

**NEW ISSUE  
FULL BOOK-ENTRY**

**RATINGS:**  
**Fitch: AA+**  
**Moody's: Aa1**  
(See "Bond Ratings" herein)

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County, 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 2016A Bonds, the Series 2016B Bonds and the Series 2016C Bonds (together, 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 individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is of the opinion that the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel further observes that interest on the Series 2016D 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.*



**\$378,805,000**  
**CITY AND COUNTY OF HONOLULU**  
**General Obligation Bonds**

**\$96,385,000**  
**Series 2016A**  
**(Tax Exempt)**

**\$38,540,000**  
**Series 2016B**  
**(Tax Exempt)**

**\$100,065,000**  
**Series 2016C**  
**(Tax Exempt)**

**\$143,815,000**  
**Series 2016D**  
**(Taxable Green Bonds)**

**Dated: Date of Delivery**

**Due: As shown on inside cover**

The City and County of Honolulu General Obligation Bonds, Series 2016A (Tax Exempt), Series 2016B (Tax Exempt), Series 2016C (Tax Exempt) and Series 2016D (Taxable Green Bonds) (the "Series 2016A Bonds," "Series 2016B Bonds," "Series 2016C Bonds" and "Series 2016D Bonds," respectively, and together, the "Bonds"), are being issued by the City and County of Honolulu (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 on the inside cover, payable on April 1 and October 1 of each year, commencing October 1, 2017 in the case of the Series 2016A Bonds and Series 2016B Bonds and April 1, 2017 in the case of Series 2016C Bonds and Series 2016D Bonds. The Series 2016A Bonds, Series 2016C Bonds and Series 2016D Bonds are subject to redemption prior to the stated maturity thereof as described herein. The Series 2016B Bonds are not subject to redemption prior to maturity.

The Bonds are being issued for the purposes of (i) funding certain capital improvement projects of the City and County and (ii) refunding certain outstanding general obligation bonds of the City and County.

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 legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the Bonds in definitive form will be available for delivery to DTC, in New York, New York, on or about October 26, 2016.*

**BofA Merrill Lynch**

**Piper Jaffray & Co.**

October 5, 2016

**\$378,805,000**  
**CITY AND COUNTY OF HONOLULU**  
**General Obligation Bonds**

**\$96,385,000**  
**Series 2016A Bonds**  
**(Tax Exempt)**

<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)†</u>	<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)†</u>
2018	\$2,465,000	3.000%	0.970%	3L3	2028	\$3,650,000	5.000%	2.200%	3W9
2019	\$2,540,000	3.000%	1.050%	3M1	2029	\$3,840,000	5.000%	2.100%*	3X7
2020	\$1,375,000	3.000%	1.130%	3N9	2030	\$4,015,000	4.000%	2.440%*	3Y5
2020	\$1,250,000	4.000%	1.130%	4L2	2031	\$4,180,000	4.000%	2.500%*	3Z2
2021	\$2,225,000	3.000%	1.220%	3P4	2032	\$4,350,000	4.000%	2.560%*	4A6
2021	\$ 490,000	5.000%	1.220%	4P3	2033	\$4,525,000	4.000%	2.610%*	4B4
2022	\$1,865,000	3.000%	1.320%	3Q2	2034	\$4,710,000	4.000%	2.660%*	4C2
2022	\$ 950,000	5.000%	1.320%	4N8	2035	\$4,890,000	3.500%	3.010%*	4D0
2023	\$1,000,000	3.000%	1.440%	3R0	2036	\$5,065,000	3.500%	3.050%*	4E8
2023	\$1,920,000	4.000%	1.440%	4M0	2037	\$5,245,000	3.500%	3.090%*	4F5
2024	\$3,020,000	3.000%	1.560%	3S8	2038	\$5,430,000	3.500%	3.120%*	4G3
2025	\$3,140,000	5.000%	1.690%	3T6	2039	\$5,625,000	3.500%	3.140%*	4H1
2026	\$3,305,000	5.000%	1.800%	3U3	2040	\$5,825,000	3.500%	3.150%*	4J7
2027	\$3,470,000	5.000%	2.040%	3V1	2041	\$6,020,000	3.000%	3.160%	4K4

**\$38,540,000**  
**Series 2016B Bonds**  
**(Tax Exempt)**

<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)†</u>	<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)†</u>
2017	\$3,565,000	3.000%	0.860%	4Q1	2021	\$2,935,000	5.000%	1.220%	4Y4
2018	\$4,385,000	4.000%	0.970%	4R9	2022	\$5,205,000	5.000%	1.320%	4V0
2019	\$4,565,000	4.000%	1.050%	4S7	2023	\$5,445,000	4.000%	1.440%	4W8
2020	\$4,750,000	4.000%	1.130%	4T5	2024	\$5,665,000	4.000%	1.560%	4X6
2021	\$2,025,000	4.000%	1.220%	4U2					

**\$100,065,000**  
**Series 2016C Bonds**  
**(Tax Exempt)**

<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)†</u>	<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)†</u>
2021	\$5,100,000	5.000%	1.220%	4Z1	2028	\$7,235,000	5.000%	2.200%	5G2
2022	\$5,360,000	5.000%	1.320%	5A5	2029	\$7,605,000	5.000%	2.360%	5H0
2023	\$5,635,000	5.000%	1.440%	5B3	2030	\$7,995,000	5.000%	2.490%	5J6
2024	\$5,925,000	5.000%	1.560%	5C1	2031	\$8,365,000	4.000%	2.500%*	5K3
2025	\$6,225,000	5.000%	1.690%	5D9	2032	\$8,705,000	4.000%	2.560%*	5L1
2026	\$6,545,000	5.000%	1.800%	5E7	2033	\$9,060,000	4.000%	2.610%*	5M9
2027	\$6,880,000	5.000%	2.040%	5F4	2034	\$9,430,000	4.000%	2.660%*	5N7

\* Priced to call at par on October 1, 2026.

† 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 Underwriters take any responsibility for the accuracy of such numbers.

**\$143,815,000**  
**Series 2016D Bonds**  
**(Taxable Green Bonds)**

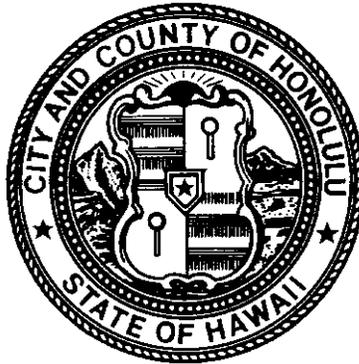
<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)<sup>†</sup></u>	<u>Year</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438670)<sup>†</sup></u>
2017	\$6,690,000	0.850%	0.850%	5P2	2026	\$ 7,870,000	2.518%	2.518%	5Y3
2018	\$6,755,000	1.092%	1.092%	5Q0	2027	\$ 8,075,000	2.668%	2.668%	5Z0
2019	\$6,835,000	1.267%	1.267%	5R8	2028	\$ 8,315,000	3.125%	2.818%*	6A4
2020	\$6,930,000	1.506%	1.506%	5S6	2029	\$ 8,570,000	2.968%	2.968%	6B2
2021	\$7,045,000	1.706%	1.706%	5T4	2030	\$ 8,835,000	3.068%	3.068%	6C0
2022	\$7,175,000	1.991%	1.991%	5U1	2031	\$ 9,110,000	3.118%	3.118%	6D8
2023	\$7,325,000	2.141%	2.141%	5V9	2032	\$ 9,400,000	3.138%	3.138%	6E6
2024	\$7,495,000	2.368%	2.368%	5W7	2033	\$ 9,700,000	3.168%	3.168%	6F3
2025	\$7,675,000	2.468%	2.468%	5X5	2034	\$10,015,000	3.218%	3.218%	6G1

\* Priced to call at par on October 1, 2026.

<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 Underwriters take any responsibility for the accuracy of such numbers.

# **City and County of Honolulu**

State of Hawaii  
(Incorporated 1907)



## **MAYOR**

Kirk Caldwell

## **CITY COUNCIL**

Ernest Y. Martin  
Chair and Presiding Officer

Ikaika Anderson  
Vice Chair

Ron Menor  
Floor Leader

Brandon J. C. Elefante

Carol Fukunaga

Ann H. Kobayashi

Joey Manahan

Trevor Ozawa

Kimberly Marcos Pine

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

Nelson H. Koyanagi, Jr.

## **CORPORATION COUNSEL**

Donna Y. L. Leong

## **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.

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## OFFICIAL STATEMENT

**\$378,805,000**  
**City and County of Honolulu**  
**General Obligation Bonds**

<b>\$96,385,000</b> <b>Series 2016A</b> <b>(Tax Exempt)</b>	<b>\$38,540,000</b> <b>Series 2016B</b> <b>(Tax Exempt)</b>	<b>\$100,065,000</b> <b>Series 2016C</b> <b>(Tax Exempt)</b>	<b>\$143,815,000</b> <b>Series 2016D</b> <b>(Taxable Green Bonds)</b>
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### 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 (the “City and County,” the “City,” “Honolulu” or “Oahu”), and its \$378,805,000 aggregate principal amount of General Obligation Bonds, Series 2016A, Series 2016B, Series 2016C and Series 2016D (the “Series 2016A Bonds,” “Series 2016B Bonds,” “Series 2016C Bonds” and “Series 2016D Bonds,” respectively, and together, the “Bonds”).

### 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 Hawaii, including Chapter 47, Hawaii Revised Statutes, the Revised Charter of the City and County 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.

#### Purpose of Issuance

The proceeds of the Bonds will be used (i) to fund certain capital improvement projects of the City and County, (ii) to refund certain general obligation bonds previously issued by the City and County, and (iii) to pay certain costs of issuance relating to the Bonds.

The Series 2016D Bonds are being issued as taxable “Green Bonds,” the proceeds of which will be used to refund certain outstanding reimbursable general obligation bonds previously issued by the City and County to finance or refinance the acquisition, construction and expansion of its H-Power waste disposal facility, which was completed in 1990 and underwent a major expansion project subsequently completed in 2012. See “DEBT STRUCTURE - H-Power Waste Disposal Facility” herein for further information regarding the facility. The proceeds of the bonds issued to finance the H-Power facility have been fully expended and, consequently, the City and County will not provide further updates about the project.

#### The Refunding Plan

The Series 2016C Bonds and Series 2016D Bonds are being issued to refund certain of the City and County’s outstanding General Obligation Bonds, as set forth in Appendix E (the “Refunded Bonds”). Upon issuance of the Bonds, a portion of the proceeds of the Series 2016C Bonds and Series 2016 D Bonds will be deposited into an escrow fund or funds (collectively, the “Escrow Fund”) to be established with U.S. Bank National Association, as escrow agent (the “Escrow Agent”), for the purpose of effecting the refunding of the Refunded Bonds. The moneys and securities held in the Escrow Fund are to be applied to the payment of maturing principal or redemption price of and interest on the Refunded Bonds. Pending application, moneys deposited in the Escrow Fund will be invested in noncallable direct obligations of the United States (the “Escrow Securities”) which, together with cash held uninvested in the Escrow Fund, will be sufficient without reinvestment to pay, and will be applied to pay the maturing principal or redemption price of and interest on the Refunded Bonds to and including their respective maturity dates or redemption dates, as applicable. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Fund, in the amounts needed to pay the principal or redemption price

of and interest on the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein for a discussion of certain mathematical computations relating to the Escrow Fund and the Bonds.

### SOURCES AND USES OF PROCEEDS

The estimated sources and uses of the proceeds of the Bonds are set forth below:

<b>Sources of Funds:</b>	<b>Series 2016A</b>	<b>Series 2016B</b>	<b>Series 2016C</b>	<b>Series 2016D</b>	<b>Total</b>
Par Amount of Bonds .....	\$ 96,385,000.00	\$38,540,000.00	\$100,065,000.00	\$143,815,000.00	\$378,805,000.00
Plus Net Original Issue Premium .....	10,427,937.65	5,064,571.70	21,531,495.40	219,599.15	37,243,603.90
Total Sources of Funds .....	\$106,812,937.65	\$43,604,571.70	\$121,596,495.40	\$144,034,599.15	\$416,048,603.90
 <b>Uses of Funds:</b>					
Bond Improvement Funds .....	\$106,501,998.62	\$43,499,770.20	\$ 5,004.54	\$ 2,327.21	\$150,009,100.57
Deposit to Escrow Fund .....	-	-	121,280,928.72	143,605,391.33	264,886,320.05
Costs of Issuance* .....	310,939.03	104,801.50	310,562.14	426,880.61	1,153,183.28
Total Uses of Funds .....	\$106,812,937.65	\$43,604,571.70	\$121,596,495.40	\$144,034,599.15	\$416,048,603.90

\* Includes Underwriter's discount and other legal and financial costs incurred in connection with the issuance and delivery of the Bonds.

### 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 on the inside cover page hereof; will bear interest at the rates per annum shown on the inside cover hereof (computed on the basis of a 360-day year) payable April 1 and October 1 of each year, commencing October 1, 2017 in the case of the Series 2016A Bonds and Series 2016B Bonds and April 1, 2017 in the case of the Series 2016C Bonds and Series 2016D Bonds. The Bonds will be subject to redemption as described herein.

The Bonds are expected to be available for delivery to The Depository Trust Company (“DTC”), in New York, New York, on or about October 26, 2016. 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 all 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), and the payment of the interest on each Bond 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.”

### **Optional Redemption**

The Series 2016A Bonds maturing on and after October 1, 2029, the Series 2016C Bonds maturing on and after October 1, 2031 and the Series 2016D Bonds maturing on and after October 1, 2027 are subject to redemption prior to the stated maturity thereof at the option of the City and County on or after October 1, 2026, 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 2016D Bonds maturing on or before October 1, 2026 are subject to redemption prior to their stated maturities at the option of the City and County, in whole or in part (and if in part on a pro rata basis), on any date, at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the Series 2016D 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 2016D Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2016D Bonds are to be redeemed, discounted to the date on which such Series 2016D 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 25 basis points;

*plus*, in each case, accrued interest on such Series 2016D Bonds to be redeemed to the redemption date.

For purposes of the foregoing provisions concerning redemptions of the Series 2016D Bonds, the following terms shall have the meanings set forth below:

“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 underwriters for the Series 2016D Bonds).

“Comparable Treasury Issue” means the United State Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Series 2016D 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 2016D Bonds being redeemed.

“Comparable Treasury Price” means, with respect to any date on which a Series 2016D 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 the third business day preceding the date fixed for redemption.

“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series 2016D Bonds being redeemed. The Comparable Treasury Yield will be determined as of the third business day immediately 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 2016D 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 2016D Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series 2016D Bond 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 underwriters for the Series 2016D Bonds) appointed by the City and County and reasonably acceptable to the Calculation Agent.

### **Selection for Redemption**

If fewer 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 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 the 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 the Series 2016A Bonds and Series 2016C Bonds, and (ii) on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, in the case of the Series 2016D Bonds; provided that, so long as the Bonds are held in book-entry form, the selection for redemption of the Bonds 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 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 2016D Bonds, including payments of scheduled mandatory sinking fund payments, the Registrar will direct DTC to make a pass-through distribution of principal to the owners of the Series 2016D Bonds. A form of Pro Rata Pass-Through Distribution of Principal Notice will be provided to the Registrar that includes a table of factors reflecting the relevant scheduled redemption payments, based on the current schedule of mandatory sinking fund payments, which is subject to change upon certain optional redemptions, and DTC’s currently applicable procedures, which are subject to change.

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

It is the City and County’s intent that redemption allocations made by DTC with respect to the Series 2016D Bonds be made on a pro rata pass-through distribution of principal basis as described above. However, neither the City and County nor the Underwriters can 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 particular Series 2016D Bonds of such maturity and bearing such interest rate to be redeemed will be selected on a pro rata basis, and the particular Series 2016A Bonds and Series 2016C 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, 2017:

**CITY AND COUNTY OF HONOLULU**  
**General Obligation Bonds,**  
**Series 2016A Bonds, Series 2016B Bonds, Series 2016C Bonds and Series 2016D Bonds**  
**Debt Service Requirements**

FY Ending June 30	Principal	Interest	Total
2017	\$ -	\$ 3,514,832.92	\$ 3,514,832.92
2018	10,255,000.00	15,614,451.79	25,869,451.79
2019	13,605,000.00	13,103,810.60	26,708,810.60
2020	13,940,000.00	12,769,553.58	26,709,553.58
2021	14,305,000.00	12,404,045.96	26,709,045.96
2022	19,820,000.00	11,864,144.21	31,684,144.21
2023	20,555,000.00	11,129,773.23	31,684,773.23
2024	21,325,000.00	10,360,906.98	31,685,906.98
2025	22,105,000.00	9,583,852.06	31,688,852.06
2026	17,040,000.00	8,859,551.76	25,899,551.76
2027	17,720,000.00	8,185,383.96	25,905,383.96
2028	18,425,000.00	7,473,580.16	25,898,580.16
2029	19,200,000.00	6,705,062.78	25,905,062.78
2030	20,015,000.00	5,889,712.10	25,904,712.10

FY Ending June 30	Principal	Interest	Total
2031	20,845,000.00	5,060,704.40	25,905,704.40
2032	21,655,000.00	4,252,075.60	25,907,075.60
2033	22,455,000.00	3,450,564.70	25,905,564.70
2034	23,285,000.00	2,616,630.70	25,901,630.70
2035	24,155,000.00	1,747,341.35	25,902,341.35
2036	4,890,000.00	1,217,825.00	6,107,825.00
2037	5,065,000.00	1,043,612.50	6,108,612.50
2038	5,245,000.00	863,187.50	6,108,187.50
2039	5,430,000.00	676,375.00	6,106,375.00
2040	5,625,000.00	482,912.50	6,107,912.50
2041	5,825,000.00	282,537.50	6,107,537.50
2042	<u>6,020,000.00</u>	<u>90,300.00</u>	<u>6,110,300.00</u>
Total:	\$378,805,000.00	\$159,242,728.84	\$538,047,728.84

## SECURITY FOR THE BONDS

### Security Provisions

The Constitution and other laws of the State of Hawaii 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 2015 and for the Fiscal Year ended June 30, 2016, authorized and appropriated a total of \$6,762,815,616 for public improvements to be financed from the proceeds of general obligation bonds or notes. As of June 30, 2016, \$3,072,448,910 of general obligation bonds and notes (including reimbursable general obligation bonds) had been issued to finance appropriations for such Fiscal Years, and \$2,673,208,560 of such appropriations had lapsed pursuant to the terms of the Revised Charter of the City and County. It is expected that \$1,017,158,146, 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.

In addition, on December 23, 2015, the City and County authorized the issuance of commercial paper notes in an amount not to exceed \$450,000,000 at any one time outstanding, to provide short term financing for various capital improvement projects of the City and County, including the 20-mile fixed guideway transit system being constructed by the Honolulu Authority for Rapid Transportation (“HART”). On September 8, 2016, the City and County issued \$50,000,000 of such commercial paper notes to fund certain costs of the transit system project.

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 (formerly known as the Honolulu High-Capacity Transit Corridor Project)” for a discussion of the fixed guideway transit project being constructed by HART.

## THE CITY AND COUNTY OF HONOLULU

### Introduction

Honolulu, the capital and principal city of the State of Hawaii, is located on the Island of Oahu. The City and County of Honolulu includes the entire Island of Oahu and a number of outlying islands. Of the eight major

islands that constitute the State of Hawaii, Oahu, with an area of 597 square miles, is smaller than the Islands of Hawaii 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, 2015, the resident population of the State was 1,431,603, and that of Oahu was 998,714, approximately 70% 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.

Reference is made to Appendix A hereto 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 Hawaii is highly centralized, with the State assuming 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 does provide a broad range of municipal services. These include public safety (police and fire protection and public prosecutor), 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, fuel taxes 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 tax 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, 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 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 2016. 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, 2017, while the current terms of councilmembers for council districts II, IV, VI and VIII will expire on January 2, 2019. 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.”

***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.
- The Honolulu Authority for Rapid Transportation (“HART”) was created effective July 1, 2011 to develop, operate, maintain and expand a fixed guideway mass transit system for the City and County. The Authority is under the direction of a ten-member policy making board of directors consisting of seven appointed voting members, two ex officio voting members (the Director of the State Department of Transportation and the City and County’s Director of Transportation Services) and one ex officio nonvoting member (the City and County’s Director of Planning and Permitting). See “DEBT STRUCTURE – Honolulu Rail Transit Project (formerly known as the Honolulu High-Capacity Transit Corridor Project)” for certain information regarding the proposed transit system.

***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 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.

The charter commission has proposed certain amendments to the Charter which will be submitted to the voters for approval at the City and County’s next general election in November 2016. Among these proposed amendments are the following:

- A proposal to make the City and County’s Department of Transportation Services (“DTS”) responsible for operation and maintenance of the fixed guideway mass transit system being constructed by HART. DTS currently operates the City and County’s bus and Handi-Van services. HART would remain responsible for construction of the system under this proposal. See “Semi-Autonomous Agencies” above and “DEBT STRUCTURE – Honolulu Rail Transit Project (formerly known as the Honolulu High-Capacity Transit Corridor Project)” below.
- A proposal to establish uniform term limits of three consecutive four-year terms for the Mayor, the Councilmembers and the Prosecuting Attorney. Currently, the Mayor and Councilmembers are limited to two consecutive four-year terms, and the Prosecuting Attorney is not subject to a term limit.

- A proposal to establish a special fund In Honolulu Zoo 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 Honolulu Zoo 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 would 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 would be deposited in the General Fund.
- Proposals to make certain modifications to the Affordable Housing Fund, the Clean Water and Natural Lands Fund and the Grants in Aid Fund, as discussed herein under “Affordable Housing Fund,” “Clean Water and Natural Lands Fund” and “Grants in Aid Fund” in the section entitled “BUDGET PROCESS AND FINANCIAL MANAGEMENT.”

## 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, 2015, 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, Hawaii 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” herein for certain financial information based on the City and County’s audited financial statements. See also Appendix A hereto 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 generally account for approximately 83% of General Fund revenues, 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 Hawaii 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 and income, productivity, 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 Hawaii or the several counties of the State is excluded from taxation, but is 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, community and charitable organizations is exempt from taxation under certain conditions described in the Tax Ordinance. In addition, real property owned and occupied as a home 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 4% of the combined income of all title holders of the property (3% in the case of qualified homeowners 75 years of age or older). 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 it in its budget. Beginning July 1, 2017, the real property taxes for all qualified homeowners (irrespective of age) will be limited to 3% of the combined income of all title holders.

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 one year is assessed at 5% of its fair market value, for five years at 3% and for ten years at 1%. Land dedicated for pasture use for a period of one, 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 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.

From time to time, proposed ordinances to amend the City and County’s real property tax laws are introduced in 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 2016 and 2017 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 2013 through 2017.

**Table 1**  
**ASSESSED VALUATION OF REAL PROPERTY <sup>(1)</sup>**  
**Fiscal Years 2016 and 2017**  
**(values in thousands)**

	<u>2016</u>	<u>2017</u>
Gross assessed valuation.....	\$214,888,197	\$227,870,867
Less exemption valuation .....	<u>(26,253,925)</u>	<u>(27,230,655)</u>
Assessor's net taxable value.....	\$188,634,272	\$200,640,212
Less 50% of valuations on appeal .....	<u>(915,438)</u>	<u>(1,013,632)</u>
Net assessed valuation for rate purposes.....	<u>\$187,718,834</u>	<u>\$199,626,580</u>

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

**Table 2**  
**REAL PROPERTY NET ASSESSED VALUES BY CLASSIFICATION AND TAX RATES**  
**Fiscal Years 2013–2017**  
**(values in thousands)**

<u>Classification</u>	<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017</u>	
	<u>Value</u>	<u>Rate</u>								
Residential <sup>(1)</sup>	\$124,425,238	\$3.50	\$127,060,389	\$3.50	\$127,980,612	\$3.50	\$137,435,628	\$3.50	\$144,692,257	\$3.50
Hotel/Resort	7,354,673	12.40	7,848,201	12.40	8,193,857	12.90	9,841,920	12.90	11,348,555	12.90
Commercial	14,336,676	12.40	14,696,801	12.40	15,150,419	12.40	15,778,813	12.40	17,219,480	12.40
Industrial	7,757,463	12.40	8,005,590	12.40	8,153,174	12.40	8,521,155	12.40	9,141,610	12.40
Agricultural	929,718	5.70	932,333	5.70	1,130,465	5.70	989,887	5.70	996,002	5.70
Vacant Agricultural	92,350	8.50	92,805	8.50	79,546	8.50	60,689	8.50	50,311	8.50
Preservation	435,353	5.70	457,307	5.70	445,037	5.70	455,825	5.70	464,899	5.70
Public Service <sup>(2)</sup>	2,283	--	2,300	--	--	--	1	--	38	--
Residential A <sup>(3)</sup>	--	--	--	--	<u>13,202,440</u>	6.00	<u>14,634,916</u>	6.00	<u>15,713,428</u>	6.00
Total All Classes	<u>\$155,333,754</u>		<u>\$159,095,726</u>		<u>\$174,335,550</u>		<u>\$187,718,834</u>		<u>\$199,626,580</u>	

<sup>(1)</sup> Effective with the Fiscal Year ended June 30, 2011, Ordinance 09-32 divided the Residential classification into two new classifications—Homeowner and Non-Homeowner. Ordinance 10-31 replaced these two classifications with the single Residential classification, effective with the Fiscal Year ended June 30, 2012.

<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 does not currently tax property in this category. In lieu of taxing such property, the City receives a portion of the public service tax imposed by the State on the gross income of public service companies.

<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.

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 Board of Review or the State Tax Appeals Court.

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, 2013 to 2017 are shown in the table below.

**Table 3**

**STATEMENT OF REAL PROPERTY TAX LEVIES AND COLLECTIONS  
SHOWING ASSESSED VALUATIONS AND TAX RATES  
Fiscal Years 2013–2017  
(values in thousands)**

<b>Fiscal Year</b>	<b>Net Valuation for Tax Rate Purposes <sup>(1)</sup></b>	<b>Weighted Average Tax Rate Per \$1,000</b>	<b>Amount of Levies <sup>(2)</sup></b>	<b>Percent of Collections to Levy <sup>(3)</sup></b>
2013	\$155,333,754	5.21	\$ 822,276	99.0%
2014	159,095,726	5.24	846,216	99.1
2015	174,335,550	5.35	943,359	99.2
2016	187,718,834	5.42	1,018,462	99.2
2017	199,626,580	5.43	1,082,732	N/A

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

<sup>(2)</sup> Total levies, less adjustments (primarily appeals).

<sup>(3)</sup> Collections within fiscal year of levy.

In the Fiscal Year ended June 30, 2015, real property tax revenues (excluding public service company tax collections as discussed under “Public Service Company Tax” below) totaled \$942.5 million, which accounted for approximately 83% 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 ending June 30, 2017 (the latest period for which such information is currently available). 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 ending June 30, 2017**

<b>Taxpayer <sup>(2)</sup></b>	<b>Type of Business</b>	<b>Gross Assessed Valuation <sup>(3)</sup></b>	<b>% of Total Assessed Valuation</b>
Bishop Estate	Educational Trust Estate	\$1,783,849,100	0.78%
General Growth Properties	Real Estate	1,757,565,700	0.77
Kyo-ya Company	Hotel/Resort	1,522,821,900	0.67
Hilton, et al.	Hotel/Resort	1,392,316,700	0.61
Disney	Hotel/Resort	980,364,200	0.43
Outrigger Hotels Hawaii	Hotel/Resort	836,273,200	0.37
DEG, LLC	Real Estate	626,886,400	0.28
A & B Properties Inc	Real Estate	618,380,600	0.27
Weinberg Foundation	Charitable Foundation	522,572,500	0.23
First Hawaiian Bank	Financial Services	459,179,200	0.20
		<u>\$10,500,209,500</u>	4.61%

<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, 2015 at 100% of market value.

**Table 5**  
**TEN LARGEST REAL PROPERTY TAXPAYERS <sup>(1)</sup>**  
**BY AMOUNT OF TAX LEVIED**  
**Fiscal Year ending June 30, 2017**

<u>Taxpayer <sup>(2)</sup></u>	<u>Type of Business</u>	<u>Amount of Tax Levied</u>	<u>% of Total Amount Levied</u>
General Growth Properties	Real Estate	\$20,864,009	1.93%
Kyo-ya Company	Hotel/Resort	19,638,398	1.81
Hilton et al.	Hotel/Resort	17,961,483	1.66
Bishop Estate	Educational Trust Estate	13,757,559	1.27
Outrigger Hotels Hawaii	Hotel/Resort	10,640,476	0.98
A & B Properties Inc	Real Estate	6,575,929	0.61
Disney	Hotel/Resort	6,323,540	0.58
Weinberg Foundation	Charitable Foundation	6,137,680	0.57
Marriott Ownership Resorts	Hotel/Resort	5,753,326	0.53
Ko Olina Hotel	Hotel/Resort	<u>5,635,734</u>	<u>0.52</u>
		<u>\$113,288,134</u>	10.46%

<sup>(1)</sup> Excludes property owned by governmental entities.

<sup>(2)</sup> Taxpayer's name as recorded on real property tax records.

**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 9.25%, except that time share vacation rentals are currently taxed at 8.25% through December 31, 2016 and 9.25% thereafter. Currently, annual TAT revenues are distributed 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) \$26.5 million is distributed to the convention center enterprise special fund, (3) \$82 million is distributed to the tourism special fund, and (4) \$93 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, 2012 through 2016:

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

<u>Fiscal Year (Ended June 30)</u>	<u>Allocable Share <sup>(1)</sup> (Dollars in Millions)</u>	<u>Percent of General Fund Revenues <sup>(2)</sup></u>
2012	\$44.3	4.4%
2013	41.0	4.1
2014	41.0	4.0
2015	45.4	4.0
2016 <sup>(3)</sup>	45.4	N/A

<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.

<sup>(3)</sup> Unaudited.

**Excise and Use Tax.** Under Chapter 237, Hawaii 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, Hawaii 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 expires on December 31, 2027. For the Fiscal Years ended June 30, 2015 and June 30, 2016, the City and County received \$223.7 million and \$233.3 million (unaudited), respectively, from the general excise and use tax surcharge, net of the 10% administrative fee charged by the State. Proceeds of the surcharge are being applied to build a new fixed guideway mass transit system for Oahu. See “DEBT STRUCTURE – Honolulu Rail Transit Project (formerly known as the Honolulu High-Capacity Transit Corridor Project)” for additional information concerning the proposed transit system, including information concerning anticipated cost increases.

**Public Service Company Tax.** Under Chapter 239, Hawaii 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 \$50.9 million and \$48.2 million (unaudited) of public service company tax revenues in the Fiscal Years ended June 30, 2015 and June 30, 2016, 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 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, Hawaii 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, Hawaii Revised Statutes, the City and County currently imposes taxes between 5.0 cents per pound and 5.5 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, Hawaii Revised Statutes, to highway and related expenditures in the City and County, including \$500,000 for police purposes. In the Fiscal Year ended June 30, 2015, the City and County collected \$125.0 million of vehicle weight taxes.

**County Fuel Tax.** The City and County fuel tax, authorized by Sections 243-4 and 243-5, Hawaii 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, Hawaii 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, 2015 and June 30, 2016, the City and County’s fuel tax collections totaled \$50.5 million and \$52.8 million (unaudited), respectively.

**Public Utilities Franchise Tax.** Section 240-1, Hawaii 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, 2015 and June 30, 2016, the City and County collected \$56.6 million and \$44.8 million (unaudited) 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 generally account for approximately 83% of the City and County's General Fund revenues annually) 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 2011 through 2015.

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

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenditures</u>
2011	\$1,255.2	\$1,194.6
2012	1,110.4	1,103.7
2013 (as restated)	1,130.5	1,068.6
2014	1,166.3	1,196.4
2015	1,261.9	1,258.0

## DEBT STRUCTURE

### Legal Requirements

**Debt Limit.** The creation of general debt by the counties in the State of Hawaii is governed by the State Constitution, applicable provisions of the Hawaii 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, Hawaii 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. As required by law, the City and County prepared a certified statement of funded debt and exclusions as of July 1, 2016, and is currently in the process of supplementing this statement to reflect the issuance, on September 8, 2016, of \$50,000,000 of general obligation commercial paper notes as discussed under “SECURITY FOR THE BONDS – Outstanding and Expected General Obligation Bonds and Notes” above and \$448,155,000 of wastewater facility revenue bonds as discussed in this Section under “Revenue Indebtedness” below.

Table 8 below sets forth the City and County’s most recent summary statement of funded debt and exclusions as of July 1, 2016. Set forth in Table 9 is a detailed schedule of all outstanding general obligation funded debt of the City and County as of July 1, 2016. Table 10 provides debt service charges on outstanding general long-term debt of the City and County as of July 1, 2016.

**Table 8**  
**STATEMENT OF FUNDED DEBT**  
**As of July 1, 2016**

1.	Gross assessed valuation of real property as of January 29, 2016.....		\$ 227,870,867,000
2.	Less exempt valuation .....		<u>27,230,654,700</u>
3.	Assessor's net taxable value.....		200,640,212,300
4.	Less valuations on appeal.....		<u>2,027,264,200</u>
5.	Taxpayers' valuation .....		198,612,948,100
6.	Add 50% of valuation on appeal.....		<u>1,013,632,100</u>
7.	Net assessed valuation of real property for rate purposes.....		\$ <u>199,626,580,200</u>
8.	Limit of funded debt as set by the Constitution of the State of Hawaii.....		\$ 29,943,987,030 <sup>(1)</sup>
9.	Funded debt:		
	a. General obligation bonds.....	\$ 2,747,660,000	
	b. Revenue bonds.....	1,978,593,905 <sup>(2)</sup>	
	c. Notes payable:		
	State of Hawaii.....	<u>321,044,628</u>	
	d. Gross funded indebtedness .....	\$ 5,047,298,533	
	Less exclusions:		
	e Revenue bonds		
	Self-supporting waterworks .....	\$40,000	
	Self-supporting wastewater.....	1,253,905	
	f General obligation bonds issued for H-Power waste disposal facility..	115,000	
	g General obligation bonds issued for Housing .....	8,293	
	h General obligation bonds issued for solid waste.....	69,268	
	i General obligation bonds issued for wastewater system.....	16	
	j State of Hawaii Revolving Fund loans payable for wastewater system	47,440	
	k State of Hawaii Revolving Fund loans payable for waterworks.....	<u>8,647</u>	
	l. Net funded debt.....	<u>2,847,816,269</u>	<u>2,199,482,264</u>
10.	Gross limit of additional funded debt.....		\$ 27,744,504,766
11.	Less general obligation bonds authorized and unissued: <sup>(3)</sup>		

Authorizing Ordinance	Total Authorized <sup>(4)</sup>	Amount Issued	Amount Unissued
Ordinance No. 98-29	\$ 178,425,865	\$ 177,199,935	\$ 930
Ordinance No. 06-34	156,377,991	156,268,148	143
Ordinance No. 07-26	212,775,847	211,415,527	1,320
Ordinance No. 08-14	297,114,861	289,765,331	1,530
Ordinance No. 09-13	448,064,540	307,558,920	105,620
Ordinance No. 10-13	367,420,473	339,609,353	1,120
Ordinance No. 11-12	183,227,628	143,950,620	17,008
Ordinance No. 11-21 <sup>(5)</sup>	26,020,181	--	10,181
Ordinance No. 12-21	215,182,108	168,928,098	4,010
Ordinance No. 12-24 <sup>(5)</sup>	212,393,315	--	93,315
Ordinance No. 13-21	308,590,127	156,096,138	93,989
Ordinance No. 13-24 <sup>(5)</sup>	753,129,445	--	29,445
Ordinance No. 14-16	346,505,763	29,744,286	161,477
Ordinance No. 14-22 <sup>(5)</sup>	786,741,929	--	141,929
Ordinance No. 15-22	284,009,300	--	109,300
Ordinance No. 15-29 <sup>(5)</sup>	<u>266,017,311</u>	<u>--</u>	<u>17,311</u>
	\$ <u>5,041,996,684</u>	\$ <u>1,980,536,356</u>	<u>3,061,460,328</u>

12.	Net limit of additional funded debt.....		\$ <u>24,683,044,438</u>
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<sup>(1)</sup> 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.

<sup>(2)</sup> Does not include revenue bonds issued as a conduit issuer for housing.

<sup>(3)</sup> Amounts shown are as of June 30, 2016.

<sup>(4)</sup> After deducting authorized amounts which have lapsed pursuant to the Charter of the City and County.

<sup>(5)</sup> Includes authorizations for the City and County's proposed rail transit system. See "—Honolulu Rail Transit Project (formerly known as the Honolulu High-Capacity Transit Corridor Project)" herein.

**Table 9**  
**GENERAL OBLIGATION FUNDED DEBT**  
**OF THE CITY AND COUNTY OF HONOLULU**  
**As of July 1, 2016**

<b>Direct Debt</b>	<b>Effective Interest Rate</b>	<b>Original Amount of Issue</b>	<b>Maturing Serially From/To</b>	<b>Optional Call Dates</b>	<b>Outstanding</b>
<b>General Obligation Bonds:</b>					
September 1, 1993 Series C	4.85624%	\$ 28,000,000	9/1/1998-2018	Non-callable	\$ 2,040,000
May 26, 2005 Series 2005A	3.99266%	186,470,000	7/1/2009-29	7/1/2015	385,000
November 29, 2007 Series A	4.62201%	268,630,000	7/1/2012-31	7/1/2017	3,635,000
April 6, 2009 Series 2007B	4.37937%	152,840,000	7/1/2013-19	Non-callable	94,100,000
April 28, 2009 Series A	4.68168%	292,045,000	4/1/2014-34	4/1/2019	22,295,000
April 28, 2009 Series B	4.96192%	33,980,000	4/1/2012-17	Non-callable	6,405,000
November 19, 2009 Series D	4.39363%	141,950,000	9/1/2014-34	9/1/2019	133,395,000
November 19, 2009 Series E <sup>(1)</sup>	3.89828%	50,415,000	9/1/2014-34	Non-callable	47,595,000
November 19, 2009 Series F	3.25649%	49,500,000	9/1/2014-20	9/1/2019	37,080,000
December 15, 2010 Series A <sup>(1)</sup>	3.72842%	151,100,000	12/1/2015-35	Non-callable	146,730,000
December 15, 2010 Series B	4.34416%	196,670,000	12/1/2015-35	12/1/2020	191,195,000
August 4, 2011 Series A	4.18832%	141,235,000	8/1/2016-36	8/1/2021	137,420,000
August 4, 2011 Series B	3.41586%	163,110,000	8/1/2016-27	8/1/2021	163,110,000
November 20, 2012 Series A	3.19593%	255,050,000	11/1/2017-37	11/1/2022	255,050,000
November 20, 2012 Series B	2.43342%	290,735,000	11/1/2016-29	11/1/2022	290,735,000
November 20, 2012 Series D	2.79934%	17,880,000	11/1/2017-28	Non-callable	17,880,000
November 20, 2012 Series E	1.13351%	74,835,000	11/1/2015-17	Non-callable	50,140,000
November 20, 2012 Series F	1.97868%	50,605,000	11/1/2017-21	Non-callable	50,605,000
November 20, 2012 Series G	2.25624%	191,230,000	11/1/2017-23	Non-callable	191,230,000
December 4, 2012 Series C	2.06925%	32,145,000	11/1/2013-27	11/1/2022	26,530,000
April 2, 2015, Series A	3.39016%	379,550,000	10/1/2015-39	10/1/2025	371,660,000
April 2, 2015, Series B	2.79899%	210,480,000	10/1/2018-31	10/1/2025	210,480,000
April 2, 2015, Series C	2.98153%	249,240,000	10/1/2019-33	10/1/2025	249,240,000
April 2, 2015, Series D	0.55029%	27,305,000	10/1/2015-16	Non-callable	27,305,000
April 2, 2015, Series E	3.60112%	22,060,000	10/1/2015-39	Non-callable	21,420,000
		<u>\$ 3,657,060,000</u>			<u>\$ 2,747,660,000</u>
Notes Payable - State of Hawaii	Various	<u>523,224,715</u>	Various	Non-callable	<u>321,044,628</u>
Total Gross Direct Debt		<u>\$ 4,180,284,715</u>			<u>\$ 3,068,704,628</u>
<b>Less exclusions:</b>					
Bonds issued for solid waste				\$ 154,369,268	
Bonds issued for housing				41,968,293	
Bonds issued for H-Power waste disposal facility				352,415,000	
Bonds issued for wastewater system				793,716	
State of Hawaii Revolving Fund loans payable for wastewater system				252,147,440	
State of Hawaii Revolving Fund loans payable for Board of Water Supply				67,528,647	
				<u>\$ 869,222,364</u>	
Net Funded Debt					<u>\$ 2,199,482,264</u>

<sup>(1)</sup> 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 have reduced the BABs interest subsidy annually. The sequestration rate is 6.8% for federal fiscal year 2016 and 6.9% for federal fiscal year 2017. 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.

**Table 10**  
**CITY AND COUNTY OF HONOLULU**  
**DEBT SERVICE CHARGES ON OUTSTANDING GENERAL LONG-TERM DEBT**  
**July 1, 2016 to Maturity <sup>(1)</sup>**

FY Ending June 30	General Obligation Bonds		Other Debt <sup>(2)</sup>		Gross Debt	Reimbursable Debt		Net Debt
	Principal	Interest <sup>(3)</sup>	Principal	Interest <sup>(4)</sup>	Service Charges	Principal	Interest	Service Charges
2017	153,470,000	119,222,564	22,296,006	2,167,295	297,155,865	50,115,135	26,720,681	220,320,049
2018	160,605,000	112,931,944	22,120,322	1,901,001	297,558,267	44,696,797	25,191,869	227,669,601
2019	161,650,000	107,214,169	21,191,900	1,648,295	291,704,364	47,279,476	23,991,008	220,433,880
2020	167,175,000	100,344,481	19,686,334	1,434,737	288,640,552	46,114,276	22,662,172	219,864,104
2021	147,185,000	94,242,807	19,333,974	1,264,014	262,025,795	44,577,584	21,431,875	196,016,336
2022	144,490,000	88,561,220	19,229,662	1,105,197	253,386,079	43,485,742	20,252,073	189,648,264
2023	139,785,000	82,603,377	18,446,690	952,256	241,787,323	44,007,306	19,023,037	178,756,980
2024	146,055,000	76,335,395	18,416,137	811,740	241,618,272	45,265,265	17,691,300	178,661,707
2025	122,670,000	70,054,997	18,479,775	672,308	211,877,080	42,802,523	16,335,968	152,738,589
2026	128,885,000	63,889,522	18,543,386	532,638	211,850,546	41,509,316	15,025,910	155,315,320
2027	135,085,000	57,630,497	16,070,336	397,197	209,183,030	35,880,976	13,697,330	159,604,724
2028	141,470,000	51,238,378	9,228,857	285,137	202,222,372	35,452,960	12,317,899	154,451,513
2029	127,100,000	45,067,232	7,485,076	221,506	179,873,814	35,223,327	10,910,853	133,739,634
2030	131,590,000	39,116,752	7,493,819	164,305	178,364,876	36,133,250	9,483,727	132,747,899
2031	109,915,000	33,371,140	7,502,588	107,052	150,895,780	35,226,546	8,022,163	107,647,071
2032	115,425,000	27,851,964	6,744,187	49,676	150,070,827	30,339,356	6,539,264	113,192,207
2033	99,820,000	22,559,920	415,946	11,430	122,807,296	29,078,457	5,088,917	88,639,922
2034	104,845,000	17,523,445	416,988	7,266	122,792,699	30,516,168	3,649,775	88,626,756
2035	87,025,000	12,830,568	413,998	3,093	100,272,659	29,653,289	2,196,382	68,422,988
2036	75,915,000	8,871,697	-	-	84,786,697	19,528,740	1,025,619	64,232,338
2037	51,545,000	5,796,354	-	-	57,341,354	5,044,948	460,894	51,835,512
2038	43,105,000	3,594,494	-	-	46,699,494	3,853,588	267,296	42,578,610
2039	25,770,000	1,978,493	-	-	27,748,493	2,081,348	141,209	25,525,936
2040	27,080,000	670,385	-	-	27,750,385	2,178,652	47,851	25,523,882
Totals: *	\$ 2,747,660,000	\$ 1,243,501,795	\$ 253,515,981	\$ 13,736,143	\$ 4,258,413,919	\$ 780,045,025	\$ 282,175,072	\$ 3,196,193,822

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

<sup>(2)</sup> Includes: \$253,515,981 State of Hawaii notes payable for various sewer projects, storm dewatering facility and storm water equipment.

<sup>(3)</sup> Interest on Build America Bonds is shown above on the same basis as in the City and County's operating budget; i.e., interest figures are shown above without deduction for expected federal interest subsidy payments, which are subject to sequestration.

<sup>(4)</sup> Includes loan fees charged to interest for State of Hawaii 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, 2012 through 2016.

**Table 11**  
**GENERAL OBLIGATION INDEBTEDNESS**  
**Fiscal Years 2012–2016**

<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>
2012	\$1,993,835,489	\$573,905,940	\$2,567,741,429	\$1,270,353	\$2,569,011,782
2013	2,164,181,120	589,534,971	2,753,716,091	976,124	2,754,692,215
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 <sup>(3)</sup>	2,199,482,264	549,546,277	2,749,028,541	-	2,749,028,541

<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.

<sup>(3)</sup> Unaudited.

All of the City and County's outstanding long term general obligation indebtedness has been issued as fixed rate obligations. 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.

### 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 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. Expenditures for such leases approximated \$0.2 million for the Fiscal Year ended June 30, 2015, and future expenditures for such leases are projected to be \$37.9 million in the aggregate through 2052.

### **Revenue Indebtedness**

As of June 30, 2016, the Board of Water Supply of the City and County had \$231,340,000 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. On September 8, 2016, the City and County issued \$418,550,000 of senior revenue bonds and \$29,605,000 of junior revenue bonds and, upon such issuance, the outstanding amounts of senior and junior revenue bonds were \$1,575,165,000 and \$342,911,325, 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 \$1.7 billion (in inflated dollars), five-year capital improvement program (Fiscal Year 2013 to Fiscal Year 2017) to upgrade its wastewater treatment plant and collection system facilities and anticipates issuing 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.

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

In 1985 and 1990, the City and County issued reimbursable general obligation bonds in the aggregate principal amounts of approximately \$195 million and \$61 million, respectively, to finance the acquisition and construction of the H-Power waste disposal facility, a waste-to-energy facility which produces electricity that is sold to the local electric company. The facility went into commercial operation in May 1990. In 1999, the City and County issued general obligation bonds to refund a portion of the reimbursable general obligation bonds issued for the H-Power waste disposal facility.

In October 2012, the City and County completed a \$300 million expansion project at the H-Power facility which added another 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.

The H-Power facility is the cornerstone of the City and County's integrated waste management system. It converts approximately 2,000 tons of waste per day into enough electricity to power 60,000 homes, about 10% of Oahu's electricity. 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 the sludge and associated bulky waste out of the landfill. In total H-power reduces the volume of non-recycled waste going to the landfill by an estimated 90%. This is a large step in reducing the need for a daily use landfill on the island.

### **Honolulu Rail Transit Project (formerly known as the Honolulu High-Capacity Transit Corridor Project)**

***Project Overview and Funding.*** The City and County, through the Honolulu Authority for Rapid Transportation (HART), is constructing a new 20-mile fixed guideway mass transit system to provide rail service along Oahu's east-west corridor between East Kapolei and downtown Honolulu (Ala Moana Center). Over 60% of the City and County'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 project, HART is building the system in four (4) multi-year phases. The first two (2) phases of the 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 guideway, from East Kapolei through Middle Street, and for the Rail Operations Center, including maintenance and storage facilities. The Rail Operations Center, which is ninety-nine percent (99%) complete, is being built on property currently owned by the State Department of Hawaiian 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. To date, more than \$1.9 billion has been expended for planning and design, site acquisition and guideway and track construction.

Current funding sources for budgeted costs related to construction of the system consist of (i) 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 \$4.98 billion through the current expiration of the surcharge in 2027, and (ii) a \$1.55 billion grant from the U.S. Department of Transportation, Federal Transit Administration ("FTA"), under a full-funding grant agreement (the "FFGA") dated December 19, 2012. See "CITY AND COUNTY REVENUES – General Fund – Excise and Use Tax" herein for a discussion of the excise and use tax surcharge imposed by the City and County.

Through June 30, 2016, the City and County had received \$1.7 billion (unaudited) from the general excise and use tax surcharge, net of administrative fees charged by the State, and \$806 million had been obligated by the FTA as of that date under the FFGA.

Pending receipt of revenues from general excise and use tax surcharge, debt obligations to finance the project are issued directly by the City and County, not by HART. Such debt obligations (in the form of commercial paper notes or 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 entered into 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.

Annual operating and maintenance costs of the system are expected to be paid from passenger fares and subsidized by the City and County to the extent of deficiencies. The amount, sources of funding and time period for subsidization by the City and County have not been determined at this time.

To date, construction costs for project have been higher than budgeted and HART anticipates that construction costs for the remaining phases of the project may exceed budgeted amounts as well. As a result, HART currently anticipates that the total project costs will exceed the current budget of \$6.855 billion.

A project update (“risk refresh”) was conducted by the FTA in June 2016 that indicates that there is a high probability that the project as currently scoped will exceed its currently budgeted project revenue by \$1.1 billion, and take until the end of 2024 to complete. As such, HART and the City and County are currently analyzing and updating the project scope, cost, and schedule estimates and developing a recovery plan to be submitted to the FTA by December 31, 2016. HART and the City and County have requested an extension of the submission date for the recovery plan from the FTA in order to enable them to explore their options (including possible legislative actions) more fully.

Analysis of the project scope, costs and construction schedule is ongoing. Based on this analysis to date, HART has indicated that the total cost of the project may exceed the amount reflected in the risk refresh by approximately \$700 million (for a total of \$8.6 billion) and that the completion date may be extended from 2024 to 2025. These potential outcomes are subject to further review and analysis in connection with the development of the recovery plan required by the FTA.

Options being considered to address anticipated budget shortfalls include (i) seeking an extension of the general excise and use tax surcharge from the State legislature, (ii) developing additional sources of governmental funding and/or public/private partnerships (e.g., transit oriented development) to complete the current project scope, and (iii) making modifications to the scope of certain project components (e.g., reducing the number or changing the configuration of stations).

On August 18, 2016, HART Executive Director and CEO Daniel A. Grabauskas resigned from his position with the authority. His final day of employment will be October 17, 2016. The HART board appointed Michael D. Formby, Director of the City and County’s Department of Transportation Services and a current HART board member, as Acting Executive Director, effective August 18, 2016, and appointed a committee to begin searching for qualified candidates to fill the Executive Director and CEO position on a permanent basis.

***Bondholder Risks.*** Cost estimates for construction of the remaining phases of the guideway and all twenty-one (21) stations are trending higher than their respective budgets. Risks associated with this trend fall into three categories: (i) cost increases due to delay, materials, changed scope and site acquisition; (ii) shortfall of the general excise and use tax surcharge or FFGA receipts; and (iii) capital costs above projections. It is not possible to predict at this time whether or to what extent additional cost increases may occur or what financial impact any such cost increases may have on the project, HART or the City and County, including the potential impact of cost increases on HART’s ability to reimburse the City and County for debt service payments on debt obligations issued to finance the costs of the 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, for the Fiscal Years ended June 30, 2012 through 2016 are shown in the table below.

**Table 12**  
**EXPENDITURES FOR CAPITAL IMPROVEMENTS <sup>(1)</sup>**  
**Fiscal Years 2012–2016**  
**(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>	
2012 <sup>(3)(5)</sup>	\$ 593.6	\$ 218.5	\$ 202.1	\$ 0.0	\$ 420.6	\$ 78.2	\$ 94.8	\$ 173.0	29.1%
2013 <sup>(3)(5)</sup>	840.5	431.1	223.3	0.0	654.4	62.8	123.3	186.1	22.1
2014 <sup>(3)(5)</sup>	1,392.7	1,064.7	139.0	0.0	1,203.7	87.4	101.6	189.0	13.6
2015 <sup>(4)(5)</sup>	1,498.2	1,133.2	191.3	0.0	1,324.5	51.8	121.8	173.7	11.6
2016 <sup>(4)(5)</sup>	842.4	550.0	143.5	0.0	693.5	47.8	101.1	148.9	17.7

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

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

<sup>(3)</sup> Adjusted for lapses until June 30, 2016.

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

<sup>(5)</sup> Inclusive of Honolulu Authority for Rapid Transportation.

### Cash Management and Investments

The investment of funds by the City and County is governed by and conforms to Section 46-50, Hawaii 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 land bank bonds; joint stock farm loan 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; repurchase agreements fully collateralized by any such bonds or securities; bank savings accounts; time certificates of deposit; certificates of deposit open account; bonds of any improvement district of any county of the State; 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; and bankers' acceptance with an A1/P1 or equivalent rating by any national securities rating service; provided in each case the investments are due to mature not more than five years from the date of investment.

Chapter 38-3, Hawaii 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 \$3.9 million (unaudited) in the Fiscal Year ended June 30, 2016, representing an investment yield of 0.26%.

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**

Under State law, the Director of Budget and Fiscal Services may, with the consent of 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 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. As of June 30, 2016, the fund balance was \$102.55 million (unaudited). 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 housing for persons earning less than fifty percent 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 sale or for rental, provided that the housing remains affordable in perpetuity. 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 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. The Charter Commission has proposed a Charter amendment which, if approved by the voters in the 2016 general election, would change the income limit to sixty percent of median income (currently 50%), limit the use of the fund to rental housing (for-sale housing currently eligible) and change the duration of the affordable housing requirement to at least sixty years (currently in perpetuity).

### **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. Any balance remaining in the fund at the end of any Fiscal Year will remain in the fund, accumulating from year to year. The Charter Commission has proposed a Charter amendment which, if approved by the voters in the 2016 general election, would establish a Clean Water and Natural Lands Advisory Commission, and require that all applications for funding be submitted to the Department of Budget and Fiscal Services for review and that qualified applications be submitted by the Department to the Commission, which shall make 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. The Charter Commission has proposed a Charter amendment which, if approved by the voters in the 2016 general election, would make 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.

## **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, 2015, 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, Hawaii 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, 2011 through 2015, 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, 2011 through June 30, 2015**  
**(In thousand dollars)**

	<b>FY Ended June 30, 2011</b>	<b>FY Ended June 30, 2012</b>	<b>FY Ended June 30, 2013 (as restated)</b>	<b>FY Ended June 30, 2014</b>	<b>FY Ended June 30, 2015</b>
<b>ASSETS:</b>					
Cash and securities .....	\$182,093	\$194,075	\$272,133	\$156,569	\$256,132
Receivables:					
Real property taxes .....	19,054	12,654	13,416	13,394	13,385
Other .....	73,406	19,737	25,883	14,589	16,886
Component unit – CASE fees .....	--	--	--	--	--
Due from other funds .....	43,918	29,499	25,276	131,169	19,276
<b>Total Assets .....</b>	<b>\$318,471</b>	<b>\$255,965</b>	<b>\$336,708</b>	<b>\$315,721</b>	<b>\$305,679</b>
<b>LIABILITY AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable .....	\$ 17,089	\$ 8,602	\$ 33,757	\$ 39,176	\$ 28,182
Due to other funds .....	49,856	10	10	30	12
Accrued payroll and fringes .....	19,555	19,218	19,006	23,474	21,938
Deferred revenues .....	21,342	10,878	13,416	12,593	11,241
<b>Total Liabilities .....</b>	<b>\$107,842</b>	<b>\$ 38,708</b>	<b>\$ 66,189</b>	<b>\$ 75,273</b>	<b>\$ 61,373</b>
<b>Fund Balances:</b>					
Reserved for encumbrances .....	\$ 51,961	\$ 58,215	\$ 55,384	\$ 54,880	\$ 74,282
Unreserved-undesignated .....	158,668	159,042	215,135	185,568	170,024
<b>Total Fund Balances .....</b>	<b>210,629</b>	<b>217,257</b>	<b>270,519</b>	<b>240,448</b>	<b>244,306</b>
<b>Total Liabilities and Fund Balances .....</b>	<b>\$318,471</b>	<b>\$255,965</b>	<b>\$336,708</b>	<b>\$315,721</b>	<b>\$305,679</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, 2011 through June 30, 2015**  
**(In thousand dollars)**

	FY Ended June 30, 2011	FY Ended June 30, 2012	FY Ended June 30, 2013 (as restated)	FY Ended June 30, 2014	FY Ended June 30, 2015
<b>REVENUES:</b>					
Real property tax <sup>(1)</sup> .....	\$ 838,912	\$ 853,194	\$ 875,424	\$ 895,057	\$ 993,433
Licenses and permits .....	34,258	35,811	38,335	42,699	43,432
Intergovernmental revenues <sup>(2)</sup> .....	224,526	49,168	41,062	41,060	45,521
Charges for services .....	6,008	6,215	6,318	7,867	8,257
Fines and forfeits .....	551	395	590	847	806
Miscellaneous .....	47,384	52,440	50,643	51,384	48,837
Total Revenues .....	<u>\$1,151,639</u>	<u>\$ 997,223</u>	<u>\$1,012,372</u>	<u>\$1,038,914</u>	<u>\$1,140,286</u>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government .....	\$ 121,698	\$ 127,084	\$ 124,444	\$ 131,740	\$ 135,007
Public safety .....	325,480	330,766	324,357	344,315	365,200
Highways and streets .....	1,930	1,805	2,818	2,550	2,588
Sanitation .....	3,863	4,391	4,193	3,841	3,822
Health and human resources .....	2,427	3,623	3,466	3,837	5,083
Culture and recreation .....	51,000	56,921	58,031	59,272	62,014
Utilities or other enterprises .....	5	3	--	43	--
Miscellaneous .....	144,884	217,639	219,642	212,303	246,646
Capital outlay .....	--	--	--	2,561	3,973
<b>Debt service:</b>					
Principal retirement .....	266	832	833	848	864
Interest charges .....	93	66	89	74	58
Total Expenditures .....	<u>\$ 651,646</u>	<u>\$ 743,130</u>	<u>\$ 737,873</u>	<u>\$ 761,384</u>	<u>\$ 825,255</u>
Excess of Revenues over Expenditures .....	<u>\$ 499,993</u>	<u>\$ 254,093</u>	<u>\$ 274,499</u>	<u>\$ 277,530</u>	<u>\$ 315,031</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Capital Leases .....	\$ --	\$ 1,302	\$ --	\$ --	\$ 21
Sales of general fixed assets .....	9	--	--	--	--
Operating transfer-in .....	103,572	113,150	118,080	127,374	121,601
Operating transfer-out .....	(542,963)	(361,917)	(330,684)	(434,975)	(432,795)
Total Other Financing Sources (Uses) .....	<u>\$(439,382)</u>	<u>\$(247,465)</u>	<u>\$(212,604)</u>	<u>\$(307,601)</u>	<u>\$(311,173)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses .....	\$ 60,611	\$ 6,628	\$ 61,895	\$ (30,071)	\$ 3,858
Fund Balance--July 1 .....	150,018	210,629	217,257	270,519	240,448
Prior period adjustment .....	--	--	(8,633)	--	--
Fund Balance--June 30 .....	<u>\$ 210,629</u>	<u>\$ 217,257</u>	<u>\$ 270,519</u>	<u>\$ 240,448</u>	<u>\$ 244,306</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, 2015 with Comparative Totals For Fiscal Year Ended June 30, 2014**  
**(In thousand dollars)**

	Governmental Funds				Totals (Memorandum Only)	
	General Fund <sup>(1)</sup>	Highway Fund	G.O. Bond & Interest Redemption Fund	Other Governmental Funds	2015	2014
<b>Revenues:</b>						
Taxes	\$ 993,433	\$ 107,113	\$ --	\$ 9,290	\$1,109,836	\$1,011,072
Special assessments	--	--	--	5	5	5
Licenses and permits	43,437	129,573	--	4,857	177,867	173,233
Intergovernmental	45,521	--	--	144,347	189,868	201,624
Charges for services	8,257	4,795	--	21,014	34,066	33,150
Fines and forfeitures	806	--	--	167	973	927
Miscellaneous:						
Reimbursements and recoveries	44,052	2,857	--	--	46,909	46,282
Interest	455	--	--	66	521	596
Other - primarily rents, concessions, trust receipts	4,384	2,772	--	20,157	27,313	30,033
<b>Total revenues</b>	<b>\$1,140,345</b>	<b>\$ 247,110</b>	<b>\$ --</b>	<b>\$ 199,903</b>	<b>\$1,587,358</b>	<b>\$1,496,922</b>
<b>Expenditures:</b>						
Current:						
General government	\$ 135,051	\$ 20,120	\$ --	\$ 11,243	\$ 166,414	\$ 167,707
Public safety	365,200	32,381	--	13,121	410,702	390,443
Highways and streets	2,588	22,121	--	1,484	26,193	22,658
Sanitation	3,822	--	--	--	3,822	3,907
Health and human resources	9,979	--	--	80,994	90,973	92,127
Culture-Recreation	62,014	--	--	26,401	88,415	86,537
Utilities or other enterprises	--	2,413	--	56,007	58,420	37,329
Miscellaneous:						
Retirement and health benefits	222,858	26,027	--	9,445	258,330	220,876
Other	23,788	1,720	--	505	26,013	29,687
Capital outlay	3,973	1,175	--	152,364	157,512	206,483
Debt service:						
Principal retirement	864	--	96,191	--	97,055	115,925
Interest charges	58	--	88,048	--	88,106	97,765
Bond issuance costs	--	--	2,052	--	2,052	--
<b>Total expenditures</b>	<b>\$ 830,195</b>	<b>\$ 105,957</b>	<b>\$ 186,291</b>	<b>\$ 351,564</b>	<b>\$1,474,007</b>	<b>\$1,471,444</b>
<b>Revenues over (under) Expenditures</b>	<b>\$ 310,150</b>	<b>\$ 141,153</b>	<b>\$(186,291)</b>	<b>\$(151,661)</b>	<b>\$ 113,351</b>	<b>\$ 25,478</b>
<b>Other financing sources (uses):</b>						
Proceeds of tax-exempt commercial paper	\$ --	--	--	100,000	100,000	11,152
Proceeds of general obligation bonds	--	--	--	280,845	280,845	--
Proceeds of refunding bonds	--	--	517,146	--	517,146	--
Payment of refunded bonds/commercial paper	--	--	(546,799)	--	(546,799)	--
Bond premium/(discount)	--	--	76,527	49,170	125,697	--
Loss on refunding bonds	--	--	(44,822)	--	(44,822)	--
Sales of fixed assets	132	184	--	--	316	203
Operating transfers in	137,240	--	184,239	16,971	338,450	371,055
Operating transfers out	(432,795)	(125,670)	--	(9,924)	(568,389)	(590,213)
<b>Total Other Financing Sources (Uses)</b>	<b>\$(295,423)</b>	<b>\$(125,486)</b>	<b>\$ 186,291</b>	<b>\$ 437,062</b>	<b>\$ 202,444</b>	<b>\$ (207,803)</b>
<b>Revenues and Other Sources over (under) Expenditures and Other Uses</b>	<b>14,727</b>	<b>15,667</b>	<b>--</b>	<b>285,401</b>	<b>315,795</b>	<b>(182,325)</b>
Fund Balances – July 1 as previously stated/restated	308,849	50,572	--	81,413	440,834	637,553
Prior period adjustment <sup>(2)</sup>	--	--	--	--	--	(14,394)
<b>Fund Balances – June 30</b>	<b>\$ 323,576</b>	<b>\$ 66,239</b>	<b>\$ --</b>	<b>\$ 366,814</b>	<b>\$ 756,629</b>	<b>\$ 440,834</b>

<sup>(1)</sup> General Fund figures differ from Table 13. General Fund figures in Table 14 include certain revenues and expenditures attributed to the General Fund under Governmental Auditing Standards Board Statement No. 54.

<sup>(2)</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.

**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, 2011 through June 30, 2015**  
(In thousand dollars)

	FY Ended June 30, 2011	FY Ended June 30, 2012	FY Ended June 30, 2013	FY Ended June 30, 2014	FY Ended June 30, 2015
<b>REVENUES:</b>					
Taxes .....	\$ 934,557	\$ 964,167	\$ 994,105	\$1,011,072	\$1,109,836
Special assessments .....	8	17	15	5	5
Licenses and permits.....	151,581	161,492	166,135	173,233	177,867
Intergovernmental revenues <sup>(1)</sup> .....	395,316	233,499	205,496	201,624	189,868
Charges for services.....	28,007	30,679	31,813	33,150	34,066
Fines and forfeitures .....	766	541	831	927	973
Miscellaneous .....	80,135	77,985	73,165	76,911	74,743
Total Revenues .....	<u>\$1,590,370</u>	<u>\$1,468,380</u>	<u>\$1,471,560</u>	<u>\$1,496,922</u>	<u>\$1,587,358</u>
<b>EXPENDITURES:</b>					
Current:					
General government .....	\$ 149,994	\$ 155,044	\$ 155,304	\$ 167,707	\$ 166,414
Public safety .....	371,627	386,145	371,294	390,443	410,702
Highways and streets.....	16,781	17,336	18,696	22,658	26,193
Sanitation.....	3,863	4,514	4,203	3,907	3,822
Health and human resources .....	71,606	72,544	74,089	92,127	90,973
Culture-Recreation .....	73,087	79,547	82,664	86,537	88,415
Utilities or other enterprises.....	27,758	23,201	29,380	37,329	58,420
Miscellaneous.....	218,130	242,041	251,694	250,563	284,343
Capital outlay .....	330,581	218,713	201,884	206,483	157,512
Debt service:					
Principal retirement .....	89,615	84,906	88,276	115,925	97,055
Interest charges.....	95,549	99,713	97,580	97,765	88,106
Bond issuance costs.....	--	--	2,125	--	2,052
Total Expenditures.....	1,448,591	1,383,704	1,377,189	1,471,444	1,474,007
Revenues over (under) Expenditures .....	<u>\$ 141,779</u>	<u>\$ 84,676</u>	<u>\$ 94,371</u>	<u>\$ 25,478</u>	<u>\$ 113,351</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds of general obligation bonds.....	\$ 100,734	\$ 131,206	\$ 225,010	\$ 11,152	\$ 280,845
Proceeds of tax-exempt commercial paper.....	50,000	--	45,000	--	100,000
Proceeds of refunding bonds .....	49,270	154,807	623,574	--	517,146
Payment of refunded bonds/commercial paper.....	(50,000)	(155,506)	(621,449)	--	(546,799)
Bond premium/(discount).....	--	--	--	--	125,697
Loss on refunding bonds .....	--	1,302	--	--	(44,822)
Sales of fixed assets .....	660	181	1,606	203	316
Operating transfers-in .....	495,790	320,463	340,224	371,055	338,450
Operating transfers-out .....	(692,908)	(518,779)	(499,490)	(590,213)	(568,389)
Total Other Financing Sources (Uses).....	<u>\$ (46,454)</u>	<u>\$ (66,326)</u>	<u>\$ 114,475</u>	<u>\$(207,803)</u>	<u>\$202,444</u>
Special Item: Contribution to component unit .....	--	(447,284)	--	--	--
Net change in fund balances.....	<u>\$ 95,325</u>	<u>\$(428,934)</u>	<u>\$ 208,846</u>	<u>\$(182,325)</u>	<u>\$315,795</u>
Fund Balances—July 1.....	\$ 762,316	\$ 857,641	\$ 428,707	\$ 637,553	\$ 440,834
Prior period adjustment <sup>(2)</sup> .....	--	--	--	(14,394)	--
Fund Balances—June 30.....	<u>\$ 857,641</u>	<u>\$ 428,707</u>	<u>\$ 637,553</u>	<u>\$ 440,834</u>	<u>\$ 756,629</u>

<sup>(1)</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.

<sup>(2)</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

## EMPLOYEE RELATIONS AND EMPLOYEE BENEFITS

### Employee Relations

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawaii Revised Statutes, as amended, provides for 14 recognized bargaining units for all public employees in the State, including City and County employees. Nine of these bargaining units represent City and County employees—Unit 1 (blue collar workers); Unit 2 (blue collar supervisors); Unit 3 (white collar workers); Unit 4 (white collar supervisors); Unit 10 (institutional health and correctional workers); Unit 11 (firefighters); Unit 12 (police officers); Unit 13 (professional and scientific employees); and Unit 14 (State law enforcement officers and State and county ocean safety and water safety officers). Each bargaining unit designates an employee organization as the exclusive representative of all employees of such 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, with the Governor having six votes and each of the county mayors, Chief Justice of the State Supreme Court and Hawaii Health Systems having one vote for bargaining units involving blue collar workers, blue collar supervisors, white collar workers, white collar supervisors, institutional health and correctional workers, and professional and scientific employees. For bargaining units involving firefighters and police officers, the Governor has four votes and each mayor has one vote.

Under State law enacted in 1995, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding and, except blue collar workers (who are permitted by law to strike), final and binding arbitration. Although State law characterizes arbitration as “final and binding” it also provides that all cost items are subject to approval by the respective legislative bodies. As applicable to bargaining units with which the City and County has collective bargaining agreements, State law only permits the bargaining unit for blue collar workers to strike in the event of an impasse.

The City and County has collective bargaining agreements with the Hawaii Government Employees Association, which represents the bargaining units for blue-collar supervisory, white-collar non-supervisory, white-collar supervisory, and professional and scientific employees; United Public Workers, which represents the bargaining units for blue-collar non-supervisory employees and institutional health and correctional workers; the Hawaii Fire Fighters Association, which represents the bargaining unit for firefighters; and the State of Hawaii Organization, which represents the bargaining unit for police officers.

A new agreement for the period July 1, 2015 through June 30, 2017 was ratified for Bargaining Unit 2 (blue-collar supervisory) on April 28, 2015. The agreement provides for continuation of the step movement plan (employees who are assigned to the maximum step as of June 30, 2015 or who do not receive a step movement in the first year shall receive a lump sum payment on July 1, 2015 equivalent to 2% of the employee’s base salary), deletion of the bottom two steps (A and L1) and the top step (L5) of the salary schedule on July 1, 2015, and across the board increases of 0.3% on July 1, 2015, 2% on October 1, 2015, 2% on April 1, 2016, 2% on October 1, 2016, and 2% on April 1, 2017.

New agreements for the period July 1, 2015 through June 30, 2017 were ratified for Bargaining Units 3 (white-collar non-supervisory) and 4 (white-collar supervisory) on April 30, 2015. The agreements provide for catch-up step movements on July 1, 2015, continuation of the step movement plan (employees who were assigned to the maximum step as of June 30, 2015, or who were not assigned to the salary schedule, or who did not receive a step movement in the first year were to receive a lump sum payment of \$1,500 on July 1, 2015), a \$1,200 lump sum payment to all employees on July 1, 2016 (employees who are less than full-time will receive a prorated amount), and an across the board increase of 1.6% on January 1, 2017.

A new agreement for the period July 1, 2013 through June 30, 2017 was ratified for Bargaining Unit 10 (institutional health and correctional workers) on October 9, 2013. The agreement provides for a step movement in each year of the agreement (employees assigned to the maximum step or not assigned to the salary schedule will

receive a lump sum payment equivalent to 4% of the employee's base salary) and across the board increases of 0.3% on January 1, 2014, 0.5% on January 1, 2015, 0.5% on January 1, 2016, and 1.0% on January 1, 2017.

A final award was rendered by an arbitration panel for Bargaining Unit 11 (firefighters) on November 30, 2013. Firefighters were awarded a six year contract effective July 1, 2011 through June 30, 2017. There were no salary adjustments in the first two years. Across the board increases of 2% were awarded on July 1, 2013, January 1, 2014, July 1, 2014, January 1, 2015, July 1, 2015 and January 1, 2016. Effective July 1, 2016, a 5% across the board wage increase will be implemented. The agreement also provides for catch-up step movements, service step movements, and a new maximum step on the salary schedule effective January 1, 2014 to and including June 30, 2017.

A final award was rendered by an arbitration panel for Bargaining Unit 12 (police officers) on July 3, 2013. Police officers were awarded a six year contract effective July 1, 2011 through June 30, 2017. There were no salary adjustments in the first two years. The agreement provides for catch-up step movements and service step movements on their policy service anniversary date(s) not to exceed one step per year effective July 1, 2013, July 1, 2014, July 1, 2015, and July 1, 2016. The agreement also provides for across the board wage increases of 1.75% on July 1, 2013, 1.75% on January 1, 2014, 1.75% on July 1, 2014, 1.75% on January 1, 2015, 2.00% on July 1, 2015, 2.00% on January 1, 2016, 2.50% on July 1, 2016, and 3.30% on January 1, 2017.

A new agreement for the period July 1, 2013 through June 30, 2017 for Bargaining Unit 13 (professional and scientific employees) was ratified on October 14, 2013. The agreement provides for a 4% across the board increase in July 1, 2013 and catch-up step movements beginning July 1, 2014. The agreement also provides for 3.5% across the board increases on January 1, 2016 and January 1, 2017 and continuation of the step movement plan.

## **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 ERS (as defined under "Pensions" below) and the Trust Fund (as defined under "Health Care Benefits" below), 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.

### *Health Care Benefits*

All regular employees of the City and County are eligible for coverage under health plans provided through the State of Hawaii Public Employer-Union Health Benefit Trust Fund (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 employer contributions based on a statutory formula.

In recent years, public and private health plan providers nationwide and in Hawaii, including the Trust Fund, have experienced substantial increases in health care costs. 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*

Eligible employees of the City and County participate in retirement health care coverage plans provided by the Trust Fund. 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. 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. 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 following table describes the number of retired and active City and County employees receiving OPEBs at July 1, 2013 and July 1, 2015:

**Table 17**

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

<b><u>Category</u></b>	<b><u>July 1, 2015</u></b>	<b><u>July 1, 2013</u></b>
Retirees	6,974	6,776
Deferred Inactives	782	777
Actives	8,786	8,568

The Trust Fund biennially commissions actuarial studies of the OPEB obligations of the State and each of the four counties. This section contains certain information relating to the Trust, derived primarily from information produced by the Trust, its independent accountant and its actuary. The City and County has not independently verified the information provided by the Trust, 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 are available on the System’s website at <http://eutf.hawaii.gov>. Such documents and other information are not incorporated herein by reference.

In the most recent actuarial valuation report for the year ending June 30, 2015, the Trust Fund’s actuarial consultant calculated the Annual Required Contributions for the Fiscal Years ending June 30, 2017 and 2018 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 \$2.009 billion, its unfunded actuarial accrued liability was estimated to be \$1.766 billion, with a funded ratio of 12.1%. The City and County reported a net OPEB obligation of \$389.3 million for Fiscal Year 2015, compared with \$351.07 million for Fiscal Year 2014. The actuarial calculations for the City and County assumed full prefunding of its obligation and a discount rate of 7%. The annual required contribution is estimated to be approximately \$166.9 million for Fiscal Year 2018 with full prefunding, compared to \$161.2 million for Fiscal Year 2017. The annual OPEB cost was \$149.7 million for Fiscal Year 2015, compared to \$147.4 million for Fiscal Year 2014.

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 2013–2016, the City and County transferred the following respective amounts to the Trust Fund for this purpose: \$38.5 million, \$41.5 million, \$47.1 million and \$30.8 million (unaudited). An additional transfer in the amount of \$48.8 million was made for Fiscal Year 2017 on July 29, 2016.

Act 268, Session Laws of Hawaii 2013, requires 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 pre-funding 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 paid by the employer to cover pay-as-you-go benefits, then applying the required payment percentage (e.g. 60% for FY 2017) to the remaining portion of the full ARC.

The following table shows the City and County's ARC, actual contributions and, for fiscal years 2015 to 2017, the contribution requirements of Act 268.

**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>
2011	\$150,711	\$62,844	-0-	\$62,844	42%	0%	NA
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 <sup>(2)</sup>	152,205	69,470	30,845	100,315	66	40	30,845
2017	161,233	79,905	48,797 <sup>(3)</sup>	128,702	80	60	48,797 <sup>(3)</sup>

<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.

<sup>(2)</sup> Unaudited.

<sup>(3)</sup> Contribution made on July 29, 2016.

The following table sets forth the OPEB funding progress for the City and County since FY 2007:

**Table 19**

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

Actuarial Valuation Date	Actuarial Value of Assets <sup>(1)</sup>	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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
July 1, 2007	-0-	1,242,255	1,242,255	0.0	524,258	237.0

<sup>(1)</sup> According to information recently provided by the Trust Fund, the value of the City and County's OPEB assets as of June 30, 2016 was \$291.98 million.

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, 2015. Significant actuarial methods and assumptions utilized in the Trust Fund's 2015 Actuarial Valuation Report are as follows:

Amortization method	Level percentage, closed
Equivalent single amortization period	26.2 years
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return	7.00%
Projected salary increase	3.50%
Healthcare inflation rates	
PPO	9.00% initial, 5.00% after 8 years
HMO	7.00% initial, 5.00% after 8 years
Dental	4.00%
Vision	3.00%
Medicare Part B	Initial rate of 3.00%, 5.00% after 2 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. GASB 75 will be effective for employers for fiscal years beginning after June 15, 2017. The City and County has not determined the potential impact of the new standards on its financial statements.

## *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. As further described below, employer contributions are set by State statute as a percentage of the covered payroll.

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

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, 2015, the City and County reported a liability of \$1.307 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014 was \$8.017 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, 2014, the City and County's proportion was 16.31%, which was a decrease of 0.45% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City and County recognized pension expense of \$148.394 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 2015 were 24.00% for police and firefighters and 16.50% for all other employees. Contributions to the System from the City and County for June 30, 2015, 2014, and 2013 were \$132.308 million, \$87.979 million, and \$87.840 million, respectively.

**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>
2012	\$ 89,275	\$ 81,690	\$ (7,585)	\$517,862	15.77%
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	576,916	22.93

The following table presents the sensitivity of the City and County's proportionate share of the net pension liability, recorded at June 30, 2015 based on the 2014 actuarial valuation report, calculated using the discount rate of 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%):

**Table 21**

	<b>1% Decrease <u>(6.75%)</u></b>	<b>Current <u>Discount Rate (7.75%)</u></b>	<b>1% Increase <u>(8.75%)</u></b>
City and County's share of net pension liability (\$000)	\$1,704,961	\$1,307,396	\$909,831

The total pension liability in the 2014 actuarial valuation report was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.50% per annum
Investment rate of return	7.75% 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 2014 actuarial valuation report were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. 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 rate used for the July 1, 2014 valuation to measure the net pension liability was 7.75%. 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. There was no change in the discount rate since the prior measurement date (July 1, 2013).

#### Hawaii 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 Hawaii 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 2015 actuarial valuation report (the "2015 Valuation Report"), presenting the actuarial condition of the ERS as of June 30, 2015. Note that the preceding data for the City and County and the Sewer Fund was based on a June 30, 2014 actuarial valuation.

The demographic data for each annual June 30 valuation is collected as of the March 31 preceding the valuation date. As of March 31, 2015, the contributory plan covered 6,169 active employees or 9% of all active members of the System, the noncontributory plan covered approximately 16,023 active employees or 24%, and the

Hybrid Plan covered 45,118 active members or 67%. 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, 2015, the System’s membership comprised approximately 67,310 active employees, 7,413 inactive vested members and 44,283 pensioners and beneficiaries. The following table shows the number of active members, inactive vested members and retirees and beneficiaries of the System as of March 31, 2013, 2014 and 2015:

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

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

Funded Status

Based on the 2015 Valuation Report, the System’s Unfunded Actuarial Accrued Liability (“UAAL”) increased to \$8.775 billion, compared to \$8.578 for the prior year. This increase was caused primarily by an increase in the liabilities of the System due to the decrease in the investment return assumption from 7.75% to 7.65%, with no other changes to the assumptions used, and significantly lower market returns during fiscal year 2015. The funded ratio increased to 62.2% in 2015, compared to 61.4% for the prior year. Preliminary market returns of -0.9% for fiscal year 2016 resulted in a decrease of the funded ratio to 61.7%. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 25.0% for police and fire employees and 17.0% for all other employees, the 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 2015 Valuation Report, the remaining amortization period is 26 years. Because this period is within 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System are currently being realized. Section 88-122(e)(1) of the Hawaii Revised Statutes provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See “—Funding Policy” below for information on increases in the employer contribution rates and benefits changes.

Funding Policy

Act 163, SLH 2011, which became effective July 1, 2012, established the employer contribution rates set forth in the following table. The contribution rates indicated for the period starting July 1, 2015 are expected to stay at these levels until the System is fully funded, although the legislature may adjust these rates as needed to manage the funding period.

**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

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 year ended June 30, 2015.

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

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

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

#### 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 2010 Experience Study, and are reflected in the 2015 Valuation Report. A new five-year experience study for the System will be conducted for fiscal years 2011 to 2015. The most significant change in assumptions reflected in the 2015 Valuation Report is the reduction of the investment yield rate from 7.75% to 7.65%. This rate will be reduced further to 7.55% for the June 30, 2016 valuation and 7.50% for the June 30, 2017 valuation.

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

**Table 24**

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

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*Source: Report on Investment Activity for the ERS prepared by Callan Associates, Inc. (2006), Pension Consulting Alliance, Inc. (2007-2015), and reported in the System's Comprehensive Annual Financial Reports.*

The 2015 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 26-year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2023. The combination of the higher contribution policies and new benefit structure for future employees is expected to enable the Retirement System to absorb the prior adverse experience over the 26-year term. However, ERS has reported investment returns for the first three quarters of FY 2016 that are well below the assumed 7.55% rate of return. Based on these returns, it is likely that the 2016 Valuation Report will show decline in the System's funding, potentially increasing the UAAL and extending the amortization period.

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, 2041, when the System is projected to be fully funded.

**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>
2006*	\$ 9,529.4	\$14,661.4	\$5,132.0	65.0%	\$3,238.3	158.5%
2007	10,589.8	15,696.5	5,106.8	67.5	3,507.0	145.6
2008	11,381.0	16,549.1	5,168.1	68.8	3,782.1	136.6
2009	11,400.1	17,636.4	6,236.3	64.6	4,030.1	154.7
2010	11,345.6	18,483.7	7,138.1	61.4	3,895.7	183.2
2011**	11,942.8	20,096.9	8,154.2	59.4	3,916.0	208.2
2012	12,242.5	20,683.4	8,440.9	59.2	3,890.0	217.0
2013	12,748.8	21,243.7	8,494.9	60.0	3,906.7	217.4
2014	13,641.8	22,220.1	8,578.3	61.4	3,991.6	214.9
2015	14,463.7	23,238.4	8,774.7	62.2	4,171.4	210.4

Source: 2015 Valuation Report

\* Assumption changes and new Hybrid Plan effective June 30, 2006.

\*\* Figures reflect assumption changes effective June 30, 2011.

**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>
2016	\$ 763	\$24,142	\$15,226	\$8,916	63.1%
2017	782	25,085	16,037	9,048	63.9
2018	803	26,023	16,856	9,167	64.8
2019	826	26,953	17,684	9,269	65.6
2020	850	27,878	18,526	9,353	66.5
2021	876	28,797	19,383	9,414	67.3
2022	903	29,708	20,258	9,450	68.2
2023	932	30,613	21,155	9,458	69.1
2024	962	31,512	22,078	9,433	70.1
2025	994	32,405	23,032	9,373	71.1
2026	1,027	33,292	24,020	9,272	72.1
2027	1,062	34,172	25,046	9,126	73.3
2028	1,099	35,047	26,116	8,931	74.5
2029	1,138	35,917	27,238	8,679	75.8
2030	1,178	36,786	28,420	8,366	77.3
2031	1,221	37,654	29,670	7,984	78.8
2032	1,265	38,524	30,997	7,526	80.5
2033	1,311	39,397	32,412	6,986	82.3
2034	1,360	40,279	33,925	6,354	84.2
2035	1,411	41,173	35,552	5,621	86.3
2036	1,464	42,082	37,305	4,777	88.6
2037	1,520	43,013	39,200	3,813	91.1
2038	1,578	43,969	41,253	2,715	93.8
2039	1,639	44,956	43,483	1,473	96.7
2040	1,703	45,980	45,908	72	99.8
2041	1,769	47,047	48,550	(1,503)	103.2

Source: 2015 Valuation Report

\* Assumes all actuarial assumptions exactly met, including a 7.65% 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 \$11.3 billion as of June 30, 2012, \$12.4 billion as of June 30, 2013, \$14.2 billion as of June 30, 2014 and \$14.5 billion as of June 30, 2015. Actuarial certification of assets as of June 30, 2014 was \$13.6 billion and as of June 30, 2015 was \$14.5 billion (unaudited).

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>
2006	\$ 9,529.4	\$ 9,932.4	104.2%	65.0%	67.7%
2007	10,589.8	11,434.3	108.0	67.5	72.8
2008	11,381.0	10,846.8	95.3	68.8	65.5
2009	11,400.1	8,818.0	77.4	64.6	50.0
2010	11,345.6	9,821.6	86.6	61.4	53.1
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

Source: 2006-2015 Valuation Reports

As of June 30, 2015, the UAAL of the System was \$8.775 billion. The following table shows the normal cost (which means the annual cost of providing retirement benefits for services performed by today's members) as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for Fiscal Years 2015 and 2014:

**Table 28**

**NORMAL COST**

	<b>June 30,</b>					
	<b>2014</b>			<b>2015</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:	19.47%	9.92%	10.96%	20.39%	10.53%	11.66%
Employee contribution rate:	12.30	4.58	5.42	12.35	4.77	5.64
Effective employer normal cost rate:	7.17	5.34	5.54	8.04	5.76	6.02

Source: 2015 Valuation Report

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 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)

<u>June 30,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2006	\$423,446	\$423,446	100.0%
2007	476,754	454,494	95.3
2008	510,727	488,770	95.7
2009	526,538	578,635	109.9
2010	536,237	547,613	102.1
2011	582,535	534,858	91.8
2012	654,755	548,353	83.7
2013	667,142	581,447	87.2
2014	705,224	653,128	92.6
2015	--**	717,793	--

Source: 2015 Valuation Report and 2014 Comprehensive Annual Financial Report for the System

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

\*\* Amount is no longer calculated due to revised GASB standards.

Asset Allocation

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

**Table 30**  
**ASSET ALLOCATION**  
(as of September 30, 2015)

<u>Asset Type</u>	<u>Actual Allocation</u>		<u>Target Allocation</u>		<u>Allocation Difference</u>
	<u>Amount (\$mm)</u>	<u>Percentage</u>	<u>Amount (\$mm)</u>	<u>Percentage</u>	
Domestic Equity	\$4,716.2	34.1%	\$4,554.7	32.9%	1.2%
Non-US Equity	2,928.1	21.1	3,599.6	26.0	-4.9
Fixed Income	2,795.0	20.2	2,768.9	20.0	0.2
Real Estate	859.3	6.2	859.3	6.2	0.0
Private Equity	729.2	5.3	729.2	5.3	0.0
Real Return	640.6	4.6	640.6	4.6	0.0
Covered Calls	928.3	6.7	692.2	5.0	1.7
Other	247.8	1.8	0.0	0.0	1.8
<b>Total</b>	<b>\$13,844.5</b>	<b>100.0%</b>	<b>\$13,844.5</b>	<b>100.0%</b>	

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

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)
2011	15.52%	25.0
2012	16.11	30.0
2013	16.76	28.0
2014	17.28	26.0
2015	17.89	26.0

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

The increase in the funding period in 2012 reflects the final recognition of the investment losses from fiscal year 2009. It also reflects the significant changes due to Act 163 and the System's open group projection policy which assumes that the number of active members will remain constant and there will be no actuarial gains or losses on liabilities or investments. The decrease in funding periods in 2013 and 2014 was due to liability gains from positive experience versus the actuarial assumptions and large investment gains, respectively.

Summary of Actuarial Certification Statement.

A summary of the actuarial certification of the System as of June 30, 2014 and June 30, 2015 is set forth below:

**Table 32**  
**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII**  
**Summary of Actuarial Certification as of June 30, 2014 and 2015**  
**(Includes all counties)**

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

Source: Gabriel, Roeder, Smith & Company.

### Recent Legislation

On July 20, 2016, the Legislature of the State of Hawaii, acting by a two-thirds vote of both the Senate and the House of Representatives, overrode the Governor's veto of SB 2077 to enact Act 1, Hawaii Second Special Session Laws 2016 ("Act 1"). Act 1 provides employees of the Hawaii Health Systems Corporation ("HHSC"), who are separated from State service as the result of the transfer of the HHSC's facilities on Maui and Lanai to a private entity, the right to choose between a severance payment and a special early retirement benefit. The Board of Trustees of the ERS believes that the choice may constitute an impermissible "cash or deferred arrangement" under the Internal Revenue Code (see, Internal Revenue Code §§ 401(k)(1) and 401(k)(4)(B)(ii); Treasury Regulations §§ 1.401(k)-1(a)(1), 1.401(k)-1(a)(2)(i) and 1.401(k)-1(a)(3)(i)) and that the existence of the choice, as well as its implementation, puts the ERS's status as a tax-qualified defined benefit governmental pension plan in jeopardy. The ERS mailed a written request on August 26, 2016 to the Internal Revenue Service for a private letter ruling, along with a request for expedited handling. A determination by the IRS that the choice created by Act 1 creates an impermissible cash or deferred arrangement could result in the loss of the ERS's status as a tax-qualified defined benefit governmental pension plan. A loss of the tax qualified defined benefit governmental pension plan by the ERS could have adverse financial consequences to the System and its stakeholders.

On August 9, 2016, the ERS filed a lawsuit against the State of Hawaii and the HHSC (Board of Trustees of the Employees' Retirement System of the State of Hawai'i v. State of Hawai'i, et al., Civil No. 16-1-1543-08 (1st Cir.)) seeking to enjoin the implementation of Act 1 unless the Internal Revenue Service provides a ruling that Act 1 does not jeopardize the status of ERS as a tax-qualified pension plan. The ERS is also seeking a holding by the court that, if Act 1 would result in the disqualification of the ERS, Act 1 violates the Hawai'i State Constitution and Act 1 is, in whole or in part, null and void. Article XVI, Section 2 of the Hawai'i State Constitution provides that: "[m]embership in any employees' retirement system of the State or any political subdivision thereof shall be a contractual relationship, the accrued benefits of which shall not be diminished or impaired." On September 28, 2016, the court issued a Stipulation and Order for Preliminary Injunction which stays the implementation of Act 1 until after the IRS has issued its response to the private letter ruling requested by the ERS and the court has had an opportunity to consider the effect and consequences of any such ruling. Unless the IRS determines that Act 1 does not create an impermissible cash or deferred election, the ERS Board of Trustees has indicated that the ERS will vigorously prosecute the litigation.

## 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, 2012 through 2016, settlements and judgments against the City and County paid from the General Fund totaled \$3,601,663\*, \$4,638,917, \$8,497,207, \$1,910,539 and \$5,100,262, 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, 2016. One 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 claims. A number of cases involve various significant personal injuries involving City and County vehicles, employees, premises or roads. Other cases involve property damage claims and employment claims.

A complaint was filed against the City and County on September 8, 2015, and amended on November 6, 2015, challenging a number of City ordinances and other measures. At this point such litigation does not appear to challenge the ordinances or other measures pursuant to which the Bonds are being issued or the right of the City and County to levy taxes in connection with the Bonds. No assurance can be given that such complaint will not be further amended to include such challenges. If such challenges were to be raised, the City and County would vigorously defend against the challenges based, among other things, on statutory protections for debt obligations

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\* Of this amount, \$3,500,000 was paid pursuant to the consent decree discussed in this section under "Wastewater Consent Decree."

such as the Bonds. This case was dismissed by the State Circuit Court with Final Judgment filed on April 1, 2016. However, Plaintiff filed a Notice of Appeal on April 28, 2016.

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 Hawaii 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 Hawaii's Department of Health ("DOH"), the Sierra Club, Hawaii Chapter, Our Children's Earth Foundation, and Hawaii's Thousand Friends, was entered by the United States District Court in Hawaii. 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 \$3.5 billion 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 to replace primary treatment facilities at both plants and \$1.15 billion 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 Hawaii. In addition, the City and County paid \$800,000 to the Sierra Club, Hawaii Chapter, Our Children's Earth Foundation, and Hawaii'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.

## **TAX MATTERS**

### **Series 2016A Bonds, the Series 2016B Bonds and the Series 2016C Bonds**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County ("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

2016A Bonds, the Series 2016B Bonds and the Series 2016C Bonds (together, the “Tax-Exempt Bonds”) is excluded from gross income for federal income tax purposes under Section 103 of the Code, and the Tax-Exempt Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

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

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 the 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 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 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 that the Tax-Exempt Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Tax-Exempt 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. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Tax-Exempt Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Tax-Exempt 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.

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 their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the 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.

### **Series 2016D 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, the Series 2016D Bonds (the "Taxable Bonds") and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is also of the opinion that interest on the Taxable 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 relating to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Taxable Bonds. The proposed form of opinion of Bond Counsel is contained 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).

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), 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.

**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 28% 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 “FATCA,” 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 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 28%.

## **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. 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 and principal under the Taxable Bond and sales proceeds of Taxable Bond held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (iii) certain “pass-thru” payments no earlier than January 1, 2017. However, the U.S. Treasury Department recently stated its intention to revise the current U.S. Treasury Regulations regarding FATCA to provide that withholding under FATCA generally will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2018 and (ii) certain “passthru” payments no earlier than January 1, 2019.

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, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

## **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: (a) certain computations demonstrating the sufficiency of the Escrow Fund to pay the principal or redemption price of and interest on all Refunded Bonds, when due; and (b) certain computations to be relied upon by Bond Counsel for purposes of its opinion to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes. Such verification will be based in part on schedules and information provided by the 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 Merrill Lynch, Pierce, Fenner & Smith Incorporated and Piper Jaffray & Co. The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$414,895,420.62 (equal to the principal amount of such Bonds, plus a net original issue premium of \$37,243,603.90, less an underwriting discount of \$1,153,183.28). 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.

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 trade 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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## 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 998,714 (approximately 70% of the state's population) as of July 1, 2015. 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.

The following material pertaining to economic factors in the City and County has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Third Quarter 2016 Quarterly Statistical Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at <http://dbedt.hawaii.gov/>.

## Certain Economic Indicators

*Employment.* The following table presents certain annual employment statistics for the City and County and the second quarter of 2015 and 2016. As indicated below, the number of unemployed in the City and County decreased by 10.8% in the second quarter of 2016 from the same period in 2015. The City and County's unemployment rate of 3.1% in the second quarter of 2016 compares favorably to the unemployment rate for the State (3.6% in 2015 and 3.4% in the second quarter of 2016) and for the nation as a whole (5.3% in 2015 and 4.9% in the first half of 2016).

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

	Annual Average <sup>1</sup>				2 <sup>nd</sup> Quarter		% Change Year Ago
	2012	2013	2014	2015	2015	2016 <sup>2</sup>	
Civilian Labor Force	448,350	450,900	462,900	468,900	468,850	471,250	0.5
Civilian Employment	424,150	431,050	444,000	452,950	452,100	456,350	0.9
Unemployed	24,150	19,900	18,900	15,900	16,700	14,900	-10.8
Unemployment Rate	5.4%	4.4%	4.1%	3.4%	3.6%	3.1%	-0.5

<sup>1</sup> Data benchmarked by DLIR in March 2016 and reflect revised population controls and model reestimation.

<sup>2</sup> Data are preliminary.

Source: State of Hawaii, 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 Hawaii 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 2011 through 2015

As indicated, the per capita personal income in the City and County in 2014 was \$49,722. This increase exceeded the State's per capita personal income by \$3,688 for the same year and the nation's per capita personal income by \$3,673.

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

<u>Year</u>	<u>Honolulu</u>	<u>State of Hawaii</u>	<u>United States</u>
2011	\$46,620	\$42,938	\$42,453
2012	\$48,165	\$44,504	\$44,266
2013	\$47,877	\$44,314	\$44,438
2014	\$49,722	\$46,034	\$46,049
2015	\$ -	\$47,753	\$47,669

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

*Housing Market.* Median resale prices for single family homes in Honolulu increased annually from 2012 through July 2016, as did median resale prices for condominiums. Since the global economic downturn in 2008 and 2009, median resale prices in the Honolulu housing market have rebounded to record highs. The following table presents the annual weighted averages of the monthly median resale prices for single family homes and condominiums in Honolulu between 2012 and 2015, and the weighted average of the monthly median resale prices for single family homes and condominiums in Honolulu from January through July, 2016.

**Table III**  
**MEDIAN HOME RESALE PRICES**

<u>Year</u>	<u>Single Family Homes</u>		<u>Condominiums</u>	
	<u>Median Resale Price</u>	<u>% Change</u>	<u>Median Resale Price</u>	<u>% Change</u>
2012	\$623,810	8.3	\$316,403	4.9
2013	\$650,191	4.2	\$334,042	5.6
2014	\$675,764	3.9	\$350,983	5.1
2015	\$699,738	3.5	\$362,307	3.2
2016 <sup>1</sup>	\$730,236	4.4	\$387,780	7.0

<sup>1</sup> Represents the weighted average of monthly median resale prices from January through July, 2016.

*Source: State of Hawaii 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 2015, the State government generated 74,500 jobs, of which approximately 76% were located on Oahu. The largest number of State employees work in public education and the State university system, with approximately 80% of these employed on Oahu. In addition, the City and County government employed approximately 12,200 individuals in the second quarter of 2016.

## Federal Government and Military

The federal government plays an important role in Hawaii's economy. According to the most recent data available from the U.S. Bureau of Economic Analysis ("BEA"), the total compensation of employees ("COE") of federal government employees in Hawaii was \$8.5 billion in 2015, up 1.7% from the previous years. The total COE of combined military and civilian federal employees in Hawaii accounted for about 19.2% of Hawaii's total COE in 2015. Between 2005 and 2015, the annual average compounded growth rate for COE was 3.8% for federal civilian and 3.6% for military personnel in Hawaii. The military personnel accounted for 58.0% of the total federal COE in 2013. The federal government accounted for about 12.4% of State GDP in 2014, a majority of which is defense

related. The BEA data also shows that the earnings of federal government employees in the first quarter of 2016 increased 2.2% over the same quarter of 2015. In 2015, the earnings of federal government employees increased 2.2% over the previous year.

In 2013, more than 72,500 people served in the military or were employed by the Department of Defense (“DoD”), comprised of 49,000 active-duty service members, 18,000 DoD civilian employees, and 5,500 National Guard and Reserve members. Generally, the median earnings for active-duty service members and DoD civilians are higher than that of other full-time employees in Hawaii. The most recent BEA data also shows that the earnings of federal government employees in the first quarter of 2016 increased 2.2% over the same period of 2015. In 2015, the earnings of federal government employees increased 2.2% from the previous year.

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 Hawaii’s Military Affairs Council launched a campaign to maintain the number of military members in Hawaii and acquired signatures on a petition to keep troops in Hawaii. The Army held a “listening session” on the impact of reducing forces in Hawaii in January 2015. The DoD is considering relocating 2,700 Marines from Okinawa to Hawaii.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit. 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 Hawaii, Honolulu is served by a full range of financial institutions, including banks, savings and loan associations and financial services companies. Honolulu currently has thirteen institutions in the market, comprised of Hawaii-chartered banks, a Hawaii-chartered financial services company, federally-chartered savings associations, a national bank, and interstate branch banks with combined assets totaling \$31.6 billion as of December 2015, 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 70 million annually. According to the 2015 Public Transportation Fact Book published by the American Public Transportation Association, the City and County hosts the 25<sup>th</sup> largest transit agency in the nation and the 14<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 (formerly known as the Honolulu High-Capacity Transit Corridor Project)” in this Offering Memorandum for additional information regarding this project.

Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu 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 27<sup>th</sup> largest U.S. Airport in 2014 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 Services, reported that Honolulu Harbor was the 40<sup>th</sup> largest water port by tonnage in 2013 and 2014. Foreign and domestic cargo tonnage handled through

Honolulu Harbor during fiscal years 2014 and 2015 amounted to approximately 14.5 million short tons per year. 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 Hawaii over the past few years. In 2015, private building authorizations in Honolulu increased \$364.8 million or 17.6% compared to 2014. In the second quarter of 2016, private building authorizations in Honolulu increased \$142.4 million or 30.6%, compared with the second quarter of 2015.

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 second quarter of 2016.

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

Year	State	Change from Prior Year	City & County of Honolulu	Change from Prior Year
2011	\$1,858,763	-6.1%	\$1,272,923	-6.2%
2012	2,643,840	42.2%	1,769,454	39.0%
2013	2,720,519	2.9%	1,866,352	5.5%
2014	3,315,078	21.9%	2,072,202	11.0%
2015	3,963,607	19.6%	2,436,954	17.6%
2016 (Q2)*	960,150	14.3%	607,763	30.6%

\* Data for the second quarter of 2016, with percentage change compared to data from the second quarter of 2015.

Source: State of Hawaii 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 commenced in 2013. The program includes significant capital improvements such as expanding HNL's Inter-Island terminal and main terminal, constructing consolidated car rental facilities at HNL and Kahalui, Maui, and installing energy saving equipment in airports statewide.
- 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 and more than one million square feet of retail and commercial space.
- 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, is currently under construction.
- Taubman Properties has substantially completed a \$300 million redevelopment of the International Market Place in Waikiki. A portion of the center opened for business in August 2016 with an

initial complement of over 70 retail shops and restaurants. The center is anchored by an 80,000-square-foot Saks Fifth Avenue, which is the only full-line department store in Waikiki, and includes 750 dedicated on-site parking spaces.

- OliverMcMillan is developing Symphony Honolulu, a \$200 million project which consists of 388 residential condominiums in a 45-story tower.
- Downtown Capital is redeveloping the former Honolulu Advertiser building and adjacent property into a \$400 million, two-tower workforce housing condominium project containing 1,045 units. The first tower was completed in 2015; the second tower is under construction.
- Castle & Cooke Homes Hawaii is planning to develop Koa Ridge, 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 has obtained all discretionary land use approvals to develop Hoopili 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. The City Council recently approved the zoning for this 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 and service activities exceeded \$59.8 billion in 2015 from the retail, wholesale and services sectors alone. General excise and use tax revenues in the second quarter of 2016 increased \$28.6 million or 3.7% compared to the same quarter in 2015. Of the State's 649,100 non-agricultural jobs in the second quarter of 2016, retail and wholesale trade together accounted for 87,500 jobs, and professional and business services, financial services, educational services, healthcare and social assistance services, food and accommodation services, and other services together accounted for 326,600 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 \$161 million in 2012, based on the United States Department of Agriculture's most recent census, accounting for approximately 25% of the State's agricultural production. About 20% of the land on Oahu is zoned for agriculture, which in 2012 consisted of 999 farms encompassing 69,169 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, Hawaii aquaculture sales totaled \$78.2 million in 2014, according to United States Department of Agriculture's National Agricultural Statistics Service, a 40.4 % increase from 2012.

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 \$3.4 million in general excise and use taxes were collected by the City and County from manufacturing services in 2015. 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 Hawaii manufacturers more competitive, reducing imports and increasing exports from the State.

## **Energy**

Hawaii's electricity production and costs are still heavily reliant on oil, but renewable energy has been increasing in all counties. In 2015, approximately 23.4% of Hawaii's electricity was generated from renewable sources, the primary sources being solar, wind, and waste-to-energy. According to DBEDT's Hawaii 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 a new boiler and new air pollution control equipment mandated by federal law which became operational in April 2011 and currently has the capacity to produce approximately 88 megawatts of energy. H-Power also contributes nearly \$2.3 million in annual revenue for the City and County from energy sold to HECO.

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 stages for Oahu, including a 50-megawatt biofuel power plant on the U.S. Army's Schofield Barracks, a 50-megawatt solar farm to be built by SunEdison in the Waipio Gentry/Waiawa area, a 45-megawatt wind power project to be developed by Champlin Hawaii 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 Hawaii 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 Hawaii. 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 spring of 2016, 51,291 students attended the University of Hawaii System, 17,675 of them on the Manoa campus.

In addition to the University of Hawaii 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.

In 2015, more than 8.5 million visitors arrived in Hawaii by air. In the second quarter of 2016, 2,185,900 visitors arrived in Hawaii by air, an increase of 1.9% from the same quarter in 2015. Due to shorter lengths of stay, the daily visitor census increased less than the increase of visitor arrivals in the quarter. The total average daily census was up 2,766, or 1.3% in the quarter. In the first half of 2016, total visitor arrivals by air increased 115,577 or 2.7%, while the average daily census increased 2,581 or 1.2% from the same period last year.

In 2015, total visitor arrivals on domestic flights increased 5.3% compared to 2014, and arrivals on international flights increased 2.3% compared to the prior year. In the second quarter of 2016, total visitor arrivals on domestic flights increased 19,345 or 1.3% compared to the same quarter of 2015. In the first half of 2016, domestic arrivals were up 75,228 or 2.6% from the same period last year. Arrivals on international flights increased

20,749 or 3.3% in the second quarter of 2016 compared to the second quarter of 2015. In the first half of 2016, international arrivals were up 40,349 or 3.0% from the same period last year.

In terms of major market areas, from the second quarter of 2015 to the same period of 2016, arrivals from the U.S. West increased 27,842 or 3.0%, arrivals from the U.S. East increased 1,870 or 0.4%, and arrivals from Japan increased 3,846 or 1.2%. In the first half of 2016, arrivals from the U.S. West were up 68,047 or 3.9%, arrivals from the U.S. East were up 23,820 or 2.5%, and Japanese arrivals were up 11,132 or 1.6% from the same period last year.

Nominal visitor expenditures by air totaled \$3,710.6 million in the second quarter of 2016, up 2.2% or \$80.0 million from the same quarter of 2015. In the first half of 2016, visitor expenditures increased \$234.2 million or 3.1% compared with the same period last year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 0.2% in the second quarter of 2016 compared to the same quarter in 2015; domestic seats increased 0.7% while international seats increased 1.0%. In the first half of 2016, the number of total available seats increased 1.5% from the same period last year.

According to the most recent data available, in the first quarter of 2016, the statewide hotel occupancy rate averaged 81.0%, 1.0 percentage point higher than that of the same quarter of 2015. In 2015, the statewide hotel occupancy rate averaged 78.8%, 1.8 percentage point higher than that of the previous year. In Honolulu, the average hotel occupancy rate in the first quarter of 2016 was 84.2%. In 2015, Honolulu's average hotel occupancy rate was 85.3%.

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

	Year Ended December 31					2 <sup>nd</sup> Quarter	
	2011	2012	2013	2014	2015	2015	2016
Arrivals by Air – State	7,174,397	7,867,143	8,003,474	8,196,342	8,563,018	2,145,806	2,185,900
Domestic	5,127,291	5,403,025	5,405,300	5,486,059	5,782,140	1,513,399	1,532,744
International	2,047,106	2,464,118	2,598,174	2,710,283	2,780,878	632,407	653,156
Arrivals by Air – Oahu	4,401,624	4,904,045	5,044,276	5,192,621	5,339,912	1,333,464	1,355,549
Domestic	2,592,014	2,734,643	2,732,456	-	-	759,018	761,484
International	1,809,609	2,169,402	2,311,820	-	-	574,446	594,065
Average Daily Visitor Census – State	185,824	201,267	202,876	206,217	213,934	208,378	211,144
Domestic	142,027	148,887	149,213	151,076	156,026	157,721	158,110
International	43,797	52,380	53,663	55,141	57,908	50,657	53,034
Visitor Expenditures – State <sup>(1)</sup>	\$12,047	\$14,193	\$14,352	\$14,809	\$14,939	\$3,631	\$3,711
Hotel Occupancy Rate – State	73.2%	76.9%	76.5%	77.0%	78.8%	77.9%	-
Hotel Occupancy Rate – Oahu	80.7%	84.7%	83.8%	84.4%	85.3%	84.3%	-

<sup>(1)</sup> In millions of dollars. By persons arriving by air and staying overnight or longer (excludes supplemental business expenditures).

Sources: State of Hawaii 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 Hawaii 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 and around Waikiki include (i) the \$760 million renovation of Hilton Hawaiian Village Waikiki Beach Resort, including the addition of a new 37-story, 418-unit luxury time-share tower, (ii) the \$500 million renovation and expansion of the Princess Kaiulani Hotel, (iii) a new \$375 million, 34-story, 459-unit condominium hotel in Waikiki branded as The Ritz-Carlton Residences, and (iv) a \$300 million redevelopment of the International Market Place in Waikiki.

Significant development projects related to the visitor industry in other parts of Oahu include (i) the extensive renovation of the Ihilani Resort & Spa at Ko'Olina Resort, which recently reopened under the Four Seasons Hotels and Resorts brand, (ii) the expansion of Disney's Aulani resort at Ko'Olina, and (iii) a \$50 million renovation of Turtle Bay Resort on Oahu's North Shore.

**APPENDIX B**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

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PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

City and County of Honolulu  
Honolulu, Hawaii

Re: City and County of Honolulu General Obligation Bonds  
Series 2016A, Series 2016B, Series 2016C and Series 2016D (Taxable Green Bonds)  
(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 \$96,385,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2016A (the “Series 2016A Bonds”), \$38,540,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2016B (the “Series 2016B Bonds”), \$100,065,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2016C Bonds (the “Series 2016C Bonds”), and \$143,815,000 aggregate principal amount of City and County of Honolulu, General Obligation Bonds, Series 2016D (Taxable Green Bonds) (the “Series 2016D Bonds” and, together with the Series 2016A Bonds, Series 2016B Bonds and Series 2016C Bonds, the “Bonds”), pursuant to a Certificate of the Director of Budget and Fiscal Services of the City dated October 5, 2016 (the “Certificate”), and bond authorizing ordinances and a resolution adopted by the City Council and identified in the Certificate (the “Bond Proceedings”).

In such connection, we have reviewed the Bond Proceedings, the Certificate, 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 Certificate 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 2016A Bonds, Series 2016B Bonds and Series 2016C 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 Certificate 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 Certificate has been duly executed and delivered by the Director of Budget and Fiscal Services; and the Certificate constitutes the valid and binding obligation 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 2016A Bonds, Series 2016B Bonds and Series 2016C 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 2016A Bonds, Series 2016B Bonds and Series 2016C bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series 2016D Bonds is not excludable from gross income for federal income tax purposes. 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 October 26, 2016

**CITY AND COUNTY OF HONOLULU**  
**General Obligation Bonds**  
**Series 2016A (Tax Exempt), Series 2016B (Tax Exempt),**  
**Series 2016C Bonds (Tax Exempt) and Series 2016D (Taxable Green Bonds)**

This Continuing Disclosure Certificate (this “*Disclosure Certificate*”) is provided in connection with the issuance by the City and County of Honolulu, Hawaii (the “*City and County*”) of \$378,805,000 General Obligation Bonds, Series 2016A (Tax Exempt), Series 2016B (Tax Exempt), Series 2016C Bonds (Tax Exempt) and Series 2016D (Taxable Green Bonds) (together, the “*Bonds*”). The Bonds are being issued pursuant to the Constitution and laws of the State of Hawaii, including Chapter 47, Hawaii 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.

“*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, 2016, 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 October 5, 2016, 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:

- i. Principal and interest payment delinquencies;
- ii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iii. Unscheduled draws on credit enhancements reflecting financial difficulties;
- iv. Substitution of credit or liquidity providers, or their failure to perform;
- v. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- vi. Tender offers;

- vii. Defeasances;
- viii. Rating changes; or
- ix. Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix) 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, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten New York securities market business days after the occurrence of the event:

- i. Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- ii. Modifications to rights of Bond holders;
- iii. Optional, unscheduled or contingent Bond calls;
- iv. Release, substitution, or sale of property securing repayment of the Bonds;
- v. Non-payment related defaults;
- vi. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- vii. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) 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.

(d) 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.

(e) 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.

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

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  
26<sup>th</sup> day of October, 2016.

\_\_\_\_\_  
Donna Y. L. Leong  
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 2016A (Tax Exempt), Series 2016B (Tax Exempt), Series 2016C Bonds (Tax Exempt) and Series 2016D (Taxable Green Bonds)

Date of Issuance: October 26, 2016

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 October 26, 2016. 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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**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 effect 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>Original CUSIP (438670)</u>
2005A	7/1/2025	\$ 55,000	\$ 55,000	4.100%	HU8
2005A	7/1/2028	10,000	10,000	4.200	HY0
2005A	7/1/2029	320,000	320,000	4.200	JA0
2009D	9/1/2017	2,250,000	2,250,000	3.125	SY8
2009D	9/1/2017	2,430,000	2,430,000	4.000	SZ5
2009D	9/1/2018	2,365,000	2,365,000	3.375	TA9
2009D	9/1/2018	2,490,000	2,490,000	4.500	TB7
2009D	9/1/2019	2,485,000	2,485,000	3.500	TC5
2009D	9/1/2019	2,575,000	2,575,000	5.000	TD3
2009D	9/1/2020	2,610,000	2,610,000	3.625	TE1
2009D	9/1/2020	2,675,000	2,675,000	5.000	TF8
2009D	9/1/2021	75,000	75,000	3.700	TG6
2009D	9/1/2021	2,470,000	2,470,000	5.000	TJ0
2009D	9/1/2021	2,975,000	2,975,000	4.000	TH4
2009D	9/1/2022	520,000	520,000	3.750	TK7
2009D	9/1/2022	5,270,000	5,270,000	5.250	TL5
2009D	9/1/2023	6,100,000	6,100,000	5.250	TM3
2009D	9/1/2024	885,000	885,000	4.000	TN1
2009D	9/1/2024	5,535,000	5,535,000	5.250	TP6
2009D	9/1/2025	6,720,000	6,720,000	4.000	TQ4
2009D	9/1/2026	2,055,000	2,055,000	4.000	TR2
2009D	9/1/2026	4,970,000	4,970,000	5.250	TS0
2009D	9/1/2027	570,000	570,000	4.125	TT8
2009D	9/1/2027	6,820,000	6,820,000	5.250	TU5
2009D	9/1/2028	7,780,000	7,780,000	5.250	TV3
2009D	9/1/2029	455,000	455,000	4.250	TW1
2009D	9/1/2029	7,745,000	7,745,000	5.250	TX9
2009D	9/1/2030	55,000	55,000	4.375	TY7
2009D	9/1/2030	8,585,000	8,585,000	5.250	TZ4
2009D	9/1/2031	9,105,000	9,105,000	5.250	UA7
2009D	9/1/2032	175,000	175,000	4.500	UB5
2009D	9/1/2032	9,420,000	9,420,000	5.250	UC3
2009D	9/1/2033	3,430,000	3,430,000	4.500	UD1
2009D	9/1/2033	6,670,000	6,670,000	5.250	UE9
2009D	9/1/2034	3,385,000	3,385,000	4.550	UF6
2009D	9/1/2034	7,230,000	7,230,000	5.250	UG4
2011A	8/1/2017	2,500,000	1,200,000	4.000	XZ9*
2011A	8/1/2018	4,495,000	1,200,000	4.000	YA3
2011A	8/1/2019	4,675,000	1,200,000	4.000	YB1
2011A	8/1/2020	4,865,000	1,200,000	4.000	YC9
2011A	8/1/2021	5,065,000	5,065,000	4.000	YD7

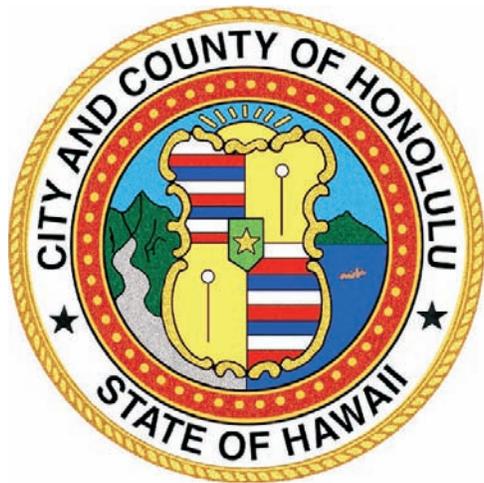
\* CUSIP for unrefunded portion is 4386703H2

<u>Series</u>	<u>Maturity</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>Original CUSIP (438670)</u>
2011A	8/1/2022	5,270,000	5,270,000	4.000	YE5
2011A	8/1/2023	5,515,000	5,515,000	5.000	YF2
2011A	8/1/2024	\$5,800,000	\$5,800,000	5.000%	YG0
2011A	8/1/2025	6,095,000	6,095,000	5.000	YH8
2011A	8/1/2026	6,410,000	6,410,000	5.000	YJ4
2011A	8/1/2027	6,735,000	6,735,000	5.000	YK1
2011A	8/1/2028	7,085,000	7,085,000	5.000	YL9
2011A	8/1/2029	7,410,000	7,410,000	4.000	YM7
2011A	8/1/2030	7,760,000	7,760,000	5.250	YN5
2011A	8/1/2031	8,180,000	8,180,000	5.250	YP0
2011A	8/1/2032	8,575,000	8,575,000	4.250	YQ8
2011A	8/1/2033	8,995,000	8,995,000	5.250	YR6
2011A	8/1/2034	9,480,000	9,480,000	5.250	YS4

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