

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County of Honolulu, Hawai'i, 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 2019C Bonds, Series 2019D Bonds, Series 2019E Bonds, Series 2019F Bonds and Series 2019G Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is of the opinion that the Bonds and the income therefrom are exempt from all taxation by the State of Hawai'i or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Series 2019H Bonds, Series 2019I Bonds and Series 2019J Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.*



**\$548,945,000  
CITY AND COUNTY OF HONOLULU  
General Obligation Bonds**

<b>\$198,260,000</b> Series 2019C	<b>\$57,870,000</b> Series 2019D	<b>\$175,545,000</b> Series 2019E (Honolulu Rail Transit Project)	<b>\$8,095,000</b> Series 2019F
<b>\$9,225,000</b> Series 2019G	<b>\$2,000,000</b> Series 2019H (Taxable)	<b>\$980,000</b> Series 2019I (Taxable)	<b>\$96,970,000</b> Series 2019J (Taxable)

**Dated: Date of Delivery**

**Due: As shown following inside cover**

The City and County of Honolulu General Obligation Bonds, Series 2019C, Series 2019D, Series 2019E (Honolulu Rail Transit Project), Series 2019F, Series 2019G, Series 2019H (Taxable), Series 2019I (Taxable) and Series 2019J (Taxable) (the "Series 2019C Bonds," the "Series 2019D Bonds," the "Series 2019E Bonds," the "Series 2019F Bonds," the "Series 2019G Bonds," the "Series 2019H Bonds," the "Series 2019I Bonds," and the "Series 2019J Bonds," respectively, and collectively, the "Bonds"), are being issued by the City and County of Honolulu (excluding the semi-autonomous agencies, currently the Board of Water Supply and the Honolulu Authority for Rapid Transportation ("HART")) (the "City and County") in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of certificates; payment of the principal of, and premium, if any, and interest on, the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may initially be made in the denomination of \$5,000 or any integral multiple thereof.

The Bonds will be dated as of the date of delivery thereof and will bear interest at the rates shown following the inside cover. Interest on the Series 2019C Bonds, Series 2019D Bonds, Series 2019F Bonds, Series 2019G Bonds, Series 2019I Bonds, and Series 2019J Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2020, for the Series 2019F Bonds and Series 2019G Bonds and August 1, 2020, for the Series 2019C Bonds, Series 2019D Bonds, Series 2019I Bonds and Series 2019J Bonds. Interest on the Series 2019E Bonds will be payable on March 1 and September 1 of each year, commencing on March 1, 2020. Interest on the Series 2019H Bonds will be payable on March 1, 2020. Certain of the Bonds are subject to redemption prior to the stated maturity thereof as described herein.

**The Series 2019E Bonds will initially bear interest during a Term Rate Period (unless terminated earlier as provided herein) ending on the day prior to the applicable Scheduled Mandatory Tender Date as set forth herein. U.S. Bank National Association will serve as Tender Agent, Paying Agent and Calculation Agent for the Series 2019E Bonds. BofA Securities, Inc. will serve as Remarketing Agent for the Series 2019E Bonds. The City and County is not required to purchase Series 2019E Bonds of a maturity upon mandatory tender thereof on any date on which the Series 2019E Bonds are to be tendered for purchase (a "Purchase Date"), including the Scheduled Mandatory Tender Date, if proceeds of remarketing of the Series 2019E Bonds are insufficient to pay the principal amount of all Series 2019E Bonds of such maturity. If the City and County does not purchase all Series 2019E Bonds on the Purchase Date, including the Scheduled Mandatory Tender Date, such non-purchase shall not constitute an event of default. There is no liquidity facility in place for the payment of the purchase price of Series 2019E Bonds on a Purchase Date, including the Scheduled Mandatory Tender Date. The Series 2019E Bonds are not subject to tender for purchase at the option of the Series 2019E Bondholders. The Series 2019E Bonds are subject to adjustment to another interest rate mode, interest rate period or to the addition of credit enhancement (defined herein), as further described herein. THIS OFFICIAL STATEMENT IS NOT INTENDED TO AND DOES NOT PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2019E BONDS AFTER ADJUSTMENT TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD, OTHER THAN THE TERM RATE PERIOD DESCRIBED HEREIN.**

The Bonds are being issued for the following purposes: (i) finance capital costs of the City and County and for other public purposes; (ii) purchase equipment, (iii) finance the capital costs of the rail transit project being constructed by HART; (iv) current and advance refund certain outstanding general obligation bonds of the City and County; and (v) pay the costs of issuance of the Bonds.

The Bonds are the absolute and unconditional general obligations of the City and County. The principal and interest payments on the Bonds are a first charge on the general fund of the City and County, and the full faith and credit of the City and County are pledged to the punctual payment of such principal and interest. For the payment of the principal of and interest on the Bonds, the City and County has the power and is obligated to levy ad valorem taxes, without limitation as to rate or amount, on all real property subject to taxation by the City and County.

*The Bonds are offered when, as and if issued and received by the Underwriters, and are subject to the approval of validity of legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Dentons US LLP, Honolulu, Hawai'i, and Katten Muchin Rosenman LLP, New York, New York. It is expected that the Bonds in definitive form will be available for delivery to DTC, in New York, New York, on or about August 21, 2019.*

**BofA Merrill Lynch**

**Morgan Stanley**

**Piper Jaffray & Co.**

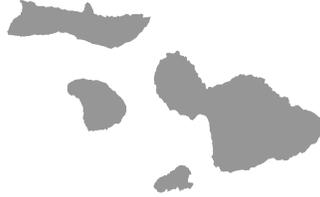
Kaua'i County



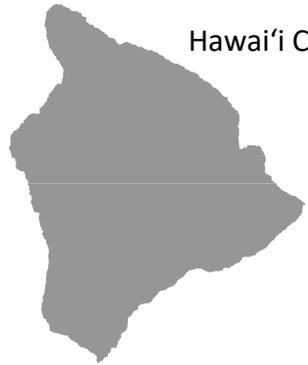
**City and County  
of Honolulu**



Maui County



Hawai'i County



**\$548,945,000**  
**CITY AND COUNTY OF HONOLULU**  
**General Obligation Bonds**

**\$198,260,000**  
**Series 2019C Bonds**

<u>Year</u> <u>(Aug 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>‡</sup> <u>(438687)</u>
2021	4,915,000	4.000%	1.020%	105.722	HQ1
2022	5,115,000	4.000%	1.040%	108.561	HR9
2023	5,325,000	4.000%	1.050%	111.368	HS7
2024	5,540,000	4.000%	1.070%	114.073	HT5
2025	5,770,000	4.000%	1.130%	116.454	HU2
2026	6,005,000	4.000%	1.200%	118.602	HV0
2027	6,250,000	4.000%	1.290%	120.399	HW8
2028	6,505,000	4.000%	1.380%	121.974	HX6
2029	6,770,000	4.000%	1.470%	123.326	HY4
2030	7,080,000	5.000%	1.540%	131.788 C	HZ1
2031	7,445,000	5.000%	1.620%	130.928 C	JA4
2032	7,825,000	5.000%	1.680%	130.287 C	JB2
2033	8,230,000	5.000%	1.740%	129.650 C	JC0
2034	8,650,000	5.000%	1.790%	129.121 C	JD8
2035	9,045,000	4.000%	2.130%	116.677 C	JE6
2036	9,415,000	4.000%	2.170%	116.288 C	JF3
2037	9,750,000	3.000%	2.510%	104.287 C	JG1
2038	10,045,000	3.000%	2.540%	104.019 C	JH9
2039	10,405,000	4.000%	2.270%	115.321 C	JJ5
2040	10,775,000	3.000%	2.620%	103.306 C	JK2
2041	11,100,000	3.000%	2.660%	102.952 C	JL0
2042	11,560,000	5.000%	2.110%	125.801 C	JM8
2043	12,090,000	4.000%	2.440%	113.699 C	JN6
2044	12,650,000	5.000%	2.150%	125.393 C	JP1

**\$57,870,000**  
**Series 2019D Bonds**

<u>Year</u> <u>(Aug 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>‡</sup> <u>(438687)</u>
2020	4,905,000	5.000%	1.000%	103.750	JQ9
2021	6,480,000	5.000%	1.020%	107.642	JR7
2022	6,810,000	5.000%	1.040%	111.453	JS5
2023	7,160,000	5.000%	1.050%	115.222	JT3
2024	7,530,000	5.000%	1.070%	118.876	JU0
2025	7,915,000	5.000%	1.130%	122.188	JV8
2026	8,320,000	5.000%	1.200%	125.245	JW6
2027	8,750,000	5.000%	1.290%	127.927	JX4

<sup>‡</sup> Copyright, American Bankers Association. CUSIP data provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the City and County nor the Underwriter takes any responsibility for the accuracy of such numbers.

C: Priced to August 1, 2029 first optional redemption date.

**\$175,545,000**  
**Series 2019E Bonds (Honolulu Rail Transit Project)**

<u>Year</u> <u>(Sept 1)</u>	<u>Principal Amount</u> <u>(\$)</u>	<u>Call</u> <u>Protection</u> <u>Date</u>	<u>Scheduled</u> <u>Mandatory</u> <u>Tender Date</u>	<u>Initial</u> <u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>‡</sup> <u>(438687)</u>
2023	21,945,000	6/1/2023	9/1/2023	5.000%	1.050%	114.591 C	JY2
2024	21,945,000	6/1/2023	9/1/2023	5.000%	1.140%	114.231 C	JZ9
2025	21,945,000	6/1/2023	9/1/2023	5.000%	1.140%	114.231 C	KA2
2026	21,945,000	6/1/2023	9/1/2023	5.000%	1.140%	114.231 C	KB0
2027	21,945,000	6/1/2023	9/1/2023	5.000%	1.140%	114.231 C	KC8
2028	21,940,000	6/1/2023	9/1/2023	5.000%	1.140%	114.231 C	KD6
2029	21,940,000	6/1/2023	9/1/2023	5.000%	1.140%	114.231 C	KE4
2030	21,940,000	6/1/2023	9/1/2023	5.000%	1.140%	114.231 C	KF1

**\$8,095,000**  
**Series 2019F Bonds**

<u>Year</u> <u>(Aug 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>‡</sup> <u>(438687)</u>
2020	8,095,000	5.000%	1.000%	103.750	KG9

**\$9,225,000**  
**Series 2019G Bonds**

<u>Year</u> <u>(Aug 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>‡</sup> <u>(438687)</u>
2023	1,425,000	3.000%	1.050%	107.514	KH7
2024	1,470,000	3.000%	1.070%	109.270	KJ3
2025	1,510,000	3.000%	1.130%	110.721	KK0
2026	1,560,000	3.000%	1.200%	111.958	KL8
2027	1,605,000	3.000%	1.290%	112.872	KM6
2028	1,655,000	3.000%	1.380%	113.586	KN4

**\$2,000,000**  
**Series 2019H Bonds**

<u>Year</u> <u>(Mar 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>‡</sup> <u>(438687)</u>
2020	2,000,000	1.709%	1.709%	100.000	KP9

**\$980,000**  
**Series 2019I Bonds**

<u>Year</u> <u>(Aug 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>‡</sup> <u>(438687)</u>
2021	980,000	1.759%	1.759%	100.000	KQ7

<sup>‡</sup> Copyright, American Bankers Association. CUSIP data provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the City and County nor the Underwriter takes any responsibility for the accuracy of such numbers.

C: Priced to June 1, 2023 Call Protection Date.

**\$96,970,000**  
**Series 2019J Bonds**

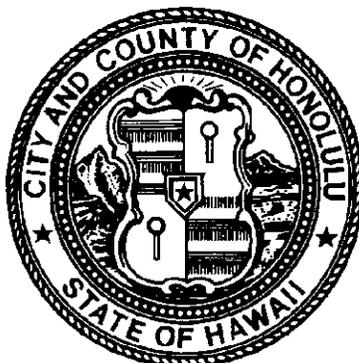
<u>Year</u> <u>(Aug 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP<sup>‡</sup></u> <u>(438687)</u>
2022	15,420,000	1.739%	1.739%	100.000	KR5
2023	15,695,000	1.782%	1.782%	100.000	KS3
2024	15,980,000	1.832%	1.832%	100.000	KT1
2025	16,285,000	1.967%	1.967%	100.000	KU8
2026	16,615,000	2.067%	2.067%	100.000	KV6
2027	16,975,000	2.168%	2.168%	100.000	KW4

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# **City and County of Honolulu**

State of Hawai'i  
(Incorporated 1907)



## **MAYOR**

Kirk Caldwell

## **CITY COUNCIL**

Ikaika Anderson

Brandon J. C. Elefante

Carol Fukunaga

Ann H. Kobayashi

Joey Manahan

Ron Menor

Kymberly Marcos Pine

Heidi Tsuneyoshi

Tommy Waters

## **DIRECTOR OF BUDGET AND FISCAL SERVICES**

Nelson H. Koyanagi, Jr.

## **ACTING CORPORATION COUNSEL**

Paul S. Aoki

## **BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

**The information contained in this Official Statement has been obtained from the City and County of Honolulu and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information.**

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

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

**TABLE OF CONTENTS**

	<u>Page</u>		<u>Page</u>
INTRODUCTION .....	1	Employee Benefits.....	39
AUTHORITY FOR AND PURPOSE OF ISSUANCE.....	1	OTHER INFORMATION REGARDING THE CITY	
Authority for Issuance.....	1	AND COUNTY OF HONOLULU .....	54
Purpose of Issuance.....	1	Climate Change, Sea Level Rise and Flooding .....	54
The Refunding Plan .....	2	Natural Disasters.....	55
SOURCES AND USES OF PROCEEDS .....	2	Cybersecurity.....	56
THE BONDS .....	3	LITIGATION .....	57
Description of the Bonds.....	3	Pending Cases.....	57
Payment of Bonds .....	3	Wastewater Consent Decree .....	57
PROVISIONS APPLICABLE TO THE SERIES 2019E		TAX MATTERS .....	58
BONDS .....	3	Tax-Exempt Bonds .....	58
General.....	3	Taxable Bonds .....	59
Mandatory Tender for Purchase of the Series 2019E		U.S. Holders .....	60
Bonds.....	4	Non-U.S. Holders .....	61
Remarketing.....	6	Foreign Account Tax Compliance Act (“FATCA”)—	
REDEMPTION.....	6	U.S. Holders and Non-U.S. Holders.....	62
Optional Redemption .....	6	LEGAL MATTERS.....	62
Optional Make Whole Redemption.....	6	VERIFICATION OF MATHEMATICAL	
Selection for Redemption.....	8	COMPUTATIONS .....	63
Notice of Redemption .....	8	BOND RATINGS.....	63
DEBT SERVICE ON THE BONDS.....	10	UNDERWRITING .....	63
SECURITY FOR THE BONDS .....	10	CONTINUING DISCLOSURE.....	64
Security Provisions .....	10	MISCELLANEOUS .....	64
Outstanding and Expected General Obligation Bonds		APPENDIX A: Economic and Demographic Factors	
and Notes.....	11	APPENDIX B: Proposed Form of Opinion of Bond Counsel	
THE CITY AND COUNTY OF HONOLULU.....	11	APPENDIX C: Form of Continuing Disclosure Certificate	
Introduction.....	11	APPENDIX D: Book-Entry System	
Government and Organization .....	11	APPENDIX E: Refunded Bonds	
CITY AND COUNTY REVENUES.....	13		
General Fund.....	13		
Special Revenue Funds .....	18		
Certain Recent Legislative Proposals .....	19		
Revenues and Expenditures .....	19		
DEBT STRUCTURE .....	20		
Legal Requirements .....	20		
Funded Debt and Debt Margin.....	21		
Trend of General Obligation Indebtedness.....	25		
Reimbursement to General Fund for Debt Service..	25		
Pension and Other Post-Employment Benefits			
Liability .....	26		
Leases .....	26		
Revenue Indebtedness .....	26		
H-Power Waste Disposal Facility .....	26		
Honolulu Rail Transit Project.....	27		
No Default.....	30		
BUDGET PROCESS AND FINANCIAL			
MANAGEMENT .....	30		
Budgets and Expenditures .....	30		
Cash Management and Investments .....	30		
Inter-Fund Borrowing .....	31		
Reserve for Fiscal Stability Fund .....	32		
Affordable Housing Fund.....	32		
Clean Water and Natural Lands Fund .....	32		
Grants In Aid Fund .....	32		
Honolulu Zoo Fund.....	33		
Bus Transportation Fund and Transit Management			
Services Contractor.....	33		
FINANCIAL INFORMATION AND ACCOUNTING.....	33		
Independent Audit.....	33		
Financial Statements .....	34		
EMPLOYEE RELATIONS AND EMPLOYEE			
BENEFITS .....	38		
Employee Relations .....	38		

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**OFFICIAL STATEMENT**

**\$548,945,000**  
**CITY AND COUNTY OF HONOLULU**  
**General Obligation Bonds**

<b>\$198,260,000</b> <b>Series 2019C</b>	<b>\$57,870,000</b> <b>Series 2019D</b>	<b>\$175,545,000</b> <b>Series 2019E</b> <b>(Honolulu Rail Transit</b> <b>Project)</b>	<b>\$8,095,000</b> <b>Series 2019F</b>
<b>\$9,225,000</b> <b>Series 2019G</b>	<b>\$2,000,000</b> <b>Series 2019H</b> <b>(Taxable)</b>	<b>\$980,000</b> <b>Series 2019I</b> <b>(Taxable)</b>	<b>\$96,970,000</b> <b>Series 2019J</b> <b>(Taxable)</b>

**INTRODUCTION**

This Official Statement, which includes the cover page and the appendices hereto, is provided for the purpose of presenting certain information relating to the City and County of Honolulu, Hawai'i (excluding the semi-autonomous agencies, currently the Board of Water Supply and the Honolulu Authority for Rapid Transportation ("HART")) (the "City and County," the "City," "Honolulu" or "Oahu"), and its \$548,945,000 aggregate principal amount of General Obligation Bonds, Series 2019C, Series 2019D, Series 2019E, Series 2019F, Series 2019G, Series 2019H, Series 2019I and Series 2019J (the "Series 2019C Bonds," the "Series 2019D Bonds," the "Series 2019E Bonds," the "Series 2019F Bonds," the "Series 2019G Bonds," the "Series 2019H Bonds," the "Series 2019I Bonds," and the "Series 2019J Bonds," respectively, and collectively, the "Bonds"). THIS OFFICIAL STATEMENT IS NOT INTENDED TO AND MAY NOT BE RELIED UPON TO PROVIDE ANY INFORMATION WITH RESPECT TO THE SERIES 2019E BONDS AFTER ADJUSTMENT TO ANY NEW INTEREST RATE PERIOD OTHER THAN THE TERM RATE PERIOD DESCRIBED HEREIN.

**AUTHORITY FOR AND PURPOSE OF ISSUANCE**

**Authority for Issuance**

The Bonds are being issued pursuant to and in full compliance with the Constitution and laws of the State of Hawai'i, including Chapter 47, Hawai'i Revised Statutes, the Revised Charter of the City and County 1973 (2017 Edition), as amended ("Charter"), and certain authorizing ordinances and resolutions of the City and County. The Bonds are being issued pursuant to a Certificate of the Director of Budget and Fiscal Services of the City and County (the "Issuance Certificate").

**Purpose of Issuance**

Proceeds of the Bonds will be used to: (i) finance capital costs of the City and County and for other public purposes; (ii) purchase equipment, (iii) finance the capital costs of the rail transit project being constructed by HART; (iv) current and advance refund certain outstanding general obligation bonds of the City and County; (v) repay borrowings under Commercial Paper Notes of the City and County; and (vi) pay the costs of issuance of the Bonds. The rail transit project, formerly known as the Honolulu High-Capacity Transit Corridor Project, is referred to as the "Honolulu Rail Transit Project" or "Rail Transit Project."



## THE BONDS

### Description of the Bonds

The Bonds will be dated as of the date of delivery thereof, will mature serially on the respective dates and years and in the principal amounts shown following the inside cover page hereof, and will bear interest at the rates per annum shown following the inside cover hereof (computed on the basis of a 360 day year). Interest on the Series 2019C Bonds, Series 2019D Bonds, Series 2019F Bonds, Series 2019G Bonds, Series 2019I Bonds, and Series 2019J Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2020, for the Series 2019F Bonds and Series 2019G Bonds and August 1, 2020, for the Series 2019C Bonds, Series 2019D Bonds, Series 2019I Bonds and Series 2019J Bonds. Interest on the Series 2019E Bonds will be payable on March 1 and September 1 of each year, commencing on March 1, 2020. Interest on the Series 2019H Bonds will be payable on March 1, 2020. Certain of the Bonds will be subject to redemption prior to the stated maturity thereof as described herein, and the Series 2019E Bonds are subject to mandatory tender as set forth herein. See “PROVISIONS APPLICABLE TO THE SERIES 2019E BONDS” below.

The Bonds are expected to be available for delivery to The Depository Trust Company (“DTC”), in New York, New York, on or about August 21, 2019. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Bonds (together with its successors, if any, in such capacity, the “Securities Depository”). So long as the Securities Depository or its nominee is the registered owner of the Bonds, individual purchases of the Bonds will be made in book-entry form only (the “Book-Entry System”), in authorized denominations of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds. Principal of and interest on the Bonds will be paid to the Securities Depository, which will in turn remit such principal and interest to its Participants (as defined in Appendix D), for subsequent distribution to the Beneficial Owners (as defined in Appendix D) of the Bonds. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in accompanying proceedings of the City and County. See Appendix D, “Book-Entry System.”

### Payment of Bonds

The principal of and interest on the Bonds will be payable in lawful money of the United States of America. The principal of the Bonds shall be payable only at the principal office of the Paying Agent (initially, the Director of Budget and Fiscal Services of the City and County for all Bonds except the Series 2019E Bonds, and U.S. Bank, National Association for the Series 2019E Bonds), and the payment of the interest on the Bonds shall be made by the Paying Agent on each interest payment date to the person appearing on the Bond Register of the City and County as the registered owner thereof on the applicable record date, by check or draft mailed or otherwise delivered to such registered owner at its address as it appears on such Bond Register. The record date is the fifteenth day before an interest payment date. Payment of the principal of all Bonds shall be made upon the presentation and surrender of such Bonds as the same shall become due and payable. The person in whose name any Bond is registered at the close of business on any record date with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any registration of transfer or exchange thereof subsequent to the record date and prior to such interest payment date. So long as the Book-Entry System for the Bonds is in effect, principal of and interest on such Bonds will be paid to the Securities Depository as the registered owner of the Bonds. See Appendix D, “Book-Entry System.”

## PROVISIONS APPLICABLE TO THE SERIES 2019E BONDS

*The following description of certain provisions applicable only to the Series 2019E Bonds should be read in conjunction with the foregoing section “THE BONDS” for information on various terms and conditions therein which apply to the Series 2019E Bonds.*

### General

The Series 2019E Bonds will initially bear interest at a rate equal to the rate per annum (the “Term Rate”) shown for the Series 2019E Bonds in the table following the cover of this Official Statement listing the schedule of

maturities for the Series 2019E Bonds (the “Series 2019E Table”) from the date of delivery of the Series 2019E Bonds to but not including the Scheduled Mandatory Tender Date (as shown on the Series 2019E Table) for the Series 2019E Bonds. Interest on the Series 2019E Bonds is payable on September 1 and March 1 in each year, commencing March 1, 2020. The record date for the payment of interest on the Series 2019E Bonds is the close of business on the 15th day of the month immediately preceding an interest payment date, whether or not the record date falls on a business day. Interest on the Series 2019E Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months.

Effective on the Term Rate Scheduled Mandatory Tender Date specified in the table following the cover of this Official Statement, for any Series 2019E Bonds purchased the City and County may elect to have the 2019 Series E Bonds be adjusted to a new Term Rate and new Term Rate Period, or in the alternative, to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, or an Index Floating Rate.

Series 2019E Bonds bearing interest at a Daily Rate will have interest fluctuating daily, as determined by BofA Securities, Inc., the Remarketing Agent, and may be tendered for purchase on any Business Day as described below. Series 2019E Bonds bearing interest at a Weekly Rate will have interest fluctuating weekly as determined by the Remarketing Agent, and may be tendered for purchase weekly as described below. Series 2019E Bonds bearing interest at a Term Rate will have the rate of interest for the Term Rate Period determined by the Remarketing Agent, and shall be tendered for purchase as described below.

Series 2019E Bonds bearing interest at a Flexible Rate will have the rate of interest for a Flexible Segment (a period of at least one day but no more than the lesser of 397 days or the period for which interest is covered by a letter of credit) determined by the Remarketing Agent, and shall be tendered for purchase as described below. Series 2019E Bonds bearing interest at an Index Floating Rate will have the rate of interest for an Index Floating Rate Period as determined by U.S. Bank, National Association, the Calculation Agent for the Series 2019E Bonds (a period of one week if interest is based on a SIFMA Index based rate or one month if interest is based on a one-month or three-month LIBOR based rate plus a spread, or based on another index as determined by the City and County in consultation with the Remarketing Agent), and shall be tendered for purchase as described below.

Beneficial interests in the Series 2019E Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof.

### **Mandatory Tender for Purchase of the Series 2019E Bonds**

*General.* The Series 2019E Bonds are subject to mandatory tender for purchase on any business day on or after the applicable Call Protection Date (as shown on the schedule of Series 2019E Bonds following the cover), including the Scheduled Mandatory Tender Date, at a purchase price equal to 100% of the principal amount thereof, plus accrued interest to the Purchase Date (any date on which the Series 2019E Bonds are to be tendered for purchase), without premium. Unless all the outstanding Series 2019E Bonds are purchased on a Purchase Date, including the Scheduled Mandatory Tender Date, none of the Series 2019E Bonds will be purchased. In such event U.S. Bank National Association, the Tender Agent, will return all the Series 2019E Bonds to the Holders thereof and the Series 2019E Bonds will remain outstanding and bear interest at the then-effective interest rate for the Series 2019E Bonds. However, if all Series 2019E Bonds are not purchased on the Scheduled Mandatory Tender Date, the Series 2019E Bonds will on and after such date accrue interest at the rate of six percent (6%) per annum for the first 89 days and eight percent (8%) per annum for 90 days and thereafter, which rate is not higher than the Maximum Interest Rate (“Term Rate Delayed Remarketing Period Rate”) until remarketed, redeemed or paid at maturity. See “—*Consequences if the Series 2019E Bonds are Not Purchased on the Scheduled Mandatory Tender Date; Notice of Mandatory Tender for Purchase after the Scheduled Mandatory Tender Date*” below.

**If the City and County does not purchase the Series 2019E Bonds on a Purchase Date, including the Scheduled Mandatory Tender Date, such non-purchase shall not constitute an event of default under Section 47-18, Hawaii Revised Statutes (“Event of Default”).** See “—*Sources of Funds for Purchase of Series 2019E Bonds*” below. There is no liquidity facility in place for the payment of the purchase price of Bonds on a Purchase Date, including the Scheduled Mandatory Tender Date.

*Notice of Mandatory Tender for Purchase on or Prior to the Scheduled Mandatory Tender Date.* With respect to a mandatory tender for purchase of the Series 2019E Bonds on or prior to the Scheduled Mandatory Tender Date, the City and County will give notice of mandatory tender of the Series 2019E Bonds by electronic means only to DTC (not to the Beneficial Owners of the Series 2019E Bonds), at least thirty (30) and not more than sixty (60) days prior to the applicable Purchase Date, which notice will state: (1) the interest rate period applicable to the Series 2019E Bonds from and after the Purchase Date; (2) that the Series 2019E Bonds will be subject to mandatory tender for purchase and specify the Purchase Date; (3) the procedures for such mandatory tender for purchase; (4) the purchase price of the Series 2019E Bonds; and (5) the consequences of a failed remarketing. DTC, in turn, is to send the notice of mandatory tender to its Participants for distribution to the Beneficial Owners of the Series 2019E Bonds. See Appendix D—“Book-Entry System.”

*Sources of Funds for Purchase of Series 2019E Bonds.* Tendered Series 2019E Bonds will be purchased solely with proceeds from the remarketing of such Series 2019E Bonds. The Issuance Certificate requires the City and County to appoint the Remarketing Agent no later than sixty (60) days prior to the Scheduled Mandatory Tender Date for the Series 2019E Bonds and the City and County will direct such Remarketing Agent to use its best efforts to remarket the Series 2019E Bonds into the interest rate period designated by the City and County.

The City and County is not required to purchase the Series 2019E Bonds upon mandatory tender thereof on a Purchase Date, including the Scheduled Mandatory Tender Date, if proceeds of remarketing of such Series 2019E Bonds are insufficient to pay the principal amount of all Series 2019E Bonds then outstanding. If the City and County does not purchase the outstanding Series 2019E Bonds on a Purchase Date, including the Scheduled Mandatory Tender Date, such non-purchase shall not constitute an Event of Default. However, if such non-purchase occurs on or after the Scheduled Mandatory Tender Date, the Series 2019E Bonds will accrue, or continue to accrue, as applicable, interest at the Term Rate Delayed Remarketing Period Rate until remarketed, redeemed or paid at maturity. **There is no liquidity facility in place for the payment of the purchase price of the Series 2019E Bonds on a Purchase Date, including the Scheduled Mandatory Tender Date.**

*Consequences if the Series 2019E Bonds are Not Purchased on the Scheduled Mandatory Tender Date; Notice of Mandatory Tender for Purchase after the Scheduled Mandatory Tender Date.* If on the Scheduled Mandatory Tender Date, all the outstanding Series 2019E Bonds are not purchased, then none of the Series 2019E Bonds will be purchased and all tendered Series 2019E Bonds shall be returned to their respective Holders. In such event, the Series 2019E Bonds will bear interest at the Term Rate Delayed Remarketing Period Rate from the Scheduled Mandatory Tender Date until remarketed, redeemed or paid at maturity.

On each business day following the Scheduled Mandatory Tender Date on which the Series 2019E Bonds were not purchased, the then-appointed Remarketing Agent will continue to use its best efforts to remarket the Series 2019E Bonds into such interest rate period as directed by the City and County. Once the Remarketing Agent has advised the City and County that it has a good faith belief that it is able to remarket all of the Series 2019E Bonds into the then directed interest rate period, the City and County will establish a new mandatory tender date and will give notice by electronic means only to DTC (not to the Beneficial Owners of the Series 2019E Bonds) not later than five (5) business days prior to the date on which the Series 2019E Bonds are to be purchased, which notice will state: (1) the interest rate period applicable to the Series 2019E Bonds from and after the Purchase Date; (2) that the Series 2019E Bonds will be subject to mandatory tender for purchase and specify the Purchase Date; (3) the procedures for such mandatory tender for purchase; (4) the purchase price of the Series 2019E Bonds; and (5) the consequences of a failed remarketing (the “Series 2019E Resolution”). DTC, in turn, is to send notice of mandatory tender to its Participants for distribution to the Beneficial Owners of the Series 2019E Bonds. See Appendix D—“Book-Entry System.”

*Rescission of Election to Adjust an Interest Rate Period and Effect on Mandatory Tender for Purchase.* The City and County may rescind any election to adjust the Series 2019E Bonds to a new interest rate period prior to the effective date of such adjustment by giving notice by electronic means prior to such effective date to the Tender Agent and the Remarketing Agent for the Series 2019E Bonds and the Holders of the Series 2019E Bonds. In the event of such a rescission, the Series 2019E Bonds shall not be subject to mandatory tender for purchase on the effective date of the rescinded election to adjust the interest rate period, and the interest rate period for the Series 2019E Bonds shall not change; provided that if such mandatory tender for purchase was to occur on the Scheduled Mandatory Tender Date and all the Series 2019E Bonds are not remarketed, the terms of the Series 2019E Bonds thereafter will be

governed by the provisions of the Series 2019E Resolution described above under “—*Consequences if the Series 2019E Bonds are Not Purchased on the Scheduled Mandatory Tender Date; Notice of Mandatory Tender for Purchase after the Scheduled Mandatory Tender Date.*”

*Delivery of Tendered Series 2019E Bonds.* With respect to any Series 2019E Bond that is a Book-Entry Bond, delivery of such Series 2019E Bond to the Tender Agent in connection with the mandatory tender of Series 2019E Bonds on a Purchase Date, including the Scheduled Mandatory Tender Date will be effected by the making of, or the irrevocable authorization to make, appropriate entries on the books of DTC or any DTC Participant to reflect the transfer of the beneficial ownership interest in such Series 2019E Bond to the account of the Tender Agent, or to the account of a DTC Participant acting on behalf of the Tender Agent.

*Series 2019E Bonds Deemed Purchased.* If moneys sufficient to pay the purchase price of the Series 2019E Bonds are held by the Tender Agent on the date and at the time the Series 2019E Bonds are to be purchased, the Series 2019E Bonds will be deemed to have been purchased for all purposes of the Series 2019E Resolution, irrespective of whether or not the Series 2019E Bonds have been delivered to the Tender Agent, and neither the former holder of such Series 2019E Bonds nor any other person will have any claim thereon, under the Series 2019E Resolution or otherwise, for any amount other than the purchase price thereof.

In the event of non-delivery of any Series 2019E Bond to be purchased pursuant to the Series 2019E Resolution, the Tender Agent will segregate and hold uninvested the moneys for the purchase price of such Series 2019E Bond in trust, without liability for interest thereon, for the benefit of the former holder of such Series 2019E Bond, who will, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the purchase price of such Series 2019E Bond. Any moneys which the Tender Agent segregates and holds in trust for the payment of the purchase price of any Series 2019E Bond and remaining unclaimed for two (2) years after the date of purchase will be paid, upon the City and County's written request, to the City and County. After the payment of such unclaimed moneys to the City and County, the former holder of such Series 2019E Bond may look only to the City and County for the payment thereof.

### **Remarketing**

The terms of any sale by the Remarketing Agent of tendered Series 2019E Bonds shall provide for the payment of the purchase price for tendered Series 2019E Bonds by the Remarketing Agent to the Tender Agent in immediately available funds on the Purchase Date. The Remarketing Agent shall cause to be paid to the Tender Agent on each Purchase Date for tendered Series 2019E Bonds all amounts representing proceeds of the remarketing of such Series 2019E Bonds

## **REDEMPTION**

### **Optional Redemption**

The Series 2019C Bonds maturing on and after August 1, 2030, are subject to redemption prior to the stated maturity thereof at the option of the City and County on or after August 1, 2029, in whole or in part at any time, from any maturities selected by the City and County (in its sole discretion), at a redemption price equal to 100% of the principal amount of the Bonds or portions thereof to be redeemed plus accrued interest to the date of redemption. The Series 2019E Bonds are subject to redemption during the Term Rate Period on the Term Rate Call Protection Date or any Business Day thereafter, at a redemption price of 100% of the principal amount thereof. The Series 2019D Bonds, the Series 2019F Bonds and the Series 2019G Bonds are not subject to redemption prior to the stated maturity.

### **Optional Make Whole Redemption**

The Series 2019H Bonds, the Series 2019I Bonds and the Series 2019J Bonds (collectively the “Series 2019HIJ Bonds”) are subject to redemption at the option of the City and County, in whole or in part (and if in part in

any order of maturity selected by the City and County and within a maturity on a pro-rata basis), on any date at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the Series 2019HIJ Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2019HIJ Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2019HIJ Bonds are to be redeemed, discounted to the date on which such Series 2019HIJ Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Comparable Treasury Yield (defined below) plus 12.5 basis points;

Plus, in each case, accrued interest on such Series 2019HIJ Bonds to be redeemed to the redemption date.

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

“Calculation Agent” means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities in the United States and designated by the City and County (which may be one of the institutions that served as an underwriter for the Series 2019HIJ Bonds). The Calculation Agent for Optional Make Whole Redemption of the Series 2019HIJ Bonds is not the Calculation Agent for the Series 2019E Bonds.

“Comparable Treasury Issue” means the United States Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Series 2019HIJ Bonds being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series 2019HIJ Bonds being redeemed.

“Comparable Treasury Price” means, with respect to any date on which a Series 2019HIJ Bond or portion thereof is being redeemed, either: (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time on a date selected by the Calculation Agent which is not less than three business days and not more than 20 business days preceding the date fixed for redemption.

“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Bonds being redeemed. The Comparable Treasury Yield will be determined no sooner than the third business day nor earlier than the twentieth calendar day preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Series 2019HIJ Bonds being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis between the weekly average yields on the United States Treasury securities that have a constant maturity: (i) closest to and greater than the remaining term to maturity of the Series 2019HIJ Bonds being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series 2019HIJ Bonds being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed

as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

“Reference Treasury Dealer” means a primary dealer of United States Government securities in the United States (which may be one of the institutions that served as an underwriter for the Series 2019HIJ Bonds) appointed by the City and County and reasonably acceptable to the Calculation Agent.

### **Selection for Redemption**

If less than all of the Bonds of a series are called for redemption, the City and County will designate the maturities from which the Bonds of such series are to be redeemed. For so long as the Bonds of such series are registered in book entry form and DTC or a successor securities depository is the sole registered owner of such Bonds, if fewer than all of such Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds to be redeemed shall be selected: (i) by lot, in the case of any redemption of the Series 2019C Bonds or the Series 2019E Bonds, and (ii) on a pro rata pass through distribution of principal basis in accordance with DTC procedures, in the case of any redemption of the Series 2019HIJ Bonds; provided that, so long as the Bonds are held in book-entry form, the selection for redemption of the Bonds as described above under “Optional Make Whole Redemption” will be made in accordance with the operational arrangements of DTC then in effect, and if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, all Bonds to be so redeemed will be selected for redemption in accordance with DTC procedures by lot; provided further that any such redemption must be performed such that all Bonds remaining outstanding will be in authorized denominations. See Appendix D, “Book-Entry System.”

In connection with any repayment of principal of the Series 2019HIJ Bonds, the Paying Agent will direct DTC to make a pass-through distribution of principal to the owners of such Bonds. A form of Pro Rata Pass Through Distribution of Principal Notice will be provided to the Paying Agent that includes a table of factors reflecting the relevant scheduled redemption payments, based on the current schedule of mandatory sinking fund payments, which is subject to change upon certain optional redemptions, and DTC’s currently applicable procedures, which are subject to change.

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

It is the City and County’s intent that redemption allocations made by DTC with respect to the Series 2019H Bonds, the Series 2019I Bonds and the Series 2019J Bonds be made on a pro rata pass-through distribution of principal basis as described above. However, the City and County cannot provide any assurance that DTC, DTC’s direct and indirect participants, or any other intermediary will allocate the redemption of these Bonds on such basis.

If the Bonds are not registered in book-entry form and if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the Series 2019HIJ Bonds of such maturity and bearing such interest rate to be redeemed will be selected on a pro rata basis, and the particular Series 2019C Bonds and the Series 2019E Bonds of such maturity and bearing such interest rate to be redeemed will be selected by lot, provided that any such redemption must be performed such that all Bonds remaining outstanding will be in authorized denominations.

### **Notice of Redemption**

Notice of redemption of any Bond will be mailed, at least once not less than thirty (30) days prior to the date fixed for redemption, to the holder in whose name the Bond is registered upon the Bond Register. The failure of the registered holder to receive such notice by mail or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of any Bond. If a Bond is of a denomination in excess of \$5,000, portions of the principal sum thereof in amounts of \$5,000 or any integral multiple thereof may be redeemed, and if less than all of the principal sum thereof is to be redeemed, in such case, upon the surrender of such Bond to the Paying Agent, there

shall be issued to the registered holder thereof, without charge therefor, for the then unredeemed balance of the principal sum thereof, Bonds of like series, maturity and interest rate in any of the authorized denominations.

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the City and County on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Bonds proposed to be redeemed are not received on or prior to the date fixed for redemption, such notice of redemption shall be null and void and of no force and effect, the City and County shall not redeem or be obligated to redeem any Bonds, and the Paying Agent at the City and County's direction shall give notice, in the same manner as notice of redemption is given, that moneys sufficient to pay in full the redemption price of the Bonds proposed to be redeemed were not received on or prior to the date fixed for redemption and such redemption did not occur. In the event of any such failure to redeem, all Bonds surrendered for redemption shall be promptly returned to the holder or holders by the Paying Agent.

If notice of redemption of any Bond (or any portion of the principal sum thereof) has been duly given, and if on or before the date fixed for such redemption the City and County has duly made or provided for the payment of the principal sum to be redeemed to the date fixed for such redemption, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest thereon shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed. See Appendix D, "Book-Entry System," for a discussion of the notice of redemption to be given to Beneficial Owners of the Bonds when the Book-Entry System for the Bonds is in effect.

**DEBT SERVICE ON THE BONDS**

Set forth below is a schedule of debt service payments required for the Bonds for each Fiscal Year of the City and County, beginning with the Fiscal Year ending June 30, 2020:

**CITY AND COUNTY OF HONOLULU  
General Obligation Bonds,  
Series 2019C Bonds, Series 2019D Bonds, Series 2019E Bonds, Series 2019F Bonds, Series 2019G Bonds,  
Series 2019H Bonds, Series 2019I Bonds and Series 2019J Bonds**

**Debt Service Requirements**

FY Ending June 30	Principal	Interest	Total
2020	\$ 2,000,000	\$ 4,953,366	\$ 6,953,366
2021	13,000,000	27,812,159	40,812,159
2022	12,375,000	21,471,037	33,846,037
2023	27,345,000	20,795,491	48,140,491
2024	51,550,000	23,782,147	75,332,147
2025	52,465,000	17,382,078	69,847,078
2026	53,425,000	15,321,263	68,746,263
2027	54,445,000	13,204,709	67,649,709
2028	55,525,000	11,032,409	66,557,409
2029	30,100,000	9,228,525	39,328,525
2030	28,710,000	7,841,200	36,551,200
2031	29,020,000	6,431,800	35,451,800
2032	7,445,000	5,520,175	12,965,175
2033	7,825,000	5,138,425	12,963,425
2034	8,230,000	4,737,050	12,967,050
2035	8,650,000	4,315,050	12,965,050
2036	9,045,000	3,917,900	12,962,900
2037	9,415,000	3,548,700	12,963,700
2038	9,750,000	3,214,150	12,964,150
2039	10,045,000	2,917,225	12,962,225
2040	10,405,000	2,558,450	12,963,450
2041	10,775,000	2,188,725	12,963,725
2042	11,100,000	1,860,600	12,960,600
2043	11,560,000	1,405,100	12,965,100
2044	12,090,000	874,300	12,964,300
2045	12,650,000	316,250	12,966,250
Totals:	\$548,945,000	\$221,768,285	\$770,713,285

**SECURITY FOR THE BONDS**

**Security Provisions**

The Constitution and other laws of the State of Hawai`i provide that the interest and principal payments on the Bonds shall be a first charge on the General Fund of the City and County. Under such laws, the full faith and credit of the City and County are pledged to the payment of such principal and interest, and for such payment the City Council has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount on all the real property subject to taxation by the City and County.

## **Outstanding and Expected General Obligation Bonds and Notes**

The capital improvement budgets for the Fiscal Years ended June 30, 1999 through 2019, authorized and appropriated a total of \$6,230,271,722 for public improvements to be financed from the proceeds of general obligation bonds or notes. As of March 31, 2019, \$2,577,301,685 of general obligation bonds and notes (including reimbursable general obligation bonds) had been issued to finance appropriations for such Fiscal Years, and \$2,316,654,187 of such appropriations had lapsed pursuant to the terms of the Revised Charter of the City and County. It is expected that \$1,336,315,848, the balance of such appropriations, will be funded from the proceeds of the Bonds or of other general obligation bond or note issues to be issued in the future.

On July 3, 2019, the City and County authorized the issuance of additional general obligation bonds in an amount not to exceed \$500,000,000 to finance capital costs of the Honolulu Rail Transit Project.

On July 3, 2019, the City and County authorized the issuance of additional general obligation bonds in an amount not to exceed \$425,000,000 for public improvements to be financed from the proceeds of the general obligation bonds.

See “BUDGET PROCESS AND FINANCIAL MANAGEMENT – Budgets and Expenditures” for more information relating to lapsing of capital budget appropriations. See also “DEBT STRUCTURE – Honolulu Rail Transit Project” for a discussion of the rail transit project.

## **THE CITY AND COUNTY OF HONOLULU**

### **Introduction**

Honolulu, the capital and principal city of the State of Hawai‘i, is located on the Island of Oahu. The City and County of Honolulu includes the entire Island of Oahu and a number of small outlying islands. Of the eight major islands that constitute the State of Hawai‘i, Oahu, with an area of 597 square miles, is smaller than the Islands of Hawai‘i and Maui but larger than the Islands of Kauai, Molokai, Lanai, Niihau and Kahoolawe.

With slightly less than a tenth of the land area in the entire State, Oahu contains nearly three-fourths of the State’s resident population. According to the U.S. Census Bureau, as of July 1, 2018, the resident population of the State was 1,420,491, and that of Oahu was 980,080, approximately 69% of the total State population.

Honolulu is the seat of the State Government and is the State’s trade, finance, communication, and transportation center. Most federal establishments and personnel (both civilian and military, including substantial army, navy, air force, marine and coast guard installations), manufacturing, major educational and scientific, and significant agricultural activities are located on Oahu.

There are no active volcanoes on the Island of Oahu. The Kīlauea Volcano which experienced several months of activity in 2018, is located on the Island of Hawai‘i, over 200 miles from the City and County.

Reference is made to Appendix A for certain additional demographic and economic information with respect to the State and the City and County.

### **Government and Organization**

**Introduction.** Government in the State of Hawai‘i is highly centralized. There are only two levels of local government in Hawai‘i, State government and county government. The State assumes several major functions usually performed by local governments in other jurisdictions. Foremost among these, in terms of cost, are health, education, welfare, and judicial functions. For example, the public schools and public medical facilities in the City and County are administered and funded by the State. The State is also responsible for the operation and maintenance of all airports and harbors. See Appendix A for certain information relating to the State. The City and County provides a broad range of municipal services that are provided by local governments in other states. These services include public safety (police and fire protection and public prosecutor), certain highways and streets, sanitation, social

services, culture and recreation, public improvements, planning and zoning, water supply and general administrative services.

Because there are no separate city or township governments or any special districts in the City and County with taxing powers, there are no overlapping taxes at the local government level. With the exception of real property taxes, the public service company tax on certain public utilities, the public utility franchise tax on electric power and light companies and vehicle weight taxes, the State collects all taxes for both itself and the counties. Under the State Constitution, the power to impose real property taxes is reserved exclusively to the counties. The principal taxes imposed by the State are the general excise and use taxes (including the excise tax surcharge collected by the State on behalf of the City and County as described under “CITY AND COUNTY REVENUES – General Fund – *Excise and Use Tax*), the transient accommodations tax (a portion which is allocated to the counties as mentioned under “CITY AND COUNTY REVENUES – General Fund – *Allocation of State Transient Accommodation Tax*”) and the personal and corporate income taxes. In addition, the State imposes taxes on liquor, tobacco, fuel, insurance premiums, banks and other financial corporations, inheritances, estates and real property transfers.

The City and County of Honolulu was incorporated in 1907. The City and County is governed by the provisions of its Charter and applicable State law.

***Mayor and Executive Branch.*** Under the provisions of and except as otherwise provided in the Charter of the City and County, the executive power of the City and County is vested in and exercised by the Mayor, as chief executive officer. The Department of the Corporation Counsel reports directly to the Mayor, and all other executive departments and agencies of the City and County (excepting the Mayor’s office staff and the City and County’s semi-autonomous agencies – currently the Board of Water Supply and the Honolulu Authority for Rapid Transportation) are supervised by and report directly to the Managing Director as principal administrative aide to the Mayor. The Mayor serves a four-year term. The next regular mayoral election will take place in November 2020. No person may be elected to the office of the Mayor for more than two consecutive full terms. Pursuant to the Charter of the City and County, the Department of Budget and Fiscal Services manages the budget and the finances of the City and County, including debt management.

***City Council.*** Under the provisions of and except as otherwise provided in the Charter of the City and County, the legislative power of the City and County is vested in and exercised by the City Council. The City Council is the policy-making body of the City and County. Its major functions include approval of the budget, establishment of all fees and rates (other than those under the jurisdiction of semi-autonomous agencies) and taxes, appropriation of funds, approval of indebtedness and establishment of community plans and zoning. The City Council is comprised of nine members, each of whom represents a separate council district. Pursuant to Section 16-122 of the City Charter, councilmembers serve for staggered four-year regular terms. The current terms of councilmembers for council districts I, III, V, VII and IX will expire on January 2, 2021, while the current terms of councilmembers for council districts II, IV, VI and VIII will expire on January 2, 2023. Section 3-102 of the City Charter provides that “No person shall be elected to the office of councilmember for more than two consecutive four-year terms.”

***City and County Prosecuting Attorney.*** Under the provisions of the Charter, the Prosecuting Attorney is elected for a four year term. The Department of the Prosecuting Attorney prosecutes violations of the Hawai`i Penal Code and other criminal statutes and ordinances.

***Semi-Autonomous Agencies.*** The City and County may create, by Charter or ordinance, semi-autonomous agencies with such powers as are granted by the applicable Charter provision or ordinance. Two semi-autonomous agencies have been created by Charter:

- The Board of Water Supply maintains exclusive management and control over the public water system servicing the Island of Oahu. The Board consists of seven members, of which the Chief Engineer of the City Department of Facilities Maintenance and the Director of the State Department of Transportation are ex-officio members, with five other members appointed by the Mayor and confirmed by the City Council.
- HART was created effective July 1, 2011 to develop, operate, maintain and expand a fixed guideway mass Rail Transit Project for the City and County. Although HART remains responsible for development and

expansion of the system, responsibility for operation and maintenance of the system has been transferred, pursuant to a Charter amendment approved by the voters in the 2016 general election, to the City and County's Department of Transportation Services, which operates the City and County's bus and Handi-Van services. As provided in Section 17-104 of the City Charter, HART is governed by a ten (10) member Board. The voting membership comprises the Director of the State Department of Transportation, the Director of the City and County's Department of Transportation Services, and six (6) volunteers from the community; three (3) appointed by the Mayor and three (3) appointed by the City Council. The voting members appoint the ninth (9<sup>th</sup>) voting member to the Board. The Director of the City Department of Planning and Permitting is a non-voting ex officio member. Act 1 (First Special Session 2017) additionally provided for four (4) non-voting members; two (2) members appointed by the Senate President and two (2) members appointed by the Speaker of the House. See "DEBT STRUCTURE – Honolulu Rail Transit Project" for certain information regarding HART and the rail transit project.

***Recalls, Initiatives and Charter Amendments.*** The Mayor and any member of the City Council may be recalled pursuant to petition initiated by the voters in accordance with procedures provided in the Charter of the City and County. Also, voters may propose and adopt ordinances by initiative powers in accordance with procedures set forth in the Charter. Such initiative powers do not extend to any ordinance authorizing or repealing the levy of taxes, the appropriation of moneys, the issuance of bonds, the salaries of City and County employees and officers, or any matters governed by collective bargaining contracts.

Amendments or revisions to the Charter may be initiated by resolution of the City Council or by petition of the voters presented to the City Council. In addition, under the Charter of the City and County, after November 1 of every year ending in "4," a charter commission is appointed. Prior to September 1 of the year ending in "6" that immediately follows the appointment of the charter commission, there is a mandatory review of the Charter by the charter commission, six members of which are appointed by the Mayor and six members of which are appointed by the presiding officer of the City Council, with one member appointed by the Mayor and confirmed by the City Council. No amendments or revisions to the Charter become effective unless approved by a majority of the voters voting thereon at a duly called election.

## CITY AND COUNTY REVENUES

The taxes and other revenues discussed below account for substantially all the tax receipts and other revenues of the City and County. All tax receipts are credited to either the General Fund or the Special Revenue Funds of the City and County. The audited financial statements of the revenues and expenditures of these funds for the Fiscal Year ended June 30, 2018, are accessible from the City and County's website at <http://www.honolulu.gov/budget/budget-cafr.html>, or may be obtained from the City and County by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawai'i 96813. Information on the City and County's website other than the audited financial statements is not part of this Official Statement. See "FINANCIAL INFORMATION AND ACCOUNTING – Financial Statements" for certain financial information based on the City and County's audited financial statements. See also Appendix A for a discussion of certain economic conditions that could potentially impact the City and County's revenues, including conditions relating to the current national and international economic environment.

### General Fund

The General Fund is utilized to account for all financial resources except those required to be accounted for in another fund. The sources of revenues of the General Fund are: (i) real property taxation; (ii) licenses and permits; (iii) intergovernmental revenues (including the allocation of the State transient accommodation tax); (iv) charges for services; (v) fines and forfeits; and (vi) miscellaneous revenues. Real property taxes, which accounted for approximately 76.8% of General Fund revenues for Fiscal Year 2018, and the allocation of the State transient accommodation tax are described below. See also Table 13 under "FINANCIAL INFORMATION AND ACCOUNTING."

***Real Property Taxation.*** Under the State Constitution, all functions, powers and duties relating to taxation of real property reside in the counties. In the case of the City and County of Honolulu, Chapter 8, Revised Ordinances of Honolulu 1990 (the "Tax Ordinance") governs administration, setting of tax rates, assessment and collection of real

property tax, including exemption therefrom, dedication of land and appeals. While each county has exclusive authority over real property tax within its jurisdiction, the Hawai'i State Association of Counties has recommended uniformity in the methods of assessing real property. In support of such recommendation, the City Council adopted Resolution No. 89-509 on November 8, 1989, but recognized that other provisions of real property tax law need not be uniform.

Under the Tax Ordinance, all real property in the City and County, except as exempted or otherwise taxed, is subject each year to a tax upon the fair market value thereof. Real property in the City and County is classified and taxed as: (1) residential, (2) commercial, (3) industrial, (4) agricultural, (5) vacant agricultural, (6) preservation, (7) hotel and resort, (8) public service, and (9) residential A. In determining the value of land consideration is given to its highest and best use, selling prices, actual and potential use, advantage or disadvantage of factors such as location, accessibility, transportation facilities, availability of water and its cost, easements, zoning, dedication as to usage, and other influences which fairly and reasonably bear upon the question of value. Real property owned by the governments of the United States, the State of Hawai'i or the several counties of the State are excluded from taxation, but are taxable when leased to or occupied by a private entity under certain conditions described in the Tax Ordinance. Real property owned and actually and exclusively used for an exempt purpose by hospitals and religious, educational, military, community and charitable organizations are exempt from taxation under certain conditions described in the Tax Ordinance. In addition, real property owned and occupied as a principal residence is exempt from taxation to the extent of \$80,000 (\$120,000 for persons age 65 and over). In lieu of taxing the real property of public service companies, the City and County collects a public service company tax on the gross income of such companies allocable to operations within the City and County, as discussed below under "Public Service Company Tax."

Under the Tax Ordinance, real property tax relief is provided in the form of a real property tax credit to homeowners whose combined income of all title holders of the property does not exceed \$60,000. Currently, qualified homeowners' taxes are limited to 3% of the combined income of all title holders of the property. Homeowners must apply for the tax credit by September 30 preceding the tax year in which a credit is being sought thereby providing the City and County time to make allowances for the credits in its budget.

As noted above, real property owned by the federal government generally is excluded from taxation. This exclusion applies to all military housing located within a military base. In lieu of taxing such property, the City and County collects an annual contribution of approximately \$50 for each dwelling located on a military base. The City and County also applies a 20% discount to the assessed fair market value of military housing situated on federal property located outside a military base and subject to government-imposed restrictions on the use of the property.

Additionally, to encourage agriculture, land dedicated to a specific agricultural use or as vacant agricultural land is classified as agricultural or vacant agricultural, respectively. Dedicated land is assessed based on the term of the dedication period. Land dedicated for a specific agricultural use for five years is assessed at 3% of its fair market value and for ten years at 1%. Land dedicated for pasture use for a period of five or ten years is assessed at 1% of its fair market value. Vacant agricultural land dedications must be for ten years and are assessed at 50% of their fair market value.

Under the State Constitution, the City and County is permitted to adjust its real property tax rates upward or downward annually with City Council approval. In the past, the City and County has at times increased the tax rates applicable to certain classes of real property when needed to produce sufficient revenues to support its budgeted expenditures.

On June 5, 2019, the City Council adopted Resolution 19-55, setting tax rates for the various general classes of real property for Fiscal Year 2020. The Residential A class is divided into two tiers, with Tier 1 taxed at \$4.50 per \$1,000 of assessed value up to \$1,000,000. Resolution 19-55 increased the tax rate for Tier 2 to \$10.50 per \$1,000 of assessed value in excess of \$1,000,000, and the tax rate for the Hotel and Resort class to \$13.90 per \$1,000 of assessed value.

From time to time, proposed ordinances to amend the City and County's real property tax laws are introduced in City Council for consideration. Certain of these proposed amendments, if enacted, could have the effect of reducing the real property tax revenues of the City and County. It is not possible to predict whether or in what form any such

proposals may be enacted, or the potential effects of such proposals, if enacted, on the real property tax revenues of the City and County.

The assessed valuation of real property in the City and County for Fiscal Years 2019 and 2020 is shown in Table 1 below, with the valuation of governmentally owned real property excluded from both the gross assessed valuation and the exemption valuation. Table 2 shows the net taxable values and applicable tax rates for each class of property for Fiscal Years 2016 through 2020.

**Table 1**  
**ASSESSED VALUATION OF REAL PROPERTY <sup>(1)</sup>**  
**Fiscal Years 2019 and 2020**  
**(values in thousands)**

	<u>2019</u>	<u>2020</u>
Gross assessed valuation.....	\$257,987,134	\$275,377,551
Less exemption valuation .....	<u>(30,070,244)</u>	<u>(31,279,485)</u>
Assessor's net taxable value.....	\$227,916,890	\$244,098,066
Less 50% of valuations on appeal .....	<u>(1,274,905)</u>	<u>(1,841,643)</u>
Net assessed valuation for rate purposes.....	<u>\$226,641,985</u>	<u>\$242,256,423</u>

<sup>(1)</sup> At 100% of fair market value.

**Table 2**  
**REAL PROPERTY NET ASSESSED VALUES BY CLASSIFICATION AND TAX RATES**  
**Fiscal Years 2016–2020**  
**(values in thousands)**

<b>Classification</b>	<b>2016</b>		<b>2017</b>		<b>2018</b>		<b>2019</b>		<b>2020</b>	
	<b>Value</b>	<b>Rate</b>	<b>Value</b>	<b>Rate</b>	<b>Value</b>	<b>Rate</b>	<b>Value</b>	<b>Rate</b>	<b>Value</b>	<b>Rate<sup>(1)</sup></b>
Residential	\$137,435,628	\$3.50	\$144,692,257	\$3.50	\$151,308,633	\$3.50	\$159,413,159	\$3.50	\$167,062,408	\$3.50
Hotel and Resort	9,841,920	12.90	11,348,555	12.90	13,060,028	12.90	15,097,681	12.90	17,044,297	13.90
Commercial	15,778,813	12.40	17,219,480	12.40	18,525,784	12.40	19,734,369	12.40	21,720,592	12.40
Industrial	8,521,155	12.40	9,141,610	12.40	9,597,471	12.40	10,344,796	12.40	11,703,470	12.40
Agricultural	989,887	5.70	996,002	5.70	1,042,709	5.70	1,122,026	5.70	1,180,447	5.70
Vacant Agricultural	60,689	8.50	50,311	8.50	50,802	8.50	46,330	8.50	46,152	8.50
Preservation	455,825	5.70	464,899	5.70	523,317	5.70	548,498	5.70	547,162	5.70
Public Service <sup>(2)</sup>	1	--	38	--	30	--	31	--	7,008	-
Residential A <sup>(3)</sup>	14,634,916	6.00	15,713,428	6.00	17,461,143	Var.				
Tier 1							11,883,007	4.50	13,560,140	4.50
Tier 2							8,452,088	9.00	9,384,746	10.50
Total All Classes	<u>\$187,718,834</u>		<u>\$199,626,580</u>		<u>\$211,569,917</u>		<u>\$226,641,985</u>		<u>\$242,256,423</u>	

<sup>(1)</sup> Based on rates effective for Fiscal Year 2020.

<sup>(2)</sup> As discussed above and under "Public Service Company Tax" below, the public service classification of property was established in the Fiscal Year ended June 30, 2002, but the City and County does not currently tax property in this category.

<sup>(3)</sup> Effective with the Fiscal Year ended June 30, 2015, Ordinance 13-33 created a new classification, Residential A, which applies to certain residential property valued at \$1 million or more which is not subject to a current home exemption. On June 6, 2018, the City Council adopted Resolution 18-62, setting tax rates for the various general classes of real property for Fiscal Year 2018, and dividing the Residential A class into two tiers, with Tier 1 taxed at \$4.50 per \$1,000 of assessed value and Tier 2 taxed at \$9.00 per \$1,000 of assessed value. On June 5, 2019, the City Council adopted Resolution 19-55, setting tax rates for the various classes of real property for Fiscal Year 2020, and increasing the Hotel and Resort rate to \$13.90 and increasing Residential A class Tier 2 rate to \$10.50 per \$1,000 of assessed value (Tier 1 remains the same rate at \$4.50 per \$1,000 of assessed value.)

Assessments are determined as of October 1 of each year. Notices of assessments are sent to taxpayers on or prior to December 15 of each year. Prior to the following January 15, taxpayers may appeal such assessments on the grounds that the assessed value of the property in question exceeds its market value by more than 10%, that an exemption was improperly denied or that the assessment was otherwise contrary to law. Appeals are heard by the

City and County’s Boards of Review or the State Tax Appeals Court. The City and County manages its property tax appeals to mitigate financial risk with mandatory reserves for 50% of the contested amounts.

Subject to the foregoing right to appeal, real property taxes are levied on July 1 and a lien for real property taxes attaches on that date. Real property taxes are billed on July 20 of each year based on assessed valuations as of the previous October 1, and are due in two equal installments on the following August 20 and February 20. Real property taxes receivable as of June 30 of each year are deemed delinquent and amounts which are not collected within sixty days of the end of the Fiscal Year are reported as deferred revenue.

Annual assessments, levies and average tax rates and collection percentages for the Fiscal Years ending June 30, 2016 to 2020 are shown in the table below. Over the past five years, the City and County’s uncollectible real property tax write-offs continued to be exceptionally low at 0.01%.

**Table 3**

**STATEMENT OF REAL PROPERTY TAX LEVIES AND COLLECTIONS  
SHOWING ASSESSED VALUATIONS AND TAX RATES  
Fiscal Years 2016 – 2020  
(values in thousands)**

<b><u>Fiscal Year</u></b>	<b><u>Net Valuation for Tax Rate Purposes <sup>(1)</sup></u></b>	<b><u>Weighted Average Tax Rate Per \$1,000</u></b>	<b><u>Amount of Levies</u></b>	<b><u>Percent of Collections to Levy <sup>(2)</sup></u></b>
2016	\$187,718,834	\$5.36	\$1,005,871	100.0
2017	\$199,626,580	\$5.43	\$1,082,733	100.6
2018	\$211,569,917	\$5.49	\$1,166,383	N/A
2019	\$226,641,985	\$5.59	\$1,265,146	N/A
2020	\$242,256,423	\$5.80	\$1,405,893	N/A

<sup>(1)</sup> At 100% of fair market value.

<sup>(2)</sup> Collections within fiscal year of levy.

In the Fiscal Year ended June 30, 2018, real property tax revenues (excluding \$35.2 million of public service company tax collections as discussed under “Public Service Company Tax” below) totaled \$1.171 billion, which accounted for approximately 85.7% of the General Fund revenues for the year. The following two tables identify the ten largest real property taxpayers in the City and County for the Fiscal Year 2019-2020. Table 4 lists the taxpayers according to the assessed value of their real property, and Table 5 lists the taxpayers according to the amount of tax levied on such property.

**Table 4**  
**TEN LARGEST REAL PROPERTY TAXPAYERS <sup>(1)</sup>**  
**BY ASSESSED VALUE**  
**Fiscal Year 2019 - 2020**

Taxpayer <sup>(2)</sup>	Type of Business	Gross Assessed Valuation <sup>(3)</sup>	% of Total Assessed Valuation
Kyo-Ya Company	Hotel/Resort	\$ 2,449,140,500	0.89%
Hilton, et al.	Hotel/Resort	2,275,389,400	0.83%
Bishop Estate	Educational Trust	2,238,194,300	0.81%
General Growth Properties	Real Estate Investment	2,180,194,000	0.79%
Disney	Hotel/Resort	1,369,928,800	0.50%
Outrigger Hotels Hawaii	Hotel/Resort	1,192,541,000	0.43%
DEG, LLC	Real Estate Investment	927,038,800	0.34%
Howard Hughes	Real Estate Investment	881,275,100	0.32%
Ko Olina Hotel	Hotel/Resort	729,760,400	0.27%
A & B Properties Inc.	Real Estate Investment	697,405,100	0.25%
		\$14,940,867,400	5.43%

- <sup>(1)</sup> Excludes property owned by governmental entities.  
<sup>(2)</sup> Taxpayer's name as recorded on real property tax records  
<sup>(3)</sup> Assessed valuation as of October 1, 2018 at 100% of market value.

**Table 5**  
**TEN LARGEST REAL PROPERTY TAXPAYERS <sup>(1)</sup>**  
**BY AMOUNT OF TAX LEVIED**  
**Fiscal Year 2019 - 2020**

Taxpayer <sup>(2)</sup>	Type of Business	Amount of Tax Levied <sup>(3)</sup>	% of Total Amount Levied
Kyo-Ya Company	Hotel/Resort	\$ 34,034,930	2.44%
Hilton, et al.	Hotel/Resort	31,572,477	2.26%
General Growth Properties	Real Estate Investment	27,020,867	1.93%
Bishop Estate	Educational Trust	19,027,620	1.36%
Outrigger Hotels Hawaii	Hotel/Resort	16,341,651	1.17%
Ko Olina Hotel	Hotel/Resort	9,842,145	0.70%
Disney	Hotel/Resort	9,521,108	0.68%
Maps Waikiki Hotel LLC	Hotel/Resort	8,566,170	0.61%
Halekulani Corp	Hotel/Resort	8,470,837	0.61%
A & B Properties Inc.	Real Estate Investment	8,173,092	0.58%
		\$172,570,897	12.34%

- <sup>(1)</sup> Excludes property owned by governmental entities.  
<sup>(2)</sup> Taxpayer's name as recorded on real property tax records.  
<sup>(3)</sup> Tax Levied as of July, 2019

**Allocation of State Transient Accommodation Tax.** The transient accommodations tax (“TAT”) is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, condominium property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units. The TAT rate is currently fixed at 10.25%, through December 31, 2030, at which point it is scheduled to revert to 9.25%. Revenue generated from this 1% increase will be deposited to a mass transit special fund to help pay for construction of the Rail Transit Project. See “DEBT STRUCTURE – Honolulu Rail Transit Project.” All other TAT revenues are distributed annually by statute in the following order of priority, with the excess to be deposited into the general fund of the State: (1) \$1.5 million is distributed to the Turtle Bay conservation easement special fund, (2) \$16.5 million is distributed to the convention

center enterprise special fund, (3) \$79 million is distributed to the tourism special fund, and (4) \$103 million is distributed to the counties. The City and County receives 44.1% of the revenues distributed to the counties.

The following presents the City and County’s allocable share of the transient accommodations tax and the percentage of General Fund revenues represented by this tax for the five Fiscal Years ended June 30, 2014 through 2018:

**Table 6**  
**TRANSIENT ACCOMMODATIONS TAX**

<b>Fiscal Year (Ended June 30)</b>	<b>Allocable Share <sup>(1)</sup> (Dollars in Millions)</b>	<b>Percent of General Fund Revenues <sup>(2)</sup></b>
2014	\$41.0	4.0%
2015	45.4	4.0
2016	45.4	3.8
2017	45.4	3.5
2018	45.4	3.3

<sup>(1)</sup> Represents the City and County’s share of total transient accommodations tax revenues collected by the State.

<sup>(2)</sup> Represents the City and County’s share of total transient accommodations tax revenues as a percentage of its General Fund revenues.

**Excise and Use Tax.** Under Chapter 237, Hawai`i Revised Statutes, the State imposes on businesses a general excise and use tax equal to 4.0% of their gross income derived from business activity in the State. Section 46-16.8, Hawai`i Revised Statutes, permits counties with a population greater than five hundred thousand to impose a 0.5% surcharge (to be collected and distributed by the State) on the base State general excise and use tax to fund a locally preferred alternative for a mass transit project. Effective January 1, 2007, the City and County imposed this surcharge on all Oahu business activity subject to general excise and use tax. This surcharge is currently scheduled to expire on December 31, 2030. For the Fiscal Years ended June 30, 2017 and June 30, 2018, the City and County received \$223.3 million and \$274.3 million, respectively, from the general excise and use tax surcharge, net of an administrative fee charged by the State. Effective September 2017, the State lowered the administrative fee to 1% of gross surcharge revenues; prior to September 2017 the administrative fee charged by the State was 10%. Proceeds of the surcharge are being applied to build a rail transit system for Oahu. See “DEBT STRUCTURE – Honolulu Rail Transit Project” for additional information concerning the proposed transit system, including information concerning anticipated cost increases.

**Public Service Company Tax.** Under Chapter 239, Hawai`i Revised Statutes, if a county exempts real property owned or leased (if the lessee is required to pay any real property taxes) by a public service company from real property taxes, the county is entitled to collect a public service company tax on the gross income of the company allocable to operations within that county. The public service company tax is imposed at rates between 1.885% and 4.2%, based on the ratio between each company’s net income and gross income. Currently, the City and County does not tax the real property of public service companies, and it received approximately \$42.2 million and \$35.2 million of public service company tax revenues in the Fiscal Years ended June 30, 2017 and June 30, 2018, respectively.

**Other Revenues.** In addition to the real property tax revenues, revenues from the allocation of the State transient accommodation tax, the excise and use tax surcharge, fuel tax and the public service company tax, the City and County receives revenues from State and federal grants, sales of licenses and permits, rentals of City and County-owned property and charges for services.

### Special Revenue Funds

The Special Revenue Funds are utilized to account for the revenues derived from a specific source (other than special assessments) or which are applied to finance specified activities as required by law or administrative regulation. The primary sources of revenues of the Special Revenue Funds are outlined below.

**Vehicle Weight Tax.** Under Section 249-2, Hawai'i Revised Statutes, the counties are authorized to impose an annual tax on the net weight of all vehicles used on the public highways. In accordance with Section 249-13, Hawai'i Revised Statutes, the City and County currently imposes taxes between 7.0 cents per pound and 7.5 cents per pound, depending on the type of vehicle, with a minimum tax of \$12.00 per vehicle. Under State law, the counties collect the vehicle weight tax in connection with their vehicle registration and licensing function. The proceeds from the county vehicle weight tax are restricted by Section 249-18, Hawai'i Revised Statutes, to highway and related expenditures in the City and County, including \$500,000 for police purposes. In the Fiscal Years ended June 30, 2017 and June 30, 2018, the City and County collected \$128.0 and \$147.4 million of vehicle weight taxes, respectively.

**County Fuel Tax.** The City and County fuel tax, authorized by Sections 243-4 and 243-5, Hawai'i Revised Statutes, is imposed on liquid fuels sold or used within its jurisdiction, except that it does not apply to aviation fuel; and it is imposed only on that portion of diesel fuel used on the public highways. Pursuant to Resolution No. 89-92, adopted by the City Council on May 24, 1989, the fuel tax for the City and County was increased from 11.5 cents per gallon to 16.5 cents per gallon, effective July 1, 1989. The proceeds from the fuel tax are limited by Section 243-6, Hawai'i Revised Statutes, to expenditures for such purposes as designing, constructing, repairing and maintaining highways, roads and streets, highway tunnel and bridges, street lights and storm drains, and for functions connected with county traffic control and safety. In the Fiscal Years ended June 30, 2017 and June 30, 2018, the City and County's fuel tax collections totaled \$52.0 million and \$51.8 million, respectively.

**Public Utilities Franchise Tax.** Section 240-1, Hawai'i Revised Statutes, requires all electric power companies and gas companies operating as public utilities to pay the county in which business is conducted a tax equal to 2½% of the companies' gross receipts for sales in such county, unless such county in its charters with such utilities has agreed to a lower rate of tax. The rate for such tax in the City and County is the full 2½% for all such utilities. In the Fiscal Years ended June 30, 2017 and June 30, 2018, the City and County collected \$36.1 million and \$42.3 million of such taxes, respectively.

**Certain Recent Legislative Proposals**

In recent years, certain legislative proposals have been introduced in the State Legislature from time to time to reduce projected shortfalls in the State's operating budget by requiring that collections of taxes otherwise due to the City and County be retained by or transferred to the State. The City and County cannot predict whether or in what form any legislative proposals affecting the City and County's tax revenues may be enacted into law in the future. The enactment of any such legislation could have a material adverse impact on the City and County's future receipt of tax revenues affected thereby. However, the power to levy and collect real property taxes (which accounted for approximately 85.7% of the City and County's General Fund revenues in Fiscal Year 2018) is conferred on the counties by the State Constitution and, as a result, would not be subject to such actions by the State Legislature.

**Revenues and Expenditures**

The following table presents the General Fund revenues and expenditures, including transfers out for debt service, mass transit subsidy and other purposes, and transfers in for recovery of debt service and other purposes, in Fiscal Years 2014 through 2018.

**Table 7**  
**GENERAL FUND REVENUES AND EXPENDITURES,**  
**INCLUDING TRANSFERS**  
**(Dollars in Millions)**

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenditures</u>
2014	\$1,166.3	\$1,196.4
2015	1,261.9	1,258.1
2016	1,349.2	1,388.4
2017	1,436.8	1,427.8
2018	1,525.2	1,485.2

## DEBT STRUCTURE

### Legal Requirements

**Debt Limit.** The creation of general debt by the counties in the State of Hawai'i is governed by the State Constitution, applicable provisions of the Hawai'i Revised Statutes, and further in the case of the City and County, by the Revised Charter of the City and County.

The State Constitution provides that the funded debt of each county that is outstanding and unpaid at any time may not exceed 15% of the net assessed valuation for tax rate purposes of real property in such county, as determined by the last tax assessment rolls pursuant to law.

Pursuant to a resolution enacted by the City Council in 1996, the City and County has adopted debt and financial policies, which have been amended periodically, including the establishment of a contingency reserve, a limitation on debt service as a percentage of General Fund revenues and a limitation on variable rate debt. The most recent amendment, Resolution 06-222, replaced the long-term contingency reserve "rainy day fund" with a reserve for fiscal stability fund that more clearly defines the permitted uses of the fund. See "BUDGET PROCESS AND FINANCIAL MANAGEMENT – Reserve for Fiscal Stability Fund" herein.

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

Chapter 47, Hawai'i Revised Statutes, is the general law for the issuance of general obligation bonds of the counties, and sets forth the provisions relating to the issuance and sale of general obligation bonds, including details such as method of authorization, maximum maturities, maximum interest rates, denominations, method of sale, form and execution of such bonds and terms of redemptions and refundings.

The Revised Charter of the City and County provides that the City Council, by the affirmative vote of at least two-thirds of its entire membership, may authorize the issuance of general obligation bonds not to exceed the amount and only for the purposes prescribed by the State Constitution. The authorization is enacted in the form of an ordinance.

The State Constitution provides that the interest and principal payments on general obligation bonds shall be a first charge on the general fund of the county issuing such bonds.

**Exclusions.** In determining the funded debt of a county, the Constitution provides for the following exclusions:

1. Bonds that have matured, or that mature in the then current Fiscal Year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then Fiscal Year, or for the full payment of which moneys or securities have been irrevocably set aside.

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and

interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding Fiscal Year.

7. Reimbursable general obligation bonds issued by the State for a county, whether issued before or after November 7, 1978 (the date of ratification of the Constitutional amendments), but only for as long as reimbursement by the county to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the aforementioned date, the consent of the governing body of the county has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such county.

8. Bonds constituting instruments of indebtedness under which the county incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% of the principal amount of outstanding general obligation bonds not otherwise excluded herein; provided that the county shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the county as provided by law.

9. Bonds issued by the county to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year.

### **Funded Debt and Debt Margin**

Under State law, a political subdivision (such as the City and County) is required annually, as of each July 1, and upon each issuance to determine and certify the amount of its funded debt and exclusions therefrom. Table 8 sets forth the City and County's most recent summary statement of funded debt and exclusions as of March 31, 2019. Set forth in Table 9 is a detailed schedule of all outstanding general obligation funded debt of the City and County as of March 31, 2019. Table 10 provides debt service charges on outstanding general long-term debt of the City and County as of March 31, 2019.

**Table 8**  
**STATEMENT OF FUNDED DEBT**  
**As of March 31, 2019**

1.	Gross assessed valuation of real property as of January 29, 2019.....	\$ 275,377,551,700																																																																												
2.	Less exempt valuation .....	31,279,485,400																																																																												
3.	Assessor's net taxable value .....	244,098,066,300																																																																												
4.	Less valuations on appeal .....	3,683,286,000																																																																												
5.	Taxpayers' valuation .....	240,414,780,300																																																																												
6.	Add 50% of valuation on appeal .....	1,841,643,000																																																																												
7.	Net assessed valuation of real property for rate purposes.....	<u>\$ 242,256,423,300</u>																																																																												
8.	Limit of funded debt as set by the Constitution of the State of Hawai'i .....	<u>\$ 36,338,463,495<sup>(1)</sup></u>																																																																												
9.	Funded debt: .....																																																																													
	a. General obligation bonds.....	\$ 3,586,540,000																																																																												
	b. Revenue bonds.....	2,350,690,645 <sup>(2)</sup>																																																																												
	c. Notes payable:.....																																																																													
	State of Hawai'i .....	290,998,776																																																																												
	d. Gross funded indebtedness.....	<u>\$ 6,228,229,421</u>																																																																												
	Less exclusions:.....																																																																													
	e. Revenue bonds.....																																																																													
	Self-supporting Board of Water Supply.....	\$ 206,290,000																																																																												
	Self-supporting wastewater system.....	2,144,400,645																																																																												
	f. General obligation bonds issued for H-Power waste disposal facility .....	369,030,000																																																																												
	g. General obligation bonds issued for Housing .....	28,423,159																																																																												
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	j. State of Hawai'i Revolving Fund loans payable for the Wastewater System.....	214,327,201																																																																												
	k. State of Hawai'i Revolving Fund loans payable for the Board of Water Supply.....	76,014,339																																																																												
	l. Net funded debt .....	<u>3,168,207,143</u>																																																																												
		3,060,022,278																																																																												
10.	Gross limit of additional funded debt.....	<u>\$ 33,278,441,217</u>																																																																												
11.	Less general obligation bonds authorized and unissued: <sup>(3)</sup> .....																																																																													
	<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Authorizing Ordinance</u></th> <th style="text-align: right;"><u>Total Authorized</u> <sup>(4)</sup></th> <th style="text-align: right;"><u>Amount Issued</u></th> <th style="text-align: right;"><u>Amount Unissued</u></th> </tr> </thead> <tbody> <tr> <td>Ordinance No. 98-29</td> <td style="text-align: right;">\$ 178,425,865</td> <td style="text-align: right;">\$ 177,199,935</td> <td style="text-align: right;">\$ 1,225,930</td> </tr> <tr> <td>Ordinance No. 07-26</td> <td style="text-align: right;">211,455,283</td> <td style="text-align: right;">211,415,527</td> <td style="text-align: right;">39,756</td> </tr> <tr> <td>Ordinance No. 08-14</td> <td style="text-align: right;">295,218,040</td> <td style="text-align: right;">294,765,331</td> <td style="text-align: right;">452,709</td> </tr> <tr> <td>Ordinance No. 09-13</td> <td style="text-align: right;">315,258,691</td> <td style="text-align: right;">314,558,920</td> <td style="text-align: right;">699,771</td> </tr> <tr> <td>Ordinance No. 10-13</td> <td style="text-align: right;">355,780,222</td> <td style="text-align: right;">354,109,353</td> <td style="text-align: right;">1,670,869</td> </tr> <tr> <td>Ordinance No. 11-12</td> <td style="text-align: right;">177,466,528</td> <td style="text-align: right;">176,150,620</td> <td style="text-align: right;">1,315,908</td> </tr> <tr> <td>Ordinance No. 12-21</td> <td style="text-align: right;">213,300,471</td> <td style="text-align: right;">210,428,098</td> <td style="text-align: right;">2,872,373</td> </tr> <tr> <td>Ordinance No. 13-21</td> <td style="text-align: right;">302,473,148</td> <td style="text-align: right;">300,605,095</td> <td style="text-align: right;">1,868,053</td> </tr> <tr> <td>Ordinance No. 14-16</td> <td style="text-align: right;">339,206,563</td> <td style="text-align: right;">331,057,715</td> <td style="text-align: right;">8,148,848</td> </tr> <tr> <td>Ordinance No. 15-22</td> <td style="text-align: right;">277,489,663</td> <td style="text-align: right;">176,004,887</td> <td style="text-align: right;">101,484,776</td> </tr> <tr> <td>Resolution 15-314 <sup>(5)</sup></td> <td style="text-align: right;">350,000,000</td> <td style="text-align: right;">144,000,000</td> <td style="text-align: right;">206,000,000</td> </tr> <tr> <td>Ordinance No. 16-11</td> <td style="text-align: right;">380,664,562</td> <td style="text-align: right;">19,004,973</td> <td style="text-align: right;">361,659,589</td> </tr> <tr> <td>Ordinance No. 17-26</td> <td style="text-align: right;">350,577,373</td> <td style="text-align: right;">12,001,231</td> <td style="text-align: right;">338,576,142</td> </tr> <tr> <td>Resolution 17-173 <sup>(5)</sup></td> <td style="text-align: right;">350,000,000</td> <td style="text-align: right;">350,000,000</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Ordinance No. 18-20</td> <td style="text-align: right;">516,301,126</td> <td style="text-align: right;">-</td> <td style="text-align: right;">516,301,126</td> </tr> <tr> <td>Resolution 18-127 <sup>(5)</sup></td> <td style="text-align: right;">209,950,000</td> <td style="text-align: right;">209,950,000</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Resolution 18-132 <sup>(5)</sup></td> <td style="text-align: right;">40,075,000</td> <td style="text-align: right;">40,075,000</td> <td style="text-align: right;">-</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 4,863,642,535</u></td> <td style="text-align: right;"><u>\$ 3,321,326,685</u></td> <td style="text-align: right;"><u>\$ 1,542,315,850</u></td> </tr> </tbody> </table>	<u>Authorizing Ordinance</u>	<u>Total Authorized</u> <sup>(4)</sup>	<u>Amount Issued</u>	<u>Amount Unissued</u>	Ordinance No. 98-29	\$ 178,425,865	\$ 177,199,935	\$ 1,225,930	Ordinance No. 07-26	211,455,283	211,415,527	39,756	Ordinance No. 08-14	295,218,040	294,765,331	452,709	Ordinance No. 09-13	315,258,691	314,558,920	699,771	Ordinance No. 10-13	355,780,222	354,109,353	1,670,869	Ordinance No. 11-12	177,466,528	176,150,620	1,315,908	Ordinance No. 12-21	213,300,471	210,428,098	2,872,373	Ordinance No. 13-21	302,473,148	300,605,095	1,868,053	Ordinance No. 14-16	339,206,563	331,057,715	8,148,848	Ordinance No. 15-22	277,489,663	176,004,887	101,484,776	Resolution 15-314 <sup>(5)</sup>	350,000,000	144,000,000	206,000,000	Ordinance No. 16-11	380,664,562	19,004,973	361,659,589	Ordinance No. 17-26	350,577,373	12,001,231	338,576,142	Resolution 17-173 <sup>(5)</sup>	350,000,000	350,000,000	-	Ordinance No. 18-20	516,301,126	-	516,301,126	Resolution 18-127 <sup>(5)</sup>	209,950,000	209,950,000	-	Resolution 18-132 <sup>(5)</sup>	40,075,000	40,075,000	-		<u>\$ 4,863,642,535</u>	<u>\$ 3,321,326,685</u>	<u>\$ 1,542,315,850</u>	1,542,315,850
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12.	Net limit of additional funded debt	<u>\$ 31,736,125,367</u>																																																																												

(1) The limit of the funded debt is set at a sum equal to 15% of the net assessed valuation for tax rate purposes of real property.  
(2) Does not include revenue bonds issued as a conduit issuer for housing.  
(3) Amounts shown are of March 31, 2019.  
(4) After deducting authorized amounts which have lapsed pursuant to the Charter of the City and County of Honolulu.  
(5) Honolulu Authority for Rapid Transportation.

**Table 9**  
**GENERAL OBLIGATION FUNDED DEBT**  
**OF THE CITY AND COUNTY OF HONOLULU**  
**As of March 31, 2019**

Direct Debt	Effective Interest Rate	Original Amount of Issue	Maturing Serially From/To	Optional Call Dates	Outstanding
<b>General Obligation Bonds:</b>					
April 6, 2009 Series 2007B	4.37937%	152,840,000	7/1/2013-19	Non-callable	25,410,000
April 28, 2009 Series A	4.68168%	292,045,000	4/1/2014-34	4/1/2019	10,410,000
November 19, 2009 Series E <sup>(1)</sup>	3.89828%	50,415,000	9/1/2014-34	Non-callable	42,920,000
November 19, 2009 Series F	3.25649%	49,500,000	9/1/2014-20	9/1/2019	15,950,000
December 15, 2010 Series A <sup>(1)</sup>	3.72842%	151,100,000	12/1/2015-35	Non-callable	132,740,000
December 15, 2010 Series B	4.34416%	196,670,000	12/1/2015-35	12/1/2020	13,705,000
August 4, 2011 Series A	4.18832%	141,235,000	8/1/2016-36	8/1/2021	27,500,000
August 4, 2011 Series B	3.41586%	163,110,000	8/1/2016-27	8/1/2021	130,740,000
November 20, 2012 Series A	3.19593%	255,050,000	11/1/2017-37	11/1/2022	94,745,000
November 20, 2012 Series B	2.43342%	290,735,000	11/1/2016-29	11/1/2022	242,870,000
November 20, 2012 Series D	2.79934%	17,880,000	11/1/2017-28	Non-callable	15,240,000
November 20, 2012 Series F	1.97868%	50,605,000	11/1/2017-21	Non-callable	30,910,000
November 20, 2012 Series G	2.25624%	191,230,000	11/1/2017-23	Non-callable	139,270,000
December 4, 2012 Series C	2.06925%	32,145,000	11/1/2013-27	11/1/2022	20,580,000
April 2, 2015 Series A	3.39016%	379,550,000	10/1/2015-39	10/1/2025	345,650,000
April 2, 2015 Series B	2.79899%	210,480,000	10/1/2015-31	10/1/2025	199,835,000
April 2, 2015 Series C	2.98153%	249,240,000	10/1/2015-33	10/1/2025	249,240,000
April 2, 2015 Series E	3.60112%	22,060,000	10/1/2015-39	Non-callable	19,480,000
October 26, 2016 Series A	2.89193%	96,385,000	10/26/2016-41	10/1/2026	93,920,000
October 26, 2016 Series B	1.38078%	38,540,000	10/26/2016-24	Non-callable	30,590,000
October 26, 2016 Series C	2.48346%	100,065,000	10/26/2016-34	10/1/2026	100,065,000
October 26, 2016 Series D	2.80674%	143,815,000	10/26/2016-34	10/1/2026	130,370,000
September 14, 2017 Series A	3.29119%	181,420,000	9/14/2017-42	9/1/2027	181,420,000
September 14, 2017 Series B	1.50321%	34,475,000	9/14/2017-25	Non-callable	31,580,000
September 14, 2017 Series D	2.65841%	138,440,000	9/14/2017-33	9/1/2027	138,440,000
September 14, 2017 Series E	2.69098%	35,050,000	9/14/2017-34	9/1/2027	35,050,000
September 14, 2017 Series F	2.01647%	3,725,000	9/14/2017-21	Non-callable	3,725,000
September 14, 2017 Series G	3.67074%	20,060,000	9/14/2017-42	Non-callable	19,800,000
September 14, 2017 Series H <sup>(2)(3)</sup>	3.07004%	350,000,000	9/14/2017-28	9/1/2020	350,000,000
September 5, 2018 Series A	3.56130%	231,525,000	9/5/2018-43	9/1/2028	231,525,000
September 5, 2018 Series B	2.24923%	47,160,000	9/5/2018-26	Non-callable	47,160,000
September 5, 2018 Series D	3.75896%	1,150,000	9/5/2018-19	Non-callable	1,150,000
September 5, 2018 Series E	3.75896%	2,185,000	9/5/2018-20	Non-callable	2,185,000
September 5, 2018 Series F	3.75896%	182,340,000	9/5/2018-36	Non-callable	182,340,000
January 31, 2019 Series A <sup>(3)</sup>	2.44193%	209,950,000	9/1/2023-30	9/1/2028	209,950,000
January 31, 2019 Series B <sup>(3)(4)</sup>	3.50599%	40,075,000	9/1/2019-43	9/1/2028	40,075,000
		<u>\$ 4,752,250,000</u>			<u>\$ 3,586,540,000</u>
Notes Payable - State of Hawai'i	Various	<u>508,632,586</u>	Various	Non-callable	<u>290,998,776</u>
<b>Total Gross Direct Debt</b>		<u>\$ 5,260,882,586</u>			<u>\$ 3,877,538,776</u>
<b>Less exclusions:</b>					
Bonds issued for solid waste				\$ 129,101,092	
Bonds issued for housing				28,423,159	
Bonds issued for H-Power waste disposal facility				369,030,000	
Bonds issued for wastewater system				620,707	
State of Hawai'i Revolving Fund loans payable for Wastewater System				214,327,201	
State of Hawai'i Revolving Fund loans payable for Board of Water Supply				76,014,339	<u>\$ 817,516,498</u>
<b>Net Funded Debt</b>					<u>3,060,022,278</u>

- (1) Issued as Build America Bonds (BABs). For purposes of this table, the effective interest rate on BABs is shown net of the 35% interest subsidy payable by the U.S. Treasury under the American Recovery and Reinvestment Act of 2009. Beginning on March 1, 2013 federal spending cuts resulting from budget sequestration reduced the BABs interest subsidy by 5.1%. The sequestration rate for federal fiscal year 2019 is 6.2%. BABs subsidy payments are subject to sequestration through federal fiscal year 2024 unless Congress takes action to modify or eliminate the sequester. For budgetary purposes, interest on BABs is included in the City and County's operating budget without deduction of the federal interest subsidy.
- (2) Applicable Index Floating Rate.
- (3) Bonds issued for Honolulu Rail Transit Project.
- (4) Series 2019B Bonds not reimbursable from GET and TAT surcharge.

**Table 10**  
**CITY AND COUNTY OF HONOLULU**  
**DEBT SERVICE CHARGES ON OUTSTANDING GENERAL LONG-TERM DEBT**  
**March 31, 2019 to Maturity <sup>(1)</sup>**

FY Ending June 30	<u>General Obligation Bonds</u>		<u>Other Debt <sup>(2)</sup></u>		<u>Gross Debt Service Charges</u>	<u>Reimbursable Debt</u>		<u>Net Debt Service Charges</u>
	<u>Principal</u>	<u>Interest <sup>(3)</sup></u>	<u>Principal</u>	<u>Interest <sup>(3)</sup></u>		<u>Principal</u>	<u>Interest</u>	
2019	\$ 10,410,000	\$ 39,526,141	\$ 7,599,090	\$560,970	\$ 58,096,201	\$7,599,090	\$ 893,595	\$ 49,603,516
2020	189,200,000	144,444,717	21,686,655	1,887,492	357,218,864	51,789,470	20,180,787	285,248,607
2021	179,825,000	130,784,786	21,338,858	1,701,077	333,649,721	50,956,073	19,000,615	263,693,033
2022	178,720,000	123,951,189	21,239,014	1,526,649	325,436,852	49,691,946	17,922,344	257,822,562
2023	224,945,000	116,787,157	20,460,568	1,358,024	363,550,749	49,198,068	16,885,356	297,467,325
2024	254,300,000	108,759,772	20,434,545	1,201,807	384,696,124	50,208,769	15,790,607	318,696,748
2025	233,260,000	100,145,069	20,502,786	1,046,586	354,954,441	47,500,711	14,677,215	292,776,515
2026	236,085,000	91,525,364	20,570,972	891,140	349,072,476	48,530,037	13,556,587	286,985,852
2027	239,405,000	82,865,753	18,104,873	739,872	341,115,498	47,077,875	12,396,077	281,641,546
2028	240,660,000	74,271,271	10,458,643	613,437	326,003,351	40,481,100	11,212,992	274,309,259
2029	228,445,000	65,953,196	8,715,472	539,971	303,653,639	38,247,676	10,053,084	255,352,879
2030	184,795,000	57,828,522	8,724,834	472,923	251,821,279	38,860,709	8,889,756	204,070,814
2031	165,745,000	49,787,717	8,734,220	405,818	224,672,755	38,452,983	7,706,396	178,513,376
2032	140,965,000	42,722,329	7,976,439	338,584	192,002,352	38,833,630	6,497,492	146,671,230
2033	126,085,000	36,710,134	664,759	18,331	163,478,224	29,934,247	5,054,732	128,489,245
2034	131,885,000	30,886,363	666,425	11,677	163,449,465	31,036,056	3,939,915	128,473,494
2035	115,750,000	25,391,353	668,137	5,009	141,814,499	29,932,809	2,827,281	109,054,409
2036	103,015,000	20,438,939	-	-	123,453,939	20,048,741	1,877,918	101,527,280
2037	95,135,000	15,930,514	-	-	111,065,514	20,889,945	1,044,219	89,131,350
2038	73,010,000	12,222,326	-	-	85,232,326	4,848,589	514,741	79,868,996
2039	56,975,000	9,307,569	-	-	66,282,569	3,116,349	348,811	62,817,409
2040	59,570,000	6,718,532	-	-	66,288,532	3,258,653	213,411	62,816,468
2041	33,845,000	4,687,805	-	-	38,532,805	-	121,280	38,411,525
2042	35,395,000	3,143,790	-	-	38,538,790	-	74,615	38,464,175
2043	30,860,000	1,570,440	-	-	32,430,440	-	25,315	32,405,125
2044	18,255,000	408,250	-	-	18,663,250	-	-	18,663,250
Totals: *	\$ 3,586,540,000	\$ 1,396,768,998	\$ 218,546,290	\$ 13,319,367	\$ 5,215,174,655	\$ 740,493,526	\$ 191,705,141	\$ 4,282,975,988

<sup>(1)</sup> Excludes self-supporting revenue bonds and State revolving fund notes payable.

<sup>(2)</sup> Includes \$218,546,290 State of Hawai'i notes payable for various sewer projects, storm dewatering facility and storm water equipment.

<sup>(3)</sup> Includes loan fees charged to interest for State of Hawai'i notes payable.

\* Totals may not add due to rounding.

## Trend of General Obligation Indebtedness

The following table sets forth the outstanding general obligation indebtedness of the City and County as of June 30 of each of the Fiscal Years ended June 30, 2014 through 2018.

**Table 11**  
**GENERAL OBLIGATION INDEBTEDNESS**  
**Fiscal Years 2014–2018**

<u>General Obligation Bonds</u>					
<u>FY</u> <u>Ended</u> <u>June 30</u>	<u>Non-</u> <u>Reimbursable</u> <sup>(1)</sup>	<u>Reimbursable</u> <u>for Other</u> <u>Purposes</u> <sup>(2)</sup>	<u>Total General</u> <u>Obligation</u> <u>Bonds</u>	<u>Notes</u> <u>Payable</u>	<u>Total General</u> <u>Obligation</u> <u>Debt</u>
2014	\$2,060,209,432	\$562,575,356	\$2,622,784,788	\$666,842	\$2,623,451,630
2015	2,315,209,167	576,023,161	2,891,232,328	341,737	2,891,574,065
2016	2,199,482,264	549,546,277	2,749,028,541	--	2,749,028,541
2017	2,285,896,974	535,796,241	2,821,693,215	--	2,821,693,215
2018	2,764,760,790	529,565,390	3,294,326,180	--	3,294,326,180

<sup>(1)</sup> Direct debt.

<sup>(2)</sup> Pursuant to the State Constitution, the general obligation bonds issued to finance the H-Power waste disposal facilities, water facilities, sewer treatment facilities, the West Loch Subdivision and other low income housing projects may be classified as reimbursable general obligation bonds based on reimbursements having actually been made to the General Fund of the City and County for payment of the principal of and interest on such bonds from the revenues of such undertakings, as determined for the immediately preceding Fiscal Year.

Other than the Series 2017H Bonds, all of the City and County’s outstanding long-term general obligation indebtedness (which excludes general obligation commercial paper indebtedness) has been issued as fixed rate obligations. As described under the caption “DEBT STRUCTURE – Honolulu Rail Transit Project” HART is required to reimburse the City and County for all costs, interest, principal, and debt servicing for the Series 2017H General Obligation Bonds, the Series 2019A Bonds and the Series 2019E Bonds. The City and County has not entered into any derivative product contracts with respect to its general obligation indebtedness and has no outstanding private placements of general obligation indebtedness other than State revolving fund loans, which are reimbursable general obligations for which the General Fund is reimbursed from water and wastewater revenues. State revolving fund loans entered into on or after January 15, 2006 are secured solely by a pledge of wastewater revenues. None of the City and County’s general obligation indebtedness may be accelerated ahead of the holders of the Bonds.

### Reimbursement to General Fund for Debt Service

All general obligation bonds of the City and County are payable as to principal and interest from the General Fund of the City and County. The City Council for certain purposes may require that the General Fund be reimbursed for the payment from such fund of the debt service on certain general obligation bonds, such reimbursement to be made from any revenues, user taxes, assessments or other income derived from the facilities or systems funded by the bonds. To the extent that reimbursements are not made, the City and County would be required to apply other money in the General Fund, including receipts from taxes, to pay debt service on general obligation bonds. As noted in footnote 2 to Table 11 above, reimbursable general obligation bonds have been issued to finance capital projects for water facilities, assessable public improvements, H-Power waste disposal facility, wastewater treatment facilities, the West Loch Subdivision and other low income housing projects. As described under the caption “DEBT STRUCTURE – Honolulu Rail Transit Project” above, HART is also required to reimburse the City and County for all costs, interest, principal, and debt service for the Series 2017H General Obligation Bonds, the Series 2019A Bonds, and the Series 2019E Bonds, as well for any commercial paper notes issued to pay for HART. As shown in the Statement of Funded Debt in Table 8, reimbursable general obligation bonds issued for assessable public improvements, housing projects, H-Power waste disposal facility and wastewater treatment facilities are excluded in determining the funded debt of the City and County beginning in the Fiscal Year when reimbursements are, in fact, made to the General Fund. It is the current policy of the City and County to finance water and wastewater facility improvements with revenue bonds instead of reimbursable general obligation bonds.

## **Pension and Other Post-Employment Benefits Liability**

The City and County provides retirement, disability and death benefits for all regular employees of the City and County through the Employees' Retirement System of the State. See "EMPLOYEE RELATIONS AND EMPLOYEE BENEFITS" herein for a discussion of the City and County's liability under the Employee's Retirement System of the State for the payment of such benefits.

## **Leases**

The City and County has entered into various capital and operating leases expiring at various dates through 2052. The leases are financed from general resources. There are no capital lease expenditures for such leases for the Fiscal Year ended June 30, 2018, and future operating lease expenditures for such leases are projected to be none in the aggregate through 2052.

## **Revenue Indebtedness**

As of March 31, 2019, the Board of Water Supply of the City and County had issued \$206,290,000 of outstanding revenue bonds to finance capital improvements for the water system of the Board of Water Supply. Such revenue bonds are payable solely out of the water system revenues, assets and funds pledged under the applicable security documents. Such revenue bonds are limited obligations of the City and County, are excluded for purposes of determining the funded indebtedness of the City and County, and do not constitute a general or moral obligation or a pledge of the full faith and credit or taxing power of the City and County or the State.

The City and County has issued senior and junior lien revenue bonds to finance improvements to the City and County's wastewater system and to refund certain reimbursable general obligation bonds of the City and County issued to finance the wastewater system. As of March 31, 2019, the outstanding amounts of senior and junior lien revenue bonds were \$1,836,835,000 and \$307,565,645, respectively. Such revenue bond obligations are limited obligations of the City and County, are excluded for purposes of determining the funded indebtedness of the City and County, and do not constitute a general or moral obligation or a pledge of the full faith and credit or taxing power of the City and County or the State.

The City and County has adopted a \$2.5 billion, five-year capital improvement program (Fiscal Year 2019 to Fiscal Year 2023) to upgrade its wastewater treatment plant and collection system facilities and anticipates issuing approximately \$1.6 billion of additional revenue bonds to finance a portion of the costs associated with the program. See also "LITIGATION" herein for a discussion of the consent decree pertaining to the wastewater system.

The City and County has issued and has outstanding private activity revenue bonds for housing purposes for which it served as conduit issuer.

All of the City and County's outstanding revenue indebtedness has been issued as fixed rate obligations. The City and County has not entered into any derivative product contracts with respect to its revenue bond indebtedness and has no outstanding private placements of revenue bond indebtedness other than State revolving fund loans and the Series 2017 Senior Wastewater Revenue Bonds that were issued pursuant to a private placement but are not subject to acceleration.

## **H-Power Waste Disposal Facility**

The H-Power waste disposal facility, a waste-to-energy facility, which produces electricity that is sold to the local electric company has been in commercial operation since May 1990. In October 2012, the City and County completed a \$300 million expansion project at the H-Power facility, adding a third boiler capable of burning an additional 300,000 tons of waste per year. The project included new air-pollution control equipment mandated by federal law, which became operational in April 2011. The additional boiler entered commercial operations on April 2, 2013. In 2009 and 2010, the City and County issued \$325.7 million aggregate principal amount of reimbursable general obligation bonds to fund the costs of the expansion and air-pollution control projects. In 2018, the City and

County advance refunded a series of the Series 2010 bonds and issued \$20,000,000 of bonds to fund improvements to the H-Power facility.

The H-Power facility is the cornerstone of the City and County's integrated solid waste management system. It converts approximately 3,000 tons of waste per day into enough electricity to power 60,000 homes, about 8% of Oahu's electricity consumption. Using waste-to-energy, Honolulu ranks among the top cities in the nation in landfill diversion. The expansion of the plant to add a third boiler enabled the City and County to increase capacity and to process bulky wastes. Modification to accept sewage sludge now keeps that sludge and associated bulky waste out of the landfill. In total the H-Power facility reduces the volume of waste going to the landfill by an estimated 90%, and is a large component in reducing the need for a daily use landfill on the island.

## **Honolulu Rail Transit Project**

***Rail Transit Project Overview and Funding.*** The City and County, through HART, is constructing a new 20-mile fixed guideway Rail Transit Project to provide rail service along Oahu's east-west corridor between East Kapolei and Ala Moana Shopping Center. Nearly 70% of Oahu's population lives within the area served by this corridor, and the population of this area is projected to continue to grow faster than the balance of Oahu.

Given the size and cost of the Rail Transit Project, HART is building the system in four (4) multi-year phases. The first two (2) phases of the Rail Transit Project cover ten (10) miles from East Kapolei to Aloha Stadium. The third phase is five (5) miles from Aloha Stadium to Middle Street, and the fourth phase is just over four (4) miles from Middle Street to the Ala Moana Shopping Center.

Design and construction contracts are in place for fifteen (15) miles of the Rail Transit Project, from East Kapolei through Middle Street. Construction has been completed on the first two phases of the guideway and the Rail Operations Center, including maintenance and storage facilities. The Rail Operations Center was built on property currently owned by the State Department of Hawai'ian Homes Lands pursuant to an interim seventy-five (75) year license to build, pending a complex land exchange for certain other property owned by the City and County, with such exchange being subject to a number of conditions. As of June 30, 2018, more than \$4.8 billion worth of contracts had been awarded with \$3.3 billion incurred for planning and design, site acquisition, vehicles, guideway and track construction. As of May 31, 2019, overall progress of the Rail Transit Project was 53.1% complete.

HART submitted a Recovery Plan to the U.S. Department of Transportation, Federal Transit Administration ("FTA") in September 2017 based upon an estimated project budget of \$8.165 billion for the Rail Transit Project, and a full revenue service date of December 31, 2025. The FTA conducted a Rail Transit Project update ("Risk Refresh") in June 2018 that indicated there was a likelihood that the cost of construction of the Rail Transit Project as currently scoped will exceed its currently budgeted Rail Transit Project revenue by approximately \$134 million, and take until September 2026 to complete. HART, with the concurrence of the City Council, revised and updated its Recovery Plan ("Revised Recovery Plan") to reflect the cost estimate of \$8.299 billion (excluding finance costs) stated in Final Risk Refresh Report. The following tables summarize the costs and sources of funds to complete construction of the Rail Transit Project:

Contract Summary Status	Total Estimate at Completion (millions)
Active Construction (includes allocated contingency)	\$4,080
Unawarded Construction (includes allocated contingency)	\$1,432
Staff and Consultants (includes allocated contingency)	\$1,937
Completed Contracts	\$ 628
Unallocated Contingency	\$ 222
<b>Total Capital Project (excludes finance costs)</b>	<b>\$8,299</b>

Source: Revised Recovery Plan, Figure 5.2 (numbers rounded)

Sources and Uses	Funding (millions)
<b>SOURCES</b>	
Beginning Cash Balance	\$ 298
GET	\$5,990
TAT	\$1,182
Federal Grant	\$1,550
City Subsidy	\$ 214
All Other	\$ 13
<i>Total Funding Sources</i>	<i>\$9,248</i>
<b>USES</b>	
<b>Capital Expenditures exclusive of Financing</b>	<b>\$8,299</b>
Financing Costs (Interest and Fees)	\$ 840
<i>Total Capital Expenditures including Financing Costs</i>	<i>\$9,139</i>
Ending Cash Balance	\$ 109

Source: Revised Recovery Plan, Figure 6.3 (numbers may not match due to rounding)

As shown in the above schedule the primary funding source for budgeted costs related to construction of the Rail Transit Project is identified as revenue generated by the 0.5% general excise and use tax surcharge implemented by the City and County on January 1, 2007, which is projected to total \$5.990 billion from October 2009 through December 31, 2030 (the expiration of the surcharge as extended in 2017). A second major funding source is revenue generated from a dedicated 1.0% increase in the State transient accommodation tax implemented on January 1, 2018, which is expected to total \$1.182 billion through December 2030; and (iii) a \$1.550 billion grant from the FTA, under a full-funding grant agreement (the “FFGA”) dated December 19, 2012. See “CITY AND COUNTY REVENUES – General Fund – Excise and Use Tax” for a discussion of the excise and use tax surcharge imposed by the City and County.

For the fiscal year ended June 30, 2018, the City and County had received \$2.25 billion from the general excise and use tax surcharge, net of administrative fees charged by the State and \$23.63 million in transient accommodations tax. The City and County and HART have drawn down the \$806.27 million obligated by the FTA under the FFGA, except for a nominal amount. The United States Congress has appropriated the remaining \$743.73 million, but the FTA has not yet obligated this amount.

Pending receipt of revenues from general excise and use tax surcharge, the City and County, not HART, has issued bonds to provide interim financing of a portion of the capital improvement costs of the Rail Transit Project. These bonds constitute general obligations of the City and County and, as such, are backed by the full faith and credit of the City and County. However, the City and County and HART have a memorandum of understanding pursuant to which HART is required to reimburse the City and County for debt service and other costs associated with such obligations from collections of the general excise and use tax surcharge and the transit accommodation tax. Only obligations incurred as part of the “City Subsidy” described below will not be reimbursed.

The City and County issued its \$350,000,000 General Obligation Bonds, Series 2017H (Honolulu Rail Transit Project Index Floating Rate Bonds) and \$209,950,000 General Obligation Bonds, Series 2019A (Honolulu Rail Transit Project) Bonds to fund the portion of the Rail Transit Project anticipated to be funded by the surcharge on the excise and use tax and the transient accommodation tax. The proceeds of the Series 2019E Bonds are anticipated to be used for the same purpose. HART is reimbursing the City and County for all costs, interest, principal, and debt service for the Series 2017H and Series 2019A General Obligation Bonds.

HART prepared, the City Council approved, and on June 7, 2019, HART delivered to the FTA the Revised Recovery Plan reflecting a project cost estimate of \$8.299 billion. The revised Recovery Plan provides for a City Subsidy in the total amount of \$214 million. The City and County has issued its Series 2019B Bonds in the principal amount of \$40,075,000 to provide the first installment of the “City Subsidy” in the Revised Recovery Plan. The City and County also approved Ordinance No. 18-39, that limits the total amount of City revenues that may be appropriated

and expended for the costs identified as the City Subsidy in the Revised Recovery Plan to an aggregate total of \$214 million and \$26 million in any fiscal year after FY 2020. The City Council has included the FTA- mandated \$25 million contribution towards construction costs in the fiscal year 2020 capital budget. The City and County anticipates issuing bonds to pay this capital contribution.

**Public Private Partnership.** On September 28, 2018, HART and City and County's Department of Transportation Services ("DTS") entered into a cooperative purchase agreement to jointly procure a design-build-finance-operate-maintain (DBFOM) delivery method that is currently planned to include the construction of the final four (4) miles of the Rail Transit Project, the construction of the Pearl Highlands Garage and Transit Center, and the operations and maintenance of the Rail Transit Project for a thirty (30) year term. HART and DTS issued Part 1 of the Request for Proposals for the P3 DBFOM contract in September 2018. HART and DTS are currently conducting Part 2 of the Request for Proposals solicitation process. Award of the P3 contract is expected to occur in the first quarter of 2020.

**Fiscal Controls.** On January 17, 2019, the HART Board of Directors accepted an Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters prepared by KMH LLP, dated January 4, 2019. The Report cited two material weaknesses and a significant deficiency. First, because HART must prepare its financial statements on an accrual basis but reports on a cash basis during the year various reconciliations must be prepared and adjustments recorded in order to present the financial statements. The Report noted as a material weakness inadequate management review resulting in erroneous preliminary trial balances and supporting schedules that did not reconcile with the trial balance. Second, the Report noted as a material weakness the failure to record an accrual for a certain construction delay claim. Third, the Report noted as a significant deficiency the failure to document change orders to contracts. HART concurred with the findings and has begun steps to implement corrective procedures.

As a condition of extending the general excise and use tax surcharge, the State Legislature requested the State Legislative Auditor to conduct an audit of HART's finances and financial management. The State Auditor released a total of four reports in 2019. The reports: (i) criticized HART for awarding contracts prematurely and inaccurately reporting project costs and completion schedule, and (ii) criticized HART's use of third party consultants rather than City employees to manage and control the project. HART's Board is implementing internal policies and procedures to address these concerns. No further audits are expected in the near future.

On January 17, 2019, the City Auditor issued an audit report stating that HART violated state procurement requirements by making after-the-fact payment to contractors for work done without proper notice to proceed, and criticizing change orders and contract amendments made without proper documentation. Management is working with the HART Board to strengthen the oversight and approval process for change orders and contract amendments.

**Future Operations and Maintenance Costs.** In the November 2016 election, voters approved a Charter amendment to transfer operating and maintenance responsibilities for the Rail Transit Project from HART to DTS. Operation of the rail system will be paid from passenger fares and subsidized by the City and County. The amount, sources of funding, and time period for subsidization by the City and County have not been determined at this time. DTS and HART are discussing the impact of this transfer of responsibilities and expect to finalize an operational and maintenance plan prior to the interim revenue service date of December 2020. The Revised Recovery Plan estimated that the cost to operate the Rail Transit Project for the fiscal year ending June 30, 2021, when interim passenger service is scheduled to commence, will be approximately \$39 million. The Revised Recovery Plan estimated that the cost to operate the Rail Transit Project for the fiscal year ending June 30, 2026, when the system is scheduled to be fully operational will be approximately \$127 million, which will be only partially offset by farebox revenues projected in the amount of approximately \$40 million. In contrast, the City and County currently provides an annual operating subsidy of approximately \$200 million for the City's bus and Handi-Van (accessible ) transportation system.

**Bondholder Risks.** Cost estimates for construction of the remaining phases of the guideway and all twenty-one (21) stations continue to have budgetary risks. Risks associated with this trend fall into four categories: (i) cost increases due to delay, materials, changed scope and site acquisition; (ii) capital costs above projections; (iii) a shortfall of the general excise and use tax surcharge; and (iv) a failure by the FTA to obligate the remaining grant amount and/or a request for reimbursement of amounts drawn under the FFGA. It is not possible to predict at this time whether or to what extent additional cost increases may occur or the timing of the FTA's review, or what financial impact any

such cost increases or delays may have on the rail transit project, HART, or the City and County, including the potential impact of cost increases and funding delays on HART’s ability to reimburse the City and County for debt service payments on debt obligations issued to finance the costs of the rail transit project.

**No Default**

The City and County has never defaulted on the payment when due of the principal of or interest on any indebtedness.

There are no so-called “moral obligation” bonds of the City and County outstanding or authorized which contemplate a voluntary appropriation by the City Council of General Fund revenues in such amounts as may be necessary to make up any deficiency in either a debt service fund or any other funds or accounts.

**BUDGET PROCESS AND FINANCIAL MANAGEMENT**

**Budgets and Expenditures**

The Charter of the City and County provides for (1) an annual executive budget consisting of an operating and capital budget, including a statement of relationships between operating and capital items for the executive branch, and (2) a legislative budget setting forth the expenditures of the legislative branch. Appropriations in the legislative and executive operating budget ordinances are valid only for the Fiscal Year for which made, and any part of such appropriations which has not been expended or encumbered on the basis of firm commitments lapses at the end of the Fiscal Year. Appropriations in the executive capital budget ordinance are valid only for the Fiscal Year for which made and for twelve months thereafter, and any part of such appropriations which is not expended or encumbered lapses twelve months after the end of the Fiscal Year.

Expenditures for capital improvements of the City and County, exclusive of capital outlays of the semi-autonomous Board of Water Supply and HART, for the Fiscal Years ended June 30, 2015 through 2019 are shown in the table below.

**Table 12**  
**EXPENDITURES FOR CAPITAL IMPROVEMENTS**  
**Fiscal Years 2015–2019**  
**(in millions of dollars)**

<b>Fiscal Year</b>	<b>Bond Funds</b>					<b>Cash</b>			<b>Cash as % of Total</b>
	<b>Grand Total</b>	<b>General Obligation</b>	<b>Sewer Revenue</b>	<b>Finance Hsg. Dev.</b>	<b>Total <sup>(1)</sup></b>	<b>Federal Grants</b>	<b>Cash <sup>(2)</sup></b>	<b>Total</b>	
2015 <sup>(3)</sup>	1,475.0	1,131.0	191.3	0.0	1,322.3	51.3	101.4	152.7	10.4%
2016 <sup>(3)</sup>	819.4	529.7	143.5	0.0	673.2	47.8	98.4	146.2	17.8%
2017 <sup>(3)</sup>	2,501.7	1,995.1	372.8	0.0	2,367.9	50.6	83.2	133.8	5.3%
2018 <sup>(4)</sup>	1,299.1	558.3	494.3	0.0	1,052.6	62.9	183.6	246.5	19.0%
2019 <sup>(4)</sup>	2,253.3	1,749.9	204.2	0.0	1,954.1	46.6	252.6	299.2	13.3%

<sup>(1)</sup> Inclusive of encumbrances.

<sup>(2)</sup> Funds from current revenues and surplus.

<sup>(3)</sup> Adjusted for lapses until March 31, 2019.

<sup>(4)</sup> Budgeted amounts plus single purpose added.

**Cash Management and Investments**

The investment of funds by the City and County is governed by and conforms to Section 46-50, Hawai‘i Revised Statutes, which authorizes investments in bonds or interest bearing notes or obligations of the county, of the State, of the United States, or of agencies of the United States for which the full faith and credit of the United States

are pledged for the payment of principal and interest; Federal Farm Credit System notes and bonds; Federal Agricultural Mortgage Corporation notes and bonds; Federal Home Loan Bank notes and bonds; Federal Home Loan Mortgage Corporation bonds; Federal National Mortgage Association notes and bonds; securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof; Tennessee Valley Authority notes and bonds; repurchase agreements fully collateralized by any such bonds or securities; federally insured savings accounts; time certificates of deposit; certificates of deposit open account; bonds of any improvement district of any county of the State, provided the bonds are of investment grade or supported by the general obligation pledge of the county in which the improvement district is located; bank, savings and loan association, and financial services loan company repurchase agreements; student loan resource securities including: student loan auction rate securities, student loan asset-backed notes, student loan program revenue notes and bonds, and securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues, issued with either bond insurance or overcollateralization guaranteed by the United States Department of Education; provided all insurers maintain a triple-A rating by Standard & Poor's, Moody's, Duff & Phelps, Fitch, or any other major national securities rating agency; commercial paper with an A1/P1 or equivalent rating by any national securities rating service; bankers' acceptance with an A1/P1 or equivalent rating by any national securities rating service; and securities of a money market 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 Title 17 of Code of Federal Regulations Section 270.2a-7; provided in each case the investments are due to mature not more than five years from the date of investment.

Chapter 38-3, Hawai'i Revised Statutes, provides for collateralization of all public funds on deposit with banks and savings and loan associations, except that portion of deposits insured under the laws of the United States.

The City and County manages its own investment portfolio in accordance with the foregoing statutes and a written investment policy of the City and County. The City and County does not engage in pooled investments, speculate with investments or leverage its investments. The City and County's investment portfolio does not include any derivative financial instruments or auction rate securities. The City and County's philosophy and policy in managing its investments is: first, for safety of public funds; second, for liquidity, so that funds are available when needed; and third, for yield, after the first two considerations are met.

Interest earnings from funds invested by the City and County totaled \$46 million (unaudited) for the period ended June 30, 2019, representing an investment yield of 2.03% (unaudited).

Under the City Charter, the City and County's Treasury is subject to an audit and verification at such times as necessary, by representatives of the City Council.

### **Inter-Fund Borrowing**

In accordance with the annual budget ordinance, the Director of Budget and Fiscal Services may, with notice to the City Council, use any portion of moneys belonging to any funds under his or her control, except pension or retirement funds, funds set aside for redemption of bonds or the payment of interest thereon, and private trust funds, for the purpose of paying warrants and checks drawn against any fund temporarily depleted. All sums so used are required to be repaid to the credit of the fund from which taken immediately after the replenishment of such depleted fund.

State law also provides that whenever there are moneys in any fund of the City and County, except pension or retirement funds, funds under the control of any independent board or commission, funds set aside for redemption of bonds or the payment of interest thereon and private trust funds, which, in the judgment of the Director of Budget and Fiscal Services of the City and County, are in excess of the amounts necessary for the immediate requirements of the respective funds, and where, in such officer's judgment, such action will not impede the necessary or desirable financial operations of the City and County, said Director may, with notification to the City Council, make temporary transfers or loans therefrom, without interest, to other funds of the City and County for undertaking public improvements for which the issuance and sale of general obligation bonds have been duly authorized by the City Council. Such transfers shall be made only after passage by the City Council of an ordinance or resolution authorizing the public improvements. Amounts transferred under such statutory authorization shall not exceed the total sum of unissued authorized bonds of the City and County. The funds from which the transfers or loans are made shall be

reimbursed by the Director of Budget and Fiscal Services from the proceeds of the bond sales upon the eventual issuance and sale of the bonds, or by appropriations of the City Council.

### **Reserve for Fiscal Stability Fund**

Pursuant to the Charter, the City and County maintains a special fund known as the Reserve for Fiscal Stability Fund designated for economic and revenue downturns and emergency situations. The fund is maintained outside the General Fund in the City and County's Treasury and is available for appropriation only in the event of an emergency or certain economic and revenue triggers, including an increase in unemployment by more than 2% over three fiscal quarters, a decline in net taxable real property value by 2% or more from the preceding Fiscal Year, a decline in General Fund and Highway Fund revenues of 2% or more from the preceding Fiscal Year, a decline in Transient Accommodation Tax revenues of 5% or more from the preceding Fiscal Year, or an increase in nondiscretionary expenditures by more than 5% of the preceding Fiscal Year's revenues. Deposits to the fund are made from General Fund and Highway Fund surpluses and, by resolution, the fund is targeted to be at least 5% of expenditures, with an optimal target equal to 8% of expenditures. The fund balance was \$111.6 million as of June 30, 2018. The City and County has appropriated \$7 million for the fund in Fiscal Year 2019 and budgeted an additional \$7 million for the fund in Fiscal Year 2020. No withdrawals from the Reserve for Fiscal Stability Fund have been made as of the date hereof.

### **Affordable Housing Fund**

Pursuant to the Charter, the City and County maintains a special fund known as the Affordable Housing Fund to be used by the City and County to provide and maintain affordable rental housing for persons earning less than 60% of the median household income in the City and County in order to provide and expand affordable housing and suitable living environments principally for persons of low and moderate income through land acquisition, development, construction and maintenance of affordable housing for rental, provided that the housing remains affordable for at least 60 years. In adopting each Fiscal Year's budget and capital program, the City Council is required to appropriate a minimum of one-half of one percent of the estimated real property tax revenues for deposit into the Affordable Housing Fund. Any balance remaining in the fund at the end of any Fiscal Year will remain in the fund, accumulating from year to year.

### **Clean Water and Natural Lands Fund**

Pursuant to the Charter, the City and County maintains a special fund known as the Clean Water and Natural Lands Fund to be used by the City and County to acquire real estate or any interest in real estate for: land conservation to protect watershed lands in order to preserve water quality and supply; preservation of forests, beaches, coastal areas and agricultural lands; public outdoor recreation and education; preservation of historic or culturally important land areas and sites; protection of significant habitats or ecosystems; conservation of land to reduce erosion, floods, landslides and runoff; and public access to public land and open space. In adopting each Fiscal Year's budget and capital program, the City Council is required to appropriate a minimum of one-half of one percent of the estimated real property tax revenues for deposit into the Clean Water and Natural Lands Fund. Any balance remaining in the fund at the end of any Fiscal Year will remain in the fund, accumulating from year to year. A Charter amendment approved by voters in the 2016 general election established a Clean Water and Natural Lands Advisory Commission, and requires all proposals for use of the funds to be submitted to the Department of Budget and Fiscal Services for review, and qualified proposals to be submitted by the Department to the Commission, which will make a recommendation to the City Council for approval.

### **Grants In Aid Fund**

Pursuant to the Charter, the City and County maintains a special fund known as the Grants in Aid Fund to be used by the City and County to award grants in aid to tax exempt non-profit organizations that provide services to economically and/or socially disadvantaged populations or provide services for public benefit in the areas of the arts, culture, economic development or the environment. In adopting each Fiscal Year's budget and capital program, the City Council is required to appropriate a minimum of one-half of one percent of the estimated General Fund revenues for deposit into the Grants in Aid Fund. In addition, a minimum of \$250,000 from the Grants in Aid Fund must be expended annually in each council district. Any balance remaining in the fund at the end of any Fiscal Year will

remain in the fund, accumulating from year to year. The City Council may waive the requirements pertaining to the annual appropriation of General Fund revenues to the Grants in Aid Fund for any particular Fiscal Year by a two-thirds vote of its entire membership upon a finding that an emergency exists due to a public calamity or that the City and County could not otherwise fulfill its legal obligations. A Charter amendment approved by the voters in the 2016 general election made the Grants in Aid Fund the sole source of funds (with certain specified exceptions) for grants funded by the City and County to tax exempt non-profit organizations for the purposes described above.

### **Honolulu Zoo Fund**

Pursuant to a Charter amendment approved by the voters in the 2016 general election, the Honolulu Zoo Fund was established as a special fund to pay for the operation, repair, maintenance and improvement of the Honolulu Zoo. In adopting each Fiscal Year's budget and capital program, the City Council is required to appropriate a minimum of one-half of one percent of the estimated real property tax revenues for deposit into the Fund. Any balance remaining in the Fund at the end of any Fiscal Year will remain in the Fund, accumulating from year to year. This provision of the Charter will be automatically repealed on June 30, 2023 if the Honolulu Zoo is not accredited by the Association of Zoos and Aquariums, in which event any balance remaining in the Fund will be deposited in the General Fund.

### **Bus Transportation Fund and Transit Management Services Contractor**

Pursuant to City ordinances, the City and County maintains a special fund known as the Bus Transportation Fund into which fund all revenues of the City bus system and special transit service (Handi-Van) system (collectively "Public Transit System") are deposited. City ordinances authorize the City to contract with a private, nonprofit corporation to operate and maintain the Public Transit System. The City has contracted with Oahu Transit Services, Inc. ("OTS") to serve as transit management services contractor. The City owns all of the assets and equipment of the Public Transit System, but OTS operates and maintains the buses and Handi-Vans comprising the Public Transit System and employs 1,900 plus employees. During FY 2018, the City collected fare revenues comprising approximately 21.6% of the Public Transit System's \$261 million annual budget. City general funds accounted for approximately 67.3% of the budget.

Over 90% of OTS's employees are represented by the Hawai'i Teamsters, Local 996, under collective bargaining agreements that expire between March 31, 2019 and June 30, 2025. Pursuant to the Public Transit System management contract, the City reimburses OTS for employee pension contributions paid during the fiscal year, subject to approval through the City's annual budgeting process. Non-bargaining unit employees are covered under a noncontributory, single-employer defined benefit pension plan. City contributions to this plan were \$4.9 million in FY 2018. Bargaining unit employees are covered under the Western Conference of Teamsters Pension Plan, a noncontributory, cost sharing multiple-employer defined benefit pension plan for over 600,000 members. This plan's funded ratio for the 2018 plan year beginning January 1, 2018 was projected to be 92%. City contributions to this plan were \$18.7 million in FY 2018. OTS also maintains separate defined benefit OPEB plans for its bargaining unit and non-bargaining unit employees. Additional information on these retirement obligations may be found at Notes 10 and 11 to the City and County's audited financial statements for FY 2018.

## **FINANCIAL INFORMATION AND ACCOUNTING**

### **Independent Audit**

The Charter of the City and County requires that at least once every year the City Council obtain an independent audit of the accounts and other evidences of financial transactions of the City and County and of every agency. The audit is made by a certified public accountant or a firm of certified public accountants designated by the City Council. The basic financial statements of the City and County for the year ended June 30, 2018, as audited by the firm of KMH LLP, may be found at the City and County's website at <http://www.honolulu.gov/budget/budget-cafr.html>, or may be obtained from the City and County by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawai'i 96813. KMH LLP has not reviewed this Official Statement and has no responsibility with respect to this Official Statement. Information on the City and County's website other than the basic financial statements is not part of this Official Statement.

The financial statements have been prepared in conformity with generally accepted accounting principles, using the accrual basis of accounting. The fund financial statements are prepared on a modified accrual basis, under which expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred and revenues are recorded when earned. Taxes are recorded when levied and other revenues are recorded when they become both measurable and available for the payment of expenses for the current fiscal period. Proprietary fund accounts are maintained on the accrual basis.

**Financial Statements**

The following four tables set forth the balance sheet and the statement of revenues and expenditures and changes in fund balance for the General Fund and the balance sheet and the combined statement of revenues and expenditures and changes in fund balance for all governmental fund types and expendable trust funds for the Fiscal Years shown in such tables. The information set forth in such financial statements has been prepared by the Director of Budget and Fiscal Services of the City and County based on audited financial statements for the Fiscal Years ended June 30, 2014 through 2018, and has been summarized from the Director’s Annual Financial Reports for the related Fiscal Years.

**Table 13**  
**CITY AND COUNTY OF HONOLULU**  
**GENERAL FUND**  
**BALANCE SHEET**  
**For Fiscal Years Ended June 30, 2014 through June 30, 2018**  
**(In thousand dollars)**

	<u>FY Ended June 30, 2014</u>	<u>FY Ended June 30, 2015</u>	<u>FY Ended June 30, 2016</u>	<u>FY Ended June 30, 2017</u>	<u>FY Ended June 30, 2018</u>
<b>ASSETS:</b>					
Cash and securities .....	\$156,569	\$256,132	\$226,590	\$124,601	229,492
Receivables:					
Real property taxes .....	13,394	13,385	12,729	15,330	11,598
Other.....	14,589	16,886	14,192	16,371	17,022
Due from other funds.....	131,169	19,276	20,967	132,327	71,185
<b>Total Assets .....</b>	<b>\$315,721</b>	<b>\$305,679</b>	<b>\$274,478</b>	<b>\$288,629</b>	<b>329,297</b>
<b>LIABILITY AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable.....	\$ 39,176	\$ 28,182	\$ 34,995	\$ 39,354	35,334
Due to other funds.....	30	12	106	1	1
Accrued payroll and fringes.....	23,474	21,938	23,346	24,369	24,445
Deferred revenues .....	12,593	11,241	10,885	10,825	15,432
<b>Total Liabilities .....</b>	<b>\$ 75,273</b>	<b>\$ 61,373</b>	<b>\$ 69,332</b>	<b>\$ 74,549</b>	<b>75,212</b>
<b>Fund Balances:</b>					
Reserved for encumbrances .....	\$ 54,880	\$ 74,282	\$ 65,124	\$ 74,155	81,709
Unreserved-undesignated.....	185,568	170,024	140,022	139,925	172,376
<b>Total Fund Balances .....</b>	<b>240,448</b>	<b>244,306</b>	<b>205,146</b>	<b>214,080</b>	<b>254,085</b>
<b>Total Liabilities and Fund Balances.....</b>	<b>\$315,721</b>	<b>\$305,679</b>	<b>\$274,478</b>	<b>\$288,629</b>	<b>329,297</b>

**Table 14**  
**CITY AND COUNTY OF HONOLULU**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**For Fiscal Years Ended June 30, 2014 through June 30, 2018**  
**(In thousand dollars)**

	FY Ended June 30, 2014	FY Ended June 30, 2015	FY Ended June 30, 2016	FY Ended June 30, 2017	FY Ended June 30, 2018
<b>REVENUES:</b>					
Real property tax <sup>(1)</sup> .....	\$ 895,057	\$ 993,433	\$1,054,429	\$1,131,298	\$1,206,241
Licenses and permits .....	42,699	43,432	43,559	44,641	43,461
Intergovernmental revenues <sup>(2)</sup> .....	41,060	45,521	45,413	45,429	45,494
Charges for services .....	7,867	8,257	7,463	7,263	8,280
Fines and forfeits .....	847	806	878	840	762
Miscellaneous .....	51,384	48,837	51,702	55,463	62,022
Total Revenues .....	<u>\$1,038,914</u>	<u>\$1,140,286</u>	<u>\$1,203,444</u>	<u>\$1,284,934</u>	<u>\$1,366,260</u>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government.....	\$ 131,740	\$ 135,007	\$ 137,729	\$ 149,797	\$ 152,434
Public safety .....	344,315	365,200	380,881	409,075	421,922
Highways and streets .....	2,550	2,588	4,515	7,547	10,167
Sanitation .....	3,841	3,822	3,475	1,012	154
Health and human resources .....	3,837	5,083	8,390	8,857	9,277
Culture and recreation.....	59,272	62,014	67,939	67,908	72,738
Utilities or other enterprises.....	43	--	--	75	7
Miscellaneous.....	212,303	246,646	271,138	289,397	319,996
Capital outlay.....	2,561	3,973	4,900	8,494	3,911
<b>Debt service:</b>					
Principal retirement.....	848	864	521	--	--
Interest charges .....	74	58	26	--	--
Total Expenditures .....	<u>\$ 761,384</u>	<u>\$ 825,255</u>	<u>\$ 879,514</u>	<u>\$ 942,162</u>	<u>\$ 990,606</u>
Excess of Revenues over Expenditures.....	<u>\$ 277,530</u>	<u>\$ 315,031</u>	<u>\$ 323,930</u>	<u>\$ 342,772</u>	<u>\$ 375,654</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Capital Leases.....	\$ --	\$ --	\$ --	\$ --	\$ --
Sales of general fixed assets .....	--	21	345	5	--
Operating transfer-in .....	127,374	121,601	145,455	151,816	158,907
Operating transfer-out .....	(434,975)	(432,795)	(508,890)	(485,659)	(494,556)
Total Other Financing Sources (Uses).....	<u>\$(307,601)</u>	<u>\$(311,173)</u>	<u>\$(363,090)</u>	<u>\$(333,838)</u>	<u>\$(335,649)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses.....	<u>\$ (30,071)</u>	<u>\$ 3,858</u>	<u>\$ (39,160)</u>	<u>\$ 8,934</u>	<u>\$ 40,005</u>
Fund Balance--July 1 .....	270,519	240,448	244,306	205,146	214,080
Prior period adjustment .....	--	--	--	--	--
Fund Balance--June 30 .....	<u>\$ 240,448</u>	<u>\$ 244,306</u>	<u>\$ 205,146</u>	<u>\$ 214,080</u>	<u>\$ 254,085</u>

<sup>(1)</sup> Includes public service company taxes collected in lieu of real property taxes. See "CITY AND COUNTY REVENUES – General Fund – Public Service Company Tax" herein.

<sup>(2)</sup> Beginning in Fiscal Year 2012, all monies collected for the county surcharge on state excise and use tax are recorded as general revenues of HART rather than as general revenues of the City and County.

**Table 15**  
**CITY AND COUNTY OF HONOLULU**  
**GOVERNMENTAL FUNDS – STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**For Fiscal Year Ended June 30, 2018 with Comparative Totals For Fiscal Year Ended June 30, 2017 (In thousand dollars)**

	Governmental Funds				Totals (Memorandum Only)	
	General Fund <sup>(1)</sup>	Highway Fund	G.O. Bond & Interest Redemption Fund	Other Governmental Funds	2018	As Restated 2017
Revenues:						
Taxes	\$ 1,206,241	\$ 94,075	\$ --	\$ 17,589	\$ 1,317,905	\$ 1,233,030
Special assessments	--	--	--	1	1	3
Licenses and permits	43,461	153,112	--	5,883	202,456	183,126
Intergovernmental	45,494	--	--	148,370	193,864	196,166
Charges for services	8,280	4,771	--	23,066	36,117	34,232
Fines and forfeitures	762	14	--	192	968	920
Miscellaneous:						
Reimbursements and recoveries <sup>(2)</sup>	47,761	2,924	6,961	--	57,646	53,034
Interest	8,914	--	318	1,015	10,247	3,867
Other - primarily rents, concessions, trust receipts	6,384	2,692	--	20,707	29,783	26,434
<b>Total revenues</b>	<b>\$ 1,367,297</b>	<b>\$ 257,588</b>	<b>\$ 7,279</b>	<b>\$ 216,823</b>	<b>\$ 1,848,987</b>	<b>\$ 1,730,812</b>
Expenditures:						
Current:						
General government	\$ 152,486	\$ 23,007	\$ --	\$ 11,897	\$ 187,390	\$ 180,019
Public safety	421,922	33,259	--	11,855	467,036	456,401
Highways and streets	10,167	19,158	--	3,398	32,723	33,774
Sanitation	154	--	--	82	236	1,015
Health and human resources	15,756	--	--	98,584	114,340	98,392
Culture-Recreation	72,738	--	--	28,980	101,718	94,737
Utilities or other enterprises	7	2,347	--	30,565	32,919	43,282
Miscellaneous:						
Retirement and health benefits	287,684	34,438	--	13,141	335,263	303,550
Other	32,312	2,594	--	524	35,430	30,802
Capital outlay	3,911	576	--	232,283	236,770	273,847
Debt service:						
Principal retirement	--	--	162,764	--	162,764	175,468
Interest charges	--	--	99,446	--	99,446	96,193
Bond issuance costs	--	--	1,785	--	1,785	687
<b>Total expenditures</b>	<b>\$ 997,137</b>	<b>\$ 115,379</b>	<b>\$ 263,995</b>	<b>\$ 431,309</b>	<b>\$ 1,807,820</b>	<b>\$ 1,788,167</b>
Revenues over (under) Expenditures	\$ 370,160	\$ 142,209	\$ (256,716)	\$(214,486)	\$ 41,167	\$ (57,355)
Other financing sources (uses):						
Proceeds of tax-exempt commercial paper	\$ --	\$ --	\$ 120,000	\$ --	\$ 120,000	\$ 130,000
Proceeds of general obligation bonds	--	--	350,000	215,321	565,321	134,925
Proceeds of refunding bonds	--	--	166,521	--	166,521	87,090
Bond Premium/(Discount)	--	--	29,853	34,693	64,546	34,233
Repayment from component unit <sup>(2)</sup>	--	--	--	--	--	--
Refunding of bonds and commercial paper	--	--	(232,819)	--	(232,819)	(94,592)
Loss on refunding bonds	--	--	--	--	--	(10,963)
Advance to component unit <sup>(2)</sup>	--	--	--	--	--	--
Sales of fixed assets	--	493	--	--	493	780
Operating transfers in	173,272	--	235,802	14,428	423,502	400,233
Operating transfers out	(494,558)	(157,665)	--	(14,148)	(666,371)	(633,559)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (321,286)</b>	<b>\$ (157,172)</b>	<b>\$ 669,357</b>	<b>\$ 250,294</b>	<b>\$ 441,193</b>	<b>\$ 48,147</b>
Revenues and Other Sources over (under) Expenditures and Other Uses	48,874	(14,963)	412,641	35,808	482,360	(9,208)
Fund Balances – July 1 as previously stated/restated	326,346	43,059	80,000	81,270	530,675	539,883
<b>Fund Balances – June 30</b>	<b>\$ 375,220</b>	<b>\$ 28,096</b>	<b>\$ 492,641</b>	<b>\$ 117,078</b>	<b>\$ 1,013,035</b>	<b>\$ 530,675</b>

<sup>(1)</sup> General Fund figures differ from previous table. General Fund figures above include certain revenues and expenditures attributed to the General Fund under Governmental Auditing Standards Board Statement No. 54.

<sup>(2)</sup> The City determined that advances and repayments from component units reported as other financing sources and uses in the General Obligation Bond and Interest Redemption Fund should have been reported as balance sheet transactions and as of June 30, 2017, resulting in an adjustment of \$80M to the July 1, 2017 net position, and reimbursement of financing costs were reclassified from other financing sources to revenues.

**Table 16**  
**CITY AND COUNTY OF HONOLULU**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**For Fiscal Years Ended June 30, 2014 through June 30, 2018**  
(In thousand dollars)

	FY Ended June 30, 2014	FY Ended June 30, 2015	FY Ended June 30, 2016	As Restated FY Ended June 30, 2017	FY Ended June 30, 2018
<b>REVENUES:</b>					
Taxes .....	\$1,011,072	\$1,109,836	\$1,162,021	\$1,233,030	1,317,905
Special assessments.....	5	5	4	3	1
Licenses and permits.....	173,233	177,867	181,696	183,126	202,456
Intergovernmental revenues .....	201,624	189,868	206,181	196,166	193,864
Charges for services.....	33,150	34,066	32,998	34,232	36,117
Fines and forfeitures.....	927	973	970	920	968
Miscellaneous <sup>(2)</sup> .....	76,911	74,743	73,636	83,335	97,676
Total Revenues.....	<u>\$1,496,922</u>	<u>\$1,587,358</u>	<u>\$1,657,506</u>	<u>\$1,730,812</u>	<u>\$1,848,987</u>
<b>EXPENDITURES:</b>					
Current:					
General government .....	\$ 167,707	\$ 166,414	\$ 170,516	\$ 180,019	187,390
Public safety .....	390,443	410,702	426,883	456,401	467,036
Highways and streets.....	22,658	26,193	28,376	33,774	32,723
Sanitation .....	3,907	3,822	3,685	1,015	236
Health and human resources.....	92,127	90,973	97,293	98,392	114,340
Culture-Recreation .....	86,537	88,415	94,610	94,737	101,718
Utilities or other enterprises .....	37,329	58,420	62,775	43,282	32,919
Miscellaneous <sup>(2)</sup> .....	250,563	284,343	310,913	334,352	370,693
Capital outlay .....	206,483	157,512	218,948	273,847	236,770
Debt service:					
Principal retirement.....	115,925	97,055	116,249	175,468	162,764
Interest charges .....	97,765	88,106	99,244	96,193	99,446
Bond issuance costs.....	--	2,052	--	687	1,785
Total Expenditures .....	<u>1,471,444</u>	<u>1,474,007</u>	<u>1,629,492</u>	<u>1,788,167</u>	<u>1,807,820</u>
Revenues over (under) Expenditures.....	<u>\$ 25,478</u>	<u>\$ 113,351</u>	<u>\$ 28,014</u>	<u>\$ (57,355)</u>	<u>\$ 41,167</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds of general obligation bonds .....	\$ 11,152	\$ 280,845	\$ --	\$ 134,925	565,321
Proceeds of tax-exempt commercial paper.....	--	100,000	--	130,000	120,000
Proceeds of refunding bonds.....	--	517,146	--	87,090	166,521
Payment of refunded bonds/commercial paper .....	--	(546,799)	--	--	--
Bond premium/(discount).....	--	125,697	--	34,233	64,546
Repayment from component unit <sup>(2)</sup> .....	--	--	--	--	--
Refunding of bonds and commercial paper.....	--	--	--	(94,592)	(232,819)
Loss on refunding bonds .....	--	(44,822)	--	(10,963)	--
Advance to component unit <sup>(2)</sup> .....	--	--	--	--	--
Sales of fixed assets .....	203	316	972	780	493
Operating transfers-in .....	371,055	338,450	415,385	400,233	423,502
Operating transfers-out .....	(590,213)	(568,389)	(661,117)	(633,559)	(666,371)
Total Other Financing Sources (Uses).....	<u>\$(207,803)</u>	<u>\$202,444</u>	<u>\$(244,760)</u>	<u>\$ 48,147</u>	<u>\$ 441,193</u>
Special Item: Contribution to component unit .....	--	--	--	--	--
Net change in fund balances .....	<u>\$(182,325)</u>	<u>\$315,795</u>	<u>\$(216,746)</u>	<u>\$ (9,208)</u>	<u>\$ 482,360</u>
Fund Balances—July 1 .....	\$ 637,553	\$ 440,834	\$ 756,629	\$ 539,883	\$530,675
Prior period adjustment <sup>(1)</sup> .....	(14,394)	--	--	--	--
Fund Balances—June 30 .....	<u>\$ 440,834</u>	<u>\$ 756,629</u>	<u>\$ 539,883</u>	<u>\$ 530,675</u>	<u>1,013,035</u>

<sup>(1)</sup> In Fiscal Year 2014, the City and County determined that its pension expense was understated for prior fiscal years. As a result, fringe benefits and current liabilities were restated resulting in an adjustment of \$14.4 million to the July 1, 2013 balance of all governmental fund types.

<sup>(2)</sup> The City determined that advances and repayments from component units reported as other financing sources and uses in the General Obligation Bond and Interest Redemption Fund should have been reported as balance sheet transactions as of June 30, 2017, resulting in an adjustment of \$80M to the July 1, 2017 net position and reimbursement of financing costs were reclassified from other financing sources to revenues.

## EMPLOYEE RELATIONS AND EMPLOYEE BENEFITS

### Employee Relations

Article XIII of the State Constitution grants public employees in Hawai'i the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawai'i Revised Statutes, as amended, provides for 14 recognized bargaining units ("BU"s) for all public employees in the State, including City and County employees. Nine of these bargaining units represent City and County employees: BU 01 (blue-collar non-supervisory employees), BU 02 (blue-collar supervisory employees), BU 03 (white-collar non-supervisory employees), BU 04 (white-collar supervisory employees), BU 10 (institutional health and correctional workers), BU 11 (firefighters), BU 12 (police officers), BU 13 (professional and scientific employees), and BU 14 (ocean safety and water safety officers).

Each bargaining unit designates an employee organization as the exclusive representative of all employees of the unit, which organization negotiates with the public employer. The State and the counties are required to bargain collectively with the bargaining units. Decisions by the employer representatives are determined by simple majority vote. For matters concerning BUs 01, 02, 03, 04, 10, 13 and 14, the Governor has six votes and each of the county mayors, the Chief Justice of the State Supreme Court and the board of directors of the Hawai'i Health Systems Corporation has one vote if such employers have employees in the particular bargaining unit. For matters concerning BUs 11 and 12, the Governor has four votes and each of the county mayors has one vote.

In the event of an impasse, blue-collar non-supervisory employees are permitted to conduct a strike after following prescribed impasse procedures. In the case of the City and County's other bargaining units, any impasse is required to be resolved through mediation and compulsory final and binding arbitration. Although the statute characterizes arbitration as "final and binding," it also provides that all cost items are subject to approval by the respective legislative bodies of the State and each county. The State and the four counties must collectively approve the cost items before the cost items may take effect. If any legislative body rejects any cost item, the parties will need to return to the bargaining table. In the case of blue-collar workers, if final and binding arbitration is not agreed upon, it could result in a strike. The other bargaining units are prohibited from striking by law. Certain employees are not party to a formal labor contract including excluded management employees, elected and appointed officials, and certain contractual hires.

The status of awards for wages and health benefits for the period from July 1, 2017 to June 30, 2019 (June 30, 2021 with respect to certain bargaining units) and negotiations for the period beginning July 1, 2019 is as follows:

BU 01 (blue-collar workers): An agreement was ratified by the United Public Workers ("UPW") on August 14, 2017, covering the four-year period from July 1, 2017, through June 30, 2021. The agreement provided for across the board wage adjustments of 2% on July 1, 2019, and 2% on July 1, 2020. Pursuant to a "reopener" provision in the agreement, the parties conducted further negotiations in April 2019 and reached an agreement that provides for an across the board wage adjustment of 1.2% on January 1, 2020, and 1.2% on January 1, 2021. The "reopener" agreement was ratified by UPW on April 25, 2019. On June 5, 2019, the City Council approved appropriations for these wage adjustments pending approval from all respective legislative bodies.

BU 02 (blue-collar supervisors): An arbitration award was issued April 27, 2017, for the two-year period July 1, 2017, through June 30, 2019. The award provides for across the board wage adjustments of 1.2% on January 1, 2019, and for continuation of step movement adjustments for eligible employees. Negotiations with Hawai'i Government Employees Association, Local 152, AFSCME ("HGEA") regarding a new contract for the two-year period beginning July 1, 2019, reached an impasse, and the Hawai'i Labor Relations Board ("HLRB") set the impasse date as December 10, 2018. The arbitration hearing is scheduled for the week starting November 18, 2019.

BU 03 (white-collar workers): An arbitration award was issued April 27, 2017, for the two-year period July 1, 2017, through June 30, 2019. The award provides for across the board wage adjustments of 1.25% on January 1, 2019. Employees on Step A move to Step B. Negotiations with HGEA regarding a new contract for the two year period beginning July 1, 2019, reached an impasse, and the HLRB set the impasse date as November 7, 2018. The arbitration hearing is scheduled for the week starting January 13, 2020.

BU 04 (white-collar supervisors): An arbitration award was issued April 27, 2017, for the two-year period July 1, 2017, through June 30, 2019. The award provides for across the board wage adjustments of 1.25% on January 1, 2019. Employees on Step A move to Step B. Negotiations with HGEA regarding a new contract for the two-year period beginning July 1, 2019, reached an impasse, and the HLRB set the impasse date as November 21, 2018. The arbitration hearing is scheduled for the week starting September 30, 2019.

BU 10 (institutional health and correctional workers): An agreement was ratified by the UPW covering the four-year period from July 1, 2017, through June 30, 2021. The contract provided for across the board wage adjustments of 2.0% on July 1, 2019, and 2.0% on July 1, 2020. Pursuant to a “reopener” provision in the agreement, the parties conducted further negotiations in April of 2019 and reached an agreement that provides for across the board wage adjustment of 0.74% on January 1, 2020, and 1.07% on January 1, 2021. The “reopener” agreement was ratified by UPW on April 25, 2019. On June 5, 2019, the City Council approved appropriations for these wage adjustments.

BU 11 (firefighters): An arbitration award was issued April 8, 2019, covering the two-year period from July 1, 2019, through June 30, 2021. The award provides for across the board wage adjustments of 2% on July 1, 2019, and 2% on July 1, 2020. The award also provides for the continuation of step movement adjustments for eligible employees, a new intergovernmental movement catch-up step movement program, and a lump sum bonus ranging from \$1,800 to \$2,500 payable on July 1, 2019 and July 1, 2020.

BU 12 (police officers): An arbitration award was issued November 7, 2017 covering the four-year period from July 1, 2017, through June 30, 2021. The award provides for across the board wage adjustments of 2% on July 1, 2019, and 2% on July 1, 2020. The award also provides for continuation of step movement adjustments for eligible employees, a \$500 increase to firearm maintenance allowance, and lump sum bonuses ranging from \$1,800 to \$2,500 payable on July 1, 2019, and July 1, 2020.

BU 13 (professional and scientific employees): An arbitration award was issued April 27, 2017 for the two-year period July 1, 2017, to June 30, 2019. Negotiations with HGEA regarding a new contract for the two-year period beginning July 1, 2019, reached an impasse, and the HLRB set the impasse date as October 31, 2018. The arbitration hearing is scheduled for the week starting October 14, 2019.

BU 14 (ocean safety and water safety officers): An arbitration award was issued on April 6, 2018, for the two-year period July 1, 2017, through June 30, 2019. Negotiations with HGEA regarding a new contract for the two-year period beginning July 1, 2019, reached impasse, and the HLRB set the impasse date as December 10, 2018. The arbitration hearing is scheduled for the week starting on January 20, 2020.

## **Employee Benefits**

Set forth below is certain information regarding health care benefits, pension benefits and other post-employment benefits for which City and County employees are eligible. The information included under the captions “Pensions” and “Other Post-Employment Benefits” below relies on information produced by the Employees’ Retirement System of the State (the “System” or “ERS”) and the Hawai’i Employer-Union Health Benefits Trust Fund (the “Trust Fund” or “EUTF”), respectively. Actuarial assessments are “forward-looking” information that reflect the respective judgments of the fiduciaries of the ERS and the Trust Fund. Such actuarial assessments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experiences of the ERS and the Trust Fund.

The EUTF operates as an agent multiple-employer plan, meaning separate accounts are maintained for each employer. Although assets are pooled for investment purposes, the contributions of each employer, such as the City and County, may provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each employer to determine that employer’s contribution rate.

ERS, on the other hand, operates under a cost-sharing arrangement. The System’s assets are used to pay benefits to retirees of any employer.

### *Health Care Benefits*

All regular employees of the City and County are eligible for coverage under health plans provided through the Trust Fund, which was established in 2003 to design, provide and administer health and other benefit plans for State and county employees, retirees and their dependents. The Trust Fund is administered by a ten-member Board of Trustees (the “Board”) appointed by the Governor comprised of five union representatives and five management representatives. The Board is responsible for determining the nature and scope of health plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, ruling on eligibility and establishing management policies for the Trust Fund and overseeing Trust Fund activities. The Trust Fund currently provides medical, prescription drug, dental, vision, chiropractic and group life benefits. Benefits with respect to regular employees are funded by a combination of employer contributions set by collective bargaining agreement or by executive order (with respect to non-union employees) and employee contributions through payroll deductions. Benefits for retirees are funded by a statutory formula.

In recent years, public and private health plan providers nationwide and in Hawai`i, including the Trust Fund, have experienced substantial increases in health care costs. In the case of the Trust Fund, the current fiscal situation faced by the State and county employers has made it extremely difficult for the employers to increase employer contributions for health benefits in order to maintain the historical employer-employee contribution ratio. In the past, the Board has attempted to mitigate health plan rate increases by modifying benefits, and employees have been required to bear a larger share of the increased rates. The City and County cannot predict what actions will be taken (including changes to future plan benefits or employer-employee contribution rates) to address the impact of rising health care costs on the Trust Fund or what financial effects such changes may have on the City and County.

### *Other Post-Employment Benefits*

Beginning with the Fiscal Year ending June 30, 2008, state and local governments are required to account for and report other post-employment benefits (“OPEBs”) under Statement No. 45 (“GASB 45”) issued by the GASB. OPEBs consist of certain health and life insurance benefits provided through the Trust Fund to retired State and county employees and their dependents, including retired City and County employees and their dependents. Beginning in Fiscal Year 2015, employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on an actuarial analysis of the amounts required to prefund the retiree benefits. The Trust Fund operates as an agent multiple employer defined benefit plan; liabilities and contribution requirements are measured for each participating government employer and the assets of each employer are held in separate accounts, although pooled for investment purposes.

The following table describes the number of retired and active City and County employees receiving OPEBs at July 1, 2017 and July 1, 2018:

**Table 17**

**City and County of Honolulu  
Retiree Health Care Plan Membership**

<b><u>Category</u></b>	<b><u>July 1, 2017</u></b>	<b><u>July 1, 2018</u></b>
Retirees	7,185	7,370
Deferred Inactives	885	911
Actives	8,612	8,576

Since July 1, 2017, the Trust Fund has been required to complete annual actuarial studies of the OPEB obligations of the State and each of the four counties. In the most recent actuarial valuation report as of July 1, 2018, the Trust Fund’s actuarial consultant calculated the Annual Required Contributions for the Fiscal Years ending June 30, 2020 and 2021 and provided an estimate of the actuarial accrued OPEB liabilities under GASB 45 for each participating employer. The City and County’s actuarial accrued liability was estimated to be \$2.357 billion, its unfunded actuarial accrued liability was estimated to be \$1.893 billion, with a funded ratio of 19.7%. The actuarial calculations for the City and County assumed full prefunding of its obligation and a discount rate of 7%.

The City and County reported a net OPEB unfunded actuarial accrued liability of \$1.893 billion as of July 1, 2018, compared with \$1.869 billion as of July 1, 2017. Based on this valuation, the City and County’s consulting actuary determined the City and County’s annual required contribution (“ARC”) is estimated to be approximately \$183.677 million for Fiscal Year 2020 and \$190.106 million for fiscal year 2021 with full prefunding, compared to \$177.331 million for Fiscal Year 2019. The City and County’s annual OPEB ARC was \$166.8 million for Fiscal Year 2018 and \$161.2 million for Fiscal Year 2017.

The City and County’s net OPEB unfunded actuarial accrued liability for Fiscal Year 2018 was allocated among various funds as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$1,668,749,000
Sewer Fund	115,525,000
Transportation Fund	4,113,000
Refuse	74,960,000
H-Power	561,000
Glass Incentive	187,000
Recycling	<u>5,234,000</u>
Total:	\$1,869,329,000

Transfers to the Trust Fund to prefund the City and County’s OPEB obligations are determined on a year-by-year basis. For Fiscal Years 2014–2019, the City and County transferred the following respective amounts to the Trust Fund for this purpose: \$41.5 million, \$47.1 million, \$30.8 million, \$48.8 million, \$63.1 million and \$83.7 million.

Act 268, Session Laws of Hawai`i 2013, requires the Hawai`i Employer-Union Health Benefits Trust Fund (“EUTF”) to establish and administer a separate trust fund account for each public employer for the purpose of receiving irrevocable employer contributions to prefund OPEB benefit costs. The City and County’s previous prefunding contributions and related net investment earnings were transferred to its OPEB Trust account. Act 268 requires all public employers within the State to contribute annually to the Trust Fund the full amount of their actuarially-determined contributions beginning in Fiscal Year 2019, and obligates the State finance director to use the transient accommodations tax and other revenues collected by the State on behalf of a county to supplement deficient county contributions. The Act’s full-funding requirement is being phased in over a five-year period, with employers required to contribute 20% of their actuarially-determined contributions in Fiscal Year 2015, 40% in Fiscal Year 2016, 60% in Fiscal Year 2017, 80% in Fiscal Year 2018 and 100% in Fiscal Year 2019. The Trust actuary determines the contributions required under Act 268 by first establishing the amount of the full actuarially-determined Annual Required Contribution (“ARC”), then deducting the amount estimated to be paid by the employer to cover pay-as-you-go benefits, then applying the required payment percentage (e.g. 80% for FY 2018) to the remaining portion of the full ARC.

The following table shows the City and County’s ARC, actual contributions and, for fiscal years 2012 to 2019, the contribution requirements of Act 268. Through Fiscal Year 2018 the City and County has exceeded the percentage of ARC requirement.

**Table 18****City and County of Honolulu: History of OPEB Contributions  
(Dollars in Thousands)**

Fiscal Year	OPEB ARC	Benefit Payment (Pay-Go)	EUTF Trust Deposit	Total City Contribution	% of ARC Paid	Act 268 Minimum Percentage	Act 268 Minimum Contribution <sup>(1)</sup>
2012	\$153,979	\$63,077	\$40,000	\$103,077	67%	0%	NA
2013	140,695	68,101	38,500	106,601	76	0	NA
2014	144,624	65,511	41,540	107,051	74	0	NA
2015	147,058	64,683	47,123	111,806	76	20	\$15,708
2016	152,205	69,470	30,845	100,315	66	40	30,845
2017	161,233	79,905	48,797	128,702	80	60	48,797
2018	166,876	87,989	63,110	151,009	91	80	63,110
2019	177,331	93,600	83,731	177,331	100	100	83,731

<sup>(1)</sup> The Act 268 minimum contributions are based on the required statutory percentages applied to the difference between the ARC and projected pay-as-you-go amounts of \$68.518 million for FY 2015 and \$75.092 million for FY 2016, rather than the actual pay-as-you-go amounts for retirees.

The following table sets forth the OPEB funding progress for the City and County since FY 2009:

**Table 19****City and County of Honolulu: OPEB Funding Progress  
(Dollars in Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2018	\$464,588	\$2,357,481	\$1,892,893	19.7%	\$659,664	286.9%
July 1, 2017	372,671	2,241,999	1,869,328	16.6	647,203	288.8
July 1, 2015	242,593	2,009,083	1,766,490	12.1	613,054	288.1
July 1, 2013	123,406	1,795,635	1,672,229	6.9	551,642	303.1
July 1, 2011	40,177	1,776,061	1,735,884	2.3	548,355	316.6
July 1, 2009	40,110	1,924,859	1,884,749	2.1	556,742	338.5

The OPEB ARC, actuarial accrued liability, and unfunded actuarial accrued liability are provided by the Trust Fund's actuary, measured in the most recent actuarial valuation report as of July 1, 2018. Significant actuarial methods and assumptions utilized in the Trust Fund's 2018 Actuarial Valuation Report are as follows:

Amortization method	Level percentage, closed
Equivalent single amortization period	20.1 years
Asset valuation method	Market
Actuarial assumptions	
Inflation rate	2.50%
Investment rate of return	7.00%
Projected salary increase	3.50%
Healthcare inflation rates	
PPO	6.60%, 6.60% and 9.00% initial, declining to 4.86% after 14 years
HMO	9.00% initial, declining to 4.86% after 14 years
Dental	3.50%
Vision	2.50%
Medicare Part B	2.00% and 5.00% initial, declining to 4.70% after 14 years
Life Insurance	0.00%

In June, 2015, GASB approved new accounting and financial reporting standards for state and local government OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 74) applies to OPEB plans. Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) applies to state and local employers that sponsor OPEB. Generally, the new OPEB standards parallel those applied to defined-benefit pension plans and participating employers by GASB 67 and 68, respectively. The new standards introduce new procedures for measuring OPEB liabilities and costs, require employers to report a net OPEB liability on their financial statements, and require more extensive disclosure in plan and employer financial statements. GASB 74 will be effective for plans with fiscal years beginning after June 15, 2016. The Trust Fund has implemented GASB 75 for fiscal years beginning July 1, 2016, and July 1, 2017, and has prepared its GASB 75 report for the fiscal year ended June 30, 2018. The City and County implemented Statement 75. The implementation resulted in a restatement of \$1,241.4 million to the net position of the City for the fiscal year ended June 30, 2017.

### *Pensions*

All eligible employees of the City and County are covered under the Employees' Retirement System of the State (the "System" or "ERS"), a cost-sharing, multiple employer defined benefit pension plan that provides retirement, disability and death benefits funded by employee contributions and by employer contributions. This section contains certain information relating to the System, derived primarily from information produced by the System, its independent accountant, and its actuary. The City and County 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.hawaii.gov>, and other information about the System is available on the System's website at <http://ers.hawaii.gov>. Such documents and other information are not incorporated herein by reference.

The System uses a variety of assumptions to calculate the total pension liability, net pension liability, annual pension expense and other actuarial calculations and valuations of the System and, in turn, to attribute a share of its liabilities and costs to participating employers, including the City and County. No assurance can be given that any of the assumptions underlying such calculations and valuations will reflect the actual results experienced by the System. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's total pension liability, net pension liability or funded ratio and, in turn, the City and County's share of the System's costs and liabilities. 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.

*General Information*. The System began operation on January 1, 1926. 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 State 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 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.

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement plans. The three plans provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. For members hired before January 1, 1971, AFC is the higher of the average salary earned during five highest paid years of service, including the payment of salary in lieu of vacation, or the three highest paid years of service excluding the payment of salary in lieu of vacation. For members hired on or after January 1, 1971

and before July 1, 2012, AFC is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For members hired after June 30, 2012, AFC is based on the five highest paid years of service, excluding the payment of salary in lieu of vacation.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees. Further details of the benefits provisions of the pension plans may be found in the City and County's Comprehensive Annual Financial Report and in the financial and actuarial reports of the System. The System is funded from contributions by employers and, for the contributory and hybrid plans, by employees as well. Employer contribution rates are set by statute.

#### City and County Pension Liabilities

This section contains certain historical information regarding the City and County's pension obligations at June 30, 2018, as set forth in the City and County's Comprehensive Annual Financial Report for the fiscal year ended on that date. Such historical information is derived from the System's 2017 actuarial valuation report (the "2017 Valuation Report"), as the City and County's proportionate share of pension liability is based on the System's valuation at the end of the preceding fiscal year.

As of Fiscal Year 2015, the City and County's financial reporting for pensions conforms to GASB Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions. GASB 68 requires government employers participating in cost sharing multi-employer plans such as ERS to report a proportionate share of the net pension liability and pension expense of the plan. These measurements were provided by the System's consulting actuary, based on the actuarial valuation of the System.

At June 30, 2018, the City and County reported a liability of \$2.307 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System's net pension liability as of June 30, 2017 was \$12.950 billion. The City and County's proportion of the net pension liability was based on the actual employer contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2017, the City and County's proportion was 17.816%, which was a decrease of 0.0352% from its proportion measured as of June 30, 2016.

For the Fiscal Year ended June 30, 2018, the City and County recognized pension expense of \$336 million.

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. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for Fiscal Year 2018 were 28.00% for police and firefighters and 18.00% for all other employees. Contributions to the System from the City and County, excluding its component units, for June 30, 2018, 2017, and 2016 were \$157.686 million, \$139.569 million and \$129.245 million, respectively.

The employer is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory plan employees hired after June 30, 2012, general employees are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid plan members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0% of their salary.

**Table 20**

**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS**

<b>Fiscal Year (June 30)</b>	<b>Statutorily Required Contribution</b>	<b>Actual Contributions Recognized by the Plan</b>	<b>Contribution Deficiency (Excess)</b>	<b>City and County's Covered Payroll</b>	<b>Contributions as a % of Covered Payroll</b>
2013	\$ 93,503	\$ 87,840	\$ (5,663)	\$509,130	17.25%
2014	102,885	87,979	(14,906)	536,304	16.40
2015	121,465	132,308	10,843	578,043	22.89
2016	135,217	129,245	(5,972)	599,494	21.56
2017	140,342	139,569	(773)	626,639	22.27
2018	152,657	157,686	5,029	640,203	24.63

The following table presents the sensitivity of the City and County's proportionate share of the net pension liability, recorded at June 30, 2018, calculated using the discount rate of 7.00%, as well as the City and County's proportionate share of the net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%):

**Table 21**

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
City and County's share of net pension liability (\$000)	\$3,029,030	\$2,307,225	\$1,712,060

The total pension liability in the 2017 Valuation Report was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Payroll growth rate	3.50% per annum
Investment rate of return	7.00% per annum

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA. Post-retirement mortality rates were based on either the Client Specific Tables, for general employees, or the 1994 US Group Annuity Mortality Static Table, for police and firefighters. Pre-retirement mortality rates were based on the RP-2000 Mortality Tables.

The actuarial assumptions used in the 2017 Valuation Report were based on the results of an actuarial experience study for the five-year period ending June 30, 2015. ERS updates the experience study every five years.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The discount rates used to measure the net pension liability at June 30, 2018, 2017, and 2016 were 7.00%, 7.00% and 7.00%, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the City and County will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and

inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Hawai'i Employees' Retirement System

The City and County's pension expense and liability is directly dependent on the overall performance and condition of the ERS. This section provides additional information on the System. While the ERS has adopted GASB 67, and all of its participating employers, including the City and County, have adopted GASB 68, the System's actuary continues to provide an annual actuarial valuation report that is based on the provisions of Chapter 88 of the Hawai'i Revised Statutes, as amended, and the actuarial assumptions adopted by the ERS Board of Trustees. This actuarial valuation 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 the ERS, and analyzes changes in the ERS's condition. The information presented in this section is derived from the 2018 Valuation Report, presenting the actuarial condition of the ERS as of June 30, 2018.

The demographic data for each annual June 30 valuation is collected as of the March 31 preceding the valuation date. As of March 31, 2018, the contributory plan covered 5,647 active employees or 8.5% of all active members of the System, the noncontributory plan covered approximately 12,841 active employees or 19.4%, and the Hybrid Plan covered 47,783 active members or 72.1%. The Hybrid Plan membership will continue to increase in the future as most new employees will be required to join this plan.

As of March 31, 2018, the System's membership comprised approximately 66,271 active employees, 9,249 inactive vested members and 48,569 pensioners and beneficiaries. The following table shows the number of active members, inactive vested members and retirees and beneficiaries of the System as of March 31, 2016, 2017 and 2018:

**Table 22**  
**SYSTEM MEMBERSHIP**

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

Funded Status

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 28.00% for police and fire employees and 18.00% for all other employees, the future 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, as of the 2018 Valuation Report, the remaining amortization period is 25 years.

Based on the 2018 Valuation Report, the System's Unfunded Actuarial Accrued Liability ("UAAL") increased to \$13,404.7 million, compared to \$12,928.0 million for 2017. The financial market performed ahead of the projected rate but not as well in fiscal year 2018 as compared to fiscal year 2017 resulting in a return of 7.9% on the market value of assets for fiscal year 2018. The funded ratio increased slightly to 55.2% in 2018, compared to 54.9% for the prior year based on smoothed assets. Based on the assumptions used in preparing the 2018 Valuation Report and the future contribution rates established by the Legislature effective July 1, 2017, the actuary determined that, as of the 2018 Valuation Report, the remaining amortization period was 25 years. Thus, the current contribution rate are sufficient to eliminate UAAL over a period of 30 years or less as mandated by Hawai'i Revised Statutes Section 88-122(e)(1).

Funding Policy

Act 163, SLH 2011, which became effective July 1, 2012, established the employer contribution rates set forth in the following table.

**Table 23**  
**EMPLOYER CONTRIBUTION REQUIREMENTS**

<b>Employer Contribution effective starting</b>	<b>Police Officers and Firefighters (% of total payroll)</b>	<b>Other Employees (% of total payroll)</b>
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:

<b>Employer Contribution effective starting</b>	<b>Police Officers and Firefighters (% of total payroll)</b>	<b>Other Employees (% of total payroll)</b>
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

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 became 14.2%, 9.8%, 8.0% and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

Actuarial Methods

The System's actuary uses the individual entry age normal cost method. The most recent valuation was performed for the fiscal year ended June 30, 2018.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. For the June 30, 2018 valuation, this determination was made using an open group projection to reflect both the increasing contribution rates and the changes in benefits for members hired after June 30, 2012.

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

On an aggregate basis with regard to the contributory, Hybrid, and noncontributory plans, the total normal cost for benefits provided by the System for the fiscal year ended June 30, 2017 was 13.96% of payroll, which was 11.14% of payroll less than the total contributions required by law (19.16% from employers plus 5.94% in the aggregate from employees). Since only 8.02% of the employers' 19.16% contribution is required to meet the normal cost (5.94% comes from the employee contribution), it is intended that the remaining 11.14% of payroll will be used

to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year. Due to the changes enacted in 2011 (increases in the employer contribution rates and new benefits and contribution rates for members hired after June 30, 2012), the percentage of payroll available to amortize the unfunded actuarial liabilities is expected to increase each year for the foreseeable future.

Actuarial Valuation

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

The System’s actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. 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 Board of Trustees based on the recommendations of the System’s actuary in the most recent experience study, the 2015 Experience Study, and are reflected in the 2018 Valuation Report. The most significant change in assumptions reflected in the 2018 Valuation Report is the decrease of the investment return assumption from 7.65% to 7.00% and the mortality assumption was modified to assume longer life expectancies as well as to reflect continuous mortality improvement.

The actual investment returns of the System for Fiscal Years 2009 through 2018 shown below are market returns, net of investment and administrative expenses.

**Table 24**

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

*Source: Report on Investment Activity for the ERS prepared The Northern Trust Company (2008 to 2013), and The Bank of New York Mellon (2014 to 2016), for 2017 as set forth in the 2017 Valuation Report, and for 2018 as set forth in the 2018 Valuation Report; and reported in the System’s Comprehensive Annual Financial Reports.*

The September 30, 2018 ERS Performance Report prepared by The Bank of New York Mellon shows a year to date investment return of 2.5%, gross of investment and administrative expenses, for the first three months of fiscal year 2019.

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

Table 25 shows the System's funding progress for the ten most recent actuarial valuation dates. Table 26 shows the System's projected funding progress through the Fiscal Year ending June 30, 2047. 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.

**Table 25**  
**SCHEDULE OF FUNDING PROGRESS**  
**(Dollar amounts in millions)**

<b>Fiscal Year (June 30)</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (b)–(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Payroll ((b)–(a))/(c)</b>
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011 *	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%
2012	12,242.5	20,683.4	8,440.9	59.2%	3,890.0	217.0%
2013	12,748.8	21,243.7	8,494.9	60.0%	3,906.7	217.4%
2014	13,641.8	22,220.1	8,578.3	61.4%	3,991.6	214.9%
2015 *	14,463.7	23,238.4	8,774.7	62.2%	4,171.4	210.4%
2016 *	14,998.7	27,439.2	12,440.5	54.7%	4,258.9	292.1%
2017	15,720.6	28,648.6	12,928.0	54.9%	4,265.0	303.1%
2018	16,512.7	29,917.4	13,404.7	55.2%	4,383.7	305.8%

Source: 2018 Valuation Report

\* New assumption effective on valuation date.

**Table 26****PROJECTED FUNDING PROGRESS\***  
(Dollar amounts in millions)

<b>Fiscal Year (ending June 30)</b>	<b>Employer Contributions</b>	<b>Actuarial Accrued Liability</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>
2018	\$ 893	\$ 29,917	\$ 16,513	\$ 13,405	55.2%
2019	1,060	30,983	17,208	13,774	55.5
2020	1,197	32,152	18,157	13,995	56.5
2021	1,231	33,325	19,238	14,088	57.7
2022	1,266	34,502	20,349	14,153	59.0
2023	1,302	35,681	21,494	14,187	60.2
2024	1,339	36,861	22,675	14,185	61.5
2025	1,379	38,040	23,894	14,146	62.8
2026	1,420	39,216	25,153	14,063	64.1
2027	1,463	40,391	26,458	13,933	65.5
2028	1,509	41,566	27,816	13,749	66.9
2029	1,556	42,740	29,233	13,508	68.4
2030	1,606	43,918	30,716	13,202	69.9
2031	1,657	45,098	32,273	12,825	71.6
2032	1,711	46,283	33,912	12,371	73.3
2033	1,767	47,473	35,641	11,833	75.1
2034	1,825	48,670	37,468	11,201	77.0
2035	1,885	49,876	39,407	10,469	79.0
2036	1,948	51,093	41,467	9,626	81.2
2037	2,013	52,325	43,662	8,664	83.4
2038	2,082	53,577	46,006	7,571	85.9
2039	2,153	54,853	48,517	6,336	88.4
2040	2,227	56,159	51,212	4,947	91.2
2041	2,304	57,501	54,111	3,390	94.1
2042	2,385	58,886	57,233	1,653	97.2
2043	412	60,321	60,602	(281)	100.5
2044	422	61,813	62,114	(301)	100.5
2045	433	63,369	63,691	(322)	100.5
2046	444	64,993	65,338	(344)	100.5
2047	458	66,694	67,062	(368)	100.6

Source: 2018 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 available for benefits amounted to approximately \$14.2 billion as of June 30, 2014, \$14.5 billion as of June 30, 2015, \$14.1 billion as of June 30, 2016, \$15.7 billion as of June 30, 2017, \$16.6 billion as of June 30, 2018 and \$16.6 billion as of March 31, 2019. Actuarial certification of assets as of as of June 30, 2014 was \$13.6 billion, as of June 30, 2015 was \$14.5 billion, as of June 30, 2016 was \$15.0 billion as of June 30, 2017 was \$15.7 billion and as of June 30, 2018 was \$16.5 billion.

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:

**Table 27**  
**ACTUARIAL VALUE OF ASSETS**

<b>Fiscal Year (ending June 30)</b>	<b>Actuarial Value of Assets (in millions)</b>	<b>Market Value of Assets (in millions)</b>	<b>Market Value as Percentage of AVA</b>	<b>Funded Ratio (AVA)</b>	<b>Funded Ratio (Market Value)</b>
2009	11,400.1	8,818.0	77.4%	64.6%	50.0
2010	11,345.6	9,821.6	86.6%	61.4%	53.1
2011	11,942.8	11,642.3	97.5%	59.4%	57.9
2012	12,242.5	11,285.9	92.2%	59.2%	54.6
2013	12,748.8	12,357.8	96.9%	60.0%	58.2
2014	13,641.8	14,203.0	104.1%	61.4%	63.9
2015	14,463.7	14,505.5	100.3%	62.2%	62.4
2016	14,998.7	14,070.0	93.8%	54.7%	51.3
2017	15,720.6	15,698.3	99.9%	54.9%	54.8
2018	16,512.7	16,598.4	100.5%	55.2%	55.5

*Source: 2008-2018 Valuation Reports.*

As of June 30, 2018, the UAAL of the System was \$13,404.7 million. The following table shows the normal cost (which means the annual cost of providing retirement benefits for services performed by today’s members) as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for Fiscal Years 2017 and 2018:

**Table 28**  
**NORMAL COST**

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

*Source: 2018 Valuation Report.*

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

**Table 29**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(Dollar amounts in thousands)

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

*Excludes City and County-paid employee contributions classified as employer contributions pursuant to IRC Section 414(h)(2).*

Asset Allocation

The following table shows the target and actual asset allocation of the System as of September 30, 2018:

**Table 30**  
**ASSET ALLOCATION**  
(as of December 31, 2018)

Asset Type	Actual Allocation		Target Allocation		Allocation Difference
	Amount (\$mm)	Percentage	Amount (\$mm)	Percentage*	
Broad Growth	\$11,550.2	73.2%	\$11,356.6	72.0%	1.2%
Principal Protection	1,382.3	8.8%	1,261.8	8.0%	0.8%
Crisis Risk Offset	2,112.9	13.4%	2,050.5	13.0%	0.4%
Real Return	517.6	3.3%	1,104.1	7.0%	-3.7%
Opportunities	28.9	0.2%	0.0	0.0%	0.2%
Other	181.1	1.1%	0.0	0.0%	1.1%
<b>Total</b>	<b>\$15,773.0</b>	<b>100.0%</b>	<b>\$15,773.0</b>	<b>100.0%</b>	

*Source:* Valuations provided by BNY Mellon – December 31, 2018; values unaudited.

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

Employer Contribution Rate.

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

**Table 31**  
**EMPLOYER CONTRIBUTION RATES**

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

\* Reflects Act 181, SLH 2004, which amended Sections 88-105, 88-122, 88-123, 88-124, 88-125, 88-126, Hawai'i Revised Statutes, and Act 163, SLH 2011.

The decrease in funding period 2014 was due to liability gains from positive experience versus the actuarial assumptions and large investment gains, respectively. The increase in the funding period in the valuation as of June 30, 2016 was primarily due to the decrease in the investment return assumption from 7.65% to 7.00%. The decrease in funding period following the valuations as of June 30, 2017 and June 30, 2018 is primarily due to investment gains and mandated increase in employer contributions.

Summary of Actuarial Certification Statement.

A summary of the actuarial certification of the System as of June 30, 2017 and June 30, 2018 is set forth below:

**Table 32**  
**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII**  
**Summary of Actuarial Certification as of June 30, 2017 and 2018**  
**(Includes all counties)**

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

Source: Gabriel, Roeder, Smith & Company.

### Recent Developments

Act 19 Session Laws of Hawai'i, 2018 ("Act 19") signed into law by Governor Ige on June 4, 2018, allows the State and counties to pay employer contributions to the ERS in advance of the fiscal year in which the contributions are required and to receive credit against future required payments. Act 19 does not require separate accounts to be established or maintained for each contributing entity that would restrict the use of such funds to only the particular employees of the contributing entity. Act 19 acknowledges that for purposes of the standards of the Government Accounting Standards Board, the ERS is a cost-sharing multiple-employer pension plan in which the pension obligations to the employees of the State and the counties are pooled and the assets of the ERS can be used to pay the pensions of all State and county employees who are members of the system.

At this time the City and County cannot predict what impact, if any, the adoption of Act 19 will have on ERS or its funding obligations in connection therewith.

## **OTHER INFORMATION REGARDING THE CITY AND COUNTY OF HONOLULU**

### **Climate Change, Sea Level Rise and Flooding**

The City and County and the State have taken a number of steps intended to mitigate the negative impacts of climate change; impacts to which the City and County may be particularly vulnerable.

At the November 2016 election the citizens of the City and County approved, by a significant margin, amendments to the City and County's Charter to establish an Office of Climate Change, Sustainability and Resiliency (the "Resilience Office"). The amendments to the Charter, adopted on June 30, 2017, charges the Resilience Office with, among other things: (i) tracking climate change science and its potential impact on the City and County; (ii) coordinating actions and policies within the City and County to increase community preparedness, protect economic activity, protect the coastal areas and beaches and to develop resilient infrastructure; (iii) developing or coordinating City and County policies and programs to improve the environmental performance of City and County operations and advance environmental priorities; (iv) integrating sustainable and environmental values into City and County plans, programs and policies; (v) coordinating with federal and state agencies regarding climate change, sustainability and the environment; (vi) convening a climate change commission (the "City and County Climate Commission") consisting of five members with expertise in climate change in Hawai'i no less than twice a year; and (vii) providing appropriate advice to the Mayor, City Council and executive departments of the City and County. Under the amendments to the Charter, the City and County Climate Commission is charged with gathering the latest science and information on climate change effects in the City and County and providing advice as is deemed appropriate to the executive for climate change and sustainability, the Mayor, City Council, and executive departments of the City and County.

On June 7, 2017 Governor Ige signed Act 32 Session Laws of Hawai'i, 2017 (the "Climate Change Act") into law, which, among other things, renamed the Interagency Climate Adaptation Committee as the Hawai'i Climate Change Mitigation and Adaptation Commission (the "State Climate Commission"), clarified and expanded the duties of the State Climate Commission and made Hawai'i the first state to enact legislation implementing parts of the Paris climate accord. The Climate Change Act anticipates that the State Climate Commission will provide direction, facilitation, coordination and planning among state and county agencies, federal agencies, and other partners about climate change mitigation (reduction of greenhouse gases) and climate change resiliency strategies, including, but not limited to, sea level rise adaptation, water and agricultural security, and natural resource conservation. The State Climate Commission is placed under the Department of Land and Natural Resources (DLNR) for administrative purposes and is to be headed jointly by the Chairperson of the Board of Land and Natural Resources and the Director of the Office of Planning (OP), or their designees.

On July 17, 2018 Mayor Caldwell issued a formal directive (the "Climate Change Directive") to all City and County departments and agencies to take action to address, minimize risks from and adapt to the impacts of climate change and sea level rise in response to the Sea Level Rise Guidance and Climate Change Brief, each of which was adopted on June 5, 2018 by the City and County Climate Commission. The City and County Climate Commission compiled the Oahu-specific recommendations based on the State of Hawai'i's 2017 *Hawai'i Sea Level Rise Vulnerability and Adaptation Report* ("State Report"), federal research, and additional scientific literature. The State

Report found that there is a growing vulnerability to potential coastal flooding, erosion, land loss, and high wave impacts in Hawai'i resulting from a projected sea level rise of 3.2 feet by end of the century, with periodic high tide flooding in the exposure area by mid-century. The City and County Climate Commission described the impact on Oahu of such sea level rise without action in response and, through its Sea Level Rise Guidance and Climate Change Brief, provided advice and recommendations to the Mayor, City Council and Executive Departments. The Climate Change Directive requires all departments and agencies under the Mayor's jurisdiction to take several actions, including: (i) viewing climate change and the need for mitigation and adaptation as an urgent matter, and taking a proactive approach to reducing greenhouse gas emissions and protecting and preparing the City and County for the physical and economic impacts of climate change; (ii) using the Sea Level Rise Guidance and State Report in their planning, programming, and capital improvement decisions to mitigate impacts to infrastructure and critical facilities subject to sea level rise, which may include elevation or relocation of infrastructure and critical facilities, the elevating of surfaces, structures, and utilities, and/or other adaptation measures; (iii) proposing revisions to shoreline rules and regulations to incorporate sea level rise and conserve a natural, unarmored shoreline wherever possible; and (iv) working cooperatively to develop and implement land use policies, hazard mitigation actions, and design and construction standards that mitigate and adapt to the impacts of climate change and sea level rise. The Climate Change Directive strongly encourages independent agencies, city-affiliated entities, and city-related institutions to help advance these efforts and adopt similar initiatives.

In October 2018, the City Council approved Resolution 18-221, CD1, FD1 supporting the 2018 Global Climate Action Summit "Fossil Fuel Free Streets" declaration, and requesting the City administration to create a Climate Action Plan that establishes comprehensive milestones to transition Oahu to 100 percent renewable energy on the path to carbon neutrality by 2045.

The United States Congress has appropriated \$345 million for fiscal year 2019 for a project to design and install flood control improvements within the Ala Wai watersheds to mitigate the risk of flooding, especially in the Manoa and Waikiki areas. There is a local funding contribution requirement, and the United States, State, and City and County are presently in discussions to determine whether agreements can be reached regarding the terms of the project design, construction, and funding to allow the project to proceed.

In May 2019 the City and County issued its Oahu Resilience Strategy. The Resilience Office, assisted by a 21-member Oahu Resilience Strategy Steering Committee and over 80 working group members meeting over an 18-month period, proposed 44 actions - specific policies or programs the City and County will deploy to achieve 12 resilience goals. Certain of these goals and actions are intended to improve natural disaster response and recovery and a climate resilient future for the City and County.

In addition to the efforts described above, the Department of Environmental Services is including climate change and sea level rise issues in its planning for new, upgraded, and rehabilitated facilities. At this time the City and County is not able to determine if, or to what extent, the Resilience Office, the City and County Climate Change Commission and the other activities being undertaken will affect the City and County.

At this time the City and County is unable to predict whether, or to what extent, the foregoing measures will ameliorate the adverse impacts of climate change, which will likely be material and similar to the impacts experienced by other similarly situated municipalities.

## **Natural Disasters**

It is possible that climate change increases the frequency and severity of natural disasters, including hurricanes and volcanic activity. In April 2018, severe rains resulted in flash flooding and mudslides in East Oahu, Windward Oahu and the Island of Kauai. In August 2018 Hurricane Lane, which peaked as a powerful Category 5 hurricane (one of only two ever recorded within 350 miles of the State), became the first major threat to the State since Hurricane Iniki made landfall in September 1992. Lane weakened significantly as it moved towards the State but it still caused severe mudslides and flash flooding on the Island of Hawai'i, where a maximum of 52 inches (1,321 mm) of rain was recorded. Between May 3, 2018 through approximately August 15, 2018 a volcanic event known as the 2018 lower Puna eruption occurred at the Kīlauea volcano located on the Island of Hawai'i, over 200 miles from Oahu. The 2018 lower Puna eruption ultimately resulted in the destruction of over 700 homes, the evacuation of

approximately 2,000 residents, temporary highway blockages and other adverse disruptions. The City and County of Honolulu is not directly affected by volcanic activity.

No assurances can be given as to the frequency or severity of any future natural disasters, nor what impact, individually or in the aggregate, such disasters may have on the State, the City and County, their residents or their overall financial condition.

### **Cybersecurity**

The City and County, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the City and County may be affected by cybersecurity incidents that could result in adverse consequences to the City and County's computing and other digital networks and systems (collectively, the "City and County Technology"), which requires a response action to mitigate the consequences.

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City and County Technology for nefarious purposes including, but not limited to, the misappropriation of assets or information or causing operational disruption and damage. The City and County faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on the City and County Technology.

To mitigate the risk and/or damage from cybersecurity incidents or cyber-attacks, the City and County invests in multiple forms of cybersecurity and operational safeguards. Additionally, the City's cyber insurance policy provides coverage for data protection risks, both for third-party claims and first party mitigation costs following a technology or cyber event.

### **Short-term Rentals**

The City Council enacted and the Mayor approved Ordinance No. 19-18 to regulate short-term rentals in the City and County of Honolulu. Based on on-line advertising it is estimated there are 8,000 to 10,000 short term rentals available on Oahu, far exceeding the number of such units permitted under Honolulu's Land Use Ordinance ("LUO"). The LUO presently permits short-term rentals, for periods of less than 30 days, in Resort zoning districts, the Resort Mixed Use Precinct of the Waikiki Special District, and in the A-1 and A-2 Apartment zoning district, within 3,500 feet of a Resort zoning district, and in other zoning districts with a non-conforming use certificate for short-term rental use established prior to 1989. The City and County ceased issuing such permits in 1990, and approximately only 770 such permitted units remain.

Effective August 1, 2019, fines for unpermitted short-term rentals are increased to \$5,000 per day and \$10,000 for recurring violations. Effective October 1, 2020, hosting platforms that provide booking services for short-term rentals must register with the City and County Department of Planning and Permitting and must provide the non-conforming use certificate number of all short-term rental units hosted. Also effective October 1, 2020, the City and County Department of Planning and Permitting is authorized to issue additional non-conforming use certificates for a number of bed and breakfast homes equal to one-half percent of all housing units in each community plan area. Bed and breakfast homes are defined as overnight accommodations in a detached dwelling provided by the owner who occupies the same dwelling. The ordinance does not permit issuance of new non-conforming use permits for transient vacation units, defined as accommodations provided in units other than a bed and breakfast home (not occupied by the owner of the unit).

At this time the City and County is unable to predict whether, or to what extent, the foregoing measures will ameliorate the adverse impacts of short term rentals. The City and County does not anticipate the foregoing measures will have a material impact on City and County revenues.

## LITIGATION

### Pending Cases

In the normal course of business, claims and lawsuits are filed against the City and County. Generally, the City and County is self-insured with respect to general liability claims. In the Fiscal Years ended June 30, 2014 through 2018, settlements and judgments against the City and County paid from the General Fund totaled \$8,497,207, \$1,910,539, \$5,100,262, \$9,120,316, and \$11,899,560, respectively.

Several lawsuits have been filed against the City and County which have the potential collectively to surpass the amount paid in the Fiscal Year ended June 30, 2018. One case filed against the City and County involves rain and flooding in East Honolulu in the spring of 2018 and has the potential to become certified as a class action. Another case involves rain and tidal flooding in the Mapunapuna Industrial Subdivision. The City and County has taken remedial action to alleviate further flooding and is currently attempting to mediate the remaining claims. A number of cases involve various significant personal injuries involving City and County vehicles, employees, premises or roads. Other cases involve earth movement, property damage, and employment claims.

These cases are in various preliminary stages of litigation and liability has not been established at this time and the City and County intends to vigorously defend itself in these cases.

In the opinion of the Director of Budget and Fiscal Services of the City and County, based on the foregoing, the expected liability arising out of pending litigation would not constitute a significant impairment of the financial position of the City and County.

### Wastewater Consent Decree

In addition to the pending cases discussed above, a consent decree was entered by the United States District Court in Hawai'i to settle certain previous environmental lawsuits relating to the City and County's wastewater system. The Court retains continuing jurisdiction to enforce the consent decree. The following is a brief discussion of the consent decree and the City and County's obligations thereunder.

A wastewater consent decree, approved by the Environmental Protection Agency ("EPA"), the State of Hawai'i's Department of Health ("DOH"), the Sierra Club, Hawai'i Chapter, Our Children's Earth Foundation, and Hawai'i's Thousand Friends, was entered by the United States District Court in Hawai'i. Three previous environmental lawsuits were dismissed. The City and County's appeal of the EPA's January 2009 final decisions denying the City and County's applications to renew its permit variances from secondary treatment for the Honouliuli and Sand Island Wastewater Treatment Plants ("WWTP") was dismissed on February 2, 2011. The consent decree allows 10 years for completion of work on the collection system, 14 years for the upgrade of the Honouliuli WWTP to secondary treatment, and up to 25 years, with the possibility of a three-year extension, for the upgrade of the Sand Island WWTP to secondary treatment. The City and County is expected to incur approximately \$3.2 billion in 2010 dollars in capital costs through Fiscal Year 2020 (which coincides with the term of the collection system portion of the consent decree). This amount will largely be spent on the collection system, and much of it will go toward work that was already required or planned. This amount also includes a portion of the costs of treatment plant upgrades at Sand Island and Honouliuli. Costs for the treatment plant upgrades include approximately \$550 million in 2010 dollars to replace primary treatment facilities at both plants and \$1.15 billion in 2010 dollars to upgrade the plants to secondary treatment plants. As part of the settlement, the City and County paid a civil penalty in the amount of \$800,000 to the United States, and \$800,000 to the State of Hawai'i. In addition, the City and County paid \$800,000 to the Sierra Club, Hawai'i Chapter, Our Children's Earth Foundation, and Hawai'i's Thousand Friends, to fund four supplemental environmental projects.

The consent decree was lodged with the federal court on August 11, 2010, and was subject to a 30-day public comment period. The United States then filed its motion to enter the consent decree on November 15, 2010, which included its responses to the public comments received. The consent decree became effective upon its entry by the Court on December 17, 2010. The City and County also settled the nonprofit organizations' claim for their attorneys' fees and costs, for an additional payment of \$1.1 million.

The consent decree was amended to a First Amended Consent Decree as ordered on March 27, 2012. This amendment modified the consent decree to substitute construction of a Kaneohe-Kailua gravity tunnel and an associated influent pump station for the construction of a new force main between the City and County's Kaneohe pump station and its Kailua treatment plant and to eliminate requirements to proceed with and maintain storage projects in Kaneohe and Kailua. This tunnel and influent pump station were substantially completed on June 21, 2018.

In addition to the 2010 Consent Decree, the City and County is complying with the terms of an Administrative Order on Consent that the City and County and DOH voluntarily entered into on March 13, 2017 ("2017 Administrative Order on Consent"). The 2017 Administrative Order on Consent resolved all liability of the City and County for certain 2015 wastewater spills, and the City and County made no admissions as to fact, violation, fault, or liability in entering the 2017 Administrative Order on Consent. Pursuant to the 2017 Administrative Order on Consent, the City and County has agreed to conduct a storm water inflow detection, identification, and quantification study in certain high density or ultra-urbanized areas; to revise its Standard Operating Procedures to improve response to spill prevention alarms; to upgrade its Supervisory Control and Data Acquisition (SCADA) system; to revise its sewage spill volume estimate procedures; and to pay a monetary penalty of \$100,000.00 to DOH, which has been paid.

## **TAX MATTERS**

### **Tax-Exempt Bonds**

In the opinion of 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 2019C Bonds, Series 2019D Bonds, Series 2019E Bonds, Series 2019F Bonds and Series 2019G Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that the Tax-Exempt Bonds and the income therefrom are exempt from all taxation by the State of Hawai'i or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel expects to deliver an opinion at the time of issuance of the Tax-Exempt Bonds substantially in the form set forth in Appendix B hereto.

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

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

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Tax-Exempt Bonds may otherwise affect a Beneficial Owner's

federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt 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 Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Tax-Exempt 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 City and County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and County has covenanted, however, to comply with the requirements of the Code.

In the opinion of 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 2019C Bonds, Series 2019D Bonds, Series 2019E Bonds, Series 2019F Bonds and Series 2019G Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that the Tax-Exempt Bonds and the income therefrom are exempt from all taxation by the State of Hawai'i or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel expects to deliver an opinion at the time of issuance of the Tax-Exempt Bonds substantially in the form set forth in Appendix B hereto.

Bond Counsel's engagement with respect to the Tax-Exempt Bonds ends with the issuance of the Tax-Exempt Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City and County or the Beneficial Owners regarding the tax exempt status of the Tax-Exempt Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and County 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 tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City and County legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Tax-Exempt Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Tax-Exempt Bonds, and may cause the City and County or the Beneficial Owners to incur significant expense.

### **Taxable Bonds**

In the opinion of 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 2019H Bonds, Series 2019I Bonds, and Series 2019J Bonds (collectively, the "Taxable Bonds") is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that the Taxable Bonds and the income therefrom are exempt from all taxation by the State of Hawai'i 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 relating to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Taxable Bonds. Bond Counsel expects to deliver an opinion at the time of issuance of the Taxable Bonds substantially in the form set forth in Appendix B hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Bonds that acquire their Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Taxable Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Taxable Bonds pursuant to this offering for the issue price that is applicable to such Taxable Bonds (i.e., the price at which a substantial amount of the Taxable Bonds are sold to the public) and who will hold their Taxable Bonds as “capital assets” within the meaning of Section 1221 of the Code.

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

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Taxable Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds in light of their particular circumstances.

## **U.S. Holders**

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

To the extent that the issue price of any maturity of the Taxable Bonds is less than the amount to be paid at maturity of such Taxable Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Taxable Bonds) by more than a de minimis amount, the difference may constitute original issue discount (“OID”). U.S. Holders of Taxable Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Taxable Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Taxable Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Taxable Bond.

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

*Defeasance of the Taxable Bonds.* If the City and County defeases any Taxable Bond, the Taxable Bond may be deemed to be retired and "reissued" for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted tax basis in the Taxable Bond.

*Information Reporting and Backup Withholding.* Payments on the Taxable Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Taxable Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Taxable Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Taxable Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

## **Non-U.S. Holders**

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

*Disposition of the Taxable Bonds.* Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City and County or a deemed retirement due to defeasance of the Taxable Bond) or other disposition of a Taxable Bond generally will not be subject to U.S. federal

income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City and County) or other disposition and certain other conditions are met.

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

*Information Reporting and Backup Withholding.* Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payments of principal and interest on any Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

#### **Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders**

Sections 1471 through 1474 of the Code, impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Taxable Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain "passthru" payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term "foreign passthru payments." Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Taxable Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Taxable Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

#### **LEGAL MATTERS**

The validity of the Bonds and certain other legal matters are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. Complete copies of the proposed forms of Bond Counsel opinions are contained in Appendix B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Dentons US LLP, Honolulu, Hawai'i and Katten Muchin Rosenman LLP, New York, New York.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

In connection with the issuance of the Bonds and the refunding of the Refunded Bonds, Causey Demgen & Moore P.C., independent certified public accountants, will verify the mathematical accuracy of certain computations demonstrating the sufficiency of the Escrow Funds to pay the interest on the Refunded Bonds to and including the applicable redemption date and, on such date, to pay the principal or redemption price of such Refunded Bonds then outstanding. Such verification will be based in part on schedules and information provided by the Underwriters with respect to the foregoing computations.

## BOND RATINGS

Fitch Ratings and Moody's Investors Service have assigned to the Bonds ratings of "AA+" and "Aa1," respectively. The ratings referred to above reflect only the views of the organization assigning the rating, and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; and Moody's Investors Service, 99 Church 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 such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies concerned, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## UNDERWRITING

The Bonds are being purchased for reoffering by BofA Securities, Inc., Morgan Stanley & Co. LLC and Piper Jaffray & Co. The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$618,309,737.67 (equal to the principal amount of such Bonds, plus a net original issue premium of \$70,987,202.70, less an underwriting discount of \$1,622,465.03). The bond purchase contract provides that the Underwriters will purchase all of the Bonds if any are purchased. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial public offering prices set forth in this Official Statement.

BofA Securities, Inc., an underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the underwriters and their affiliates may have certain creditor and/or other rights against the City and County and its affiliates in connection with such activities. In the course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively traded securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City and County (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City and County. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express

independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the City and County will undertake in a certificate of continuing disclosure (the “Continuing Disclosure Certificate”), constituting a written agreement for the benefit of the holders of the Bonds, to provide to the Municipal Securities Rulemaking Board, on an annual basis, certain financial and operating data concerning the City and County, financial statements, notice of certain events and certain other notices, all as described in the Continuing Disclosure Certificate, the form of which is contained in Appendix C; provided that if the inclusion or format of such information is changed in any future official statement, annual reports provided by the City and County thereafter may 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 most recent official statement.

The City and County has policies and procedures in place to enhance compliance with its continuing disclosure undertakings, including its undertaking in the Continuing Disclosure Certificate. The City and County also has engaged a third-party service provider to assist in the preparation and filing of annual reports and notices of listed events under the Continuing Disclosure Certificate and previous continuing disclosure undertakings.

A failure by the City and County to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Bonds, although any Beneficial Owner of the Bonds may bring action to compel the City and County 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 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

### **MISCELLANEOUS**

Additional information may be obtained, upon request, from the Director of Budget and Fiscal Services.

All quotations from, and summaries and explanations of, the State Constitution and laws referred to herein do not purport to be complete, and reference is made to the State Constitution and laws for full and complete statements of their provisions.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, 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 orally or in writing is to be construed as a contract with the holders of any of the Bonds.

/s/ Nelson H. Koyanagi, Jr.

Nelson H. Koyanagi, Jr.  
Director of Budget and Fiscal Services  
City and County of Honolulu

**APPENDIX A**

**ECONOMIC AND DEMOGRAPHIC FACTORS**

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## APPENDIX A

### ECONOMIC AND DEMOGRAPHIC FACTORS

#### Introduction

The City and County of Honolulu, which includes the entire island of Oahu and a number of small outlying islands, is a major metropolitan city with a resident population of 980,080 (approximately 69% of the state's population) as of July 1, 2018. Honolulu's underlying economy is strong, supported by several diversified areas, which include tourism, the federal government and military operations, State and local governments, manufacturing, construction, real estate, education, research and science, trade and services, communications, finance and transportation.

Oahu is situated between 21 degrees and 22 degrees north latitude, just below the Tropic of Cancer. The climate has an average mean winter temperature of 70.2 degrees and an average mean summer temperature of 78.6 degrees. Average rainfall varies widely from one area of Oahu to another. Rainfall is comparatively light in the leeward coastal area where the larger part of the population is located. Waikiki, located on the leeward side of Oahu, has a dry climate with annual precipitation averaging about 27 inches; precipitation in the upper reaches of the Koolau mountains averages about 400 inches a year and provides an adequate supply of water for irrigation use and retention in large subterranean reservoirs for household and industrial uses.

Oahu is one of the oldest of the Hawai`ian Islands. It has no active volcanos, and the last volcanic eruptions, which were minor, are believed to have occurred more than 70,000 year ago. The last major volcanic eruption on Oahu was Ko`olau which is believed to have ended approximately 1.8 million years ago.

The following material pertaining to economic factors in the City and County has been excerpted from the Hawai`i State Department of Business, Economic Development and Tourism ("DBEDT") Second Quarter 2019 Quarterly Statistical Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at <http://dbedt.hawaii.gov/>. Certain visitor industry statistics have been excerpted from Hawai`i Tourism Authority publications.

#### Certain Economic Indicators

*Employment.* The following table presents certain annual employment statistics for the City and County for 2015 through 2018 and the first quarter of 2018 and 2019. As indicated below, the number of unemployed in the City and County increased by 0.5% in the first quarter of 2019 from the same period in 2018. The City and County's unemployment rate of 2.7% in the first quarter of 2019 and 2.5% in May 2019 compares favorably to the unemployment rate for the State (2.2% in the first quarter of 2018 and 2.8% in the first quarter of 2019 and May 2019) and for the nation as a whole (4.0% in the first quarter of 2018 and 3.8% in the first quarter of 2019).

**Table I**  
**EMPLOYMENT STATISTICS**

	Annual Average <sup>1</sup>				1 <sup>st</sup> Quarter		% Change Year Ago
	2015	2016	2017	2018	2018	2019	
Civilian Labor Force	466,650	470,100	469,400	465,200	468,050	461,050	-1.5%
Civilian Employment	451,050	457,050	458,550	454,350	457,800	448,800	-2.0%
Unemployed	15,600	13,000	10,850	10,850	10,250	12,250	19.5%
Unemployment Rate	3.3%	2.8%	2.3%	2.3%	2.2%	2.7%	0.5%

<sup>1</sup> Data benchmarked by DLIR in March 2018 and reflect revised population controls and model reestimation. Source: State of Hawai`i, Department of Business, Economic Development & Tourism.

*Personal Income.* In recent years, per capita personal income for Honolulu residents has consistently been higher than for the State of Hawai‘i and the United States as a whole. The following table presents the per capita personal income for Honolulu residents in comparison to the State and the country for the years 2014 through 2018. As indicated, the per capital personal income in the City and County in 2017 was \$56,728, representing a 3.7% increase over 2016.

**Table II**  
**PER CAPITA PERSONAL INCOME**

<u>Year</u>	<u>Honolulu</u>	<u>State of Hawai‘i</u>	<u>United States</u>
2014	\$50,937	\$47,283	\$47,060
2015	\$53,027	\$49,437	\$48,985
2016	\$54,725	\$50,872	\$49,883
2017	\$56,728	\$52,910	\$51,731
2018	N/A	\$54,565	\$53,712

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

*Housing Market.* Since the global economic downturn in 2008 and 2009, average resale prices in the Honolulu housing market have rebounded. The following table presents the annual average resale prices for single-family homes and condominiums in Honolulu from 2014 through 2018, and the quarterly average resale prices for single-family homes and condominiums in Honolulu during the first quarters of 2018 and 2019.

**Table III**  
**AVERAGE RESALE PRICES**

<u>Year</u>	<u>Single Family Homes</u>		<u>Condominiums</u>	
	<u>Average Resale Price</u>	<u>% Change</u>	<u>Average Resale Price</u>	<u>% Change</u>
2014	\$ 822,240	3.9	\$460,893	17.1
2015	\$ 863,969	5.1	\$435,810	-5.4
2016	\$ 884,427	2.4	\$572,223	31.3
2017	\$ 945,206	6.9	\$619,177	8.2
2018	\$1,032,415	9.2	\$615,019	-0.7
2018 Q1	\$1,116,043	20.6	\$593,033	9.9
2019 Q1	\$ 976,538	-12.5	\$572,838	-3.4

*Source: State of Hawai‘i Department of Business, Economic Development and Tourism.*

## State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. In 2018, the State government generated 73,100 jobs, of which more than 75% were located on Oahu. The largest number of State employees work in public education and the State university system, with approximately 83% of these employed on Oahu. In addition, the City and County government employed approximately 12,100 individuals in the first quarter of 2019.

## Federal Government and Military

The federal government plays an important role in Hawai‘i’s economy. According to the most recent data available from the U.S. Bureau of Economic Analysis, the total compensation of employees (“COE”) of federal government employees in Hawai‘i was approximately \$8.6 billion in 2017, up 1% from the previous year. The total COE of combined military and civilian federal employees in Hawai‘i accounted for about 18.1% of Hawai‘i’s total COE in 2016. Between 2007 and 2017, the annual average compounded growth rate for COE was 3.5% for federal civilian and 1.9% for military personnel in Hawai‘i. Military personnel accounted for 55.7% of the total federal COE

in Hawai'i in 2017. The federal government accounted for about 11% of State GDP in 2016, a majority of which is defense related. Hawai'i was the seventh largest state for per capita Federal spending at \$1.85 per dollar of taxes as of fiscal year 2016.

The Hawai'i based Pacific Command is responsible for over 50% of global command activity and is essential to national security. Over 90% of the U.S. military presence in Hawai'i is on Oahu.

In total, the defense industry provides over 102,000 jobs with annual household incomes totaling \$8.7 billion. Generally, the median earnings for active-duty service members and Department of Defense ("DoD") civilians are higher than that of other full-time employees in Hawai'i. Military construction projects total \$627 million for fiscal year 2018 and fiscal year 2019.

The U.S. Army recently completed a Supplemental Programmatic Environmental Assessment for its Army 2020 force structure realignment. The assessment evaluates a scenario in which the Army would eliminate 16,606 soldiers and civilians from Schofield Barracks and 3,786 from Fort Shafter, both of which are located on the island of Oahu. In response, the Chamber of Commerce of Hawai'i's Military Affairs Council launched a campaign to maintain the number of military members in Hawai'i and acquired signatures on a petition to keep troops in Hawai'i. The Army held a "listening session" on the impact of reducing forces in Hawai'i in January 2015. The DoD is considering relocating 2,700 Marines from Okinawa to Hawai'i between 2027 and 2031.

The Pearl Harbor Naval Shipyard is the largest industrial/repair complex and employer in Hawai'i, with a workforce of nearly 5,200 civilians and contributes more than \$925 million into Hawai'i's economy annually.

Hawai'i continues to host RIMPAC (Rim of the Pacific Exercise) held during even-numbered years, to enhance interoperability between Pacific Rim Armed Forces. Twenty-five nations, more than 51 surface ships and submarines, 200 aircraft and 25,000 personnel participated in RIMPAC 2018.

Future levels of federal funding (including defense funding) in Hawai'i are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit. The federal budget sequestration has not had a material adverse effect on the City and County or the State.

## **Finance**

As the financial center of the State of Hawai'i, Honolulu is served by a full range of financial institutions, including banks, savings and loan associations and financial services companies. Honolulu currently has twelve institutions in the market, comprised of Hawai'i-chartered banks, a Hawai'i-chartered financial services company, federally-chartered savings banks, a national bank, and interstate branch banks with combined deposits totaling \$44.8 billion as of June 30, 2018, as reported by the Federal Deposit Insurance Corporation.

## **Transportation**

All parts of the City and County are connected by a comprehensive network of roads, highways, and freeways, and all of the populated areas of the island are served by a bus transit system (TheBus) with ridership of approximately 66 million annually. According to the 2019 Public Transportation Fact Book published by the American Public Transportation Association, the City and County hosts the 24<sup>th</sup> largest transit agency in the nation and the 12<sup>th</sup> largest bus agency in an urbanized area.

The City and County is constructing a new 20-mile fixed guideway mass transit system to provide rail service along the island's east-west corridor between Kapolei and downtown Honolulu (Ala Moana Center). Over 60% of the City and County's population currently lives within the area served by this corridor, and this area is projected to continue to grow faster than the rest of Oahu. See "DEBT STRUCTURE – Honolulu Rail Transit Project" in this Official Statement for additional information regarding this rail transit project.

Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu Daniel K. Inouye International Airport (HNL) is located approximately five miles by highway from the center of downtown

Honolulu. The Federal Aviation Administration reported that HNL was the 28<sup>th</sup> largest U.S. Airport in 2017 based on the number of enplaned passengers.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. The U.S. Department of Transportation, Bureau of Transportation Statistics, Port Performance Freight Statistics Program, Annual Report to Congress 2018, ranks Honolulu Harbor among the top 25 ports in the country in 2017 by container cargo throughput, handling 2,529 total vessel calls, 14.8 million short tons of foreign and domestic cargo, and 1.2 million twenty-foot equivalent units of container cargo. The State Department of Transportation, Harbor Division manages, maintains and operates the State’s Harbors Systems to provide for the efficient movement of cargo and passengers. The U.S. military moves most of its cargo through the State's Harbors System.

## Construction

Construction was one of the major contributors to job growth in Hawai`i over the past few years. The following table shows the estimated value of construction authorizations for private buildings for the City and County and for the State as a whole for the last five years and the first quarters of 2018 and 2019.

**Table IV**  
**ESTIMATED VALUE OF BUILDING PERMITS**  
(Dollars in Thousands)

<u>Year</u>	<u>State</u>	<u>Change from Prior Year</u>	<u>City &amp; County of Honolulu</u>	<u>Change from Prior Period</u>
2014	3,315,078	21.9%	2,072,202	11.0%
2015	3,963,607	19.6%	2,436,954	17.6%
2016	3,240,649	-18.2%	2,141,467	-12.1%
2017	3,127,828	-3.5%	2,007,815	-6.2%
2018	3,268,292	4.5%	1,985,648	-1.1%
2018 Q1	699,830	-23.9%	394,041	-37.2%
2019 Q1	761,026	8.7%	524,146	33.0%

*Source: State of Hawai`i Department of Business, Economic Development and Tourism  
(compiled from data collected by county building departments).*

Significant development projects which were recently completed, are currently under construction, or are in the later planning stages on the island of Oahu include:

- The Airports Division's modernization program, which commenced in 2013, is ongoing. The program includes significant capital improvements such as expanding Daniel K. Inouye International Airport’s Inter-Island terminal and main terminal, constructing consolidated car rental facilities at Daniel K. Inouye International Airport and Kahului, Maui, and installing energy saving equipment in airports statewide. Additionally, in February 2018 plans were announced for the construction of a new approximately 800,000 square foot Diamond Head concourse at Daniel K. Inouye International Airport which is anticipated to add 12-14 wide body gates in the initial phase and be expandable to up to 21 gates as well as a new Customs and Border Protection facility and improved security and baggage screening facilities for the Transportation Security Administration.
- The University of Hawai`i is in the process of constructing a new 72,000 square feet state-of-the-art LEED Silver Life Sciences Building which will house teaching, laboratory and office support spaces for the College of Natural Sciences biology, botany and microbiology departments, along with the Pacific Biosciences Research Center.
- The Howard Hughes Corporation is developing a master-planned community on 60 acres in Kakaako known as Ward Village. The development as approved to date will include 4,000 high-rise residences, including the Ke Kilohana, A`ali`i and Ko`ula towers, and more than one million square feet of retail

and commercial space, including the recently completed Nobu and Merriman's restaurants and a new multi-story Whole Foods supermarket. To date over 480 luxury residential units have been completed and over 1,600 are currently under construction.

- General Growth Properties recently completed a \$572 million expansion and renovation of its Ala Moana Shopping Center. The expansion included the addition of a new 167,000-square-foot, three-level Bloomingdale's store, a new 186,000-square-foot, three-level Nordstrom store and an additional 300,000 square feet of in-line mall retail space. Attached to the shopping center are two luxury residential apartment projects built over parking podiums. One Ala Moana, a 23-story tower containing 206 luxury residential units, was completed in late 2014. Park Lane, a nine-story complex containing 215 luxury residential units, was completed in 2017. Adjacent to the shopping center, SamKoo Development has completed construction of 485 additional luxury residential units.
- Downtown Capital recently completed the redevelopment of the former Honolulu Advertiser building and adjacent property into a \$400 million, two-tower workforce housing condominium project containing 1,045 units.
- Castle & Cooke Homes Hawai'i recently began construction on Koa Ridge, a \$2.2 billion housing and commercial development on the central Oahu plateau, which will consist of 3,500 single- and multi-family homes (including 30% affordable homes), a medical center, shopping outlets and recreation areas on 576 acres between Mililani and Waipio.
- D.R. Horton – Schuler Homes recently began developing Ho'opili in West Oahu, which will consist of 11,750 single- and multi-family homes, commercial and light industrial space, community facilities, three elementary schools, one middle school, a high school, parks and open space, and agricultural areas on 1,289 acres of land.
- Hoakalei Resort – Haseko Development is building a 140-acre residential resort on the southwest shore of Oahu with 887 homes and townhouses completed and more planned. The project also includes a completed signature Ernie Els golf course and a recreational lagoon under construction.
- Ka Makana Ali'i – DeBartolo Development recently completed the first phase of a 1.4 million square-foot, \$500 million shopping center in East Kapolei, including 150 shops and restaurants, two hotels and Macy's as an anchor tenant.
- Avalon Group is currently developing the 123-acre Kapolei Business Park West (West Oahu) with 47 industrial lots and the 54-acre Kapolei Business Park Phase 2. An additional expansion of the 3-acre Kapolei Pacific Center will include general and medical offices – existing tenants include the Social Security Administration.
- American Savings Bank, FSB has completed in March 2019 a new 373,000 square foot, 11-story headquarters building in Downtown Honolulu. The building contains five levels of office space and six levels of parking. Its pre-cast design allows for a collaborative and dynamic working environment with open-floor layouts on each office floor.
- Artspace is currently developing Ola Ka Ilima Artspace lofts, a \$53 million, 84 unit condominium project.
- Manaolana Partners and Kaijima Kagaku USA Inc. is currently developing Manaolana Place, a 36-story, mixed use tower that will include a Mandarin Oriental hotel and luxury condominiums near the Hawai'i Convention Center.
- Sam Koo Development is currently developing the Central Ala Moana, a 485 unit residential condominium project.

- Oliver McMillan is currently developing the Lilia Waikiki, comprised of a new 402 unit residential tower and renovation of 53 existing units.
- Kamehameha Schools is proposing the Moiliili Gateway project, a redevelopment of 6.5 acres along University Avenue.
- ProsPac Towers is a 450 unit mixed use hotel and residential project currently under development.
- Ililani LLC is developing the 328 unit Ililani affordable housing project in Kakaako.
- Avalon Group recently received approvals for construction of the Sky Ala Moana Towers, a mixed-use project, including 774 condominium units.
- Cuzco Development is currently developing Keeaumoku Towers, a 980 unit residential condominium project.

### **Trade and Services**

The economy of both the City and County and the State as a whole is heavily trade and service oriented, largely because of the heavy volume of purchases by visitors to the State. According to the State's Department of Taxation, the State's general excise and use tax base for trade activities exceeded \$36.36 billion and for service activities exceeded \$16.66 billion in 2019. In the first quarter of 2019, general excise and use tax revenues (excluding the City and County's surcharge) were \$916.4 million, a decrease of 4.5% compared to the same period last year. Of the State's 657,500 non-agricultural jobs in the first quarter of 2019, retail and wholesale trade together accounted for 88,400 jobs, and professional and business services, financial activities, educational services, healthcare and social assistance services, food and accommodation services, and other services were other major employment sectors. As of May 2019, professional and business services accounted for approximately 11.1% of jobs in the city and county, Health care and social assistance accounted for approximately 9.2% of jobs, food serve for 8.3%, retail trade for 7.8% and federal, state and county government for 33.3% of non-agricultural jobs.

### **Agriculture and Diversified Manufacturing**

Agriculture and manufacturing are relatively small sectors in the State's and the City and County's economy.

Agricultural sales on Oahu totaled \$151 million in 2017, accounting for approximately 27% of the State's agricultural production. About 20% of the land on Oahu is zoned for agriculture, which in 2017 consisted of 927 farms encompassing 71,795 acres. With the decline of the sugar and pineapple industries, agricultural lands are returning to an era of small farms growing diversified agricultural products. For example, Hawai'i aquaculture sales totaled \$76.4 million in 2017, according to the USDA's National Agricultural Statistics Service.

Manufacturing on Oahu consists principally of producing cement (one plant), refining oil (two refineries), and converting oil into synthetic natural gas (one plant). Other activities include the manufacturing of garments, plastic and concrete pipe, jewelry and gift items, and the processing and packaging of tropical fruits, nuts and other food items. There are more than 1,000 manufacturers statewide. Approximately \$3.67 million in general excise and use taxes were collected by the State from manufacturing services in fiscal year 2017. In March 2016, the State's High Technology Development Corporation announced the Manufacturing Assistance Program to provide matching grant funds (up to \$100,000) for local manufacturers willing to invest into expanding their production through purchase of new equipment or training or improving the energy efficiency of their operations. The program strives to make Hawai'i manufacturers more competitive, reducing imports and increasing exports from the State.

### **Energy**

Hawai'i's electricity production and costs are still heavily reliant on oil, but renewable energy has been increasing in all counties. In 2017 approximately 27.6% of Hawai'i's electricity was generated from renewable sources, the primary sources being wind, biomass, and geothermal. According to DBEDT's Hawai'i State Energy

Office, the Island of Oahu has two waste-to-energy facilities, seven solar farms, four biofuel facilities, three wind farms, and one ocean project under development with the capacity to generate at least 311 megawatts of energy. The State administration has set a goal of using 100% reusable energy resources by 2045.

In October 2012, the City and County completed a \$300 million expansion of its H-Power waste-to-energy facility, increasing its capacity to over 900,000 tons of municipal solid waste per year. The project included new air pollution control equipment mandated by federal law which became operational in April 2011 and a new boiler that entered commercial operations on April 2013 and currently has the capacity to produce approximately 80 megawatts of energy.

In March 2011, First Wind (now owned by SunEdison) completed Oahu's first large-scale commercial wind farm on the North Shore of the island at Kahuku. At full capacity, the project's twelve turbines produce 30 megawatts of energy, enough power for up to 7,700 homes on Oahu. In 2012, First Wind added another 30 turbines on the North Shore of the island at Kawailoa with the capacity to produce an additional 69 megawatts of energy.

Several renewable energy projects are currently in the planning and construction stages on Oahu. These projects include a 50-megawatt biofuel power plant on the U.S. Army's Schofield Barracks, a 46-megawatt solar farm under construction by a subsidiary of Clearway Energy, Inc. in the Waipio area, a 49-megawatt solar farm under construction by a subsidiary of Clearway Energy, Inc. adjacent to the First Wind wind farm at Kawailoa, a 15-megawatt solar farm under construction by Clearway Energy, Inc. in the Mililani/Waipio-Gentry area, a 14.3-megawatt solar farm under construction by Pacific Energy Solutions LLC (owned by NextEra Energy Capital Holdings, Inc.) for the US Navy at the Pearl Harbor Naval Base, a 45-megawatt wind power project to be developed by Champlin Hawai'i Wind Holdings in Kahuku, and a 30-megawatt solar farm developed by Eurus Energy America (owned by Toyota and Tokyo Electric Power) in Waianae.

### **Education, Research and Science**

The University of Hawai'i was established in 1907 and currently consists of a research university at Manoa, baccalaureate institutions at Hilo and West Oahu, and a system of seven community colleges on the islands of Kauai, Oahu, Maui and Hawai'i. The State's only law school is located at Manoa and its only medical school (with a new cancer research center) is located at Kakaako in downtown Honolulu. In the fall of 2018, 51,063 students attended the University of Hawai'i System, 17,346 of them on the Manoa Campus.

In addition to the University of Hawai'i System, there are three private universities and one private college on Oahu. Federal government research agencies in Honolulu include the U.S. Bureau of Commercial Fisheries and the Environmental Science Services Administration. Among private research organizations on Oahu are the Oceanic Institute and the Bishop Museum. The three high technology centers located on Oahu are the Mililani Technology Park, the Kaimuki Technology Enterprise and the Manoa Innovation Center.

### **Visitor Industry**

The visitor industry encompasses an array of businesses, including hotels, restaurants, airlines, travel agencies, taxis, tour-bus operators, gift shops and other service and recreational industries.

Visitor arrivals continue to be positive, domestic visitor arrivals increased while international visitor arrivals declined in the first quarter of 2019. Due to shorter lengths of stay, the daily visitor census increased less than the increase of visitor arrivals in the quarter. Since visitors spent less on a daily basis, total visitor spending decreased 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 to the State increased 63,989 or 2.6% in the first quarter of 2019, compared to the same quarter of 2018. The total average daily census was up 562 or 0.2% in the quarter. In 2018, total visitor arrivals by air increased 549,519 or 5.9%, while the average daily census increased 12,336 or 5.4% from the previous year.

In the first quarter of 2019, total visitor arrivals to the State on domestic flights increased 64,135 or 3.9% compared to the same quarter of 2018. In 2018, domestic arrivals were up 526,810 or 8.4% from the previous year.

Arrivals on international flights decreased 146 or 0.02% in the first quarter of 2019 compared to the first quarter of 2018. In 2018, international arrivals were up 22,709 or 0.7% from the previous year.

In terms of major market areas, from the first quarter of 2018 to the same period of 2019, arrivals from the U.S. West increased 68,182 or 7.1%, arrivals from the U.S. East increased 11,342 or 2.0%, and arrivals from Japan increased 8,563 or 2.2%. In 2018, arrivals from the U.S. West were up 368,278 or 9.6%; arrivals from the U.S. East were up 158,005 or 7.9%; and Japanese arrivals were down 16,483 or 1.0% from the previous year.

In January - May, 2019, 2,480,000 people visited Oahu, an increase of 4.6% over the 2,371,000 people who visited Oahu in the first five months of 2018. In 2019, 1,386,000 were domestic visitors, an increase from 1,279,000 domestic visitors in 2018. In 2019, 1,093,000 were international visitors, approximately the same number of international visitors in 2018.

In the first quarter of 2019, the length of stay per visitor decreased. Due to the shorter length of stay, the average total daily visitor census increased less than the growth of visitor arrivals in the quarter. The total average daily visitor census was up 0.2% or 562 visitors per day in the first quarter of 2019, over the same quarter of 2018. The domestic average daily census increased 0.6% or 1,031 visitors per day, while the international average daily census decreased 0.6% or 470 visitors per day. In 2018, the domestic average daily census increased 11,107 or 6.8%; and the international average daily census increased 1,229 or 1.9% from the previous year.

Nominal visitor expenditures by air totaled \$4,506.3 million in the first quarter of 2019, down 2.4% or \$111.0 million from the same quarter of 2018. In 2018, visitor expenditures increased \$947.0 million or 5.7% from the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 1.1% or 35,219 seats in the first quarter of 2019, domestic seats increased 1.0% or 22,354 seats; international seats increased 1.3% or 12,865 seats, compared to the same quarter of 2018. In 2018, the number of total available seats increased 8.3% or 1,012,461 seats from the previous year.

In the first quarter of 2019, the statewide hotel occupancy rate averaged 80.8%, 2.7 percentage points lower than the same quarter of 2018. As of April 2019, the statewide hotel occupancy rate was 79.9%. In calendar year 2018, the statewide hotel occupancy rate averaged 79.8%, 0.4 of a percentage point lower than that of the previous year.

**Table V**  
**SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS**

	Year Ended December 31					1st Quarter	
	2014	2015	2016	2017	2018 <sup>(1)</sup>	2018 <sup>(1)</sup>	2019 <sup>(1)</sup>
Arrivals by Air – State	8,196,342	8,563,018	8,821,802	9,277,613	9,827,132	2,438,647	2,502,636
Domestic	5,486,059	5,782,140	5,968,779	6,239,748	6,766,558	1,626,754	1,690,889
International	2,710,283	2,780,878	2,853,023	3,037,865	3,060,574	811,893	811,747
Arrivals by Air – Oahu	5,192,621	5,339,912	5,447,229	5,690,752	5,935,007	1,428,392	1,481,543
Domestic	2,779,642	2,868,749	2,912,872	2,663,000		755,952	805,254
International	2,412,978	2,471,163	2,549,008	3,009,000		672,440	676,289
Average Daily Visitor Census – State	206,217	213,934	217,675	228,785	241,121	252,972	253,534
Domestic	151,076	156,026	157,953	164,273	175,380	177,945	178,976
International	55,141	57,908	59,723	64,512	65,741	75,027	74,557
Visitor Expenditures – State <sup>(2)</sup>	\$14,809	\$14,939	\$15,754	\$16,809	\$17,759	\$4,617	\$4,506
Hotel Occupancy Rate – State	77.0%	78.7%	79.0%	80.2%	79.8%	83.5%	80.8%
Hotel Occupancy Rate – Oahu	84.4%	85.1%	83.9%	83.5%	83.9%	84.3%	83.0%

<sup>(1)</sup> Data preliminary.

<sup>(2)</sup> In millions of dollars. By persons arriving by air and staying overnight or longer (excludes supplemental business expenditures).

Sources: State of Hawai`i Department of Business, Economic Development & Tourism and Hospitality Advisors, LLC.

Honolulu’s profile as a visitor destination is enhanced by its role as host of numerous professional and trade conferences and conventions, as well as major sports events.

Conferences and conventions held in Honolulu annually attract thousands of visiting participants statewide, nationally and internationally. The primary site for these events is the Hawai`i Convention Center, which is located near Waikiki hotel accommodations and visitor attractions.

The City and County continues to attract major investment to support the visitor industry, including hotels, restaurants, and recreation facilities.

Significant development projects related to the visitor industry which are currently under construction or in the later planning stages in or around Waikiki include: (i) the \$250 million 246-unit second tower of the Ritz Carlton Waikiki, (ii) the \$35 million renovation of the Queen Kapiolani Hotel, (iii) the \$100 million renovation of the Hale Koa Hotel, (iv) the \$760 million renovation of Hilton Hawai`ian Village Waikiki Beach Resort, including the addition of a new 32-story, 418-unit luxury time-share tower, (v) a \$100 million renovation of the Sheraton Waikiki Hotel, (vi) conversion of the Waikiki Parc Hotel to 126 suites, and (vii) a \$100 million redevelopment of the Outrigger Reef on the Beach Resort that will add a 200-room hotel tower and increased meeting space, open recreation and dining areas.

Significant development projects related to the visitor industry in other parts of Oahu include: (i) a new Residence Inn by Marriott Hotel in Kapolei and (ii) a \$52 million renovation of Turtle Bay Resort on Oahu’s North Shore.

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**APPENDIX B**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

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PROPOSED FORM OF OPINION OF BOND COUNSEL

[Dated of Delivery]

City and County of Honolulu  
Honolulu, Hawaii

Re: City and County of Honolulu General Obligation Bonds,  
Series 2019C, Series 2019D, Series 2019E (Honolulu Rail Transit Project),  
Series 2019F, Series 2019G, Series 2019H (Taxable), Series 2019I (Taxable)  
and Series 2019J (Taxable)  

---

  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City and County of Honolulu (the “City”) in connection with the issuance of \$198,260,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019C (the “Series 2019C Bonds”), \$57,870,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019D (the “Series 2019D Bonds”), \$175,545,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019E (Honolulu Rail Transit Project) (the “Series 2019E Bonds”), \$8,095,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019F (the “Series 2019F Bonds”), \$9,225,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019G (the “Series 2019G Bonds”), \$2,000,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019H (Taxable) (the “Series 2019H Bonds”), \$980,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019I (Taxable) (the “Series 2019I Bonds”) and \$96,970,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2019J (Taxable) (the “Series 2019J Bonds” and, together with the Series 2019C Bonds, Series 2019D Bonds, Series 2019E Bonds, Series 2019F Bonds, Series 2019G Bonds, Series 2019H Bonds and Series 2019I Bonds, the “Bonds”), pursuant to a Certificate of the Director of Budget and Fiscal Services of the City dated \_\_\_\_\_, 2019, relating to the Series 2019C Bonds, the Series 2019D Bonds, the Series 2019F Bonds, the Series 2019G Bonds, the Series 2019H Bonds, the Series 2019I Bonds and the Series 2019J Bonds, and a Certificate of the Director of Budget and Fiscal Services of the City dated \_\_\_\_\_, 2019, relating to the Series 2019E Bonds (together, the “Certificates”), and bond authorizing ordinances and resolutions adopted by the City Council and identified in the Certificates (the “Bond Proceedings”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Certificates.

In such connection, we have reviewed the Bond Proceedings, the Certificates, the Tax Certificate of the City, dated the date hereof (the “Tax Certificate”), an opinion of the Corporation Counsel of the City, certificates of the City 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 City. 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 Bond Proceedings, the Certificates 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 Series 2019C Bonds, the Series 2019D Bonds, the Series 2019E Bonds, the Series 2019F Bonds and the Series 2019G 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 Bond Proceedings, the Certificates 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 counties in the State of Hawaii. 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 documents described in the second paragraph hereof. Our services did not include financial or other non-legal advice. 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 the valid and binding general obligations of the City.
2. The Certificates have been duly executed and delivered by the Director of Budget and Fiscal Services; and the Certificates constitute the valid and binding obligations of the City.
3. Under the Act, the City is obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the Bonds and the interest thereon, upon all the real property within the City subject to taxation by the City.
4. Interest on the Series 2019C Bonds, the Series 2019D Bonds, the Series 2019E Bonds, the Series 2019F Bonds and the Series 2019G 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 Series 2019C Bonds, the Series 2019D Bonds, the Series 2019E Bonds, the Series 2019F Bonds and the Series 2019G Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2019H Bonds, the Series 2019I Bonds and the Series 2019J Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. 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 C**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

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## FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated \_\_\_\_\_, 2019

CITY AND COUNTY OF HONOLULU  
General Obligation BondsSeries 2019C, Series 2019D, Series 2019E, Series 2019F , Series 2019G, Series 2019H,  
Series 2019I and Series 2019J

This Continuing Disclosure Certificate (this “*Disclosure Certificate*”) is provided in connection with the issuance by the City and County of Honolulu, Hawai`i (excluding the semi-autonomous agencies, currently the Board of Water Supply and the Honolulu Authority for Rapid Transportation) (the “*City and County*”) of \$548,945,000 General Obligation Bonds, Series 2019C, Series 2019D, Series 2019E, Series 2019F , Series 2019G, Series 2019H, Series 2019I and Series 2019J (collectively, the “*Bonds*”). The Bonds are being issued pursuant to the Constitution and laws of the State of Hawai`i, including Chapter 47, Hawai`i Revised Statutes, and the Revised Charter of the City and County, certain authorizing ordinances and resolutions of the City and County, and a Certificate of the Director of Budget and Fiscal Services of the City and County. Pursuant to such authority, the City and County covenants and agrees as follows:

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

Section 2. Definitions. When the following capitalized terms are used in this Disclosure Certificate, such terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the City and County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“*Dissemination Agent*” shall mean the Director of Budget and Fiscal Services of the City and County or any successor Dissemination Agent designated in writing by the City and County and which has filed with the City and County a written acceptance of such designation.

“*Financial Obligation*” means, for purposes of the Listed Events set out in Section 5(a)(x) and Section (5)(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “*Financial Obligation*” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“*Holder*” shall mean the person in whose name any Bond shall be registered.

“*Listed Events*” shall mean any of the events listed in subsection 5(a) 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 Underwriters*” shall mean any original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” shall mean Rule 15c2-12(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 City and County shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City and County’s Fiscal Year (presently June 30), commencing with the report for the Fiscal Year ended June 30, 2019, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City and County 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 City and County’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) In a timely manner prior to the date set forth in subsection (a) above, the City and County shall provide the Annual Report to the Dissemination Agent. If the City and County is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the City and County shall send a notice to the MSRB in substantially the form attached as Exhibit A.

Section 4. Contents of Annual Reports. The City and County’s Annual Report shall contain or include by reference information of the type included in the final Official Statement (the “*Official Statement*”) dated August 7, 2019, relating to the Bonds, as set forth under the following headings and tables: “CITY AND COUNTY REVENUES—Tables 1 through 7,” “DEBT STRUCTURE—Tables 8 through 11,” “FINANCIAL INFORMATION AND ACCOUNTING—Tables 13 through 16,” “EMPLOYEE RELATIONS AND EMPLOYEE BENEFITS,” and “LITIGATION”; 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 City and County’s most recent official statement.

The audited financial statements of the City and County for the prior Fiscal Year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City and County’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the City and County, which have been available to the public on the MSRB’s website. The City and County shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. (a) Pursuant to the provisions of this Section 5, the City and County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, not later than ten New York securities market business days after the occurrence of the event:

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults, if material;
- iii. Unscheduled draws on debt service reserves reflecting financial difficulties;

- iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
- v. Substitution of credit or liquidity providers, or their failure to perform;
- vi. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability. Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- vii. Modifications to rights of Bondholders, if material;
- viii. Optional or unscheduled Bond calls, if material, and tender offers;
- ix. Defeasances;
- x. Release, substitution, or sale of property securing repayment of the Bonds, if material;
- xi. Rating changes;
- xii. Bankruptcy, insolvency, receivership or similar event of the City and County; or
- xiii. The consummation of a merger, consolidation, or acquisition involving the City and County or the sale of all or substantially all of the assets of the City and County, 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, if material;
- xiv. Appointment of a successor or additional trustee or the change of name of a trustee, if material; or
- xv. Incurrence of a financial obligation of the City and County, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City and County, any of which affect Bond holders, if material.
- xvi. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City and County, any of which reflect financial difficulties.

For the purposes of the event identified in subparagraph (xii) above, 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 City and County shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4, as provided in Section 4.

(c) Whenever the City and County obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City and County shall determine if such event would be material under applicable federal securities laws.

(d) If the City and County learns of the occurrence of a Listed Event described in Section 5(a), or determines that a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City and County shall within ten New York securities market business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

(e) The City and County intends to comply with the Listed Events described in Section 5(a)(xv) and Section 5(a)(xvi), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Commission in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Commission or its staff with respect the amendments to the Rule effected by the 2018 Release.

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

Section 7. Dissemination Agent. The City and County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City and County pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City and County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a) 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 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders or (ii) does not materially impair the interests of the Holders or Beneficial Owners of the Bonds, as determined in good faith by the City and County.

In the event of any amendment or Waiver of a provision of this Disclosure Certificate, the City and County 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 City and County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(e), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City and County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City and County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City and County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City and County, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawai'i, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawai'i; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

CITY AND COUNTY OF HONOLULU

By: \_\_\_\_\_  
Nelson H. Koyanagi, Jr.  
Director of Budget and Fiscal Services

The foregoing certificate is hereby  
approved as to form and legality this  
\_\_\_ day of \_\_\_\_\_, 2019.

\_\_\_\_\_  
Paul S. Aoki  
Acting Corporation Counsel  
City and County of Honolulu

**EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City and County of Honolulu

Names of Bond Issues: City and County of Honolulu General Obligation Bonds  
Series 2019C, Series 2019D, Series 2019E, Series 2019F, Series 2019G,  
Series 2019H, Series 2019I and Series 2019J

Date of Issuance: \_\_\_\_\_, 2019

NOTICE IS HEREBY GIVEN that the City and County of Honolulu has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated \_\_\_\_\_, 2019. The City and County anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated:

CITY AND COUNTY OF HONOLULU

\_\_\_\_\_  
Director of Budget and Fiscal Services

**APPENDIX D**  
**BOOK-ENTRY SYSTEM**

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## APPENDIX D

### BOOK-ENTRY SYSTEM

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other 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, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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 the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions defaults, and proposed amendments to the Bond

documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City and County 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent, on the 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 its nominee, the Paying Agent, or the City and County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and County or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

**APPENDIX E**  
**REFUNDED BONDS**

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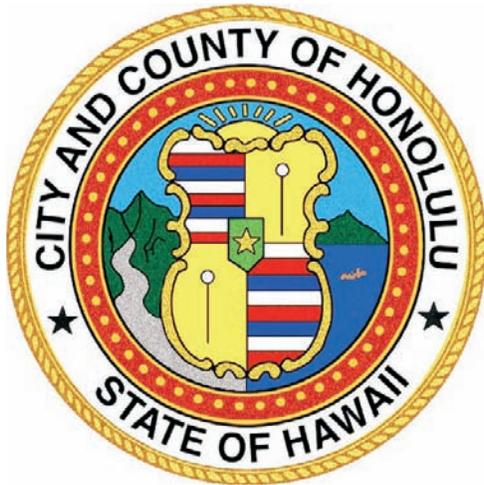
**APPENDIX E**

**REFUNDED BONDS**

<u>Series</u>	<u>Maturity</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>CUSIP (438670)</u>
2009F	9/1/2020	\$ 8,175,000	\$ 8,175,000	5.000%	UP4
2011B	8/1/2022	13,705,000	13,705,000	5.000	ZB0
2011B	8/1/2023	14,405,000	14,405,000	5.000	ZC8
2011B	8/1/2024	14,125,000	14,125,000	5.000	ZP9
2011B	8/1/2024	1,010,000	1,010,000	3.500	ZD6
2011B	8/1/2025	15,905,000	15,905,000	5.000	ZE4
2011B	8/1/2026	16,720,000	16,720,000	5.000	ZF1
2011B	8/1/2027	12,555,000	12,555,000	5.000	ZQ7
2011B	8/1/2027	5,000,000	5,000,000	4.000	ZN4
2012D	11/1/2023	1,490,000	1,490,000	2.812	N49
2012D	11/1/2024	1,530,000	1,530,000	2.912	N56
2012D	11/1/2025	1,580,000	1,580,000	3.062	N64
2012D	11/1/2026	1,625,000	1,625,000	3.162	N72
2012D	11/1/2027	1,680,000	1,680,000	3.262	N80
2012D	11/1/2028	1,735,000	1,735,000	3.362	N98

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