, as discussed in "Concentration of Lease Revenues" below.

Table 7
Geographic Distribution of General Leases
(As of June 30, 2016)

	Number of Leases	% of Annual General Lease Revenues
Hilo, Hawaii	60	37%
Fort Shafter Flats, Oahu	16	19
Other, Hawaii	14	4
Other, Oahu	21	36
Kauai	3	2
Molokai	6	2
Maui	1	0
Totals:	121	100%

Source: State of Hawaii; Department of Hawaiian Home Lands (see also Appendix B – "Schedule of Existing General Leases")

Lease Criteria

The qualification guidelines established by the Department to identify applicants qualified to negotiate a lease for commercial, industrial, or other business purposes, in accordance with the HHCA, requires the applicant to meet the following general criteria:

1. The applicant is required to substantiate that it has the necessary experience and is able to successfully complete a commercial or commercial/industrial mixed-use development. To meet this criterion the applicant must demonstrate each of the following:

   a) The applicant must have worked in such capacity that will demonstrate experience in the specific area/field of operation as the applicant's principal activity for not less than two of the last five years. The applicant may establish eligibility through production of a resume or income tax returns;

   b) The applicant must demonstrate knowledge of and personal experience in dealing with federal and state regulations and agencies governing such proposed project. The applicant may establish compliance by documenting applicant's participation in land use issues and the permitting process.

   c) The applicant must submit a current Certificate of Good Standing (corporations only) and/or a current Tax Clearance Certificate.

   d) Sensitivity to and understanding of the HHCA and its mission, and the effect of the development on its beneficiaries.

2. The applicant is required to demonstrate that completion of the applicant's proposed project within a set time frame (depending on the proposed plan) is feasible. To enable the Department to determine whether the applicant meets this criterion, the applicant must submit reports, studies, plans and other documents described below:

   a) The applicant's proposed plan (project can be developed in phases);

   b) A business profile on each entity which will be a principal member of the applicant's development team showing the experience of each in the proposed project, the resources each is proposing to commit to the project, the role to be played by the entity in the project, and any letters of intent or other signed agreements evidencing the entity's commitment to the project;

   c) A map or site plan of the proposed project with detailed infrastructure requirements; and

   d) A time line which shows all major tasks that must be accomplished by the end of the projected development period. The applicant must detail how it expects to obtain the required federal, State and/or county permits to complete this project.

3. The applicant must possess the financial capability to complete the proposed project. To enable the Department to determine whether the applicant meets this criterion, the applicant is required to submit each of the following:

   a) A detailed budget/cost estimate showing the estimated cost of constructing and/or operating the proposed project;

   b) Current financial statements or reports for the applicant and each entity relied on by the applicant either to provide financing or to assist in obtaining such financing (*e.g.*, by signing on or guaranteeing the financing);

   c) Documents identifying all sources of financing upon which the applicant is relying to complete the proposed project together with evidence (such as a signed loan commitment or notice of intent to lease from prospective tenants) that the financing is committed to the project;

   d) A statement authorizing the Department to order a credit report on each of the members of the applicant's development team; and

   e) A bid deposit equivalent to three months of the upset annual rent for the first ten years, in the form of a cashier's check or certified check. The deposit from the applicant selected for negotiation will be non-refundable and will be applied to the lease rent upon signing of a lease. If no lease is entered into between the Department and the selected applicant, the deposit will be retained by the Department, provided only that the Department conducts all lease negotiation in good faith. Deposits from applicants not selected for negotiation will be returned.

4. The applicant must have a market and feasibility plan for the operation and management of the proposed development and related facilities after construction. To enable the Department to determine whether the proposed development is feasible, the applicant is required to submit pro forma financial statements showing income and expense items for the first ten years of operation of the proposed development.

The Department reviews the bids of all qualified applicants to determine the highest offer in terms of the rent to be paid to the Department.

Cash Flows from Rentals

The following table presents the Department's historical and projected cash flows from rentals under general leases, licenses and revocable permits of available lands for the Fiscal Years ending June 30, 2013 through June 30, 2021.

Table 8
Historical and Projected Rental Cash Flows
(Dollar Amounts in Thousands)

Fiscal Year Ending June 30	General Leases	Licenses & Revocable Permits	Interest	Totals
2013	$ 8,923	$3,662	$246	$12,831
2014	11,841	3,923	87	15,850
2015	11,332	4,025	167	15,524
2016	10,922	3,808	276	15,006
2017*	11,554	3,502	294	15,350
2018**	12,847	3,900	294	17,041
2019**	12,420	3,900	294	16,614
2020**	12,612	3,900	294	16,806
2021**	13,081	3,900	294	17,275

* 2017 data unaudited.

** Projected.

Source: State of Hawaii; Department of Hawaiian Home Lands

The following table shows the Department's historical and projected debt service coverage from Fiscal Year 2013 through Fiscal Year 2021:

	Fiscal Year								
	2013	2014	2015	2016	2017*	2018**	2019**	2020**	2021**
Pledged Revenues	$12,831	$15,850	$15,524	$15,006	$15,350	$17,041	$16,614	$16,806	$17,275
Series 2009 Bonds Debt Service	$3,011	$3,010	$3,012	$3,011	$3,013	--	--	--	--
Series 2017 Bonds Debt Service	--	--	--	--	--	$3,009***	$3,010***	$3,028***	$2,999***
Debt Service Coverage	426%	527%	515%	498%	509%	566%	552%	555%	576%

* 2017 data unaudited.

** Projected.

*** Preliminary; subject to change.

Source: State of Hawaii; Department of Hawaiian Home Lands

As shown in the table above, the Department's debt service coverage has ranged from 426% to 527% from Fiscal Year 2013 to Fiscal Year 2017 (unaudited). Debt service coverage is projected to be above 552% from Fiscal Years 2018 through 2021. As general leases reach their ending dates, the Department may extend the leases or re-offer them through a public auction process. However, assuming no extension or replacement of the Department's existing general leases as of June 30, 2016 (See Appendix B – "Schedule of Existing General Leases"), general lease rents are estimated to provide a minimum of 284% debt service through Fiscal Year 2035.

Certain Factors Affecting General Lease Revenues

General. Receipt by the Department of payments due under the general leases may be affected by certain factors, including defaults by lessees, rent waivers and federal condemnation proceedings. Moreover, general economic circumstances, such as global, national and local economic conditions, and force majeure (including earthquake), which cannot be predicted, may adversely affect the performance beyond the reasonable control of the lessees of their duties and obligations under the general leases, including their ability to make required rental payments to the Department. Reference is made to Appendix D hereto for certain economic information regarding the State of Hawaii that may affect the Department's leases and lease rentals.

Concentration of Lease Revenues. Currently, approximately 37% of the Department's general lease revenues are derived from commercial and industrial properties in Hilo, Hawaii. In addition, approximately 19% of the general lease revenues are derived from commercial and industrial properties in the Fort Shafter Flats area on the island of Oahu. As such, economic conditions pertaining in such locales may affect the ability of the lessees in those areas to make the required lease payments.

Defaults and Termination. The revenues derived by the Department from the general leases will be affected if a lessee defaults in the payment of its rental obligations or the performance of any of its other obligations. Upon failure of the lessee to cure the default within 60 days from the date of receipt of notice of default, the Department may terminate the lease without prejudice to any other right or remedy for arrears of rent and interest or for any preceding or other breach or default.

Reopeners. The first rent reappraisal typically takes place at some point between the tenth and twelfth year of the general lease. The general lease describes the procedure to be followed by the lessee and the Department in the course of establishing a new lease amount after a reappraisal. In practice, the Department provides lessees with the results of appraisals, and the consequent change in rental rates, six months before those rates will go into effect. As a result, the Department and the lessee have a half year to resolve any disputes over changes in rental costs.

Lessee's Ability to Terminate. The lessee's right to terminate a general lease, if available at all, is limited to the circumstances in which the lessee determines that because of a change of condition it is impossible or impracticable to construct the on-site and off-site improvements within the initial construction period, normally within three years. The lessee may exercise its right to terminate the general lease, subject to the Department's acceptance of the termination, and provided the lessee pays an additional year's rent and satisfies all mortgages, claims and other encumbrances.

Assignments and Subletting. The Department allows the assignment of a general lease under certain circumstances upon prior Department approval. Under the general leases more recently entered into, the Department has the right to condition its consent to the assignment upon payment by the lessee of a premium based on the amount by which the consideration for the assignment exceeds the depreciated cost of improvements and trade fixtures being transferred to the assigned.

As with assignments, the lessee must obtain Department approval before subletting the leased property. The Department has the right to revise the lease rental paid by the lessee upward to reflect the rental the lessee will charge the sublessee.

Mortgage/Security Interest. With the Department's consent, the lessee may mortgage the lease or any interest therein or create a security interest in the leasehold.

Condemnation. The State and counties have no authority under the State condemnation laws to condemn Hawaiian home lands, but the general leases provide that the State may withdraw the premises thereunder for public purposes. There is no express limitation on the federal government, however, so the federal government may be able to condemn Hawaiian home lands under certain circumstances.

In the event of the condemnation or the State's withdrawal for a public purpose of any portion of the premises leased under a general lease, the rental shall be reduced in proportion to the value of the portion of the leased premises condemned or withdrawn. Furthermore, if the portion condemned or withdrawn renders the remainder unsuitable for the use for which the land was leased, the lessee shall have the option to surrender the lease and be discharged and relieved from any further liability under the lease.

FINANCIAL STATEMENTS

The financial statements of the Department as of and for the fiscal year ended June 30, 2016, included in Appendix A to this Official Statement, have been audited by Accuity LLP, independent auditors, as stated in such firm's reports appearing in Appendix A.

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, execution or delivery of the Series 2017 Bonds or in any other manner affecting the validity of the Indenture or the Series 2017 Bonds or the proceedings or authority pursuant to which the Series 2017 Bonds are to be issued and sold. 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 Department's financial position. See Appendix D, "—Pending Litigation," for a summary of lawsuits and claims filed by certain homestead applicants for which the Department is unable to predict the magnitude of its potential liability, if any.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Series 2017 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is of the opinion that the Series 2017 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. A complete copy of the proposed form of opinion of Bond Counsel relating to the Series 2017 Bonds is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2017 Bonds is less than the amount to be paid at maturity of such Series 2017 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2017 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2017 Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Series 2017 Bonds is the first price at which a substantial amount of such maturity of the Series 2017 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2017 Bonds accrues daily over the term to maturity of such Series 2017 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2017 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2017 Bonds. Beneficial Owners of the Series 2017 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2017 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2017 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2017 Bonds is sold to the public.

The Series 2017 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2017 Bonds. The Department has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2017 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2017 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2017 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2017 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2017 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes and that the Series 2017 Bonds and the income therefrom are exempt from taxation by the State of Hawaii or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2017 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2017 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2017 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Department, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Department has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2017 Bonds ends with the issuance of the Series 2017 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Department or the Beneficial Owners regarding the tax-exempt status of the Series 2017 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Department and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of Series 2017 Bonds is difficult, obtaining an independent review of IRS positions with which the Department legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2017 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2017 Bonds, and may cause the Department or the Beneficial Owners to incur significant expense.

VERIFICATION

In connection with the issuance of the Series 2017 Bonds and the refunding of the Refunded Bonds, The Arbitrage Group, Inc., will verify the mathematical accuracy of: (a) certain computations demonstrating the sufficiency of the Escrow Fund, including the moneys deposited therein and the anticipated receipts from the Escrow Fund investments, to pay the principal or redemption price of and interest on all Refunded Bonds, when due; and (b) certain computations of the yield on the Bonds and the Escrow Fund to be relied upon by Bond Counsel for purposes of its opinion to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes. Such verification will be based in part on schedules and information provided by the Underwriter with respect to the foregoing computations.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Series 2017 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E 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 State by the Attorney General and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP.

RATING

Moody's Investors Service has assigned the rating of "Aa3" to the Series 2017 Bonds. This rating reflects only the view of Moody's Investors Service and any desired explanation of the significance of the rating should be obtained from Moody's Investors Service at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Series 2017 Bonds.

UNDERWRITING

The Series 2017 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated, as Underwriter, pursuant to a bond purchase contract between the Underwriter and the Department, pursuant to which the Department has agreed to sell, and the Underwriter has agreed to purchase, the Series 2017 Bonds at an aggregate purchase price of $[________], reflecting an underwriting discount of $[________] and a net original issue [discount] [premium] of $[_________]. The bond purchase contract provides that the Underwriter's obligation to purchase the Series 2017 Bonds is predicated on the satisfaction of certain terms and conditions set forth therein, including the approval of certain legal matters by counsel. The Underwriter will be obligated to purchase all of the Series 2017 Bonds if any are purchased.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2017 Bonds to the public. The Series 2017 Bonds may be offered and sold to certain dealers (including dealers depositing the Series 2017 Bonds into investment trusts) at prices lower than the public offering prices appearing on the cover hereof and the public offering prices may be changed from time to time.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

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

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

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Department will undertake, pursuant to a Continuing Disclosure Certificate to be delivered with respect to the Series 2017 Bonds (the "Continuing Disclosure Certificate") constituting a written agreement for the benefit of the holders of the Series 2017 Bonds, to provide to the Municipal Securities Rulemaking Board, on an annual basis, certain financial and operating data concerning the Department, financial statements, notice of certain events if material, and certain other notices, all as described in the Continuing Disclosure Certificate. The undertaking is an obligation of the Department that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Series 2017 Bonds are third-party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriter to purchase the Bonds. The form of the Continuing Disclosure Certificate is attached as Appendix F to this Official Statement.

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

A failure by the Department to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Series 2017 Bonds, although any Bondholder or any Beneficial Owner may bring action to compel the Department to comply with its obligations under the Continuing Disclosure Certificate. Any such failure must be reported in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2017 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2017 Bonds and their market price.

MISCELLANEOUS

As far as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Series 2017 Bonds. The Department of Hawaiian Home Lands has prepared this Official Statement and has duly authorized the delivery hereof.

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

DEPARTMENT OF HAWAIIAN HOME LANDS

By: ______________________________

Jobie Masagatani, Chairman,
Hawaiian Homes Commission

APPENDIX A

DEPARTMENT OF HAWAIIAN HOME LANDS AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS

State of Hawai‘i
Department of Hawaiian Home Lands

Financial and Compliance Audit

June 30, 2016

Submitted by
The Auditor
State of Hawai‘i

Quality *Integrity* *Insight*

State of Hawai‘i
Department of Hawaiian Home Lands
Index
June 30, 2016

PART I

Financial Section

Report of Independent Auditors

The Auditor
State of Hawaii

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawai'i, Department of Hawaiian Home Lands (the "Department"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

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 financial statements based on our audit. 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 from 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 Department'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 Department'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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Hawaiian Home Administration Account 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, the financial statements of the Department include only the governmental activities, each major fund, and the aggregate remaining fund information of the Department, and are not intended to present fairly the financial position of the State of Hawai‘i (the “State”) as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 and budgeting comparison information on pages 4 through 11 and pages 18 through 19, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We 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 Department’s basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”), and is not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 basic 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. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawai'i
December 21, 2016

The following Management's Discussion and Analysis ("MD&A") is designed to provide an overview of the financial performance of the State of Hawaiʻi, Department of Hawaiian Home Lands (the "Department") for the fiscal year ended June 30, 2016. Please read it in conjunction with the Department's financial statements, which follow this section.

Financial Highlights for Fiscal Year 2016

- The Department's net position, the amount of assets exceeding liabilities, totaled $815.8 million. Of this amount, $210.8 million is unrestricted, $146.4 million is restricted, and $458.6 million is net investment in capital assets.

- The Department's net position increased $13.5 million over the course of this year's operations.

- In fiscal year 2016, the Department's revenues exceeded expenses (before transfers) by $13.5 million. In fiscal year 2015, the expenses exceeded revenues (before transfers) by $3.8 million.

- The total revenues of the Department increased by $12.0 million, or 21.2%.

- The total fund balance of the Department's governmental funds increased by $21.1 million.

Overview of the Financial Statements

This MD&A serves as an introduction to the Department's basic financial statements. The basic financial statements are comprised of three components: (1) department-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information (combining financial statements – nonmajor governmental funds) in addition to the basic financial statements.

The first two statements are department-wide financial statements that provide both long-term and short-term information about the Department's overall financial status and operations.

The fund financial statements focus on individual parts of the Department, reporting the Department's status and operations in more detail than the department-wide financial statements. These statements detail how general departmental services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Department-Wide Financial Statements
The department-wide financial statements provide a broad view of the Department's operations. The statements provide both short-term and long-term information about the Department's financial position and activities, which assists in assessing the Department's economic condition at the end of the fiscal year and operations for the year then ended. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The department-wide financial statements include two statements:

- The statement of net position presents all of the Department's assets and liabilities. The difference between the assets and liabilities is reported as net position.

- The statement of activities presents information showing how the Department's net position changed during the fiscal year. This statement presents a comparison between direct expenses and program revenues for each division of the Department.

The activities of the Department are mostly supported by state appropriation, rental income from commercial land leases, and intergovernmental revenues. The Department's basic services fall under these types of activities.

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 Department uses fund accounting to ensure and demonstrate compliance with legal requirements.

The fund financial statements provide more detailed information about the Department's status and operations. Certain of the Department's funds were established under State of Hawaii ("State") Law or by bond covenants. Other funds of the Department are established by the Hawaiian Homes Commission Act. These funds manage money for particular purposes.

The Department only has governmental funds which finance the Department's basic services. Governmental funds are used to account for essentially the same functions reported as governmental activities in the department-wide financial statements. However, unlike the department-wide financial statements, the fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's short-term financing requirements.

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

The Department has 15 governmental funds, nine of which are separately disclosed as major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance. These funds are briefly described as follows:

- **General Fund** – The General Fund is authorized and appropriated by the State Legislature each year for planning, development, management and general support for the Hawaiian Homestead Program.

- **Hawaiian Home General Loan Fund** – Act 249, SLH 1986, amended this revolving loan fund and consolidated all loan funds other than the Hawaiian Home Loan Fund in 1986. The major source of receipts for this fund is through principal repayment. The Department can make loans from the revolving funds for the construction of homes, home repairs or additions, or for the development and operation of a farm, ranch or agriculture operation.

- **Hawaiian Home Lands Trust Fund** – This fund was established by Act 14, Special Session 1995, which settles all claims made on behalf of the Hawaiian Home Land Trust against the State between August 21, 1959 and July 1988. It requires that the State make twenty annual deposits of $30 million or their discounted equivalent into the Hawaiian Home Lands Trust Fund. Proceeds of the fund may be used by the Department for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920, as amended.

- **Hawaiian Home Operating Fund** – This fund was established through a merger of the Hawaiian Home Development Fund and Hawaiian Home Operating Fund in 1986. Any interest or earnings arising out of investments from the Hawaiian Home Loan Fund are to be credited to and deposited into the Hawaiian Home Operating Fund. All monies received by the Department from any other source, other than those prescribed in other funds of the Hawaiian Homes Commission Act, are deposited into this fund. The Department uses the fund for the construction, operation and maintenance of revenue-producing activities that are intended to serve principally occupants on Hawaiian home lands. The fund is also used to finance improvements and developments necessary to serve present and future occupants of Hawaiian home lands.

- **Hawaiian Home Receipts Fund** – All interest monies from loans or investments received by the Department from any fund, except the Hawaiian Home Loan Fund, Hawaiian Home Administration Account, Native Hawaiian Rehabilitation Fund, Department of Hawaiian Home Lands Revenue Bond Special Fund and Hawaiian Home Lands Trust Fund, are deposited into this fund. This fund serves as a clearing fund at the end of each quarter. All monies in this fund are transferred to other funds as authorized by the Hawaiian Homes Commission Act.

- **Hawaiian Home Administration Account** – The revenue sources of this fund are the entire receipts from any leasing or other dispositions of "available lands" and any interest or other earnings arising out of investments from this fund. The Department expends the monies for salaries and all other administrative expenses of the Department, excluding capital improvements, in the absence of general funds appropriated for operating and administrative costs.

- **Federal Grants** – The Department is the recipient of an annual block grant under the Native American Housing Assistance and Self-Determination Act of 1996 ("NAHASDA"). The U.S. Department of Housing and Urban Development ("HUD") is the cognizant entity of the NAHASDA grant in carrying out affordable housing activities for Native Hawaiian families qualified for this program.

- **Hawaiian Home Trust Fund** – Monies deposited into this fund are available for transfers into any other fund or account authorized by the Act or for any public purpose to further the purposes of the Act. Public purpose includes using the Hawaiian Home Trust Fund as a reserve for loans insured or guaranteed by the HUD Federal Housing Administration, Veteran Administration or any other federal agency authorized to insure or guarantee loans. A major portion in the Hawaiian Home Trust Fund is the reserve for loans insured by the HUD Federal Housing Administration.

- **Hawaiian Home Lands Bond Funds** – The bond funds are authorized and appropriated by the State Legislature each year for construction projects or grant in aid funds for projects or grants which benefit the trust's beneficiaries or community organizations.

The accompanying notes to the financial statements are part of the financial statements. The notes provide additional information that is essential to gain a full understanding of the information provided in the department-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information consisting of the combining balance sheet and combining statement of revenues, expenditures and changes in fund balances in connection with nonmajor governmental funds and schedule of expenditures of federal awards.

Financial Analysis of the Department as a Whole

Net Position

The Department's total net position increased by $13.5 million to $815.8 million between fiscal years 2016 and 2015, primarily due to the additional appropriation of general funds the Department received in the fourth quarter of fiscal year 2016 in accordance with Act 119, as amended by Act 124, SLH 2016. A large portion of the Department's net position (56%) reflects its investment in capital assets such as land, buildings, infrastructure, furniture and equipment, and construction-in-progress. The Department uses these capital assets to provide improvements on a special class of public lands, which are leased to native Hawaiians; consequently, these assets cannot be sold. Although the Department'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 cannot be used to liquidate these liabilities.

The following is a comparative statement of net position:

Summary of Statement of Net Position
(in millions)

	2016	2015	Increase (Decrease)
Current and other assets	$ 428.6	$ 402.0	$ 26.6
Capital assets	523.1	535.1	(12.0)
Total assets	951.7	937.1	14.6
Long-term debt outstanding	62.1	65.4	(3.3)
Other liabilities	73.8	69.4	4.4
Total liabilities	135.9	134.8	1.1
Net position			
Net investment in capital assets	458.6	467.2	(8.6)
Restricted	146.4	141.2	5.2
Unrestricted	210.8	193.9	16.9
	$ 815.8	$ 802.3	$ 13.5

Change in Net Position

The Department's total program revenues decreased from $45.8 million in fiscal year 2015 to $40.9 million in fiscal year 2016 (see statement of activities). Approximately 33.5% of the Department's program revenues came from interest income, 28.6% came from grants and contributions, 36.9% came from the general lease program, and 1.0% came from other sources. Total general revenues decreased by 31.1% to $27.7 million due to the Department receiving the final installment of the Act 14, Special SLH 1995 at the end of fiscal year 2015, which was partially offset by the Department receiving additional general fund appropriations for construction projects and grants in aid funding for community organizations during fiscal year 2016.

Statement of Activities

The statement of activities presents how the Department's net position changed during the current fiscal year. Revenues and expenses are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As such, the statement includes information for some items that will result in cash flows in future fiscal periods (e.g., uncollected lease payments).

The following is a comparative summary of changes in net position:

Summary of Changes in Net Position
(in millions)

	2016	2015	Increase (Decrease)
Revenues			
Program revenue			
Administration and support services	$ 6.9	$ 4.4	$ 2.5
Homestead services	7.2	6.0	1.2
Land development	-	4.4	(4.4)
Home construction	-	0.4	(0.4)
Land management	15.1	15.8	(0.7)
Intergovernmental revenues	11.7	14.8	(3.1)
Appropriation, net of lapsed appropriations	27.7	10.8	16.9
Total revenues	68.6	56.6	12.0
Expenses			
Administration and support services	15.1	13.1	2.0
Homestead services	28.9	29.4	(0.5)
Land development	4.3	2.4	1.9
Home construction	3.2	3.9	(0.7)
Land management	3.6	4.0	(0.4)
Total expenses	55.1	52.8	2.3
Excess of revenues over expenses	13.5	3.8	9.7
Transfers, net	-	29.4	(29.4)
Change in net position	13.5	33.2	(19.7)
Net position			
Beginning of year	802.3	769.1	33.2
End of year	$ 815.8	$ 802.3	$ 13.5

As noted, net position increased by $13.5 million from operations, a 1.7% growth this year, compared to an increase of $33.2 million, a 4.3% growth in fiscal year 2015. The fiscal year 2016 increase is primarily due to an increase in bonds funds received for construction projects and general funds, offset by a slight increase in expenses in fiscal year 2016.

Financial Analysis of the Department’s Governmental Funds

Governmental Funds

The focus of the Department’s governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department’s financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2016, the Department’s governmental funds reported a combined increase in fund balance of $21.1 million. The changes in fund balance for the governmental funds differ from the change in net position for governmental activities. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported in the changes in net position.

Comparison of Balance Sheet
(in millions)

	Assets			Liabilities			Fund Balances (Deficit)		
	2016	2015	Change	2016	2015	Change	2016	2015	Change
General Fund	$ 0.9	$ 0.7	$ 0.2	$ 0.8	$ 0.1	$ 0.7	$ 0.1	$ 0.6	$ (0.5)
General Loan Fund	94.4	87.2	7.2	31.9	29.5	2.4	62.5	57.7	4.8
Land Trust Fund	159.7	168.3	(8.6)	1.2	2.6	(1.4)	158.5	165.7	(7.2)
Operating Fund	37.6	20.4	17.2	1.1	1.3	(0.2)	36.5	19.1	17.4
Receipts Fund	6.0	5.7	0.3	4.0	3.9	0.1	2.0	1.8	0.2
Administration Account	35.8	38.9	(3.1)	3.9	4.3	(0.4)	31.9	34.6	(2.7)
Federal Grants	38.8	35.6	3.2	29.7	27.2	2.5	9.1	8.4	0.7
Trust Fund	42.9	40.4	2.5	30.7	28.2	2.5	12.2	12.2	-
HHL Bond Funds	12.4	4.2	8.2	0.6	-	0.6	11.8	4.2	7.6
Other Funds	30.8	28.8	2.0	3.7	2.5	1.2	27.1	26.3	0.8
Total	$ 459.3	$ 430.2	$ 29.1	$ 107.6	$ 99.6	$ 8.0	$ 351.7	$ 330.6	$ 21.1

Comparison of Statement of Revenues, Expenditures and Changes in Fund Balances
(in millions)

	Revenues			Expenditures			Other Financing Sources and Lapsed Appropriations			Net Changes in Fund Balances (Deficit)		
	2016	2015	Change	2016	2015	Change	2016	2015	Change	2016	2015	Change
General Fund	$ 16.7	$ 8.3	$ 8.4	$ 7.8	$ 7.6	$ 0.2	$ (9.4)	$ (1.7)	$ (7.7)	$ (0.5)	$ (1.0)	$ 0.5
General Loan Fund	0.9	-	0.9	0.1	0.5	(0.4)	4.0	2.6	1.4	4.8	2.1	2.7
Land Trust Fund	2.2	5.4	(3.2)	9.4	18.4	(9.0)	-	29.4	(29.4)	(7.2)	16.4	(23.6)
Operating Fund	1.0	0.9	0.1	4.1	4.0	0.1	20.5	6.0	14.5	17.4	2.9	14.5
Receipts Fund	4.2	5.1	(0.9)	-	-	-	(4.0)	(3.6)	(0.4)	0.2	1.5	(1.3)
Administration Account	15.4	15.8	(0.4)	6.8	7.5	(0.7)	(11.3)	(4.3)	(7.0)	(2.7)	4.0	(6.7)
Federal Grants	12.3	14.5	(2.2)	11.6	16.8	(5.2)	-	-	-	0.7	(2.3)	3.0
Trust Fund	-	-	-	-	-	-	-	0.9	(0.9)	-	0.9	(0.9)
HHL Bond Funds	11.3	2.4	8.9	3.7	0.4	3.3	-	-	-	7.6	2.0	5.6
Other Funds	3.7	3.7	0.0	2.9	3.8	(0.9)	-	-	-	0.8	(0.1)	0.9
Total	$ 67.7	$ 56.1	$ 11.6	$ 46.4	$ 59.0	$ (12.6)	$ (0.2)	$ 29.3	$ (29.5)	$ 21.1	$ 26.4	$ (5.3)

Overall, the assets for the Department increased by $29.1 million, liabilities increased by $8.0 million, and fund balance increased by $21.1 million.

Budgetary Highlights

In fiscal year 2016, the General Fund Account received appropriations amounting to $16.7 million. This amount was expended according to the budget except $184,454 was lapsed.

In the Hawaiian Home Administration Account, the actual revenue exceeded the budgeted amount by $1.7 million and expenditures were $6.8 million less than the budgeted amount. The overall favorable variance of $8.5 million was created by expenditure control measures.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2016, the Department had invested $801.6 million in a broad range of capital assets, including land, building and improvements, furniture and equipment, and infrastructure. This amount represents a net increase (including additions, deductions and reclassifications) of $11.3 million, or 1.4%, over last year.

Capital Assets
(in millions)

	2016	2015	Increase (Decrease)
Buildings and improvements	$ 29.2	$ 29.2	$ -
Furniture and equipment	5.6	5.6	-
Motor vehicles	1.3	1.0	0.3
Infrastructure	713.9	687.9	26.0
Total depreciable assets	750.0	723.7	26.3
Less: Accumulated depreciation	(278.5)	(255.2)	(23.3)
Net depreciable assets	471.5	468.5	3.0
Land	41.8	41.8	-
Construction in progress	9.8	24.8	(15.0)
Total capital assets	$ 523.1	$ 535.1	$ (12.0)

In fiscal year 2016, the Department expended $26.3 million for various capital projects, including $12.4 million for East Kapolei 2 (Increment II-B Development), $11.1 million for Laiopua Village 4, Ph 1 (Akau Subdivision), and $2.7 million for various other projects.

Long-Term Debt

In 2009, the Department issued Revenue Bonds, Series 2009, to fund the planning, design and construction projects on the Hawaiian Home Lands. The Department also has a note payable to reimburse the Housing and Community Development Corporation of Hawaiʻi for infrastructure costs over a 15-year period. The Department is also obligated to repay a portion of the State general obligation bonds issued on the Department's behalf through reimbursable general obligation bonds.

Outstanding Debt
(in millions)

	2016	2015	Decrease
Notes payable	$ 8.1	$ 9.8	$ (1.7)
Capital lease obligation	19.3	20.2	(0.9)
Bonds payable, net	37.1	37.9	(0.8)
Total	$ 64.5	$ 67.9	$ (3.4)

Economic Factors and Next Year's Budgets

Revenues generated from general leases, revocable permits, licenses and right of entry agreements are projected to total $13.1 million. This represents an increase of 1.6% from the prior fiscal year projection. The increase is primarily due to scheduled increases in rents and fees.

Currently Known Facts or Decisions

As stewards of the Hawaiian Home Lands Trust, the Department remains focused on the core mission of returning native Hawaiians to the land, as envisioned by founder Prince Jonah Kuhio Kalanianaʻole.

In the ongoing effort to effectively manage the trust, the Department spent much of the fiscal year laying the foundation for major changes that will have profound impacts on the future of the trust and the beneficiaries we serve.

At the top of the Department's list of priorities is stabilizing department funding in light of the *Nelson v. Hawaiian Homes Commission* ruling and the end of the Act 14 settlement payments. This responsibility is a deliberate balancing act as the Department also strives to meet an ever growing beneficiary demand for homesteading opportunities.

Last year, the Department received its first appropriation of general funds since 2010. While the appropriation of $9.6 million fell short of the $25.7 million the Department determined to be sufficient to cover operating expenses, the Department and the Hawaiian Homes Commission looks forward to working with the State Legislature to ensure "sufficient sums," as determined by the court, are available for the Department.

In addition to stabilizing department funding, the priorities for the fiscal year include improving service to beneficiaries by increasing affordability of the Department's housing products, supporting the existing communities, reviving the agricultural homesteading program, and maximizing the management of natural resources including water and renewable energy resources.

State of Hawai'i
Department of Hawaiian Home Lands
Statement of Net Position
June 30, 2016

Assets	
Equity in cash and cash equivalents and investments held in State Treasury	$ 282,887,732
Receivables	
Due from State Treasury	13,258,098
Due from Federal Agency	1,567,967
Loans, net of allowance for losses of $13,806,000	82,662,525
Accrued interest	5,742,517
General leases and licenses, net of allowance for losses of $2,191,000	3,107,105
Other	3,834,162
Inventory of homes purchased from former lessees	4,347,486
Inventory of homes for sale and development	169,554
Restricted cash and short-term investments held outside of State Treasury	31,074,415
Capital assets, net	523,110,392
Total assets	$ 951,761,953
Liabilities and Net Position	
Liabilities	
Vouchers and contracts payable	$ 6,447,629
Accrued wages and employee benefits payable	43,083
Due to State Treasury	26,519,263
Due to Federal agency	160
Interest payable	685,050
Temporary deposits payable	30,664,409
Other liabilities	4,406,248
Unearned revenue	1,186,763
Due within one year	
Notes payable	1,700,000
Capital lease obligation	860,000
Bonds payable	865,097
Accrued vacation	459,070
Due in more than one year	
Notes payable	6,400,000
Capital lease obligation	18,475,000
Bonds payable, net of discount of $396,000	36,258,577
Accrued vacation	1,000,149
Total liabilities	135,970,498
Commitments and contingencies	
Net position	
Net investment in capital assets	458,551,718
Restricted for	
Capital projects	51,893,444
Debt reserve agreements	9,337,295
Loans and loan commitments	82,662,525
Guaranteed and insured loans	2,500,000
Unrestricted	210,846,473
Total net position	815,791,455
Total liabilities and net position	$ 951,761,953

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

State of Hawaiʻi
Department of Hawaiian Home Lands
Statement of Activities
June 30, 2016

Functions / Programs	Program Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Administration and support services	$ 15,066,273	$ 6,852,056	$ 4,765,110	$ (3,449,107)
Homestead services	28,935,783	7,189,177	-	(21,746,606)
Land development	4,303,711	-	6,934,849	2,631,138
Home construction	3,185,230	-	-	(3,185,230)
Land management	3,642,360	15,126,822	-	11,484,462
Total governmental activities	$ 55,133,357	$ 29,168,055	$ 11,699,959	(14,265,343)
General revenues				
State appropriations, net of lapsed appropriations of $210,079				27,777,695
Total general revenues				27,777,695
Change in net position				13,512,352
Net position at July 1, 2015				802,279,103
Net position at June 30, 2016				$ 815,791,455

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

State of Hawai‘i
Department of Hawaiian Home Lands
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Other Funds	Total
Assets											
Equity in cash and cash equivalents and investments held in State Treasury	$ -	$ 21,687,555	$ 156,675,015	$ 36,902,520	$ 307,297	$ 30,077,984	$ 7,152	$ 12,199,529	$ -	$ 25,030,680	$ 282,887,732
Cash and short-term investments											
Receivables											
Due from other funds	-	-	-	-	-	-	-	30,664,410	-	-	30,664,410
Due from State	824,159	-	-	-	-	-	43,051	-	12,390,888	-	13,258,098
Due from Federal agency	-	1,567,967	-	-	-	-	-	-	-	-	1,567,967
Loans, net of allowance for losses of $13,806,000	-	66,758,777	-	-	-	-	14,003,767	-	-	1,899,981	82,662,525
Accrued interest	-	-	-	24,735	5,644,034	-	73,748	-	-	-	5,742,517
General leases and licenses, net of allowance for losses of $2,191,000	-	-	-	-	-	3,107,105	-	-	-	-	3,107,105
Other	-	150,214	2,873,877	721,697	-	70,378	17,996	-	-	-	3,834,162
Inventory of homes purchased from former lessees	-	4,254,486	-	-	-	-	-	-	-	93,000	4,347,486
Inventory of homes for sale and development	-	-	169,554	-	-	-	-	-	-	-	169,554
Restricted cash and short-term investments held outside of State Treasury	-	-	-	-	-	2,550,374	24,735,714	-	1,406	3,786,921	31,074,415
Total assets	$ 824,159	$ 94,418,999	$ 159,718,446	$ 37,648,952	$ 5,951,331	$ 35,805,841	$ 38,881,428	$ 42,863,939	$ 12,392,294	$ 30,810,582	$ 459,315,971
Liabilities and Fund Balances											
Liabilities											
Vouchers and contracts payable	$ 750,786	$ -	$ 1,207,026	$ 279,580	$ -	$ 901,044	$ 3,418,216	$ -	$ 597,744	$ 764,117	$ 7,918,513
Accrued wages and employee benefits payable	-	-	-	-	-	43,083	-	-	-	-	43,083
Due to other funds	-	30,455,949	-	208,461	-	-	-	-	-	-	30,664,410
Due to State Treasury	-	-	-	172,690	16,650	-	26,329,923	-	-	-	26,519,263
Due to Federal agency	-	-	-	160	-	-	-	-	-	-	160
Temporary deposits payable	-	-	-	-	-	-	-	30,664,409	-	-	30,664,409
Other liabilities	-	1,460,275	-	-	-	-	-	-	-	2,945,973	4,406,248
Unearned revenue	-	-	-	442,851	3,959,568	2,963,433	-	-	-	-	7,365,852
Total liabilities	750,786	31,916,224	1,207,026	1,103,742	3,976,218	3,907,560	29,748,139	30,664,409	597,744	3,710,090	107,581,938
Fund balances											
Restricted for											
Debt agreements	-	-	-	-	-	2,550,374	-	-	-	6,786,921	9,337,295
Guaranteed and insured loans	-	150,000	-	-	-	-	-	2,350,000	-	-	2,500,000
Federal loan programs	-	-	-	-	-	-	20,829,627	-	-	-	20,829,627
Assigned to											
Home loans and homestead services	-	67,638,333	-	-	1,975,113	-	-	9,849,530	-	4,719,767	84,182,743
Land management	814,192	-	-	36,545,210	-	29,347,907	-	-	-	-	66,707,309
Home construction and land development	-	-	158,511,420	-	-	-	-	-	12,392,294	15,593,804	186,497,518
Unassigned	(740,819)	(5,285,558)	-	-	-	-	(11,696,338)	-	(597,744)	-	(18,320,459)
Total fund balances	73,373	62,502,775	158,511,420	36,545,210	1,975,113	31,898,281	9,133,289	12,199,530	11,794,550	27,100,492	351,734,033
Total liabilities and fund balances	$ 824,159	$ 94,418,999	$ 159,718,446	$ 37,648,952	$ 5,951,331	$ 35,805,841	$ 38,881,428	$ 42,863,939	$ 12,392,294	$ 30,810,582	$ 459,315,971

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

State of Hawai‘i
Department of Hawaiian Home Lands
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

Total fund balances – governmental funds		$ 351,734,033
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. These assets consists of		
Infrastructure assets	$ 713,885,932	
Land	41,824,231	
Building and improvements	29,188,835	
Construction in progress	9,784,521	
Other capital assets	6,884,933	
Accumulated depreciation	(278,458,060)	
		523,110,392
Certain revenues not collected within 60 days after the end of the year are deferred in the funds.		6,179,089
Accrued interest payable is not recognized in governmental funds.		(685,050)
Long-term debt payment accruals are included as an expenditure for governmental funds but are included in bonds payable and capital lease obligation in the statement of net position.		1,470,884
Some long-term liabilities are not due and payable in the current period and therefore are not reported in the funds, including		
Notes payable		(8,100,000)
Capital lease obligation		(19,335,000)
Bonds payable		(37,123,674)
Accrued vacation		(1,459,219)
Net position of governmental activities		$ 815,791,455

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

State of Hawai‘i
Department of Hawaiian Home Lands
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Other Funds	Total
Revenues											
State appropriations	$ 16,712,774	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,275,000	$ -	$ 27,987,774
General leases	-	-	-	-	-	10,922,208	-	-	-	-	10,922,208
Licenses and permits	-	-	-	-	-	3,808,120	-	-	-	-	3,808,120
Interest from loans and note receivable	-	-	-	33,742	3,899,060	-	261,643	-	-	-	4,194,445
Investment income	-	-	952,546	15,843	317,258	203,045	-	-	-	108,542	1,597,234
Intergovernmental revenues	-	-	141,096	-	-	-	11,699,959	-	-	3,000,000	14,841,055
Other	-	915,669	1,056,799	1,039,977	-	379,484	434,645	-	-	555,752	4,382,326
Total revenues	16,712,774	915,669	2,150,441	1,089,562	4,216,318	15,312,857	12,396,247	-	11,275,000	3,664,294	67,733,162
Expenditures											
Current											
Administration and support services	4,236,627	-	51,710	1,633,958	-	3,780,223	1,870,787	-	3,162,000	128,401	14,863,706
Homestead services	1,918,294	117,143	-	1,584,352	-	1,039,716	12,750	-	-	-	4,672,255
Land development	789,531	-	1,520,714	236,000	-	442,036	1,299,654	-	-	-	4,287,935
Land management	845,391	-	490,032	640,844	-	1,564,774	47,895	-	-	7,007	3,595,943
Capital outlay											
Home construction/capital projects	-	-	7,315,535	6,679	-	-	8,402,581	-	495,890	-	16,220,685
Debt service											
Principal	-	-	-	19,845	-	-	-	-	-	752,500	772,345
Interest	-	-	-	1,191	-	-	-	-	-	2,008,080	2,009,271
Total expenditures	7,789,843	117,143	9,377,991	4,122,869	-	6,826,749	11,633,667	-	3,657,890	2,895,988	46,422,140
Excess (deficiency) of revenues over (under) expenditures	8,922,931	798,526	(7,227,550)	(3,033,307)	4,216,318	8,486,108	762,580	-	7,617,110	768,306	21,311,022
Other financing sources (uses)											
Transfers in	-	3,980,000	-	20,500,000	-	-	-	-	-	-	24,480,000
Transfers out	(9,223,784)	-	-	-	(3,980,000)	(11,273,402)	-	-	-	(2,814)	(24,480,000)
Total other financing sources (uses)	(9,223,784)	3,980,000	-	20,500,000	(3,980,000)	(11,273,402)	-	-	-	(2,814)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(300,853)	4,778,526	(7,227,550)	17,466,693	236,318	(2,787,294)	762,580	-	7,617,110	765,492	21,311,022
Lapsed appropriations	(184,454)	-	-	-	-	-	-	-	(25,625)	-	(210,079)
Net change in fund balances	(485,307)	4,778,526	(7,227,550)	17,466,693	236,318	(2,787,294)	762,580	-	7,591,485	765,492	21,100,943
Fund balances at July 1, 2015	558,680	57,724,249	165,738,970	19,078,517	1,738,795	34,685,575	8,370,709	12,199,530	4,203,065	26,335,000	330,633,090
Fund balances at June 30, 2016	$ 73,373	$ 62,502,775	$ 158,511,420	$ 36,545,210	$ 1,975,113	$ 31,898,281	$ 9,133,289	$ 12,199,530	$ 11,794,550	$ 27,100,492	$ 351,734,033

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

State of Hawai‘i
Department of Hawaiian Home Lands
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2016

Net change in fund balances – governmental funds		$ 21,100,943
Amounts reported for governmental activities in the statement of activities are different because		
Capital outlays are reported as expenditures in governmental funds, however in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are		
Capital outlay	$ 11,335,459	
Depreciation expense	(23,356,728)	
Excess of capital outlay over depreciation expense		(12,021,269)
Repayment of note payable is reported as an expenditure in governmental funds, but the payment reduces note payable in the statement of net position.		1,700,000
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net position.		812,495
Repayment of capital lease obligation is reported as an expenditure in governmental funds, but the repayment reduces the capital lease obligation in the statement of net position.		830,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues and are deferred in the governmental funds.		1,122,624
The net increase in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.		(62,441)
Long-term debt payment accruals are included as an expenditure for governmental funds but are included in bonds payable and capital lease obligation in the statement of net position.		30,000
Change in net position of governmental activities		$ 13,512,352

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

State of Hawai‘i
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
General Fund (Unaudited)
Year Ended June 30, 2016

	Budgeted Amounts Original and Final	Actual (Budgetary Basis)	Variance Over (Under)
State appropriations	$ 9,875,687	$ 16,712,774	$ 6,837,087
Expenditures			
Administration and support services	8,802,309	3,188,412	(5,613,897)
Homestead services	549,378	1,650,606	1,101,228
Land development	88,700	563,246	474,546
Land management	435,300	708,097	272,797
Total expenditures	9,875,687	6,110,361	(3,765,326)
Excess of revenues over expenditures	$ -	$ 10,602,413	$ 10,602,413

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

State of Hawai‘i
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Hawaiian Home Administration Account (Unaudited)
Year Ended June 30, 2016

	Budgeted Amounts Original and Final	Actual (Budgetary Basis)	Variance Over (Under)
Revenues	$ 13,517,243	$ 15,312,857	$ 1,795,614
Expenditures			
Administration and support services	5,014,120	3,978,428	(1,035,692)
Homestead services	3,398,870	1,159,933	(2,238,937)
Land development	1,863,687	497,946	(1,365,741)
Land management	3,240,566	1,080,944	(2,159,622)
Total expenditures	13,517,243	6,717,251	(6,799,992)
Excess of revenues over expenditures	$ -	$ 8,595,606	$ 8,595,606

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity
The State of Hawai‘i, Department of Hawaiian Home Lands (the “Department”), is headed by the Hawaiian Homes Commission (“HHC”). The Department was established by Section 24 of Act 1 (the Hawai‘i State Government Reorganization Act of 1959), Second Special Session Laws of Hawai‘i 1959, and is responsible for the administration of the Hawaiian Homes Commission Act of 1920 enacted by the United States Congress. The Hawaiian Homes Commission Act (“HHCA”) sets aside certain public lands as Hawaiian home lands to be utilized in the rehabilitation of native Hawaiians. The financial statements include the public trusts controlled by the HHC.

The Department is part of the executive branch of the State of Hawai‘i (the “State”). The Department’s financial statements are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the Department’s assets, liabilities, net position and financial activities.

The accompanying financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for state and local governments as prescribed by the Governmental Accounting Standards Board (“GASB”).

Department-Wide Financial Statements
The department-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 imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

Governmental Fund Financial Statements
The governmental fund 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 Department considers revenues to be available if they

are collected within 60 days of the end of the current fiscal year end. Principal revenue sources considered susceptible to accrual include lease payments, sales, federal grants and interest on loans and investments, and interest receivable. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditure, as well as expenditures related to compensated absences, are recorded only when payment is due.

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

- **Nonspendable** – Amounts that cannot be spent because they are either in nonspendable form or they are legally or contractually required to be maintained intact.

- **Restricted** – Amounts that are restricted for specific purposes due to constitutional provisions or enabling legislation or constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

- **Committed** – Amounts that can be used only for specific purposes determined by a formal action of the State Legislature. The State Legislature is the highest level of decision-making authority for the Department. Commitments may be established, modified or rescinded only through formal acts by the State Legislature.

- **Assigned** – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Department's adopted policy, only the HHC may assign amounts for specific purposes.

- **Unassigned** – All other spendable amounts.

When both restricted and unrestricted balances are available for use, it is the Department's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted classifications can be used.

Fund Accounting
The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each fund's assets, liabilities, fund balance, revenues and expenditures.

The financial activities of the Department that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund
The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the General Fund are accounted for.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Revenues are primarily from general leases, licenses and permits granted for commercial, residential, agricultural and pastoral uses, and interest and investment income. The Department’s major special revenue funds are as follows:

- **Hawaiian Home General Loan Fund** – The Hawaiian Home General Loan Fund is used to account for Department loans made to native Hawaiian homesteaders.

- **Hawaiian Home Lands Trust Fund** – The Hawaiian Home Lands Trust Fund accounts for funds from the State to be expended by the Department, as provided by law upon approval by the Commission and used for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920.

- **Hawaiian Home Operating Fund** – The Hawaiian Home Operating Fund is used to account for operations of the Department and is funded by monies transferred from the Hawaiian Home Receipts Fund.

- **Hawaiian Home Receipts Fund** – The Hawaiian Home Receipts Fund is used to account for receipts of investment interest and loan interest payments from the Department loans to homesteaders.

- **Hawaiian Home Administration Account** – The Hawaiian Home Administration Account is used to account for commercial general leases, revocable permits and licenses of “available” lands as defined under the HHCA. Lease revenues are used to fund operations of the Department.

- **Federal Grants** – The Federal Grants fund is used to account for grants the Department has with the Federal Government.

- **Hawaiian Home Trust Fund** – The Hawaiian Home Trust Fund is used to account for the loan principal and interest payments the Department collects on assumed loans from the Department of Housing and Urban Development (“HUD”) as part of the mortgage loan insurance agreement. The amounts maintained in this fund provide for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowings.

- **Hawaiian Home Lands Bond Funds** – The Hawaiian Home Lands Bond Funds are authorized and appropriated by the State Legislature each year for construction projects or grant-in-aid funds for projects or grants which benefit the trust’s beneficiaries or community organizations.

Appropriations

An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances at June 30, 2016 for the Department's governmental funds were as follows:

	Contracts	Claims
General Fund	$ 333,000	$ 481,000
Lands Trust Fund	14,514,000	833,000
Operating Fund	3,662,000	764,000
Administration Account	1,718,000	512,000
Federal Grants	16,344,000	4,486,000
Bond Funds	11,391,000	1,000,000
Other Funds	112,000	700,000
Total	$ 48,074,000	$ 8,776,000

Equity in Cash and Cash Equivalents and Investments Held in State Treasury

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as these funds are held in the State cash pool, the Department does not manage these investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the Department level. The risk disclosures of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2016. The State's CAFR can be found at the Department of Accounting and General Services' ("DAGS") website: *http://ags.hawaii.gov/accounting/annual-financial-reports/*.

Investments held in the State Treasury are reported at fair value within the fair value hierarchy established by general accepted accounting principles. For more information on investment fair values, refer to the State's CAFR.

Cash and short-term investments held outside of State Treasury are held in a financial institution outside of the State of Hawai'i.

Restricted Cash and Investments
Cash held with an escrow agent and invested until the repayment of certain obligations have been classified as restricted assets.

The Department invests funds held by Wells Fargo related to the capital lease obligation in money market funds. The investments are carried at fair value and are valued at the last reported sale price on the last business day of the year or at the last bid price if no sale was reported on that date. Unrealized gains are considered investment income and the funds are restricted to funding future capital lease payments.

Fair Value Measurements
For financial assets reported at fair value, the Department defines fair value as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants. The Department measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity’s own assumptions. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- **Level 3** – Unobservable inputs for an asset or liability reflecting management’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.

Due from State
The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the Department’s general operating and capital appropriations. Although these appropriations are available to the Department to expend, custody and ownership of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the Department for expenditure at the end of the fiscal year are reported as due from state in the accompanying fund and department-wide financial statements.

Inventory of Homes for Sale and Development
Inventory of homes for sale and development are stated at the lower of cost or estimated net realizable value and includes the costs of land development and home construction, capitalized interest, real estate taxes, and direct overhead costs incurred during development and home construction.

Intrafund and Interfund Transactions
Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the departmental financial statements.

Capital Assets
Capital assets, which include land, buildings, improvements, equipment and infrastructure assets, are reported in the departmental financial statements. The capitalization thresholds are $5,000 for equipment, and $100,000 for infrastructure, and buildings and improvements with estimated useful lives of greater than one year. Maintenance and repairs are charged to operations when incurred. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets are depreciated on the straight-line method over the assets’ estimated useful life as follows:

Machinery and equipment	5 – 7 years
Vehicles	5 years
Buildings and improvements	15 – 40 years
Infrastructure	30 years

The Department also has land in various parts of the State, some of which were transferred to it at no cost or at nominal cost.

Temporary Deposits Payable
As part of the mortgage loan insurance agreement, the Department assumes delinquent mortgage loans from HUD. The temporary deposits payable balance represents the amount of loans assumed, less any payments made to HUD, for the payment of future mortgage insurance claims.

Accumulated Vacation and Sick Leave
Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarter working days for each month of service up to 720 hours at calendar year end and is convertible to pay upon termination of employment. As accrued vacation does not require the use of current financial resources, it is not reported in the governmental funds balance sheet.

Sick leave accumulates at a rate of one and three-quarter days for each month of service without limit, but may be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the Department’s statement of net position or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with 60 days or more in unused sick leave is entitled to additional service credit in the Employees’ Retirement System of the State of Hawai‘i (“ERS”). Accumulated sick leave as of June 30, 2016 was approximately $4,452,000.

Lease Rents and Interest Income
The Department’s governmental fund financial statement recognizes lease rent and mortgage interest of its governmental funds as revenues when they are measurable and available. The available criterion is satisfied when revenues are collectible during the period or soon enough thereafter to pay liabilities of the current period. Amounts not collected within 60 days after the end of the year approximated $6,179,000 as of June 30, 2016, and are recorded as deferred revenue in the governmental funds balance sheet. The departmental financial statements present lease rents and mortgage interest under the accrual method of accounting.

Use of Estimates
In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements
The GASB issued Statement No. 72, *Fair Value Measurement and Application*. The Statement enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Statement also enhances fair value application guidance and disclosure. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. Management adopted the new standard in fiscal year 2016.

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Earlier adoption is encouraged. This Statement did not have a material effect on the Department’s financial statements.

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement addresses the financial reports of defined benefit other postemployment benefit plans that are administered through trusts that meet specified criteria. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Management has not yet determined the effect this Statement will have on the Department’s financial statements.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not yet determined the effect this Statement will have on the Department’s financial statements.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement reduces the generally accepted accounting principles to two categories of authoritative GAAP. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category includes GASB Implementation Guides, GASB Technical Bulletins, and guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. This Statement did not have a material effect on the Department’s financial statements.

The GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement requires governments that enter into tax abatement agreements to disclose information about the nature and magnitude of the tax abatements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension that meet certain requirements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Statement addresses how certain state and local government external investment pools – and participants in those pools – may measure and report their investments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements in GASB Statement No. 14. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Management has not yet determined the effect this Statement will have on the Department's financial statements.

2. Budgeting and Budgetary Control

The Department's annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the Department as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the Department's General Fund and the Hawaiian Homes Administration Account, a special revenue fund, are provided to the Department of Budget and Finance, State of Hawai‘i, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval. In addition, the budget for all expenditures of the Department's funds is also presented annually to the HHC for approval.

To the extent not expended or encumbered, General Fund appropriations 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 which may terminate the authorization for other appropriations.

For purposes of budgeting, the Department's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with GAAP.

Since the budgetary basis differs from GAAP, budget and actual amounts in the statements of revenues and expenditures – budget and actual – general fund and the Hawaiian Home Administration Account, are presented on the budgetary basis. A reconciliation of the General Fund and the Hawaiian Home Administration Account revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2016, to revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Hawai‘i Revised Statutes ("HRS") Section 78-13, staff salaries and wages amounting to approximately $43,000 in the Hawaiian Home Administration Account, for the period from June 16, 2016 through June 30, 2016, are to be funded with monies budgeted for fiscal year 2017. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual of the Hawaiian Home Administration Account, but are included in the departmental and governmental fund financial statements in accordance with GAAP.

Salaries and wages amounting to approximately $394,000 in the Hawaiian Home Administration Account, for the period from June 16, 2015 to June 30, 2015, were funded with monies budgeted for fiscal year 2016. Accordingly, these amounts are included in the statements of revenues and expenditures – budget and actual of the Hawaiian Home Administration Account, for the year ended June 30, 2016.

The following schedule reconciles the budgetary amounts of the General Fund and the Hawaiian Home Administration Account to the amounts presented in accordance with GAAP:

	General Fund	Hawaiian Home Administration Account
Excess of revenues over expenditures – actual on budgetary basis	$ 10,602,413	$ 8,595,606
Current year's appropriations encumbered at June 30, 2016	(597,076)	1,692,640
Current year's encumbrances included in vouchers payable	(217,621)	(183,377)
Expenditures for liquidation of prior year's encumbrances	(331,601)	(1,969,551)
Fiscal 2015 expenditures funded by fiscal 2016 budget	-	393,873
Fiscal 2016 expenditures funded by fiscal 2017 budget under Section 78-13 HRS	(533,184)	(43,083)
Excess of revenues over expenditures – GAAP basis	$ 8,922,931	$ 8,486,108

3. Cash and Investments

Equity in cash and cash equivalents and investments include monies in the State Treasury. For financial statement reporting purposes, cash and cash equivalents and investments consist of cash, time certificates of deposit, repurchase agreements, and U.S. government securities.

Restricted investments held outside of the State Treasury consist of money market funds held at a financial institution outside of the State of Hawai‘i. At June 30, 2016, the fair value of these investments was approximately $6,339,000 and was determined using Level 1 inputs.

4. Loans Receivable

Loans receivable consist of approximately 1,300 loans made to native Hawaiian lessees for the purposes specified in the HHCA. Loans are for a maximum amount of approximately $354,000 and for a maximum term of 30 years. Loan payments expected to be collected within the next fiscal year approximates $2,612,000. Interest rates on outstanding loans range up to 10%. The Department's loan portfolio consists of loans that the Department has originated and that generally are collateralized by improvements on the leased properties located in the State. Loan commitments as of June 30, 2016 were approximately $880,000. The Department has provided an allowance for loan losses of approximately $13,806,000 as of June 30, 2016. The allowance for loan losses is a valuation reserve, which has been provided through charges to operations in the department-wide financial statements. The reserve is based on management's assessment of loan balances deemed uncollectible as of June 30, 2016.

5. Inventory of Homes Purchased from Former Lessees

Through June 30, 2016, the Department constructed and sold a total of 583 homes to native Hawaiians in various locations throughout Hawai‘i.

Under certain circumstances, the Department purchases homes from former lessees due to voluntary and involuntary cancellations of land leases. The homes are subsequently resold to qualified lessees. As of June 30, 2016, the Department purchased homes from former lessees with costs aggregating approximately $4,347,000.

6. Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Disposals / Transfers	Balance June 30, 2016
Capital assets, not being depreciated				
Land	$ 41,824,231	$ -	$ -	$ 41,824,231
Works of art, historical treasures	29,426	-	-	29,426
Construction in progress	24,765,665	10,974,594	(25,955,738)	9,784,521
Total capital assets, not being depreciated	66,619,322	10,974,594	(25,955,738)	51,638,178
Capital assets, being depreciated				
Buildings and improvements	29,188,835	-	-	29,188,835
Infrastructure	687,930,194	25,955,738	-	713,885,932
Furniture and equipment	5,585,078	110,749	(127,251)	5,568,576
Motor vehicles	1,000,712	253,729	32,490	1,286,931
Total capital assets, being depreciated	723,704,819	26,320,216	(94,761)	749,930,274
Less: Accumulated depreciation for				
Buildings and improvements	(10,087,972)	(929,845)	-	(11,017,817)
Infrastructure	(238,923,833)	(22,297,950)	-	(261,221,783)
Furniture and equipment	(5,311,652)	(67,594)	123,634	(5,255,612)
Motor vehicles	(869,019)	(61,339)	(32,490)	(962,848)
Total accumulated depreciation	(255,192,476)	(23,356,728)	91,144	(278,458,060)
Total capital assets, being depreciated, net	468,512,343	2,963,488	(3,617)	471,472,214
Capital assets, net	$ 535,131,665	$ 13,938,082	$ (25,959,355)	$ 523,110,392

Depreciation expense for the year ended June 30, 2016 was charged to functions of the Department as follows:

Administration and support services	$ 1,024,664
Homestead services	22,297,951
Land development	2,603
Land management	31,510
Total depreciation	$ 23,356,728

7. Long-Term Obligations

For the year ended June 30, 2016, changes in long-term obligations were as follows:

	Notes Payable	Capital Lease Obligation	Bonds Payable, Net	Accrued Vacation
Balances at July 1, 2015	$ 9,800,000	$ 20,165,000	$ 37,936,169	$ 1,396,778
Increase	-	-	-	518,322
Decrease	(1,700,000)	(830,000)	(812,495)	(455,881)
Balances at June 30, 2016	$ 8,100,000	$ 19,335,000	$ 37,123,674	$ 1,459,219

Obligations for accrued vacation are generally liquidated by the General Fund, the Hawaiian Home Operating Fund, and the Hawaiian Home Administration Account.

8. Notes Payable

Land Acquisition / Purchase Note Payable
In December 2004, the Department entered into a transfer agreement with the Housing and Community Development Corporation of Hawai‘i (“HCDCH”), State of Hawai‘i, in connection with the acquisition of approximately 1,800 acres of land consisting of four properties on three islands by the Department. A portion of the land is partially developed and is intended to be utilized for 3,500 homes for native Hawaiians.

As part of the transfer agreement, the Department must pay $2.2 million a year for 15 years, for a total of $33 million, in the form of a note, to reimburse the HCDCH, for infrastructure costs at three of the properties. This note is noninterest bearing. At June 30, 2016, the Department owed $8,100,000 to HCDCH. The note will be repaid with monies in the Department’s Hawaiian Home Land Trust Fund. In July 2013, the Department executed an amendment that reduces the annual payments to $1.7 million through 2020 and the final payment totaling $1.3 million is due in 2021.

The annual payment requirements of the notes are as follows:

	Purchase Note Payable
Year ending June 30,	
2017	$ 1,700,000
2018	1,700,000
2019	1,700,000
2020	1,700,000
2021	1,300,000
	$ 8,100,000

9. Capital Lease Obligation

In December 2006, the Department entered into a 25-year facility lease agreement with Wells Fargo Bank, National Association (the “lessor”), to lease an office facility, which was constructed and completed in April 2008. The Department was required to make semi-annual interest-only payments through May 2009 and annual principal and interest payments beginning November 2009. Interest on the outstanding balance accrues at various rates throughout the term of the lease. At June 30, 2016, the interest rate was 2.23%. Upon expiration of the lease, the title of the facility will be transferred from the lessor to the Department. The following is a schedule by years of future minimum lease payments related to this agreement:

Year ending June 30,	
2017	$ 1,710,000
2018	1,712,000
2019	1,712,000
2020	1,714,000
2021	1,709,000
Thereafter	18,826,000
Total minimum lease payments	27,383,000
Amount representing interest	8,048,000
Present value of minimum lease payments	19,335,000
Less: Current portion	860,000
Long-term portion	$ 18,475,000

The cost basis and accumulated depreciation of the leased assets at June 30, 2016 was as follows:

Cost	$ 25,513,266
Less: Accumulated depreciation	(10,152,614)
	$ 15,360,652

10. Bonds Payable

The following are the revenue bonds issued by the Department and portions of the State general obligation bonds allocated to the Department under acts of various Session Laws of Hawai'i. The revenue bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects. The general obligation bonds are backed by the full faith, credit and taxing power of the State. Repayments of allocated bond debts are made to the State General Fund. Details of the Department's revenue and allocated general obligation bonds as of June 30, 2016 are as follows:

$42,500,000 revenue bonds dated March 18, 2009; due in annual principal installments of $640,000 to $2,840,000 from October 1, 2009 through October 1, 2039; interest at 2.00% to 6.00% payable semi-annually.	$ 37,490,000
$7,415 Series DB refunding bonds dated September 16, 2003; due in annual principal installments of $675 to $1,000 from September 1, 2008 through September 1, 2016; interest at 5.00% to 5.25% payable semi-annually. The last principal installment was paid in October 2016.	1,001
$110,109 Series DG refunding bonds dated June 15, 2005; due in annual principal installments of $9,933 to $14,820 from July 1, 2009 through July 1, 2017; interest at 5.00% payable semi-annually. The last principal installment was paid in October 2016.	28,916
	37,519,917
Less: Unamortized discount on revenue bonds	(396,243)
	$ 37,123,674

The annual requirements of the general obligation and revenue bonds are as follows:

Year ending June 30,	Interest	Principal	Total
2017	$ 2,164,000	$ 865,000	$ 3,029,000
2018	2,121,000	905,000	3,026,000
2019	2,077,000	935,000	3,012,000
2020	2,031,000	1,000,000	3,031,000
2021	1,976,000	1,025,000	3,001,000
2022 – 2026	8,988,000	6,070,000	15,058,000
2027 – 2031	7,039,000	8,010,000	15,049,000
2032 – 2036	4,392,000	10,660,000	15,052,000
2037 – 2039	985,000	8,050,000	9,035,000
	$ 31,773,000	$ 37,520,000	$ 69,293,000

11. Employee Benefit Plans

Substantially all employees of the Department participate in the State's various employee benefit plans, including the Employees' Retirement System ("ERS") of the State of Hawai‘i, postemployment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State of Hawai‘i and ERS' CAFR. The State's CAFR can be found at the DAGS website: *http://ags.hawaii.gov/accounting/annual-financial-reports/*. The ERS CAFR can be found at the ERS website: *http://ers.ehawaii.gov/resources/financials*.

Employees' Retirement System
The ERS is a cost-sharing, multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

- **State Policy** – The actuarial valuation of the ERS does not provide pension information by department or agency. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund for pension benefits.

- **Contributions** – Contributions are established 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. Contributions by the Department to the pension plan were approximately $2,249,000 for the year ended June 30, 2016.

- **Required Supplementary Information and Disclosures** – The State's CAFR includes the required footnote disclosures and supplementary information on the State's pension plan.

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 an 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 has the duty of due care that would be required of an ordinary prudent investor.

Postemployment Healthcare and Life Insurance Benefits
The State contributes to the Hawai‘i Employer-Union Health Benefits Trust Fund (“EUTF”), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

- **State Policy** – The actuarial valuation of the EUTF does not provide other postemployment benefits (“OPEB”) information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to only allocate a portion of the State’s Annual Required Contribution (“ARC”), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s CAFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund.

- **Contributions** – Contributions are financed on a pay-as-you-go basis. Contributions by the Department to the EUTF for the years ended June 30, 2016, 2015 and 2014 were approximately $1,138,000, $1,194,000 and $1,076,000, respectively.

- **Required Supplementary Information and Disclosures** – The State’s CAFR includes the required footnote disclosures and supplementary information on the State’s OPEB plan.

12. General Leases and Licenses

The Department’s general leasing operations (Section 204 of Hawaiian Homes Commission Act of 1920, as amended) consist principally of the leasing of its Hawaiian home lands. The general leases have varying terms extending through July 2086.

The future minimum lease income from general leases as of June 30, 2016 is as follows:

Year ending June 30,	
2017	$ 13,141,000
2018	12,847,000
2019	12,420,000
2020	12,612,000
2021	13,081,000
2022 – 2026	64,541,000
2027 – 2031	69,666,000
2032 – 2036	68,721,000
2037 – 2041	68,488,000
2042 – 2046	65,349,000
2047 – 2051	64,342,000
2052 – 2056	65,451,000
2057 – 2061	58,071,000
2062 – 2066	57,769,000
2067 – 2071	50,817,000
2072 – 2076	37,853,000
2077 – 2081	26,591,000
2082 – 2086	1,435,000
	$ 763,195,000

13. Commitments and Contingencies

Litigation

The Department is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

For purposes of securing information about the Hawaiian Home Lands Trust Individual Claims discussed as a separate note in prior audits of the Department, please see the discussion about Individual Claims and the lawsuits relating to them, including the claims against the State and the Department in *Kalima v. State of Hawai‘i*, Civil No. 99-4771-12, in the State's CAFR on the DAGS website.

Insurance

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, 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. At June 30, 2016, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation liability was not material at June 30, 2016.

Guaranteed and Insured Loans

As of June 30, 2016, the Department was contingently liable for approximately $43,178,000 in loans originated primarily by the U.S. Department of Agriculture Rural Development for which the Department has guaranteed repayment. Approximately $7,541,000 of these loans have been reported delinquent as of June 30, 2016.

The Department is also a party to a mortgage loan insurance agreement with the HUD. The agreement provides that HUD will perform underwriting processing for the insurance program and will administer an insurance fund for mortgages originated and held by HUD-approved lenders. The Department will maintain and provide the necessary and proper funds for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowers. The Department has reserved cash of approximately $12,200,000 in the trust fund and has deposited $150,000 with HUD. As of June 30, 2016, loans outstanding totaled approximately $417,363,000 under this agreement, of which approximately $31,835,000 has been reported as delinquent.

The Department is also a party to a Native Hawaiian Home Loan Guarantee Program (HUD Section 184) agreement with HUD. The agreement provides that HUD will guarantee certain loans in which homestead leases issued by the Department pursuant to the Hawaiian Homes Commission Act is used as collateral for the loan. As of June 30, 2016, loans outstanding totaled approximately $91,609,000 under this agreement, of which approximately $5,021,000 has been reported as delinquent.

As of June 30, 2016, the Department was also contingently liable for approximately $4,649,000 in loans originated by financial institutions and other lenders for which it had guaranteed repayment. Approximately $1,730,000 of these loans has been reported delinquent as of June 30, 2016.

As of June 30, 2016, the Department paid approximately $7,478,000 for delinquent mortgage loan payments of lessees. These payments are carried as loans receivable from lessees and bear similar terms as stipulated in the lessees’ mortgage notes with the lenders.

The Department has certain loans for which the collateral for the loans is not covered by casualty insurance. The number of such loans was not known as of June 30, 2016.

Other
In December 2008, the Department entered into a collaborative financing arrangement with the Office of Hawaiian Affairs, State of Hawai‘i (“OHA”) in which OHA will provide funds for the Department’s use in the planning, design and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by the Department. Under the agreement, OHA will pay the Department on an annual basis the lesser of $3,000,000 or the debt service of the revenue bonds issued by the Department in 2009. As of June 30, 2016, the Department received $24,000,000 from OHA.

14. Assessments for Central Service and Administrative Expenses

The State of Hawai‘i has asserted that the Department is liable for its pro rata share of central service and administrative expenses incurred by the State in accordance with Sections 36-27 and 36-30, Hawai‘i Revised Statutes. Pursuant to Section 36-31, Hawai‘i Revised Statutes, the Department maintains that their funds are trust funds and are not subject to the special fund assessments. Accordingly, no provision for any liability has been made in the accompanying financial statements.

Effective July 1, 1998, Act 27, SLH 1998 amended Section 213 of the Hawaiian Homes Commissions Act and reclassified certain special funds as trust funds.

As of June 30, 2016, the Department’s estimate of the accumulated asserted assessments since the inception of the aforementioned law approximated $24,217,000.

Supplemental Information

State of Hawai‘i
Department of Hawaiian Home Lands
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

Supplemental Information

	Hawaiian Home Loan Fund	Department of Hawaiian Home Lands Revenue Bond Special Fund	Native Hawaiian Rehabilitation Fund	Protocol Funds	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
Assets							
Equity in cash and cash equivalents and investments held in State Treasury	$ 2,732,907	$ 13,093,713	$ 6,261,838	$ 1,966	$ 2,937,906	$ 2,350	$ 25,030,680
Loans, net of allowance for losses	1,899,981	-	-	-	-	-	1,899,981
Inventory of homes purchased from former lessees	93,000	-	-	-	-	-	93,000
Restricted cash and short-term investments held outside of State Treasury	-	3,786,921	-	-	-	-	3,786,921
Total assets	$ 4,725,888	$ 16,880,634	$ 6,261,838	$ 1,966	$ 2,937,906	$ 2,350	$ 30,810,582
Liabilities and Fund Balances							
Liabilities							
Vouchers and contracts payable	$ -	$ 753,220	$ 10,877	$ 20	$ -	$ -	$ 764,117
Other liabilities	8,067	-	-	-	2,937,906	-	2,945,973
Total liabilities	8,067	753,220	10,877	20	2,937,906	-	3,710,090
Fund balances							
Restricted for							
Debt agreements	-	6,786,921	-	-	-	-	6,786,921
Assigned to							
Home loans and homestead services	4,717,821	-	-	1,946	-	-	4,719,767
Home construction and land development	-	9,340,493	6,250,961	-	-	2,350	15,593,804
Total fund balances	4,717,821	16,127,414	6,250,961	1,946	-	2,350	27,100,492
Total liabilities and fund balances	$ 4,725,888	$ 16,880,634	$ 6,261,838	$ 1,966	$ 2,937,906	$ 2,350	$ 30,810,582

	Hawaiian Home Loan Fund	Department of Hawaiian Home Lands Revenue Bond Special Fund	Native Hawaiian Rehabilitation Fund	Protocol Funds	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
Revenues							
Investment income	$ -	$ 72,597	$ 35,945	$ -	$ -	$ -	$ 108,542
Intergovernmental revenues	-	3,000,000	-	-	-	-	3,000,000
Other	140,737	-	415,015	-	-	-	555,752
Total revenues	140,737	3,072,597	450,960	-	-	-	3,664,294
Expenditures							
Current							
Administration and support services	-	-	127,847	554	-	-	128,401
Land management	-	-	7,007	-	-	-	7,007
Debt service							
Principal	-	752,500	-	-	-	-	752,500
Interest	-	2,008,080	-	-	-	-	2,008,080
Total expenditures	-	2,760,580	134,854	554	-	-	2,895,988
Excess (deficiency) of revenues over (under) expenditures	140,737	312,017	316,106	(554)	-	-	768,306
Other financing sources							
Transfers out	-	-	-	(2,814)	-	-	(2,814)
Total other financing sources	-	-	-	(2,814)	-	-	(2,814)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	140,737	312,017	316,106	(3,368)	-	-	765,492
Net change in fund balances	140,737	312,017	316,106	(3,368)	-	-	765,492
Fund balances at July 1, 2015	4,577,084	15,815,397	5,934,855	5,314	-	2,350	26,335,000
Fund balances at June 30, 2016	$ 4,717,821	$ 16,127,414	$ 6,250,961	$ 1,946	$ -	$ 2,350	$ 27,100,492

Schedule of Expenditures of Federal Awards

State of Hawai‘i
Department of Hawaiian Home Lands
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Program / Pass Through Entity	CFDA Number	Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
Native Hawaiian Housing Block Grant, Year 9	14.873	10HBGHI0001	$ 5,113,587
Native Hawaiian Housing Block Grant, Year 10	14.873	11HBGHI0001	7,342,280
Total expenditures			$ 12,455,867

See notes to the schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department and is presented on the cash basis of accounting. The information on this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Loans Outstanding

The Department had the following loan balances outstanding as of June 30, 2016. Loans made during the year are included in the federal expenditures presented in the schedule.

Program Title	CFDA Number	Amount Outstanding
U.S. Department of Housing and Urban Development		
Native Hawaiian Housing Block Grant	14.873	$ 14,270,994

3. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Department provided federal awards to subrecipients as follows:

Program Title / Subrecipient	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development		
Native Hawaiian Housing Block Grant, Year 9		
Nanakuli Housing Corporation	14.873	$ 64,417
		64,417
Native Hawaiian Housing Block Grant, Year 10		
Nanakuli Housing Corporation	14.873	78,521
		78,521
		$ 142,938

4. Indirect Costs

The Department has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

PART II

Government Auditing Standards

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawai‘i, Department of Hawaiian Home Lands (the “Department”) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, and have issued our report thereon dated December 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawai'i
December 21, 2016

Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Auditor
State of Hawaii

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

Report on Compliance for Each Major Federal Program
We have audited the State of Hawai'i, Department of Hawaiian Home Lands' (the "Department") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the year ended June 30, 2016. The Department's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program
In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

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Report on Internal Control Over Compliance
Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the governmental activities, each major fund, and the aggregate remaining fund information of the financial statements of the Department as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the Department's basic financial statements. We have issued our report thereon dated December 21, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic 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. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Accuity LLP

Honolulu, Hawaiʻi
December 21, 2016

PART III

Schedule of Findings and Questioned Costs

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified	
Internal control over financial reporting		
• Material weaknesses identified?	____ yes	X no
• Significant deficiencies identified?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal control over major programs		
• Material weaknesses identified?	____ yes	X no
• Significant deficiencies identified?	____ yes	X none reported
Type of auditors’ report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	____ yes	X no
Identification of major program		

CFDA Number	Name of Federal Program or Cluster
14.873	Native Hawaiian Housing Block Grant

Dollar threshold used to distinguish between type A and type B programs	$750,000	
Auditee qualified as low-risk auditee?	X yes	____ no

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

Section IV – Status of Prior Year Findings and Questioned Costs

None noted.

APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

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APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

(as of June 30, 2016)

Island	Number	Use	nH	Name	Term	Ending Date	Annual Rent
Hawaii	247	Air Traffic Control Beacon		U.S.A., Department of Transportation, Federal Aviation Administration Western Pacific Region	17	7/31/2015 *Extension pending	$ 28,800.00
Hawaii	202	Commercial		Ho Retail Properties I Limited Partnership	65	9/30/2042	$ 317,792.50
Hawaii	245	Commercial		Waiakea Center, Inc.	61	10/14/2056	$ 1,208,996.00
Hawaii	260	Commercial		Home Depot U.S.A., Inc.	65	12/15/2070	$ 460,000.00
Hawaii	272	Commercial		CFT Development LLC dba Panda Express	65	11/30/2070	$ 217,800.00
Hawaii	284	Commercial		Safeway/Target	60	6/17/2069	$ 568,461.00
Hawaii	286	Community		Laiopua 2020	65	7/31/2074	Gratis
Hawaii	289	Community/Com	*	Laiopua 2020	65	7/31/2024	Gratis
Hawaii	S-3849	Government		USA Department of Army	65	8/16/2029	$ 1.00
Hawaii	S-3852	Government		USA Department of Navy	65	8/19/2029	$ 1.00
Hawaii	102	Industrial		Big Island Energy LLC	55	3/1/2021	$ 15,682.00
Hawaii	108	Industrial		Inter-Pacific Motors, Inc.	65	10/31/2031	$ 197,000.00
Hawaii	109	Industrial		David S. Deluz, Sr.	65	8/31/2031	$ 75,900.00
Hawaii	110	Industrial		Yamada & Sons, Inc.	65	10/31/2031	$ 264,960.00
Hawaii	113	Industrial		Jean S. Madden	55	6/14/2024	$ 37,500.00
Hawaii	122	Industrial	*	Hilo Wood Treating, Inc.	55	9/30/2022	$ 48,422.00
Hawaii	126	Industrial		Big Island Toyota, Inc.	55	12/31/2022	$ 26,325.00
Hawaii	127	Industrial		Aloha Machine & Welding, Ltd.	55	12/31/2022	$ 16,400.00
Hawaii	129	Industrial		Kenneth L. Antonio dba Ken's Towing Service, Inc.	55	3/1/2023	$ 16,575.00
Hawaii	132	Industrial		Big Island Toyota, Inc.	55	4/30/2023	$ 37,920.00
Hawaii	136	Industrial		Hamakua Macadamia Nut Company	65	8/31/2033	$ 113,700.00
Hawaii	140	Industrial		A & A Hawaii, Inc.	55	1/14/2024	$ 32,500.00
Hawaii	141	Industrial		Big Island Car Wash, Inc.	55	6/14/2024	$ 25,938.00
Hawaii	142	Industrial		J/R Hilo Acquisition, LLC	55	6/14/2024	$ 51,600.00
Hawaii	143	Industrial		Hawthorne Pacific Corp.	65	6/14/2024	$ 208,320.00
Hawaii	144	Industrial		Lawrence J. Balberde	55	6/14/2024	$ 27,000.00
Hawaii	145	Industrial		Yamada & Sons, Inc.	62.5	10/31/2031	$ 48,130.00
Hawaii	146	Industrial		WKL Enterprises, LLC	55	6/15/2024	$ 34,200.00
Hawaii	152	Industrial		Aloha Veterinary Center, Inc.	55	9/30/2024	$ 16,806.00
Hawaii	155	Industrial		K. Taniguchi, Ltd.	55	2/14/2025	$ 34,800.00
Hawaii	156	Industrial		Bacon Finance & Realty Corp.	65	3/31/2035	$ 129,650.00
Hawaii	158	Industrial		Shawn Nakamoto	55	6/30/2025	$ 41,000.00
Hawaii	159	Industrial		Aloha Machine and Welding, Ltd.	55	6/30/2025	$ 15,300.00

Island	Number	Use	nH	Name	Term	Ending Date	Annual Rent
Hawaii	160	Industrial		The Pint Size Corporation	55	10/31/2025	$ 17,010.00
Hawaii	161	Industrial		Taialoha Co., Inc.	55	10/31/2025	$ 23,200.00
Hawaii	163	Industrial		Holomua Street Partners	55	10/31/2025	$ 23,200.00
Hawaii	164	Industrial		Office Max, Inc.	65	10/31/2035	$ 56,550.00
Hawaii	166	Industrial		Elton F. Kaku dba Big Isle Auto Care	40	10/31/2025	$ 20,300.00
Hawaii	167	Industrial		Gil A. & Marcy P. Unilongo	55	10/31/2025	$ 14,950.00
Hawaii	168	Industrial		Frederick W. Jr.,and Trudee K. Siemann dba S&S Cabinets	55	1/31/2026	$ 20,900.00
Hawaii	169	Industrial		Alpha Par Partners	55	1/31/2026	$ 13,740.00
Hawaii	170	Industrial		TPH Holomua LLC	40	1/31/2026	$ 19,500.00
Hawaii	171	Industrial		A & A Hawaii, Inc.	55	1/31/2026	$ 9,190.00
Hawaii	172	Industrial		Eaves & Meredith Co. Ltd.	55	1/31/2026	$ 16,800.00
Hawaii	173	Industrial		A & A Hawaii, Inc.	55	1/31/2026	$ 10,720.00
Hawaii	174	Industrial		Men's Shop, Inc.	55	1/31/2026	$ 22,200.00
Hawaii	175	Industrial		Nelson & Clara C. Rego dba Steel Fabrication Hawaii	55	1/31/2026	$ 13,180.00
Hawaii	176	Industrial		Pacific Macadamia Nut Corp.	65	1/31/2036	$ 28,517.00
Hawaii	177	Industrial		Oasis Enterprises LLC	55	7/22/2026	$ 26,100.00
Hawaii	178	Industrial	*	Hokuloa, Inc.	65	4/30/2037	$ 40,456.32
Hawaii	187	Industrial		H.Kono, Inc. Dba HITCO Moving & Storage Co.	55	8/22/2031	$ 17,820.00
Hawaii	188	Industrial		A&S Delivery	55	8/22/2031	$ 13,740.00
Hawaii	190	Industrial		Hawthorne Pacific Corp.	55	11/11/2031	$ 72,100.00
Hawaii	204	Industrial		Pacific Waste, Inc.	55	5/4/2033	$ 45,200.00
Hawaii	206	Industrial		Kohala Coast Concrete	55	5/4/2033	$ 58,400.00
Hawaii	208	Industrial		Estate Systems, Inc.	55	6/1/2033	$ 24,384.00
Hawaii	217	Industrial	*	Kawaihae Industrial Development Corp. c/o Harborside Investors	55	5/31/2039	$ 33,600.00
Hawaii	224	Industrial		H.Kono, Inc. dba HITCO Moving & Storage Co.	42	2/28/2031	$ 24,570.00
Hawaii	226	Industrial		Michael Blair and Keiko Gibo Shewmaker	55	2/28/2044	$ 14,800.00
Hawaii	227	Industrial		Michael Blair and Keiko Gibo Shewmaker	55	2/28/2044	$ 15,500.00
Hawaii	248	Industrial	*	P & A Investments, Inc.	55	1/31/2054	$ 8,816.00
Hawaii	258	Industrial		Aloha Machine & Welding, Ltd.	55	5/31/2057	$ 29,853.00
Hawaii	263	Industrial		Argus Johnson dba Argus Building Supply	55	10/31/2059	$ 37,700.00
Hawaii	265	Industrial		The Agency Inc.	55	1/31/2060	$ 14,100.00
Hawaii	266	Industrial		Ivan Mochida Contracting, Inc.	55	1/31/2060	$ 17,500.00
Hawaii	267	Industrial		Makaala Associates, LLC	55	1/31/2060	$ 14,000.00
Hawaii	268	Industrial		Leleiwi Electric, Inc.	55	1/31/2060	$ 11,300.00
Hawaii	270	Industrial		Takahashi LLC	55	7/31/2060	$ 14,500.00

Island	Number	Use	nH	Name	Term	Ending Date	Annual Rent
Hawaii	275	Industrial		Kona Carbon LLC	65	2/29/2064	$ 168,000.00
Hawaii	277	Industrial	*	P&A Investments, Inc.	55	10/31/2061	$ 56,000.00
Hawaii	295	Industrial		A&S Delivery II, Inc.	55	2/16/2067	$ 35,800.00
Hawaii	s-4311	Industrial		Kenneth L. Antonio, Sr.	55	6/22/2025	$ 19,800.00
Hawaii	251	Preschool	*	Trustees of the Estate of Bernice Pauahi Bishop	65	6/30/2065	$ 1.00
Hawaii	135	Utility		Hawaiian Telecom	65	10/31/2033	$ 67,030.00
Kauai	S-3831	Resort		Aloha Beach Resort	65	5/17/2084	$ 107,725.00
Kauai	S-3840	Resort		Aloha Beach Resort	65	7/5/2084	$ 199,562.00
Kauai	S-4647	Resort		Aloha Beach Resort	49	7/5/2084	$ 13,165.00
Maui	250	Preschool	*	Trustees of the Estate of Bernice Pauahi Bishop	63.5	6/30/2065	$ 1.00
Molokai	185	Agriculture		Agrigenetics Molokai, Inc. c/o Mycogen Seed	50	6/13/2026	$ 13,000.00
Molokai	253	Church		Hawaii Pacific District Church of the Nazarene aka Molokai Church of the Nazarene	40	12/31/2041	$ 1,345.32
Molokai	274	Education		University of Hawaii		6/20/2016	$ 1,500.00
Molokai	231	National Park		National Park Service, Dept. of Interior Division of Land Resources Western Region	50	7/14/2041	$ 200,000.00
Molokai	256	Public Service		U.S. Postal Service Pacific Facilities Service Office	25	6/30/2027	$ 516.00
Molokai	254	Radio Receiver Site		The U.S.A., Secretary of the Air Force 30th Space Wing Commander 30 CES/CECBR	25	12/31/2022	$ 40,720.00
Oahu	S-5326	Agriculture		Wong Hon Hin, Inc	35	7/31/2030	$ 4,150.00
Oahu	293	Alternative Energy		Kalaeloa Solar One LLC	20	9/2/2032	$ 335,200.00
Oahu	294	Alternative Energy		Kalaloa Home Land Solar LLC	20	9/30/2033	$ 302,760.00
Oahu	276	Commercial		DeBartolo Hawaii LLC	65	11/30/2079	$ 3,617,856.00
Oahu	S-4643	Commercial		RCK Partners, Limited Partnership	65	5/31/2045	$ 407,076.00
Oahu	262	Community		Village 6 RTO LP	55	12/31/2056	$ 1.00
Oahu	269	Community	*	Waimanalo Kupuna Housing Limited Partnership	55	9/7/2060	$ 1.00
Oahu	281	Community	*	Nanakuli Hawaiian Homestead Association	65	12/31/2073	Gratis
Oahu	288	Community	*	Kapolei Community Development Corp.	65	5/16/2076	Gratis
Oahu	296	Community	*	Kamehameha Schools	65	6/30/2079	$ 73,720.00
Oahu	290	Community/Com	*	Kapolei Community Development Corp.	65	5/16/2076	Gratis
Oahu	292	Community/Com	*	Waimanalo Hawaiian Homes Association	65	5/31/2076	Gratis
Oahu	283	Government		Hawaii Paublic Housing Authority	10	10/15/2018	Graits

Island	Number	Use	nH	Name	Term	Ending Date	Annual Rent
Oahu	285	Government		Dept. of Human Services	20	11/24/2028	Gratis
Oahu	264	Industrial		Otani Produce, Inc.	65	4/30/2070	$ 255,000.00
Oahu	282	Industrial		Pacific Transfer LLC	55	10/31/2064	$ 236,000.00
Oahu	S-4113	Industrial		U-Haul of Hawaii, Inc.	55	10/9/2022	$ 169,118.00
Oahu	S-4114	Industrial		U-Haul of Hawaii, Inc.	55	10/9/2022	$ 218,922.00
Oahu	S-4117	Industrial		Lease Properties, LLC	55	10/9/2022	$ 227,810.00
Oahu	S-4118	Industrial		Lease Properties II, LLC	55	10/10/2022	$ 227,810.00
Oahu	S-4119	Industrial		Garlow Petroleum, Inc.	55	10/9/2022	$ 259,254.00
Oahu	S-4120	Industrial		Frank White Jr. & Sally White	55	10/9/2022	$ 160,100.00
Oahu	S-4121	Industrial		Equipment Service Company, LTD. dba F.K.S. Rental and Sales	55	10/9/2022	$ 161,200.00
Oahu	S-4122	Industrial		Equipment Service Company, LTD. dba F.K.S. Rental and Sales	55	10/9/2022	$ 89,050.00
Oahu	S-4124	Industrial		Lease Properties, LLC	55	10/9/2022	$ 132,710.00
Oahu	S-4125	Industrial		Lease Properties, LLC	55	10/9/2022	$ 132,710.00
Oahu	S-4126	Industrial		Living The Word	40	10/9/2022	$ 103,910.00
Oahu	S-4127	Industrial		W.P. Inc. dba Alii Stor-Mor	55	10/9/2022	$ 125,000.00
Oahu	S-4290	Industrial		Pacific Diving Industries, Inc.	55	3/11/2025	$ 45,048.00
Oahu	S-4291	Industrial		CLU Investments, Inc.	55	3/11/2025	$ 58,400.00
Oahu	S-4294	Industrial		Hawaii Business Associates, Inc.	55	3/11/2025	$ 87,930.00
Oahu	279	Office		Wells Fargo Bank, National Assn. Truste	25	12/1/2006	$ 1.00
Oahu	249	Preschool	*	Trustees of the Estate of Bernice Pauahi Bishop	65	12/31/2064	$ 1.00
Oahu	221	Public Service		Waianae Distr. Comprehensive Health and Hospital Board, Inc., dba Waianae Coast Comprehensive Health Center	40	12/31/2027	$ 57,000.00
Oahu	114	Utility		Hawaiian Telecom	65	4/30/2032	$ 18,820.00
Oahu	134	Utility		Hawaiian Telecom	65	5/31/2033	$ 19,001.00
Oahu	S-3897	Utility		Hawaiian Electric Company, Inc.	65	3/10/2030	$ 4,500.00

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Amended and Restated Master Bond Indenture (the "Indenture"). This summary does not purport to be complete or definitive, is supplemental to the summary of other provisions of such document described elsewhere in this Official Statement and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement have the meanings assigned to such terms in the Indenture.

Definitions of Certain Terms

"Accountant" means an individual accountant or firm of accountants of recognized standing, selected by the Department, and who may be the accountant or firm of accountants who regularly audit the books of the Department. The Department may designate different accountants or firms of accountants to exercise a particular responsibility and function.

"Accountant's Certificate" means a certificate signed by an Accountant.

"Accreted Value" means, with respect to any Capital Appreciation Bond on any date, the present value thereof (using the yield on such Bond calculated in the manner required by the Code) on the immediately preceding Interest Payment Date (or if such date is an Interest Payment Date, on such date) determined by increasing a Bondowner's basis to reflect accrual of interest computed upon the "constant interest rate" method described in Section 1272 of the Code.

"Act" means the Hawaiian Homes Commission Act, 1920, as the same is amended to the date of effectiveness of the Indenture and as the same may be further amended and supplemented from time to time.

"Additional Bonds" means all Bonds issued and Outstanding under and pursuant to the Indenture.

"Aggregate Debt Service" means, as of any date of calculation and with respect to any period, the sum of the amounts of Debt Service for all Series of Bonds for such period.

"Appropriation Act" means Section 147.1 of Act 158, Session Laws of Hawaii 2008, as amended, or any other act of the State Legislature specifically authorizing the Department to issue Hawaiian home lands revenue bonds pursuant to the Bond Act for Hawaiian home lands capital improvement projects listed in such Appropriation Act.

"Assumed Long-Term Fixed Rate" means, (1) with respect to Commercial Paper and Balloon Bonds, the average interest rate of the Revenue Bond Index over the preceding twelve (12) month period at the time of calculation, assuming that such Bonds were issued as fixed rate Bonds with a maturity of 30 years and substantially level debt service payments to such maturity; and (2) with respect to Variable Rate Bonds, (i) the average interest rate of the Revenue Bond Index over the preceding twelve (12) month period at the time of calculation, assuming that such Bonds were issued as fixed rate Bonds with the same maturity and taking into account Sinking Fund Installments; and (ii) if the Department has in connection with such Variable Rate Bonds entered into an Interest Rate Exchange Agreement which provides that the Department is to pay to another person an amount determined based upon a fixed rate of interest on a notional amount and which requires the Counterparty to pay to the Department an amount equal to the amount by which interest on the notional amount stated therein at the rate borne by such Variable Rate Bonds exceeds the interest payable on such notional amount at a rate stated therein, the fixed rate or other rate of interest set forth in or determined in accordance with such agreement. With respect to the Bonds described in clause (2)(i) of the preceding sentence, an Authorized Officer shall certify or cause the Remarketing Agent for such Series of Variable Rate Bonds or other qualified person to certify such Assumed Long-Term Fixed Rate on the issue date of such Bonds, taking into account such market factors as such Authorized Officer or such Remarketing Agent or such qualified person shall deem necessary or appropriate.

"Authenticating Agent" means the Trustee or any other agent who is designated in a Supplemental Indenture to authenticate Bonds of a Series at the direction of the Department.

"Authorized Amount" means, with respect to Commercial Paper, the not to exceed principal amount of Commercial Paper authorized to be outstanding at any one time pursuant to a Series Resolution; provided, that such Authorized Amount may be revised as set forth in a Written Certificate of the Department for purposes of complying with the provisions of the Indenture, so long as such Authorized Amount includes any Commercial Paper outstanding at the time that any such calculation is made.

"Authorized Officer" of the Department means the Chairman, Vice Chairman or Deputy to the Chairman of the Department or any other officer or employee of the Department or the Commission authorized by resolution of the Commission to perform the act or sign the document in question.

"Balloon Bonds" means any Bonds described as such in such Bonds.

"Bond" means any Bond issued and Outstanding under and pursuant to the Indenture, including any Additional Bonds and Refunding Bonds. Bonds may be issued in the form of notes (including bond anticipation notes), Commercial Paper or any other evidence of indebtedness.

"Bond Act" means Part III of Chapter 39, Hawaii Revised Statutes, and, to the extent provisions thereof relate to the power and authority to issue revenue bonds, the Act, as each may be amended from time to time, and any Appropriation Act of the State Legislature pursuant to which the Department is authorized to undertake capital improvements or issue revenue bonds and to which reference is made in a Supplemental Indenture or in a resolution authorizing the same.

"Bond Year" means, with respect to any Series of Bonds, any period of twelve (12) consecutive months terminating on the due date of a Principal Installment for the Bonds of such Series, except for the first Bond Year which begins on the date of initial issuance and delivery of such Bonds and ends on a date which is an anniversary of a Principal Installment due on such Bonds.

"Business Day" means any day of the year other than a day (i) which is a holiday of the State, (ii) on which banks located in any one of the cities in which the Principal Offices of, with respect to any particular Bonds, any Trustee, Authenticating Agent, Paying Agent or provider of a Support Agreement with respect thereto, are located are required or authorized to remain closed, or (iii) on which the New York Stock Exchange is closed.

"Capital Appreciation Bond" means a Bond issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount or the compounding of interest.

"Cash Flow Statement" means a certificate of an independent firm of consultants (which may include, among others, Accountants or financial advisors), experienced in the field of preparing studies and determining financial feasibility, based on assumptions deemed reasonable by such firm of consultants and giving effect to the action proposed to be taken and demonstrating, with respect to each

Bond Year within the periods specified therein, that amounts then expected to be on deposit in the Accounts maintained thereunder in each such Bond Year will be at least equal to all amounts required by the Indenture to be on deposit in such Fund and Accounts for the payment of the principal and Redemption Price of and interest on the Bonds and for the funding of the Debt Reserve Account to the Debt Reserve Requirement, except that, to the extent specified in a Supplemental Indenture, a Fund or Account established in said Supplemental Indenture shall not be taken into account when preparing such Cash Flow Statement.

"Certified Interest Rate" means the rate of interest a Series of Variable Rate Bonds would bear if, assuming the same maturity dates, terms and provisions (other than interest rate and demand features permitting the Owner of the Bonds to tender the Bonds at his option for purchase or redemption) as the proposed Variable Rate Bonds and on the basis of the credit rating or ratings on the Outstanding Bonds, if any, which are not Variable Rate Bonds, such Bonds were issued at a fixed interest rate.

"Code" means the United States Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder. Any reference therein to any Section of the Code shall be deemed to refer to any amended or successor provision enacted or promulgated after the date of effectiveness of the Indenture, but only with respect to each particular Series of Bonds to the extent effective as to such Series.

"Commercial Paper" means Bonds issued thereunder in the form of commercial paper, consisting of notes maturing not more than 270 days from the date of its issuance.

"Cost of Construction" means the cost permitted by law of acquisition, purchase, construction, reconstruction, improvement, betterment, or extension of Public Facilities, or of other improvements authorized by law, for or to the Undertaking.

"Debt Reserve Requirement" means, as of the date of calculation, an amount equal to the least of (i) Maximum Aggregate Debt Service, (ii) 125% of average annual Debt Service, or (iii) 10% of the initial Proceeds of each Series of Bonds; provided in no event shall such amount with respect to a Series, the interest on which is excluded from gross income for federal income tax purposes, exceed 10% of the Proceeds of such Series, or such greater amount as set forth in a Supplemental Indenture upon receipt by the Trustee of an opinion of Bond Counsel that such greater amount will not affect the exclusion of interest on such Series from gross income for federal income tax purposes; and provided further that for the purposes of this definition the interest rate on Variable Rate Bonds shall be (a) calculated at the Certified Interest Rate, or (b) determined on the basis of the rate or rates of interest actually payable on such Variable Rate Bonds but only upon receipt by the Trustee of an opinion of Bond Counsel that the use thereof would not cause the interest on the Variable Rate Bonds to be included in gross income for federal income tax purposes in the case of Variable Rate Bonds the interest on which is intended to be excluded from gross income for federal income tax purposes.

"Debt Service" means, as of any date of calculation and with respect to any period for the Outstanding Bonds of any Series, an amount equal to the sum of: (i) the amount required to be paid or credited during such period to the Debt Service Account in order to provide for the payment of interest on the Outstanding Bonds of such Series as and when the same become due and payable, except to the extent that such interest is to be paid from (a) capitalized interest on deposit in the Debt Service Account, (b) amounts on deposit in an Escrow Fund, and (ii) the amount required to be paid or credited during such period to the Debt Service Account in order to provide for the payment of each Principal Installment for the Bonds of such Series as and when the same become due and payable. Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof.

For purposes of this definition, the interest rate per annum coming due and payable on a Series of Variable Rate Bonds shall be determined as follows: (a) with respect to a Series of Variable Rate Bonds Outstanding at the time of calculation, the interest rate per annum coming due and payable shall be the greater of (1) the weighted average interest rate per annum borne by such Series of Variable Rate Bonds for the twelve month period then ended at the time of calculation or (2) the weighted average interest rate per annum on such Series of Variable Rate Bonds (computed on an actual day basis) for the three most recently completed calendar months, and (b) with respect to a Series of Variable Rate Bonds then proposed to be issued and for the first three complete calendar months after the date of issuance, the Certified Interest Rate.

For purposes of calculating Debt Service on any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the Assumed Long-Term Fixed Rate, will be amortized with substantially level annual Debt Service payments over a term of 30 years commencing on the date of issuance.

For purposes of calculating Debt Service on any Commercial Paper then Outstanding, (1) the principal portion of such Debt Service shall be assumed to be the Authorized Amount, and (2) such Authorized Amount shall be treated as if such Commercial Paper, together with interest thereon at a rate equal to the Assumed Long-Term Fixed Rate, were to be amortized with substantially level annual Debt Service payments over a term of 30 years commencing on the date of issuance.

"Escrow Fund" means any fund established pursuant to a Supplemental Indenture in connection with a Series of Bonds (whether or not issued pursuant to such Supplemental Indenture), which serves as a repository for the Proceeds of such Series of Bonds and other moneys, and provides the security and sufficient source of payment (as verified by the Accountant) of principal or Redemption Price of and interest on such Series of Bonds, pending disbursement in accordance with the terms of such Supplemental Indenture.

"Fiduciary" or "Fiduciaries" means the Trustee, any other fiscal agent, any Authenticating Agent, any Paying Agent, any remarketing agent, any tender agent, any other agent or any or all of them, presently or hereafter designated in such capacity under the terms of the Indenture or as may be designated in such capacity as Fiduciaries pursuant to a Supplemental Indenture, and may include the Director of Finance in any such capacity.

"Fiscal Year" means the fiscal year for the State as established from time to time by the State, being on the date of effectiveness of the Indenture the period from July 1 in any year to and including the following June 30.

"Fitch" means Fitch Inc., its successors and their assigns and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized rating agency, if any, designated by the Department.

"Generally Accepted Accounting Principles" and all other accounting methods and terminology contained or referred to in the Indenture, means accounting principles, methods and terminology followed and construed, as nearly as practicable, in conformity with the rules and opinions of the American Institute of Certified Public Accountants, the Financial Accounting Standards Board and the U.S. Securities and Exchange Commission or any other board or body promulgating such principles, methods and terminology which are nationally recognized and generally accepted by the accounting community from time to time.

"Hawaiian Home Lands" means "Hawaiian home lands" as such term is defined and used in the Act.

"Indenture" means the Indenture providing for the issuance of Bonds, as from time to time amended or supplemented by Supplemental Indentures.

"Interest Payment Date" means, with respect to any particular Series of Bonds, any dates on which interest is payable on such Series of Bonds as such dates shall be established in the Supplemental Indenture providing for the issuance of such Series of Bonds.

"Investment Securities" means any of the securities listed on Schedule I hereto, if and to the extent the same are at the time legal under State law for investment of Department funds.

"Maximum Aggregate Debt Service" means, as of any date of calculation, the greatest Aggregate Debt Service for all Bonds as computed for any Bond Year.

"Moody's" means Moody's Investors Service, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency, if any, designated by the Department.

"OHA Agreement" means the Memorandum of Agreement, dated December 8, 2008, between the Department and the Office of Hawaiian Affairs.

"Outstanding" means, as of any date of calculation, all Bonds theretofore executed, issued and delivered by the Department and authenticated by the Authenticating Agent under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds in lieu of, or in exchange for which, other Bonds shall have been executed, issued and delivered by the Department and authenticated by the Authenticating Agent pursuant to the terms of the Indenture; and (c) Bonds deemed to have been paid or defeased as provided in the Indenture.

"Paying Agent" means the Trustee, as paying agent for the Bonds, or any other paying agent appointed for any Series of Bonds, or its successor or successors thereinafter appointed in the manner provided therein.

"Principal Installment" means, as of any date of calculation and with respect to the Outstanding Bonds of any Series of Bonds, so long as any Bonds thereof are Outstanding: (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the Indenture) of any Sinking Fund Installment due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to such unsatisfied balance of such Sinking Fund Installment, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of such Sinking Fund Installment due on such future date plus such applicable redemption premiums, if any.

"Proceeds" or "proceeds" means, with respect to a Series of Bonds, the principal amount thereof plus original issue premium and accrued interest thereon, if any, and less underwriters' and original issue discount therefrom, if any, or as proceeds may otherwise be defined pursuant to regulations promulgated pursuant to Section 148 of the Code.

"Program Lands" means "available lands" as such term is defined and used in the Act, but only to the extent such "available lands" are retained for management by the Department and not leased under Section 207(a) of the Act.

"Public Facilities" means any facilities in the Undertaking available for the use of the public including, without limitation, streets, storm drainage systems, pedestrian ways, water facilities and systems, sidewalks, street lighting, sanitary sewerage facilities and systems, utility and service corridors, and utility lines, where applicable, sufficient to adequately service developable improvements therein, sites for schools, parks, off-street parking facilities, and other community facilities.

"Rating Agency" means Fitch, Moody's, and S&P; provided that any reference to a Rating Agency in the Indenture (other than under the definition of "Investment Securities") shall only be effective while such Rating Agency is providing a rating on Bonds.

"Redemption Price" means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture or any Supplemental Indenture.

"Refunding Bonds" means all Bonds, whether issued in one or more Series, issued pursuant to the Indenture for the purpose of refunding Bonds, and Outstanding under and pursuant to the Indenture.

"Reimbursable General Obligation Bonds" means general obligation bonds of the State to which the State has pledged its full faith and credit and which are payable from the general fund of the State, issued for improvements with respect to properties constituting part of the Undertaking and pursuant to State law the general fund of the State is required to be reimbursed from Revenues except insofar as the obligation or reimbursement has been or is cancelled by the State Legislature.

"Remarketing Agent" means any Remarketing Agent for a Series of Bonds appointed pursuant to a resolution or Supplemental Indenture applicable thereto, or any successor.

"Remarketing Agreement" means with respect to any Series of Bonds any agreement which provides for the purchase and remarketing of Variable Rate Bonds, as such agreement may be supplemented and amended from time to time.

"Revenue Bond Index" means the thirty (30) year Revenue Bond Index of The Bond Buyer, a publication in New York, New York, or any successor publication maintaining such Index or in the event The Bond Buyer or any successor publication does not maintain such Index, an equivalent index with the same or similar components as the Revenue Bond Index selected by the Remarketing Agent or another consultant selected by the Department and deemed appropriate by such consultant or Remarketing Agent under market conditions then existing.

"Revenues" means (i) revenues from Program Lands and related facilities under ownership of the State or operated and managed by the Department or such parts of either thereof as the Department may determine, including rents and other fees and charges presently or hereafter derived from or arising through the ownership, operation and management of Program Lands, and related facilities, and any other revenues pledged by the Department pursuant to a Supplemental Indenture in accordance with the provisions of the Act, the Bond Act and any other act of the Legislature; (ii) all interest, profits, earnings or other income derived from the investment of any moneys described in (i) held pursuant to the Indenture and required to be paid into the Accounts established therein; and (iii) any additional amounts specifically pledged or designated by the Department and deposited in the Accounts established therein as provided in a Supplemental Indenture, to the extent such money constitutes moneys described in (i). "Revenues" shall not include amounts on deposit in the Rebate Account or any interest, profits, earnings or other income derived from the investment thereof.

"Separate Series Reserve Account" means a Separate Series Reserve Account created pursuant to a Series Resolution authorizing a Series of Bonds or the related Supplemental Indenture in accordance with the Indenture, to provide additional security to the Bonds of such Series.

"Separate Series Reserve Account Requirement" means, as of any date of computation, the amount set forth in a Supplemental Indenture authorizing a Series of Bonds that is required to be maintained as of such date in the Separate Series Reserve Account created to provide additional security for the Bonds of such Series.

"Series" means all of the Bonds designated as being of the same Series issued under and pursuant to the Indenture.

"Sinking Fund Installment" means an amount so designated which is established pursuant to the Indenture. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Indenture toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

"Special Fund" means the Special Fund required by the Indenture to be established and maintained by the Department, for so long as any Bonds remain Outstanding, in the Treasury of the State pursuant to Section 213(d) of the Act and Section 39-62 of the Bond Act.

"S&P" means S&P Global Ratings, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized rating agency designated by the Department.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture, between the Department and the Trustee and effective in accordance with the provisions of the Indenture, as any such supplemental indenture may itself be supplemented or amended pursuant to such provisions.

"Support Agreement" means the agreement, if any, entered into by the Department which provides for a Support Facility, and any and all modifications, alterations, amendments and supplements thereto.

"Support Facility" means any instrument entered into or obtained in connection with a Series of Bonds such as a letter of credit, a committed line of credit, insurance policy, surety bond, standby bond purchase agreement, guaranty or similar instrument, or any combination of the foregoing, and issued by a bank or banks, or other financial institution or institutions, or any combination of the foregoing, which Support Facility provides for the payment of (i) the purchase price equal to the principal of and accrued interest on Bonds delivered to the remarketing agent or any depository, tender agent or other party pursuant to a remarketing agreement or Supplemental Indenture and discount, if any, incurred in remarketing such Bonds, and/or (ii) principal of and interest on all Bonds becoming due and payable during the term thereof.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., as Trustee thereunder, and any successor at any time substituted in its place pursuant thereto.

"Undertaking" means, to the extent permitted by the Act, and with the approval of the Governor, (i) the undertaking and carrying out the development of any Hawaiian Home Lands available for lease under and pursuant to Section 207 of the Act by assembling these lands in residential developments and providing for construction, reconstruction, improvement, alteration, or repair of Public

Facilities therein, and (ii) the undertaking and carrying out the development of Program Lands for homestead, commercial, and multipurpose projects under and pursuant to Section 220.5 of the Act, as a developer under the Act or in association with a developer under an agreement entered into pursuant thereto and providing for the construction, reconstruction, improvement, alteration, or repair of Public Facilities therein, in each case as may be designated pursuant to a Supplemental Indenture.

"Variable Rate Bonds" means Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to their terms, based on an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For purposes of this definition, Variable Rate Bonds shall no longer be considered Variable Rate Bonds upon the establishment of, or the conversion of the rate of interest thereon to, a fixed interest rate for the remainder of the term thereof.

"Written Certificate," "Written Direction," "Written Request" and "Written Statement" of the Department means an instrument in writing signed on behalf of the Department by an Authorized Officer (or Officers) thereof. Any such instrument and any supporting opinions or certificates may, but need not, be combined in a single instrument with any other instrument, opinion or certificate, and the two or more so combined shall be read and construed so as to form a single instrument. Any such instrument may be based, insofar as it relates to legal, accounting or engineering matters, upon the Opinion of Counsel, or opinion or certificate of accountants or engineers, unless the Authorized Officer (or Officers) signing such Written Certificate or Direction or Request or Statement know, or in the exercise of reasonable care should have known, that the opinion or certificate with respect to the matters upon which such Written Certificate or Direction or Request or Statement may be based, as aforesaid, is erroneous. The same Authorized Officer (or Officers), or the same counsel, accountant or engineer, as the case may be, need not certify or opine to all of the matters required to be certified to or opined upon under any provision of the Indenture, but different Authorized Officers, counsel, accountants or engineer may certify or opine to different facts, respectively.

Conditions for the Issuance of Bonds

General Provisions for the Issuance of Bonds. (a) All Series of Bonds shall be issued under and pursuant to a Supplemental Indenture or Supplemental Indentures in accordance with the provisions of the Indenture. Each such Supplemental Indenture or Supplemental Indentures shall specify the following:

(1) the purpose or purposes for which such Series is to be issued, which shall be either or both: (i) the purpose of paying or providing for the payment of all or a portion of the Cost of Construction of all or a portion of the Public Facilities, or of other improvements authorized by law, for or to the Undertaking, or (ii) the purpose of refunding Bonds as set forth in the Indenture;

(2) the amount and due date of each Sinking Fund Installment, if any, for the Bonds of such Series;

(3) An opinion of Bond Counsel to the effect that (a) the Indenture, including the Indenture and the Supplemental Indenture providing for the issuance of the Bonds of such Series, is a valid and binding obligation of the Department; (b) the Indenture creates a valid pledge of the Revenues held or set aside under the Indenture, subject to the application thereof to the purposes and on the terms and conditions permitted by the Indenture; and (c) the Bonds of such Series are valid special limited obligations of the Department.

(4) A Cash Flow Statement demonstrating that the Revenues will be at least equal to 1.25 times Aggregate Debt Service on all Outstanding Bonds, including the Bonds then proposed to be issued, in each of the five (5) full Bond Years following the date of issuance of such Bonds; provided,

however, that the Trustee does not have a duty to review such Cash Flow Statement, is not considered to have notice of the content of such Cash Flow Statement or a default or Event of Default based on such content, and does not have a duty to verify the accuracy of such Cash Flow Statement. In estimating Revenues for the five (5) full Bond Years following the date of issuance of a Series of Bonds the consultant preparing such Cash Flow Statement shall only rely on Revenues estimated to be produced based on leases, contracts, and agreements in effect as of the date of the Cash Flow Statement, assuming all payments to the Department thereunder shall be made as and when due and payable, and only such increases or decreases in such payments to the Department as are contained in such leases, contracts, or agreements shall be effective during such period. The Cash Flow Statement required by this clause shall not be required with respect to any Series of Refunding Bonds unless required by the provisions of the Indenture.

(5) A Written Certificate of the Department describing, in general terms, the Public Facilities or other improvements for or to the Undertaking to be financed by the issuance of the Bonds then proposed to be issued, and setting forth the then estimated Cost of Construction thereof, if applicable.

Special Provisions for the Issuance of Additional Bonds.

After the date of the Amended and Restated Master Indenture, one or more Series of Additional Bonds may be issued from time to time in such principal amount for each such Series as may be determined by the Department for the purpose of paying or providing for the payment of all or a portion of the Cost of Construction of all or a portion of the Public Facilities or other improvements authorized by law for or to the Undertaking.

(a) In addition to the documents required under "General Provisions for the Issuance of Bonds" above, each such Series of Additional Bonds shall be authenticated and delivered only upon receipt by the Trustee of the following documents:

> (1) an Accountant's Certificate showing that Revenues produced in the most recent Fiscal Year or in the twelve months preceding the date of issuance of such Additional Bonds were at least equal to 1.25 times the Maximum Aggregate Debt Service on Outstanding Bonds and such Additional Bonds; and
>
> (2) a Written Certificate of the Department stating that there does not exist any Event of Default and stating that no default exists in the payment of the Principal Installments or Redemption Price, if any, of or interest on any Bond.

Special Provisions for the Issuance of Refunding Bonds.

(a) One or more Series of Refunding Bonds may be issued in such principal amount which, when taken together with funds otherwise provided by the Department and available therefor, will provide the Department with funds which will be sufficient for the purpose of refunding all Outstanding Bonds of one or more Series, or of one or more maturities within a Series, or of portions of one or more maturities.

(b) Each Series of Refunding Bonds shall be executed and delivered to the Authenticating Agent only upon receipt by the Trustee of the documents described under "General Provisions for the Issuance of Bonds" above and, among other things, the following documents or moneys or securities:

(1) irrevocable instructions to the Paying Agent for the Bonds to be refunded, satisfactory to it, to give or cause to be given due notice of redemption of all such Bonds to be refunded on the redemption date or dates specified in such instructions, or to be paid at maturity;

(2) in the event the Bonds to be refunded are not by their terms subject to redemption within the next succeeding sixty (60) days, irrevocable instructions to the Paying Agent for the Bonds to be refunded, satisfactory to it, to mail the notice of defeasance of such Bonds to the Owners of the Bonds being refunded;

(3) either: (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Paying Agent for the Bonds to be refunded in a separate account irrevocably deposited in trust for and assigned to the respective Owners of the Bonds to be refunded, or (ii) Investment Securities including only those Investment Securities provided in the Indenture in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, and any moneys, as shall be sufficient at prior redemption or maturity to otherwise comply with the provisions of the Indenture, which Investment Securities and moneys shall be held in trust and used only as provided in the Indenture; and

(4) unless (1) the maximum annual Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed maximum annual Debt Service in any Fiscal Year on the refunded Bonds by more than ten percent (10%), or (2) the Refunding Bonds are being issued to refund Commercial Paper, a Cash Flow Statement as described under "General Provisions for the Issuance of Bonds" above; provided, however, that the Trustee does not have a duty to review such Cash Flow Statement, is not considered to have notice of the content of such Cash Flow Statement or a default or Event of Default based on such content, and does not have a duty to verify the accuracy of such Cash Flow Statement.

(c) The provisions relating to the issuance of Additional Bonds shall not apply to the issuance of Refunding Bonds except as provided in the Indenture.

Establishment of Accounts; Flow of Funds

Payments from Revenues. (a) Not later than the first Business Day of each month, the Department shall pay to the Trustee from Revenues in the Special Fund, as provided in the Indenture, sufficient funds to deposit in the Debt Service Account with respect to each Series of Bonds at least an amount which, if deposited in equal amounts in each month, will be equal to (1) the amount of interest coming due on all Outstanding Bonds of such Series on the next Interest Payment Date for such Series (based, if applicable, on the Assumed Long-Term Fixed Rate); provided that for the purpose of determining the amount required to be credited to the Debt Service Account, any amounts in the Debt Service Account derived from the Proceeds of the Bonds for payment of interest on such Bonds for such Interest Payment Date as shall be set forth in the Written Certificate of the Department delivered pursuant to the Indenture shall be deducted; and (2) the Principal Installment or Sinking Fund Installment coming due on all Outstanding Bonds of such Series on the next principal maturity or sinking fund redemption date for such Series, provided that the first such deposit with respect to any Series of Bonds shall not be due more than twelve (12) months before the first principal maturity or sinking fund redemption date for such Series. Nothing therein shall prohibit the Department from depositing in any month an amount greater than the amount required by this subsection. Any provision thereof to the contrary notwithstanding, so long as there shall be held in the Debt Service Account and the Debt Reserve Account an amount sufficient to pay in full all Bonds in accordance with their terms (including principal or applicable Redemption Price of and interest thereon), no credits shall be required to be made to the Debt Service Account.

(b) At least five (5) Business Days prior to each Interest Payment Date (and otherwise as required for the purposes specified below), the Department shall pay to the Trustee from Revenues in the Special Fund, as provided in the Indenture, sufficient funds to make the deposits described below in the Indenture. As soon as practicable after receipt of such payments, the Trustee shall credit the same to the following Accounts in the following order the amounts set forth below:

(1) in the Debt Service Account the amount, if any, together with amounts then on deposit in such account after giving effect to the deposits made pursuant to subsection (a) above, required to pay interest and principal becoming due and payable on all Bonds then Outstanding on such Interest Payment Date; provided that for the purpose of determining the amount required to be credited to the Debt Service Account, any amounts in the Debt Service Account derived from the Proceeds of the Bonds for payment of interest on such Bonds for such Interest Payment Date as shall be set forth in the Written Certificate of the Department delivered pursuant to the Indenture shall be deducted; and provided further that so long as there shall be held in the Debt Service Account and the Debt Reserve Account an amount sufficient to pay in full all Bonds in accordance with their terms (including principal or applicable Redemption Price of and interest thereon), no credits shall be required to be made to the Debt Service Account and the Debt Reserve Account;

(2) in the Debt Reserve Account the amount, if any, required to be deposited therein as provided in the Indenture; and (b) in each Separate Series Reserve Account the amount, if any, required to be deposited therein as provided in the Indenture; provided that so long as there shall be held in the Debt Service Account, the Debt Reserve Account and each Separate Series Reserve Account an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable Redemption Price of and interest thereon), no credits shall be required to be made to the Debt Service Account, the Debt Reserve Account and each Separate Series Reserve Account;

(3) in the Rebate Account, the amount, if any, required to be deposited therein as provided in the Indenture; and

(c) The Trustee shall, at least five (5) Business Days before each date on which the Department is required to make a payment pursuant to the Indenture, give written notice to the Department of the amount and due date of such payment.

Investment of Moneys. (a) Subject to the next sentence, moneys held in the Accounts shall to the fullest extent practicable be invested and reinvested in Investment Securities which shall mature, or be payable to the Trustee on demand, (i) except in the case of the Debt Reserve Account or any Separate Series Reserve Account, in such amounts and at such times so that the moneys held for credit to such Account will be available when needed for the purposes intended and (ii) in the case of the Debt Reserve Account or any Separate Series Reserve Account, within five (5) years from the date of investment, but in any event no later than the last or final maturity date of the Bonds then Outstanding. The Trustee shall invest such moneys in accordance with the foregoing sentence only upon the Written Direction of the Department and in the absence of a timely and specific Written Direction of the Department, the Trustee shall not invest moneys held in the Accounts. The Trustee may act as principal or agent in the acquisition or disposition of any such investment, and may impose its customary charges. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this section. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. The Department acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Department the right to receive brokerage confirmations of security transactions as they occur, the Department specifically waives receipt of such confirmations to the extent permitted by law and hereby notifies the Trustee that no brokerage confirmations need be sent relating to the security transactions as they occur. The Trustee will furnish the Department periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

(b) The Trustee shall determine the value of amounts credited to each Account, at the market value thereof: (1) as of the first day of each Fiscal Year; (2) in the case of the Debt Reserve Account or any Separate Series Reserve Account, immediately upon any transfer therefrom to cure a deficiency in the Debt Service Account pursuant to the Indenture; and (3) at such other times as may be requested by the Department. In determining fair market value of Investment Securities, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it. The Trustee shall notify the Department in writing of such values as soon as practicable after determining the same.

(c) All securities shall constitute a part of the respective Fund or Account from which the investment was made. Income derived from investments made pursuant to the Indenture shall, upon receipt, be deposited in the Debt Service Account; provided that any such income derived from investments of moneys in the Rebate Account shall be retained therein.

Revenues Held in Trust; Lien of Bonds. The moneys in the Accounts shall, until used, be applied and disbursed in accordance with the provisions of the Indenture, be held in trust for the equal benefit and security of the Owners from time to time of the Bonds; (b) all Bonds shall have a prior and paramount lien on the Revenues paid into the Accounts and the investments in which such Revenues may from time to time be invested, over and ahead of all bonds, notes or other evidences of indebtedness which may subsequently be issued, and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred, and all the Bonds shall be equally and ratably secured without priority by reason of Series, number, date of Bonds, of sale, of execution, or of delivery, by such lien in accordance with the provisions of the Indenture; and (c) no claim, encumbrance or obligation against the Revenues or the Accounts subsequently arising or incurred shall be secured by or entitled to a lien or charge thereon prior to or equal with the payments required by the Indenture to be made from the Revenues in the Accounts to provide for the payment of the Bonds.

Certain Covenants of the Department

Rates, Rentals, Fees and Charges. The Department shall, at all times while any of the Bonds shall be Outstanding, impose, prescribe, and collect rates, rentals, fees and charges for the services of, and the facilities and commodities furnished by, and the properties constituting a part of, the Undertaking and Program Lands and revise such rates, rentals, fees and charges, so that the Undertaking shall be and always remain self-supporting. The rates, rentals, fees and charges prescribed for each Fiscal Year shall be such as will provide Revenues sufficient, in such Fiscal Year, to provide an amount at least equal to 1.25 times Aggregate Debt Service on Bonds for such Fiscal Year; provided that nothing contained in the Indenture shall affect at any time the rights and obligations of the Department or other parties under leases or other agreements currently in effect, or be construed to require any portion of the Undertaking to be self supporting separate from the balance of the Undertaking.

Notwithstanding the failure by the Department to comply with the covenant as to rates set forth above shall not be deemed a default in the observance of a covenant thereunder if the Department presents a plan to, and is approved by, the Trustee, together with a Cash Flow Statement which demonstrates the projected effect of such plan, designed to remedy such failure within one hundred twenty (120) days of the earlier of (i) receipt of an audit pursuant to the Indenture which reveals such failure or (ii) notification or actual knowledge of such failure, and the Department implements such plan and pursues the same diligently until the failure is corrected; provided, however, that the Trustee does not have a duty to review such Cash Flow Statement, is not considered to have notice of the content of such Cash Flow Statement or a default or Event of Default based on such content, and does not have a duty to verify the accuracy of such Cash Flow Statement.

Punctual Payment of Bonds. The Department will punctually pay or cause to be paid the principal or Redemption Price of and the interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and the Department will punctually pay or cause to be paid all Sinking Fund Installments which may be established for any Series of Bonds.

Against Encumbrances. The Department shall not create a mortgage upon all or any portion of the Programs Lands or any real or personal property or facilities thereof, while any Bonds are Outstanding other than as provided in or permitted by the Indenture and any Supplemental Indenture or the Act. Further, the Department will use its best efforts to prevent the creation of any lien upon all or any portion of the Programs Lands or any real or personal property or facilities essential to the maintenance of the Revenues other than as provided in or permitted by the Indenture or the Act. The Department will not create, or permit the creation of, any pledge, lien, charge or encumbrance upon the Revenues except only as provided in or permitted by the Indenture.

Against Sale or Other Disposition or Removal of Property. Neither the Program Lands nor any part or any real or personal property or facilities thereof shall be sold, mortgaged, leased or otherwise disposed of except as provided in the Indenture.

(a) The properties constituting Program Lands or any part or any real or personal property or facilities thereof may be sold, leased, or otherwise disposed of in their entirety if, simultaneously with such sale, lease or other disposition thereof, provision is made for the payment of all Bonds then Outstanding and such Bonds are no longer deemed Outstanding within the meaning of the Indenture.

(b) Any portion of the properties constituting Program Lands or any part or any real or personal property or facilities thereof may be sold, leased, or otherwise disposed of on such terms and conditions as may be determined by the Department if the value of such portion of the properties as of the date of such sale, lease or disposition does not exceed five percent (5%) of the net book assets of the total value of all Program Lands as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the Department. Any part of the properties of the Program Lands or any part or any real or personal property or facilities thereof having a value as of the date of the sale, lease or disposition which exceeds five percent (5%) of the net book assets of all Program Lands as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the Department may be sold, leased, or otherwise disposed of if an Accounting shall certify to the Department in writing that the terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining portions of the Program Lands, after taking into consideration the use by the Department of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the Department to comply with all covenants and conditions of the Indenture.

(c) Surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of all Program Lands and real and personal property comprising a part thereof, which, in the opinion of an Authorized Officer, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Undertaking, or no longer necessary, material to, or useful in such operation may be sold, leased, or otherwise disposed of. Proceeds of any such sale, lease or other disposition of any portion of the properties of all Program Lands pursuant to this paragraph shall be paid to the Department.

Maintenance of Leases. The Department will at all times comply with all terms, covenants and provisions, expressed and implied, of all leases and other agreements with respect to properties constituting a part of the Program Lands. The Department shall promptly collect, or cause to be collected, all payments due under leases and other agreements with respect to properties constituting a part of the Program Lands as the same becomes due, and shall at all times maintain and promptly and vigorously enforce its rights against any person who does not make such payments when due. The Department will not exercise any right to terminate any lease or other agreement with respect to properties constituting a part of the Program Lands, or consent to any deferral or abatement of rentals or other payments due under any lease or other agreement with respect to properties constituting a part of the Program Lands, or effect or consent to any change in the use of properties constituting a part of the Program Lands, unless the Department, prior to such action, files a Cash Flow Statement with the Trustee giving effect to such action and evidencing that such action will not impair the ability of the Department to comply with the provisions of the Indenture during the current Fiscal Year and during each Fiscal Year thereafter or to meet its obligations under the Indenture from Revenues; provided, however, that the Trustee does not have a duty to review such Cash Flow Statement, is not considered to have notice of the content of such Cash Flow Statement or a default or Event of Default based on such content, and does not have a duty to verify the accuracy of such Cash Flow Statement.

From and after the date on which the Indenture becomes effective, the Department shall provide in each lease of any property constituting Program Lands that the lessee thereunder shall include (i) a provision providing assurances in the form of a bond, insurance or otherwise providing adequate security to the Department for prompt payment of rentals thereunder, including during interruption of the business of the lessee, (ii) a covenant providing that the lessee will pay and discharge all taxes, assessments or other governmental charges lawfully imposed on the properties subject to such lease, and shall keep such properties free from judgments, mechanic's liens and materialmens' liens and all other liens, claims, demands and encumbrances of whatsoever nature or character, and (iii) a covenant not to mortgage, assign or sublet the properties subject to such lease without the written consent of the Department and that any such mortgage, assignment, or subletting shall be expressly subject to the terms and provisions of such lease, including the provisions of such lease requiring payment of rentals.

Operation and Maintenance. The Department shall at all times operate and maintain the Undertaking and Program Lands, or cause the same to be operated and maintained, under the same standard of care as would be applied by an owner or operator of similar property in like circumstances. The Department shall pay or cause to be paid all expenses of the Department of the operation and maintenance of the properties constituting the Programs Lands and in carrying out and administering its powers, duties, and functions in connection with the Undertaking, the Program Lands and the Indenture from lawfully available moneys.

Payment of Taxes and Claims. The Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon any properties constituting the Undertaking or Program Lands or upon the Revenues, when the same shall become due, and will duly observe and conform to all valid requirements of any governmental department relative thereto. The Department will keep or cause to be kept the properties constituting the Undertaking and Program Lands and Revenues free from judgments, mechanics' liens and materialmen's liens and free from all other liens, claims, demands and encumbrances of whatsoever nature or character, except as permitted by the Indenture, to the end that the priority of the lien of the Indenture on the Revenues may at all times be maintained and preserved, free from any claim or liability which might impair the security for the Bonds, except for assessments, charges or claims which the Department shall in good faith be contesting by proper legal proceedings.

Condemnation Proceeds. If all or any part of the Program Lands shall be taken by condemnation or eminent domain proceedings or other proceedings authorized by law, the net proceeds realized by the Department therefrom shall, to the extent the Revenues from such part of the Program Lands exceed 10% of the Revenues from all Program Lands, be applied to the purchase or redemption of Bonds then Outstanding, unless the Department shall file a Cash Flow Statement with the Trustee demonstrating that such proceeds are not required in order to enable the Department to comply with the provisions of the Indenture. In the event such proceeds are not applied to purchase or redeem Bonds as aforesaid, such proceeds may be applied, free and clear of the Indenture, in such manner as the Department determines. In the event such proceeds are applied to the purchase or redemption of Bonds such proceeds shall be applied to the purchase or redemption of Bonds of each Series equally and ratably in the proportion which the principal amount of Bonds of such Series then Outstanding bears to the principal amount of all of the Bonds then Outstanding.

Accounts. The Department will at all times keep, or cause to be kept, proper books of record and accounts in accordance with Generally Accepted Accounting Principles in which complete and accurate entries shall be made of all transactions relating to the Program Lands and the Revenues. Such books of record and accounts shall identify all Revenues and the application of such Revenues to the purposes specified in the Indenture. During ordinary business hours such books of record and accounts shall be subject to the inspection of the Owners of not less than ten percent (10%) in principal amount of the Bonds, or their representatives authorized in writing.

The Department shall cause such accounts to be audited annually by an Accountant.

Compliance with Indenture. The Department will not issue, or permit to be issued, any Bonds in any manner other than in accordance with the provisions of the Indenture, and will not suffer or permit any default to occur under the Indenture, but will faithfully observe and perform all the covenants, conditions and requirements thereof. The Department, for itself, its successors and assigns, represents, covenants and agrees with the Owners of the Bonds, as a material inducement to the purchase of the Bonds, that so long as any of the Bonds shall remain Outstanding and the principal or Redemption Price thereof or interest thereon shall be unpaid or unprovided for, it will faithfully perform all of the covenants and agreements contained in the Indenture and the Bonds.

Special Covenant With Respect to Federal Tax Status of Bonds. With respect to any Series of Bonds the interest on which is excludable from gross income for federal income tax purposes, so long as any of such Bonds shall be Outstanding, the Department shall comply with all applicable provisions of Sections 103 and 141 through 150 of the Code and the applicable regulations, prospective and retroactive, proposed or promulgated thereunder or otherwise applicable thereto.

Compliance with OHA Agreement. The Department thereby agrees faithfully to observe and perform their respective covenants, conditions and requirements in the OHA Agreement to the extent necessary to be entitled to the payments from the Office of Hawaiian Affairs provided in the OHA Agreement and will not terminate or consent to termination of the OHA Agreement so long as any Bonds are Outstanding.

Trustee

Duties and Responsibilities of Trustee.

(a) Prior to the occurrence of an Event of Default of which it has or is deemed to have notice thereunder, and after the curing or waiver of any Event of Default which may have occurred:

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations shall be read into the Indenture against the Trustee; and

(2) in the absence of negligence or bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements expressed therein, upon certificates furnished to the Trustee and conforming to the requirements of the Indenture; but in the case of any such certificates which by any provision thereof are specifically required to be furnished to the Trustee, the Trustee is under a duty to examine same to determine whether or not they conform to the requirements of the Indenture.

(b) In case an Event of Default of which the Trustee has or is deemed to have notice thereunder has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such person's own affairs.

(c) No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) above;

(2) the Trustee is not liable for any error of judgment made in good faith by a responsible Officer, unless it is proven that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Bondowners under any provision of the Indenture relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture; and

(4) no provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; provided that the Trustee shall not require indemnity before making a draw, claim or other demand under any Support Facility.

(d) Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of the Indenture.

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than thirty (30) days' written notice to the Department and the Owners, specifying the date when such resignation shall take effect, and such resignation shall take effect upon any day specified in such notice unless (i) a successor shall have been appointed previously, in which event such resignation shall take effect immediately on the acceptance of such successor, or (ii) no such successor shall have been appointed, in which event such resignation shall take effect immediately upon, but not until, the acceptance of a successor.

Removal of Trustee. The Trustee shall be removed by the Department if at any time so requested by a written instrument or concurrent written instruments, filed with the Trustee and the

Department not less than thirty days before the effective removal date, and signed by the Owners (or their attorney-in-fact duly authorized) of a majority in principal amount of Bonds Outstanding. The Department in its discretion may remove the Trustee at any time, except during the existence of an Event of Default, upon giving sixty (60) days written notice to the Trustee and filing with the Trustee an instrument of appointment signed by an Authorized Officer and accepted by such successor Trustee.

Amending and Supplementing the Master Indenture

Right of Department to Enter Into Supplemental Indentures Without Consent of Owners of Bonds. The Department from time to time and at any time and without the consent or concurrence of the Owner of any Bond, may enter into a Supplemental Indenture (i) for the purpose of providing for the issuance of Additional Bonds pursuant to the provisions of the Indenture or the issuance of Refunding Bonds pursuant to the provisions of the Indenture, and (ii) if the provisions of such Supplemental Indenture shall not materially adversely affect the rights of the Owners of the Bonds then Outstanding, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Department under the Indenture, or to surrender any right or power therein reserved or conferred upon the Department;

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provision contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Department may deem necessary or desirable and not inconsistent with the Indenture and which shall not materially adversely affect the interests of the Owners of the Bonds;

(c) to subject, describe or redescribe any property subjected or to be subjected to the lien of the Indenture;

(d) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof and thereof under the Trust Indenture Act of 1939 or any similar Federal statute hereafter in effect, and, if they so determine, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 (other than the provisions of Section 316(a)(2) thereof) or similar Federal statute;

(e) to grant to or confer upon the Owners of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them;

(f) to prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Department payable from the Revenues;

(g) to make any modification to a Supplemental Indenture as may be specifically provided for therein with respect to a Series of Variable Rate Bonds and which stipulates that Bondowner consent shall not be required, including, but not limited to, provisions permitting changes in the method of determining or establishing rates of interest, premiums payable upon redemption, serial maturities or Sinking Fund Installments; or

(h) to modify in any respect any of the provisions of the Indenture.

Except for Supplemental Indentures providing for the issuance of Additional Bonds or Refunding Bonds pursuant thereto, the Department shall not make and execute any instrument or adopt any Supplemental Indenture, unless the Trustee (i) determines that the provisions of such instrument or of such Supplemental Indenture do not adversely affect the rights of the Owners of the Bonds then

Outstanding, and (ii) receives an Opinion of Counsel to the effect that the making and entering into of such instrument or such Supplemental Indenture is permitted by the provisions of the Indenture, and the provisions of such instrument or of such Supplemental Indenture are not contrary to or inconsistent with the covenants or agreements of the Department contained in the Indenture as originally adopted or as amended with the consent of the Owners.

Adoption of Supplemental Indenture With Consent of Owners. With the consent of the Owners of not less than a majority of the Bonds then Outstanding, the Commission from time to time and at any time, may enter into an indenture amending or supplementing the provisions of, or changing in any manner or eliminating any of the provisions of, the Indenture or of any Supplemental Indenture, or modifying in any manner the rights of the Owners of the Bonds; provided that without the specific consent of the Owner of each Bond which would be affected thereby, whether or not such Bond shall then be deemed to be Outstanding thereunder, no such indenture amending or supplementing the provisions thereof shall: (1) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (2) reduce the aforesaid percentage of Bonds, the Owners of which are required to consent to any such instrument or indenture amending or supplementing the provisions thereof; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured hereby; and provided further that if moneys or Investment Securities shall have been deposited in accordance with the provisions of the Indenture for the payment of particular Bonds and such Bonds shall not in fact have been paid, no amendments or supplements to the provisions of the Indenture relating to defeasance shall be made without the specific consent of the Owner of each Bond which would be affected thereby. A modification or amendment of the provisions of the Indenture with respect to the Accounts shall not be deemed a change in the terms of payment, provided that no such modification or amendment shall, except upon the consent of the Owners of all Bonds then Outstanding affected thereby, reduce the amount or amounts required to be deposited in the Debt Service Account or Debt Reserve Account.

Events of Default; Remedies on Default

Events of Default. The following shall constitute "Events of Default":

(a) If payment of the principal and premium (if any) of or interest on any Bond, whether at maturity or by proceedings for redemption, by declaration as provided in the Indenture, or otherwise, shall not be made after the same shall become due and payable; or

(b) If the Department shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture or in any indenture supplemental thereto, on the part of the Department to be performed, and such default shall continue for ninety (90) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Department by the Owners of not less than twenty per cent (20%) in principal amount of the Bonds then Outstanding or any trustee or committee therefor; or

(c) If any proceedings shall be instituted, with the consent or acquiescence of the Department, for the purpose of effecting a composition between the Department and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or any other moneys pledged and charged therein or in any Supplemental Indenture, or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute now or hereafter enacted; or

(d) If an order or decree shall be entered (i) with the consent or acquiescence of the Department, appointing a receiver or receivers of the Undertaking or the Program Lands or any portion thereof; or (ii) without the consent or acquiescence of the Department appointing a receiver or receivers of the Undertaking or the Program Lands or any portion thereof and such order or decree having been entered, shall not be vacated or discharged or stayed on appeal within sixty (60) days after the entry thereof; or

(e) If, under the provision of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Undertaking or the Program Lands or any portion thereof, and such custody or control shall not be terminated within ninety (90) days from the date of assumption of such custody or control; or

(f) If the Department shall for any reason be rendered incapable of fulfilling its obligations under the Indenture.

Declaration of Principal and Interest as Due. Upon the occurrence and continuation of an Event of Default, then and in each and every case the Trustee may, and upon the request of the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding thereunder shall, by written notice to the Department filed in the office of the Department and with the Trustee, proceed to declare the principal of all Bonds then Outstanding, together with all accrued and unpaid interest thereon and together with all other moneys secured hereby, if not already due, to be due and payable immediately, and upon any such declaration the same shall become and be due and payable immediately, anything in the Indenture, any Supplemental Indenture, or in any of the Bonds contained to the contrary notwithstanding. This provision is subject, however, to the condition that, if at any time after the principal of the Bonds, together with accrued and unpaid interest thereon shall have been so declared due and payable and before any further action has been taken (other than the making of the above declaration), the principal amount of all Bonds which have matured either according to the maturity date or dates specified therein or otherwise (except as a result of such declaration) and all arrears of interest upon all Bonds, except interest accrued but not yet due on said Bonds, shall be paid or caused to be paid, and all other Events of Default, if any, which shall have occurred shall have been remedied, cured or secured, then and in every such case the Owners of a majority in principal amount of the Bonds then outstanding, by notice in writing delivered to the Department and the Trustee, may waive such default and its consequences and rescind such declaration. No such waiver or rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Appointment of a Receiver. Upon the occurrence of an Event of Default and the continuation thereof, then in each and every case the Trustee or the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding thereunder or any trustee or committee therefor shall be entitled to the appointment of a receiver by any court of competent jurisdiction. Any such receiver may be appointed upon the application of Owners of Bonds of said aggregate principal amount, or the Trustee or committee therefor, to the Circuit Court of the First Judicial Circuit, in Honolulu, Hawaii, which is hereby vested with jurisdiction in such proceedings or to any other court of competent jurisdiction in the State. Any receiver so appointed may enter and take possession of the Undertaking and the Program Lands, operate and maintain the same, prescribe rates, fees or charges and collect, receive and apply all Revenues thereafter arising therefrom in the same manner as the Department itself might do. No bond shall be required of such receiver.

Suits at Law or Equity and Mandamus. In case any one or more of the Events of Default shall happen and be continuing, then and in every such case, but subject to the provisions, limitations and conditions of the Indenture so far as the remedies provided therein are concerned, the Owner of any Bond at the time outstanding shall be entitled, for the equal benefit and protection of all Owners of the Bonds similarly situated to proceed and protect and enforce the rights vested in such Owner by the Indenture by such appropriate judicial proceeding as such Owner shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the exercise of any power granted in the Indenture, or to enforce any other legal or equitable right vested in the Owners of Bonds by the Indenture or by law.

Remedies Not Exclusive; Effect of Waiver of Default; Effect of Abandonment of Proceedings or Adverse Determination. The Owners from time to time of the Bonds shall be entitled to all the remedies and benefits of the Indenture and as shall be provided by law, and nothing therein shall be construed to limit the rights or remedies of any such Owners under any applicable statute that may now exist or be enacted hereafter. The remedies prescribed by the Indenture shall not be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given thereunder, or now or hereafter existing at law or in equity or by statute and may be exercised without exhausting and without regard to any other remedy.

No waiver of any default or breach of duty or contract by any Owner of any Bond shall extend to or affect any subsequent default or breach of duty or contract, or shall impair any rights or remedies thereon. No delay or omission of any Owner of a Bond to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein. Every substantive right and remedy conferred upon the Owners of the Bonds may be enforced from time to time and as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and then discontinued or abandoned, or shall be determined adversely to the Trustee or the Owners of the Bonds, then and in every such case the Department, the Trustee and such Owners shall be restored to their former positions and rights and remedies as if no suit, action or proceeding had been brought or taken.

Defeasance; Moneys held for payment of Defeased Bonds

Discharge of Liens and Pledges Bonds No Longer Deemed to Be Outstanding Hereunder. The obligations of the Department under the Indenture and the liens, pledges, charges, trusts, covenants and agreements of the Department, therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be payable or Outstanding thereunder:

(i) when such Bond shall have been cancelled, or shall have been surrendered for cancellation and is subject to cancellation, or shall have been purchased by or on behalf of the Department from moneys held under the Indenture; or

(ii) as to any Bond not canceled or so surrendered for cancellation and subject to cancellation, or so purchased, when payment of the principal and the applicable Redemption Price of such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with a Fiduciary, in trust, and irrevocably appropriating and setting aside exclusively for such payment (1) moneys sufficient to make such payment or (2) Investment Securities (which for the purposes of this provision shall include only those obligations described in item 1 of the definition thereof) maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, or (3) a combination of both such moneys and Investment Securities, whichever the Department deems to be in its best interest, and all necessary and proper fees, compensation and expenses of such Fiduciary pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of such Fiduciary.

At such time as a Bond shall be deemed to be no longer Outstanding, as aforesaid, such Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) and, except for the purposes of any such payment from such moneys or Investment Securities, shall no longer be secured by or entitled to the benefits of the Indenture.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof, no deposit under clause (b) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid:

(a) as to any such Bonds as are not at the time of the making of such deposit immediately redeemable or prepayable in accordance with the provisions of the Indenture and of such Bonds, until either (1) such Bonds shall have been irrevocably called or designated for redemption or prepayment on the first date thereafter such Bonds may be redeemed or prepaid in accordance with the provisions of the Indenture and of such Bonds or (2) until ninety (90) days prior to the respective stated maturities thereof;

(b) as to any such Bonds as are at the time of making of such deposit immediately redeemable or prepayable in accordance with the provisions thereof or thereof, until (1) ninety (90) days prior to the date fixed for their redemption or prepayment or (2) ninety (90) days prior to the respective stated maturities thereof; and

(c) as to all such Bonds which are to be redeemed or prepaid prior to their respective stated maturities, until proper notice of such redemption or prepayment shall have been previously given in accordance with the Indenture or irrevocable provision shall have been made for the giving of such notice.

Any such moneys so deposited with a Fiduciary as provided in the Indenture may at the direction of the Department also be invested and reinvested in Investment Securities (which for purposes of the provisions of the Indenture shall mean only those Investment Securities described in clauses (i) to (iv), both inclusive, of the definition of such term), maturing in the amounts and times as thereinbefore set forth, and all income from all Investment Securities in the hands of the Fiduciary which is not required for the payment of the Bonds and interest thereon and Redemption Price thereof with respect to which such moneys shall have been so deposited shall be paid to the Department or, if any Bonds are then Outstanding, be deposited in the Accounts as and when realized and collected, for use and application as are other moneys credited to such Accounts.

Release of Indenture; Termination of Right, Title and Interest of Owners. When all the Bonds shall be deemed to be paid in accordance with the provisions of the Indenture, then and in that case all right, title and interest of the Owners under the Indenture shall thereupon cease, determine and become void.

Bonds Not Presented for Payment When Due; Moneys Held for the Bonds after Due Date of Bonds. Subject to the provisions of the next sentence of this paragraph, if any Bond shall not be presented for payment when the principal thereof shall become due, whether at maturity or at the date fixed for the redemption thereof, or otherwise, and if moneys or Investment Securities shall at such due date be held by a Fiduciary, in trust for that purpose sufficient and available to pay the principal or Redemption Price of such Bond, together with all interest due on such principal to the due date thereof or to the date fixed for redemption thereof, all liability of the Department for such payment shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of such Fiduciary to hold said moneys or Investment Securities without liability to the Owner of such Bond for interest thereon, in trust for the benefit of the holder of such Bond who thereafter shall be restricted exclusively to said moneys or Investment Securities for any claim of whatever nature on his part on or with respect to said Bond, including for any claim for the payment thereof. Any such moneys or Investment Securities held by a Fiduciary for the Owners of such Bond for two years after the principal of the respective Bonds with respect to which such moneys or Investment Securities have been so set aside has become due and payable and remaining (whether at maturity or upon redemption or prepayment or otherwise) shall be subject to the laws of the State relating to disposition of unclaimed property, and unless demand for the payment of such Bonds shall have been made, the obligation thereon shall be extinguished.

Schedule I

Investment Securities

(1) Any bonds or interest-bearing notes or obligations:

  (A) Of the State (including state director of finance's warrant notes issued pursuant to chapter 40);

  (B) Of the United States;

  (C) For which the faith and credit of the United States are pledged for the payment of principal and interest;

(2) Federal Farm Credit System notes and bonds;

(3) Federal Agricultural Mortgage Corporation notes and bonds;

(4) Federal Home Loan Bank notes and bonds;

(5) Federal Home Loan Mortgage Corporation bonds;

(6) Federal National Mortgage Association notes and bonds;

(7) Tennessee Valley Authority notes and bonds;

(8) Securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof or repurchase agreements fully collateralized by any such bonds or securities;

(9) Securities of a money market mutual fund that is rated AAA, or its equivalent, by a nationally recognized rating agency or whose portfolio consists of securities that are rated as first tier securities by a nationally recognized statistical rating organization as provided in 17 Code of Federal Regulations section 270.2a-7;

(10) Federally insured savings accounts;

(11) Time certificates of deposit;

(12) Certificates of deposit open account;

(13) Repurchase agreements with federally insured banks, savings and loan associations, and financial services loan companies;

(14) Commercial paper with an A1/P1 or equivalent rating by any national securities rating service; and

(15) Bankers' acceptances with an A1/P1 or equivalent rating by any national securities rating service;

provided that for authorized investments with stated maturity dates, the investment, as well as the underlying securities of those investments, are due to mature not more than five years from the date of investment. Income derived from those investments shall be a realization of the general fund; provided that income earned from moneys invested by the general funds, special funds, bond funds, and trust and agency funds on an investment pool basis shall be paid into and credited to the respective funds based on the contribution of moneys into the investment pool by each fund. As used in this section, "investment pool" means the aggregate of state treasury moneys that are maintained in the custody of the director of finance for investment and reinvestment without regard to fund designation.

Except with respect to an early withdrawal penalty on an investment permitted by this section, the amount of such penalty being mutually agreed at the time of acquisition of such investment, no investment permitted by this section shall require or may in the future require payments by the State, whether unilateral, reciprocal, or otherwise, including margin payments, or shall bear interest at a variable rate which causes or may cause the market price of such investment to fluctuate; provided that such limitation shall not apply to money market mutual funds which:

(1) Invest solely in:

   (A) Direct and general obligations of the United States of America; or

   (B) Obligations of any agency or instrumentality of the United States of America the payment of the principal and interest on which are unconditionally guaranteed by the full faith and credit of the United States of America;

(2) Are rated at the time of purchase "AAAm-G" or its equivalent by Standard & Poor's Ratings Group; and

(3) Are open-end management investment companies regulated under the Investment Company Act of 1940, as amended, which calculate their current price per share pursuant to Rule 2a-7 (17 Code of Federal Regulations section 270.2a-7) promulgated under such act.

Furthermore, the State shall not acquire any investment or enter into any agreement in connection with the acquisition of any investment or related to any existing investment held by the State, which would require or may in the future require any payment by the State, whether unilateral, reciprocal, or otherwise, such as swap agreements, hedge agreements, or other similar agreements. For purposes of this section, a swap or hedge payment is any payment made by the State in consideration or in exchange for a reciprocal payment by any person, such as a variable rate payment in exchange for a fixed rate payment, a fixed rate payment in exchange for a variable rate payment, a payment when a cap or a floor amount is exceeded, or other similar payment.

APPENDIX D

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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APPENDIX D

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix D 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.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

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

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

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

> Unit 1 (blue collar workers): The United Public Workers ("UPW") and the employer have agreed to extend the June 30, 2017 expiration date of their existing collective bargaining contract for the purpose of providing for increased health benefit contributions comparable to settled units. A date has not yet been set for the resumption of wage negotiations.

Unit 2 (blue collar supervisors): An arbitration award was issued April 27, 2017. The award provides for across the board wage adjustments of 2.0% on July 1, 2017, 1.2% on January 1, 2018, 2.25% on July 1, 2018 and 1.2% on January 1, 2019. The award also provides for continuation of step movement adjustments for eligible employees.

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

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

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

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

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

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

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

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

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

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

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

State Employees' Health Benefits

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

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

Other Post Employment Benefits

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

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

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

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

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

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

The market value of the State's OPEB assets amounted to $480.63 million as of June 30, 2016. The State's budget for the upcoming fiscal biennium includes a pre-funding contribution of $297.1 million for the fiscal year ending June 30, 2018 and $375.2 million for the fiscal year ending June 30, 2019.

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

Hawaii EUTF Contributions
Fiscal Years 2014 - 2019

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

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

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

State Employees' Retirement System

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

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

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 91st Annual Actuarial Valuation for the Year Ended June 30, 2016 (the "2016 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2016 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in December 2016 effective with the June 30, 2016 valuation. As described more fully under "—General Information" below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. This is the fourth valuation with new members under the new tier of benefits and member contribution rates. However, the liability for this group of employees represents just a small fraction of the total liabilities of the system. Included in the 2016 Valuation Report are projections showing the long term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012. In June 2012, the Governmental Accounting Standards Board ("GASB") voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), was effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), was effective for fiscal years beginning after June 15, 2014. GASB 68 requires governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

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

General Information

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

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

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

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

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

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

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

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

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

Funded Status

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

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

Funding Policy

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

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

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

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

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

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

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

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

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

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

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

Actuarial Methods

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

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

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

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

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

Projection Results Based on June 30, 2016 Actuarial Valuation

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

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

Actuarial Valuation

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

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

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

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

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

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

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

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

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in millions)

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

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

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

PROJECTED FUNDING PROGRESS*
(Dollar amounts in millions)

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

Source: 2016 Valuation Report

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

The total assets of the System on a market value basis amounted to approximately $12.4 billion as of June 30, 2013, $14.2 billion as of June 30, 2014, $14.5 billion as of June 30, 2015 and $14.1 billion as of June 30, 2016. Actuarial certification of assets as of June 30, 2013 was $12.7 billion, as of June 30, 2014 was $13.6 billion, as of June 30, 2015 was $14.5 billion, and as of June 30, 2016 was $15.0 billion (See "—*Summary of Actuarial Certification Statement*" below).

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

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

Source: The 2007-2016 Valuation Reports.

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

NORMAL COST

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

Source: The 2016 Valuation Report.

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in thousands)

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

Source: The 2014-2016 Valuation Reports.

Asset Allocation

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

ASSET ALLOCATION
(as of June 30, 2016)

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

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

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

ASSET ALLOCATION
(as of June 30, 2016)

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

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

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

Summary of Actuarial Certification Statement

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

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

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

Source: Gabriel, Roeder, Smith & Company+

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

FUNDED RATIOS

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

GENERAL ECONOMIC INFORMATION

General

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

State of the Economy

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

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

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

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

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

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

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

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

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

Outlook for the Economy

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

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

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

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

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

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

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

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

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

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

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

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

Table 1
SELECTED ECONOMIC ACTIVITIES: STATE

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

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

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII
2015 TO 2020

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

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

Labor Force and Jobs

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

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

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

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

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

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

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

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

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

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

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Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(NUMBER OF PERSONS)

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

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

[2] 2017 data are preliminary.

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[1] Percentage change involving negative values not meaningful.

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

Table 5

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

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

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

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Table 6

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

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

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

Tourism

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

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

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

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

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

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

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

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

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

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Table 7

VISITOR ARRIVALS BY AIR AND AVERAGE DAILY CENSUS

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

[1] 2017 data are preliminary.

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

Table 8

HOTEL OCCUPANCY RATE

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

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

[1] Source revises each month of previous year when current year is released.

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

Construction and Real Estate

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

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

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

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

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

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

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

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

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

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

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

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Table 9

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

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

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

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

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

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

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

Federal Government and Military

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

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

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

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

Transportation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Motor Vehicle Registration

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

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

Education

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

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

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

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

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

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

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

State Housing Programs

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

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

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

Cybersecurity

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

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

PENDING LITIGATION

The following is a discussion of certain legal proceedings in which the Department of Hawaiian Home Lands is named as a defendant.

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. 99-4771-12VSM (1st Cir.) ("Kalima I"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in Kalima I that are common to the questions of law presented in their suits. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al*., Civil No. 99-612 (3rd Cir.) ("Aguiar"), is pending and stayed.

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

The plaintiffs in Kalima I filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in Kalima I for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to take an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in Kalima I have since filed first and second amended complaints to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting list subclass' claims separately and first, and after a six week bifurcated trial to determine liability only, the circuit judge for Kalima II ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL Website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 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 used to calculate damages for claimants who applied for Oahu residential leases be based on four percent of the fee simple value of a 5,000 square foot lot in Maili, obtained from a "best fit" curve derived from actual fee simple Maili valuations from 1959 through July 8, 2013, 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. A written order disposing of the motion has not yet been entered.

The parties have agreed to make every effort to facilitate the entry of a 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 motions were heard on November 4, 2016, December 12, 2016, and January 30, 2017.

To date the circuit court has entered orders granting (in whole or in part) Plaintiffs' motions 1 (on 6/19/2017), 2 (on 6/15/2017), 5 (on 6/15/2017), 7 (on 6/15/2017), 8 (on 6/15/2017); 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).

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.

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

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

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 art. 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. Briefing in both appeals is completed, and the Legislature 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. The Hawaii Supreme Court heard oral argument in the appeal and cross-appeal on July 6, 2017. The appeal and cross-appeal are under advisement.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Dated Date]

Department of Hawaiian Home Lands
Kapolei, Hawaii

Re: State of Hawaii
Department of Hawaiian Home Lands
Revenue Bonds, Series 2017________
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Department of Hawaiian Home Lands (the "Department") in connection with the issuance of $__________ aggregate principal amount of its Revenue Bonds, Series 2017 (the "Bonds"), issued pursuant to an Amended and Restated Master Bond Indenture, dated as of August 1, 2017 (the "Master Bond Indenture"), between the Department and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as supplemented and amended by the First Supplemental Indenture, dated as of March 1, 2009 (the "First Supplemental Indenture") and by the Second Supplemental Indenture, dated as of August 1, 2017 (the "Second Supplemental Indenture," and together with the Master Bond Indenture and the First Supplemental Indenture, the "Indenture"), by and between the Department and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Department, dated the date hereof (the "Tax Certificate"), an opinion of the Attorney General of the State of Hawaii, certificates of the Department and others, 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 court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Department. 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 Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State of Hawaii and its departments. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Department.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Department. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and certain other amounts held by the Trustee in any fund or account established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and 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. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Department of Hawaiian Home Lands of the State of Hawaii (the "Department") in connection with the issuance of $[AMOUNT] aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2017 (the "Series 2017 Bonds"). The Series 2017 Bonds are being issued pursuant to an Amended and Restated Master Bond Indenture, as supplemented by a Second Supplemental Indenture, each dated as of August 1, 2017 (the "Indenture") between the Department and The Bank of New York Mellon Trust Company, N.A., as trustee. The Department covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Holders and Beneficial Owners of the Series 2017 Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the 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 Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2017 Bonds (including persons holding Series 2017 Bonds through nominees, depositories or other intermediaries).

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

"Holder" shall mean the person in whose name any Series 2017 Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean the original underwriter of the Series 2017 Bonds required to comply with the Rule in connection with offering of the Series 2017 Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the Department's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2017, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Series 2017 Bonds by name and CUSIP number.

(b) Not later than fifteen (15) Business Days prior to said date, the Department shall provide the Annual Report to the Dissemination Agent (if other than the Department). If the Department is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Department shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Department) file a report with the Department certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The Department's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Department for the prior fiscal year, 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 Department's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. To the extent not included in the Department's audited financial statements, information of the type included in the Official Statement under the captions "THE DEPARTMENT OF HAWAIIAN HOME LANDS—Summary Combined Statements of Revenues, Expenditures and Changes in Fund Balances–All Governmental Fund Types" and "—Outstanding Indebtedness," Tables 6 and 7 under the caption "THE GENERAL LEASES AND AVAILABLE LANDS," and the Department's share of the State Retirement System costs under the caption "THE DEPARTMENT OF HAWAIIAN HOME LANDS–Employee Relations and Pension Benefits" and in Appendix D under the caption "EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM," in each case to the extent such information is historical and not projections; provided that if the inclusion or format of such information is changed in any future official statement, thereafter the Annual Report shall contain or include by reference information of the type included in that official statement as so changed or if different the type of equivalent information included in the Department's most recent official statement.

****

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, which have been made available to the public on the MSRB's website. If the document included by reference is a final official statement, it must be available from the MSRB. The Department shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2017 Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2017 Bonds, if material, not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2017 Bonds or other material events affecting the tax status of the Series 2017 Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Series 2017 Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Department shall determine if such event would be material under applicable federal securities laws.

(d) If the Department learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB.

SECTION 6. <u>Format for Filings with MSRB</u>. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. <u>Termination of Reporting Obligation</u>. The Department's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2017 Bonds. If such termination occurs prior to the final maturity of the Series 2017 Bonds, the Department shall give notice of such termination in a filing with the MSRB.

SECTION 8. <u>Dissemination Agent</u>. The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Disclosure Certificate.

SECTION 9. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Certificate, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2017 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 Series 2017 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 does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2017 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the Department shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Series 2017 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Certificate, and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Department agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Department under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2017 Bonds.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Series 2017 Bonds, and shall create no rights in any other person or entity.

Date: [________], 2017

DEPARTMENT OF HAWAIIAN HOME LANDS

By_________________________________

Jobie Masagatani, Chairman,
Hawaiian Homes Commission

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD

OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Department of Hawaiian Home Lands of the State of Hawaii
Name of Issue:	State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2017
Date of Issuance:	[DATE]

NOTICE IS HEREBY GIVEN that the Department has not provided an Annual Report with respect to the Bonds referenced above as required by Section 3 of the Certificate dated _____________, 2017. [The Department anticipates that the Annual Report will be filed by _____________.]

Dated: _______________.

DEPARTMENT OF HAWAIIAN HOME LANDS

By_________________________________
_______________, Chairman,
Hawaiian Homes Commission

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STATE OF HAWAII, DEPARTMENT OF HAWAIIAN HOME LANDS • REVENUE BONDS, SERIES 2017

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