

In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2021 Bonds is not includable in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that all of the Series 2021 Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2021 Bonds. See "TAX MATTERS" herein.



\$137,205,000
STATE OF HAWAII
Highway Revenue Bonds, Series 2021

Dated: Date of Delivery

Due: as shown on inside cover

This Official Statement relates to the issuance and sale of the above-referenced State of Hawaii Highway Revenue Bonds, Series 2021 (the "Series 2021 Bonds"). The Series 2021 Bonds are being issued: (i) to provide funds for certain highway capital improvement projects, (ii) to pay the costs of issuance of the Series 2021 Bonds, and (iii) to fund a cash deposit to the Highway Senior Debt Service Reserve Subaccount to satisfy the Reserve Requirement. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF THE PROCEEDS OF THE SERIES 2021 BONDS" herein. The Series 2021 Bonds are special limited obligations of the State of Hawaii (the "State"), payable solely from and secured solely by the Pledged Funds under the Certificate of the Director of Transportation, consisting principally of highway fuel license taxes, vehicle registration fees, vehicle weight taxes, and various vehicle surcharge taxes, as more fully described in this Official Statement. **The Department of Transportation of the State of Hawaii (the "Department") is proposing to eliminate the Highway Senior Debt Service Reserve Subaccount and to apply monies presently in the Highway Senior Debt Service Reserve Subaccount for other purposes upon receipt of consent of 100% of the holders of the Series 2021 Bonds and all outstanding Senior Bonds. By purchasing the Series 2021 Bonds, the initial holders of the Series 2021 Bonds, upon confirmation of their acceptance of the Series 2021 Bonds, shall be deemed to have consented to an amendment to the Certificate for this purpose, and such consent shall be binding on all successive holders of the Series 2021 Bonds. See "SECURITY FOR THE BONDS - Proposed Amendment to the Certificate" in this Official Statement.**

The Series 2021 Bonds are issuable in fully registered form and when initially issued will be registered 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 Series 2021 Bonds, purchases of the Series 2021 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 Series 2021 Bonds will not receive physical delivery of bond certificates; payment of the principal of and interest on the Series 2021 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 (See Appendix F - "BOOK-ENTRY SYSTEM" attached hereto). Purchases of the Series 2021 Bonds may be made in the denomination of \$5,000 or any integral multiple thereof.

Interest on the Series 2021 Bonds is payable on each January 1 and July 1, commencing January 1, 2022. The Series 2021 Bonds are subject to redemption prior to maturity as stated herein. See "THE SERIES 2021 BONDS - Redemption" herein.

The Series 2021 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of the State are not pledged to the payment of the principal of or interest on the Series 2021 Bonds.

The Series 2021 Bonds are being issued pursuant to the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as supplemented.

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

The Series 2021 Bonds are offered when, as and if issued by the State and received by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, and to the approving legal opinion of Katten Muchin Rosenman LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel Dentons US LLP. It is expected that the Series 2021 Bonds in definitive book-entry form will be available for delivery through the facilities of The Depository Trust Company, on or about June 9, 2021.

Morgan Stanley

BofA Securities

Wells Fargo Securities

Dated: May 26, 2021

MATURITY SCHEDULE

\$137,205,000
State of Hawaii
Highway Revenue Bonds, Series 2021

<u>Maturity Date</u> <u>(January 1)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>Yield (%)</u>	<u>Price</u>	<u>CUSIP[†]</u> <u>(41981C)</u>
2027	3,720,000	5.000	0.600	124.029	PU8
2028	3,900,000	5.000	0.760	127.086	PV6
2029	4,095,000	5.000	0.890	129.988	PW4
2030	130,000	5.000	1.020	132.547	PX2
2033	7,895,000	5.000	1.210	134.120 ^C	PY0
2034	8,290,000	5.000	1.260	133.588 ^C	PZ7
2035	17,035,000	5.000	1.280	133.375 ^C	QA1
2036	17,890,000	5.000	1.310	133.058 ^C	QB9
2037	12,175,000	5.000	1.350	132.635 ^C	QC7
2038	12,780,000	5.000	1.380	132.319 ^C	QD5
2039	13,420,000	5.000	1.420	131.900 ^C	QE3
2040	14,095,000	5.000	1.460	131.482 ^C	QF0
2041	21,780,000	5.000	1.490	131.169 ^C	QG8

[†] CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. The CUSIP numbers are provided for convenience of reference only. Neither the State nor the Underwriters are responsible for the selection of CUSIP numbers and make no representation as to their correctness on the Series 2021 Bonds or as set forth in this Official Statement.

^C Priced to the first optional redemption date of January 1, 2031.



STATE OF HAWAII

David Y. Ige, Governor
Josh Green, Lieutenant Governor

DEPARTMENT OF TRANSPORTATION

Director, Jade T. Butay

Deputy Director, Highways Division
Deputy Director, Administration
Deputy Director, Airports Division
Deputy Director, Harbors Division
Administrator, Highways Division

Edwin H. Sniffen
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Katten Muchin Rosenman LLP
New York, New York
Bond Counsel

PFM Financial Advisors LLC
Financial Advisor

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2021 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2021 Bonds, and, if given or made, such information or representation 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 Underwriters have provided the following paragraphs for inclusion in this Official Statement.

THE SERIES 2021 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2021 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS A PART OF, ITS 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.

The Underwriters may offer and sell the Series 2021 Bonds to dealers, institutional investors and others at prices lower or yields higher than the public offering prices or yields stated in the Maturity Schedule and such public offering prices may be changed from time to time by the Underwriters.

All descriptions and summaries of documents and statutes hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document and statute for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and statute. Capitalized terms used but not defined herein are defined in APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE”

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THE OFFICIAL STATEMENT

Some statements contained in the Official Statement reflect not historical facts but forecasts and “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” “plan,” “budget,” and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in the Official Statement.

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

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APPENDIX D: FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020
APPENDIX E: PROPOSED FORM OF OPINION OF BOND COUNSEL
APPENDIX F: BOOK-ENTRY SYSTEM
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OFFICIAL STATEMENT

STATE OF HAWAII

\$137,205,000 Highway Revenue Bonds, Series 2021

INTRODUCTION

This Official Statement, which includes the cover page, the inside cover page and the appendices (the “Official Statement”), provides information with respect to the issuance and sale by the State of Hawaii (the “State”) of \$137,205,000 principal amount of State of Hawaii Highway Revenue Bonds, Series 2021 (the “Series 2021 Bonds”). Capitalized terms not otherwise defined in this Official Statement shall have the respective meanings given to such terms in Appendix A - “SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Definitions of Certain Terms” attached hereto.

The State, acting by and through its Department of Transportation (the “Department”), will issue the Series 2021 Bonds pursuant to the Constitution and the laws of the State and the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds dated as of August 1, 1993, as previously supplemented and as further supplemented by a Thirteenth Supplemental Certificate of the Director of Transportation Authorizing State of Hawaii Highway Revenue Bonds, Series 2021, dated as of June 1, 2021 (as supplemented, the “Certificate”). See “THE SERIES 2021 BONDS” herein for a description of the Series 2021 Bonds.

The State, acting by and through the Department, has issued seventeen series of its Highway Revenue Bonds under the Certificate, eight of which series were outstanding as of May 1, 2021, in the following principal amounts: \$4,425,000 State of Hawaii Highway Revenue Bonds, Series 2005 B (the “Series 2005 B Bonds”), \$32,335,000 State of Hawaii Highway Revenue Bonds, Series 2011 A (the “Series 2011 A Bonds”), \$5,095,000 State of Hawaii Highway Revenue Bonds, Series 2011 B (the “Series 2011 B Bonds”), \$78,225,000 State of Hawaii Highway Revenue Bonds, Series 2014 A (the “Series 2014 A Bonds”), \$18,005,000 State of Hawaii Highway Revenue Bonds, Series 2014 B (the “Series 2014 B Bonds”), \$86,455,000 State of Hawaii Highway Revenue Bonds, Series 2016 A (the “Series 2016 A Bonds”), \$94,415,000 State of Hawaii Highway Revenue Bonds, Series 2016 B (the “Series 2016 B Bonds”) and \$81,835,000 State of Hawaii Highway Revenue Bonds, Series 2019 A (the “Series 2019 A Bonds”) (collectively, the “Outstanding Bonds”) with an aggregate total of \$400,790,000. Additional bonds and refunding bonds may be issued on a parity with the Series 2021 Bonds and the Outstanding Bonds (collectively with the Series 2021 Bonds and the Outstanding Bonds, the “Senior Bonds”), or may be issued subordinate in right of payment to the Senior Bonds (the “Subordinate Bonds”). Currently, there are no Subordinate Bonds outstanding. The Senior Bonds and Subordinate Bonds are collectively referred to in this Official Statement as the “Bonds.”

On November 14, 2019, the State, acting by and through the Department, and Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2021 Bonds, entered into a forward delivery bond purchase contract pursuant to which the State, acting by and through the Department, sold to Morgan Stanley & Co. LLC \$23,130,000 aggregate principal amount of State of Hawaii Highway Refunding Revenue Bonds, Series 2019 B (Forward Delivery) (the “Series 2019 B Bonds”). The State, acting by and through the Department, anticipates delivering the Series 2019 B Bonds to Morgan Stanley & Co. LLC on or about October 7, 2021. If delivered, it is anticipated that the Series 2019 B Bonds will refund certain maturities of the outstanding Series 2011 A Bonds. Upon delivery of the Series 2019 B Bonds, the Series 2019 B Bonds will be secured on parity with the Senior Bonds, including the Series 2021 Bonds.

The Series 2021 Bonds are being issued: (i) to finance certain highway capital improvement projects, (ii) to pay the costs of issuance of the Series 2021 Bonds, and (iii) to fund a cash deposit to the Highway Senior Debt Service Reserve Subaccount to satisfy the Reserve Requirement. See “PLAN OF FINANCE” and ESTIMATED SOURCES AND USES OF THE PROCEEDS OF THE SERIES 2021 BONDS” herein.

The Bonds are special limited obligations of the State, payable solely from and secured solely by Pledged Funds as provided under the Certificate, consisting of moneys held in the funds and accounts under the Certificate, certain revenues derived by the State from the ownership and operation of the statewide system of highways, streets and roads (the “State Highway System”), earnings on the investment of monies held under the Certificate and receipts of Pledged User Taxes related thereto, consisting principally of highway fuel license taxes, vehicle registration fees, vehicle weight taxes, various vehicle surcharge taxes and other user taxes, fees or charges. Together, these taxes, fees, and charges account for most of the receipts of the State Highway Fund, as described in this Official Statement under “SECURITY FOR THE BONDS.” All Senior Bonds, including the Series 2021 Bonds, are and will be secured equally and ratably by the Pledged Funds. Receipts of the Pledged User Taxes are deposited into the State Highway Fund, a special fund created by State law in the State Treasury, for credit to the Highway Revenue Special Account created by the Certificate. **The Series 2021 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of the State is not pledged to the payment of or as security for the Series 2021 Bonds. See “SECURITY FOR THE BONDS” and “REVENUE SOURCES” herein for a description of the security for the Bonds and sources of Pledged Funds.**

The State Highway System is owned, operated, maintained, and improved by the Department. The Department maintains an ongoing capital improvement program to improve, renew and renovate the State Highway System. See “CAPITAL IMPROVEMENT PROGRAM” herein for a description of the capital improvement program and Appendix B - “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION” attached hereto for a description of the State Highway System.

Every other fiscal year the Department prepares a program of proposed capital improvement projects to the State Highway System for approval of the Governor and the Legislature of the State. The capital improvement program is authorized on a biennial basis through legislative appropriations. In the first year of a fiscal biennium, the Department may propose revisions to the second year of that biennium budget for presentation to the Governor for approval and to the Legislature for subsequent authorization.

The cover page and this Introduction contain certain information for general reference only. They are not intended to be a summary of the Series 2021 Bonds. Investors are advised to read this entire Official Statement to obtain information essential to making an informed investment decision. This Official Statement contains descriptions of the Department and the capital improvement program, summaries of the Series 2021 Bonds, the security for the Bonds and certain provisions of the Certificate. All references to the Certificate and to the Series 2021 Bonds are qualified by the definitive forms of the Certificate and Series 2021 Bonds, copies of which may be obtained from the Department at 869 Punchbowl Street, 5th floor, Honolulu, Hawaii 96813 or on the Department’s website at <http://hidot.hawaii.gov/highways/library/investor-relations/>. Information on the Department’s website is not part of this Official Statement. Any statement or information involving matters of opinion or estimates are represented as opinions or estimates made in good faith, but no assurance can be given that facts will materialize as so opined or estimated.

IMPACT OF THE COVID-19 PANDEMIC ON THE STATE AND THE STATE HIGHWAY SYSTEM

The worldwide outbreak of a highly contagious, upper respiratory tract illness caused by a novel strain of coronavirus (“COVID-19”) has caused significant adverse health and financial impacts throughout the world, including the State. Certain information in this Official Statement, including in the appendices, that describes historical State Highway System revenues, financial affairs, operations and general State economic conditions predates the COVID-19 pandemic. All of this information should be considered in light of the negative and adverse impacts from COVID-19 subsequent to the dates of such data. COVID-19 developments, and associated governmental, regulatory and State responses, are rapidly changing and cannot be predicted with any assurance.

The World Health Organization declared the spread of COVID-19 to be a pandemic, and the President of the United States, the Governor of the State and the mayors of each county in the State have each declared states of emergency. Since the first case was reported on February 17, 2020, the State is reporting that there have been approximately 34,700 confirmed cases of COVID-19 in the State as of May 26, 2021.

On March 4, 2020, State Governor David Y. Ige proclaimed the spread of COVID-19 in the State to be a disaster, declared a state of emergency in the State and announced State responses, including the use of disaster relief funds, to address the spread of COVID-19. The Governor has issued twenty (20) supplemental proclamations, with the current disaster declaration running through June 8, 2021, and a series of executive orders ranging from closing non-essential businesses and government activities to restricted openings with additional safety regulations. Notably on March 17, 2020, the Governor asked visitors to postpone their trips to the State. The State then implemented a mandatory self-quarantine requirement for all persons entering the State, as well as for inter-island travelers. All arriving passengers are subject to health screenings, temperature scans and reporting requirements.

The State’s pre-travel testing program began on October 15, 2020. The program allows travelers, aged five and older, who have taken an FDA-approved nucleic acid amplification test within 72 hours of their flight and received a negative test result to avoid the otherwise mandatory quarantine upon arrival. Effective November 6, 2020, visitors from Japan were also able to bypass the mandatory quarantine with a negative test result from a State-approved COVID-19 testing facility administered within 72 hours of departure. Additionally, the Centers for Disease Control and Prevention issued an order, effective January 26, 2021, requiring all passengers arriving in the United States from a foreign country to either produce proof of a negative COVID-19 test or documentation of having recovered from COVID-19. On May 11 2021, the State implemented a vaccine exemption program for interisland travelers to avoid the State’s 10-day quarantine requirement, with plans to expand the vaccine exemption program to domestic overseas passengers by the summer. There can be no assurance that the emergency declaration, quarantine requirements, pre-testing quarantine exception program and/or the vaccine exemption program as currently in effect and/or as proposed will not be modified, terminated or extended, in whole or in part. See Appendix C - “GENERAL INFORMATION ABOUT THE STATE OF HAWAII” attached hereto for a description of the impact of COVID-19 on tourism in the State and for a description of the current state of the economy and economic outlook for the State.

The State presently has several hundred contact tracers and as of May 26, 2021 was conducting a seven-day average of 4,815 tests daily. The first dose of the COVID-19 vaccine was administered in the State on December 15, 2020. As of May 26, 2021, the State had administered 1,083,260 doses of the COVID-19 vaccine in the State and federal agencies and programs had administered 397,172 doses of the COVID-19 vaccine in the State. As of May 26, 2021, approximately 57% of the State’s population had received at least one dose of the COVID-19 vaccine. Additional information with respect to State COVID-19 metrics can be found on the following website established by the State Department of Health at: <https://health.hawaii.gov/coronavirusdisease2019/what-you-should-know/current-situation-in-hawaii/>. Reference to the website address presented herein is for informational purposes only. Such website and the information or links contained therein are not incorporated into, and are not part of, this Official Statement. The

Highways Division does not assume any responsibility for the accuracy of the information on such website or the ongoing maintenance of such website.

The spread of COVID-19 to the State and actions taken at the national, State and county levels to halt its spread have had, and are expected to continue to have, an adverse effect on the economy of the State and on the revenues, financial condition and operations of the State Highway System. The following section describes some of the impacts that the COVID-19 pandemic has had on the State Highway System’s finances and operations and on the Pledged User Taxes and describes some of the actions that the Highways Division is taking in response to the COVID-19 pandemic.

Effects of COVID-19 on the Operations and Revenues of the State Highway System

The State Highway System is experiencing and expects to continue to experience a decrease in Revenues, including Pledged User Taxes as a result of the COVID-19 pandemic.

Traffic volume for the period March 2020 through December 2020 declined 27.7% compared to the same period in 2019. From January 2021 through April 2021 traffic volume declined 15.3% compared to the same period in 2019.

The following tables are provided to show variances for the Pledged User Taxes for the period January 2019 through March 2021. See “MANAGEMENT DISCUSSION AND ANALYSIS” herein for a further discussion of Pledged User Taxes. See also “DEBT SERVICE COVERAGE – Projected Revenues” herein for a detailed description of the Highways Division’s projected Revenues for fiscal years ending June 30, 2021 through June 30, 2027 and “DEBT SERVICE COVERAGE – Historical and Projected Debt Service Coverage” herein for a detailed description of the Highways Division’s’ historical and projected debt service coverage for fiscal years ending June 30, 2014 through June 30, 2027.

Fuel Taxes*				Rental Motor Vehicle Surcharge Tax			
Month	2019	2020	2021	Month	2019	2020	2021
Jan	\$6,887,016	\$6,873,758	\$5,879,996	Jan	\$4,241,953	\$7,589,192	\$3,104,492
Feb	7,000,000	6,862,467	5,581,019	Feb	6,698,573	8,502,755	4,624,344
Mar	6,252,711	6,494,265	5,233,985	Mar	6,291,497	8,260,235	3,647,955
Apr	7,003,171	6,293,225		Apr	5,072,559	6,515,361	
May	6,909,641	3,891,431		May	4,800,106	626,496	
June	7,165,712	4,785,895		June	4,604,011	581,445	
Jul	6,902,594	5,225,235		Jul	4,698,073	667,531	
Aug	2,309,413	5,637,649		Aug	6,990,714	885,650	
Sept	12,378,914	5,237,313		Sept	7,975,268	740,073	
Oct	6,810,392	4,891,536		Oct	6,750,444	652,598	
Nov	6,964,906	5,640,528		Nov	6,931,928	955,548	
Dec	6,718,172	5,434,489		Dec	7,078,180	2,607,411	
Total:	\$83,302,642	\$67,267,791		Total:	\$72,133,306	\$38,584,295	

*See Appendix B – “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION – INFORMATION RELATING TO REVENUE SOURCES – Fuel Consumption” for a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel tax for the fiscal years ending June 30, 2011 through June 30, 2020.

Vehicle Registration Fees*				Vehicle Weight Taxes			
Month	2019	2020	2021	Month	2019	2020	2021
Jan	\$4,079,046	\$4,517,890	\$3,748,025	Jan	\$7,362,364	\$7,794,546	\$6,060,232
Feb	3,623,815	3,582,815	3,416,296	Feb	6,592,308	6,244,830	6,217,506
Mar	3,991,865	3,860,755	3,798,865**	Mar	7,265,492	6,857,359	6,846,092**
Apr	3,944,673	3,264,325		Apr	7,168,959	5,709,045	
May	4,216,767	3,227,905		May	7,396,549	5,788,566	
June	3,617,059	3,731,248		June	6,211,576	6,791,260	
Jul	4,063,960	4,233,585		Jul	7,411,948	7,952,578	
Aug	3,598,075	3,905,775		Aug	7,207,118	7,005,398	
Sept	3,491,720	3,656,815		Sept	6,326,834	6,599,443	
Oct	4,343,870	4,154,020		Oct	7,833,338	7,264,370	
Nov	3,778,524	3,866,440		Nov	6,702,839	6,849,898	
Dec	3,825,460	4,176,342		Dec	6,782,296	7,574,702	
Total: \$46,574,833 \$45,891,713				Total: \$84,261,623 \$81,886,281			

*See Appendix B – “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION – INFORMATION RELATING TO REVENUE SOURCES – Motor Vehicle Registration” and “– Licensed Drivers” for a summary of the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for the calendar years ending December 31, 2011 through December 31, 2020 and for a summary of the total number of drivers’ licenses in force in the State for the calendar years ending December 31, 2011 through December 31, 2020.

** Does not include information for Kauai County.

Summary of Actions Taken in Response to COVID-19

In response to COVID-19, the Highways Division has taken the following actions:

- Taken measures to promote the health and safety of its staff through the acquisition of personal protective equipment and the implementation of remote work and electronic communication for many of its staff.
- Has prioritized and moved forward with critical capital projects and has taken steps to increase project efficiencies. See “MANAGEMENT DISCUSSION AND ANALYSIS – Other Department Initiatives – *Capacity Building Program*” herein.
- Is evaluating debt issuance alternatives with a goal of maintaining healthy net operating income and high debt service coverage.

At this time, the Highways Division cannot predict (i) the duration or extent of the COVID-19 outbreak or another outbreak or pandemic; (ii) the scope, duration or expansion of travel restrictions and restrictions on assemblies or gatherings; (iii) what effect any COVID-19 or any other outbreak or pandemic-related restrictions or warnings may have on transportation; (iv) whether and to what extent the COVID-19 pandemic may disrupt the State, national or global economy or whether any such disruptions may adversely impact the Pledged User Taxes or the State Highway System’s operations or revenues; (v) whether any of the foregoing may have a material adverse effect on the finances and operations of the State Highway System. Prospective investors should assume that the restrictions and limitations related to COVID-19, and the current upheaval to the State, national and global economies, may increase at least over the near term, recovery may be prolonged and, therefore, have an adverse impact on State Highway System’s Revenues. Future outbreaks, pandemics or events outside the Highways Division’s control may further effect transportation, which in turn could affect the State Highway System’s Revenues.

PLAN OF FINANCE

Capital Improvement Projects

A portion of the proceeds of the sale of the Series 2021 Bonds will be used to finance certain highway capital improvement projects comprising portions of the statewide system of highways, streets and roads, including the potential projects identified in Appendix B - “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION - THE DEPARTMENT OF TRANSPORTATION - Authorized Projects” attached hereto.

THE SERIES 2021 BONDS

General

The Series 2021 Bonds will be dated their date of delivery and will bear interest from such date at the rates per annum set forth on the inside cover page of this Official Statement, and will mature on January 1 in the years and in the principal amounts set forth on the inside cover of this Official Statement. Interest will be payable on each January 1 and July 1, commencing January 1, 2022 (each an “Interest Payment Date”). Principal of, premium, if any, and interest on the Series 2021 Bonds will be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

The Series 2021 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2021 Bonds. Individual purchases of the Series 2021 Bonds will be made in book-entry form only (the “Book-Entry System”), in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2021 Bonds. Principal of and interest on the Series 2021 Bonds will be paid by U.S. Bank National Association, as Registrar and Paying Agent for the Series 2021 Bonds (together with any successor, the “Registrar” and “Paying Agent”) to DTC, which will in turn remit such principal and interest to its Participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the Series 2021 Bonds, as described herein. See Appendix F - “BOOK-ENTRY SYSTEM” attached hereto.

If the Book-Entry System is discontinued for the Series 2021 Bonds, thereafter: (i) principal of the Series 2021 Bonds will be payable upon presentation and surrender of the Series 2021 Bonds at the office of the Paying Agent; and (ii) interest on each Series 2021 Bond will be paid on each Interest Payment Date by check mailed by the Paying Agent to the owner in whose name the Series 2021 Bond is registered upon the books of registry to be kept and maintained by the Registrar, as of the close of business on the 15th day of the calendar month (whether or not a business day) next preceding each Interest Payment Date at such owner’s address as shown on the bond register maintained by the Registrar (the “Bond Register”).

The Department and the Registrar and Paying Agent may deem and treat the person in whose name any Series 2021 Bond is registered upon the Bond Register (an “Owner” or “Holder”) as the absolute owner of such Bond for all purposes of the Certificate, including receiving payment of the principal of and interest due on the Series 2021 Bonds. So long as the Series 2021 Bonds are in the Book-Entry System, the registered owner of the Series 2021 Bonds in the Bond Register will be Cede & Co., and all such payments will be made to Cede & Co., as registered Owner.

Authority for Issuance

Article VII, Section 12 of the State Constitution and Part III, Chapter 39, Hawaii Revised Statutes (“HRS”), as amended (collectively the “General Revenue Bond Law”), permit the issuance of revenue bonds of the State payable from and secured by the Pledged Funds upon the approval of a majority of the members of each house of the Legislature and pursuant to a certificate of the Director of the Department (the “Director”), which becomes effective upon filing with the Director of Finance. The General Revenue Bond Law does not limit the aggregate principal amount of revenue bonds that may be issued, but does limit the maximum maturity of revenue bonds and also sets forth provisions for the sale, method of execution, and other details of all revenue bonds. The Legislature from time to time enacts laws (including the general appropriations acts) authorizing the issuance of revenue bonds (without fixing any particular details), defining the purposes for which the bonds are to be issued, and specifying the amount of the proceeds of such bonds which may be applied to such purposes. The Department, with the approval of the Governor, may issue refunding bonds without further authorization of the Legislature. Pursuant to the General Revenue Bond Law, the Director has issued the Certificate, which under State law constitutes the security document pursuant to which all Bonds are issued and secured. The Certificate provides the terms of the Bonds, including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department.

The Series 2021 Bonds are being issued pursuant to the Certificate and under the authority of and pursuant to the General Revenue Bond Law and Act 289, Session Laws of Hawaii (“SLH”) 1993, as amended by Act 252, SLH 1994, Act 218, SLH 1995, as amended by Act 287, SLH 1996, Act 328, SLH 1997, as amended by Act 116, SLH 1998, Act 91, SLH 1999, as amended by Act 281, SLH 2000, Act 259, SLH 2001, as amended by Act 177, SLH 2002, Act 200, SLH 2003, as amended by Act 41, SLH 2004, Act 178, SLH 2005, as amended by Act 160, SLH 2006, Act 213, SLH 2007, as amended by Act 158, SLH 2008, Act 162, SLH 2009, as amended by Act 180, SLH 2010, Act 164, SLH 2011, as amended by Act 106, SLH 2012, Act 134, SLH 2013, as amended by Act 122, SLH 2014, Act 119, SLH 2015, as amended by Act 124, SLH 2016, Act 49, SLH 2017, as amended by Act 53, SLH 2018, Act 40, SLH 2019, and Act 6, SLH 2020.

Redemption

Optional Redemption of Series 2021 Bonds. The Series 2021 Bonds maturing on or before January 1, 2030 shall not be subject to optional redemption prior to maturity. The Series 2021 Bonds maturing on and after January 1, 2033 shall be subject to redemption at the option of the State prior to their stated maturity, on and after January 1, 2031, from any source of moneys (other than moneys required to be credited pursuant to the terms of the Certificate), in whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, without premium, together with the interest accrued on the principal amount redeemed to the date fixed for the redemption thereof.

Selection of Series 2021 Bonds for Redemption. If less than all of the Series 2021 Bonds are to be redeemed, the Series 2021 Bonds to be redeemed will be selected in such order of maturity as may be designated by the Department and by lot within each designated maturity.

Notice of Redemption. Notice of redemption of the Series 2021 Bonds shall be mailed not less than 30 days prior to the redemption date, by first class mail, postage prepaid, to each Owner of a Series 2021 Bond to be redeemed at its address appearing on the books of registry maintained by the Registrar, and by registered or certified mail, to each securities depository registered with the Securities and Exchange Commission and to national information services selected by the Department which disseminate redemption notices. See “CONTINUING DISCLOSURE” herein and Appendix G – “FORM OF

CONTINUING DISCLOSURE CERTIFICATE” and Appendix F – “BOOK-ENTRY SYSTEM” attached hereto.

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the Director of Finance or the Paying Agent for the Series 2021 Bonds proposed to be redeemed on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Series 2021 Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2021 Bonds proposed to be redeemed are not received on or prior to the date fixed for redemption, such notice of redemption will be null and void and of no force and effect, the Department will not redeem or be obligated to redeem any Series 2021 Bond, and the Department or the Paying Agent at the Department’s direction will give notice, in the same manner as notice of redemption is given, that moneys sufficient to pay in full the redemption price of the Series 2021 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 the failure to redeem, all Series 2021 Bonds surrendered for redemption will be promptly returned to the registered holder by the Department or the Paying Agent for the Series 2021 Bonds.

Effect of Redemption. If a Series 2021 Bond is subject by its terms to redemption and has been duly called for redemption in accordance with the Certificate, and if sufficient moneys available for the payment of the redemption price and interest to accrue to the redemption date on such Series 2021 Bond are held for such purpose by the Director of Finance or the Paying Agent, such Series 2021 Bond so called for redemption will become due and payable, and interest on such Series 2021 Bond will cease to accrue, on the redemption date designated in such notice. If such moneys shall not be so available on the redemption date, such Series 2021 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Upon surrender of any Series 2021 Bond to be redeemed in part only, the Department will execute and deliver to the holder a new Series 2021 Bond (or Series 2021 Bonds) of the applicable maturity representing the unredeemed principal amount of the Series 2021 Bond surrendered.

ESTIMATED SOURCES AND USES OF THE PROCEEDS OF THE SERIES 2021 BONDS

The following table shows the estimated sources and uses of moneys realized by the Department from the proceeds of the Series 2021 Bonds:

Sources:	
Par Amount	\$137,205,000.00
Plus Original Issue Premium	<u>43,908,934.70</u>
TOTAL SOURCES OF FUNDS	<u>\$181,113,934.70</u>
Uses:	
Deposit to Highway Bond Proceeds Account ⁽¹⁾	\$180,000,000.00
Reserve Requirement in the Highway Senior Debt Service Reserve Subaccount	547,362.50
Costs of Issuance ⁽²⁾	<u>566,572.20</u>
TOTAL USES OF FUNDS	<u>\$181,113,934.70</u>

⁽¹⁾ To be applied for capital project purposes.

⁽²⁾ Includes Underwriters’ discount and other costs of issuance.

SECURITY FOR THE BONDS

General

The Bonds, including the Series 2021 Bonds, are special limited obligations of the State, and will be payable solely from and secured solely by the Pledged Funds. The Series 2021 Bonds, the Outstanding Bonds and any additional Senior Bonds that may subsequently be issued under the Certificate are equally and ratably secured by a lien and charge on the Pledged Funds prior and paramount to the lien thereon of any other bonds.

“Pledged Funds” is defined in the Certificate to include the Revenues and the moneys held in the Highway Revenue Special Account created in the Certificate and the Highway Bond Proceeds Account in the State Bond Fund. “Revenues” is defined to include the following when deposited in the State Highway Fund: Pledged User Taxes, certain revenues derived from the ownership or operation of, or disposition of properties constituting part of, the State Highway System, and certain investment earnings. “Pledged User Taxes” is defined to include the receipts of highway fuel license taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle, tour vehicle and car-sharing vehicle surcharge taxes. See “REVENUE SOURCES” below.

The Bonds do not constitute general or moral obligations of the State nor a charge upon the general fund of the State. The full faith and credit of the State are not pledged to the payment of the principal of or interest on the Bonds. The real property and improvements comprising the State Highway System have not been pledged or mortgaged to secure payment of the Bonds. No Bondholder shall have the right to compel any exercise of the taxing power of the State to pay principal of or interest on the Bonds.

State law creates a special fund in the Treasury of the State designated as the State Highway Fund. The Certificate creates the Highway Revenue Special Account in the State Highway Fund and requires that the State Highway Fund and the Highway Revenue Special Account be continued as long as any Bonds remain outstanding and provides that all Revenues will be deposited in the State Highway Fund for credit to the Highway Revenue Special Account. The Certificate further provides that amounts deposited in the Highway Revenue Special Account will be used in the order of priority established by the Certificate. Payment of principal of and interest on the Senior Bonds is the first priority and charge against the Highway Revenue Special Account. See “Funds and Accounts and Application of Revenues” below.

In the event of a default, the Holders of at least 25% in principal amount of the Senior Bonds then outstanding and the Holders of at least 25% in principal amount of the Subordinate Bonds then outstanding may declare the principal of all Bonds then Outstanding, together with all accrued and unpaid interest thereon, if not already due, to be due and payable immediately by written notice to the Department, which notice shall also be filed with the Director of Finance of the State.

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. The State has waived by statute its immunity from contractual claims. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition of suits against a state extend to officers of a state acting in their official capacity.

Therefore, there can be no assurance that in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against the State or State officials to enforce such payment.

Neither the State nor any State department that issues debt has ever defaulted in the payment of either principal of or interest on any indebtedness.

Pledge of Revenues

Under the Certificate, the State and the Department pledge and grant a lien on the Pledged Funds to secure the Senior Bonds, which pledge and lien are superior and prior to the pledge of and lien upon the Pledged Funds in respect of the Subordinate Bonds; and pledge and grant a lien on the Pledged Funds to secure the Subordinate Bonds, which pledge and lien are inferior and subordinate to the pledge of and lien upon the Pledged Funds in respect of the Senior Bonds. The Certificate provides that the lien on the Pledged Funds to secure the Bonds is a prior and paramount lien, subject only to the provisions of the Certificate permitting the application of such funds for the purposes and on the terms and conditions thereof over and ahead of any claims, encumbrances or obligations of any nature arising or incurred after the date of the Certificate and over and ahead of all other indebtedness payable from or secured by the Pledged Funds thereafter created or incurred.

The Certificate further provides that the moneys in the State Highway Fund shall, until used, be applied and disbursed in accordance with the provisions of the Certificate, be held in trust: (1) for the equal benefit and security of the Holders of the Senior Bonds; and (2) subject to the prior and senior rights, benefits and security of the Holders of the Senior Bonds, for the equal benefit and security of the Holders of the Subordinate Bonds. Subject to the provisions of the Certificate concerning application of amounts on deposit in the subaccounts relating to the Senior Bonds, all Senior Bonds have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to such subaccounts and the investments in which such Revenues may be invested, over and ahead of all Subordinate Bonds and all bonds, notes or other evidences of indebtedness which may subsequently be issued. Subject to the prior and paramount lien provided in respect of the Senior Bonds and further subject to the provisions of the Certificate concerning application of amounts on deposit in the subaccounts relating to the Subordinate Bonds, all Subordinate Bonds have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to such subaccounts and the investments in which such Revenues may be invested, over and ahead of all bonds, notes or other evidences of indebtedness which may subsequently be issued and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred.

Under the General Revenue Bond Law, the Department is obligated to impose, prescribe and collect rates, rents, fees, or charges for the use and services of, and the facilities and commodities furnished by, the State Highway System which, together with the proceeds of the Pledged User Taxes derived from the State Highway System, are at least sufficient: (1) to make the required payments of principal of and interest on all Bonds, including reserves therefor; (2) to pay the costs of operation, maintenance and repair of the State Highway System, including reserves therefor; and (3) to carry out the covenants of the Certificate.

The State Constitution defines a “user tax” as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking (an “Undertaking”), improvement or system. The specific acts of the Legislature authorizing Highway Revenue Bonds direct that they shall be payable from and secured by the revenues derived from highways and related facilities under the ownership of the State and managed by the Department comprising the State Highway System, and from highway fuel license taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle, tour vehicle and car-sharing vehicle surcharge taxes levied and paid pursuant to Sections 243-4, 248-8, 249-31, 249-33, 251-2 and 251-2.5 HRS, and federal moneys received by the State or any department thereof which are available to pay principal of and interest on indebtedness of the State, and other user taxes, fees or charges currently or hereafter derived from or arising through the ownership, operation, and

management of highways and related facilities and the furnishing and supplying of the services thereof. Each of such taxes, charges and fees constitutes a “user tax” within the meaning of the State Constitution.

Under the General Revenue Bond Law, the Legislature has covenanted, pledged and obligated the Legislature, whenever the Legislature shall have authorized the issuance of bonds for an Undertaking such as the State Highway System, payable from and secured by the user taxes derived with respect to such Undertaking, or by both revenues and user taxes, or by any combination of both, to impose or continue to impose user taxes with respect to such Undertaking in amounts at least sufficient, together with the revenue of the Undertaking, to make the payments described above. These provisions would not prohibit the Legislature from changing the rate of existing Pledged User Taxes or other user taxes or fees or from deleting some or all of existing Pledged User Taxes or other user taxes or fees and substituting other or different user taxes or fees.

The State has considered but does not presently anticipate imposing any tolls, rates, rentals, fees or charges for the use and services provided by the State Highway System and, as indicated, expects that the principal source of payment of the Bonds will derive from the Pledged User Taxes imposed pursuant to law.

There is no requirement under the Certificate or the General Revenue Bond Law that the Legislature levy and deposit Pledged User Taxes into the State Highway Fund in excess of the amount necessary to make the deposits described in paragraphs FIRST through FIFTH under “Funds and Accounts and Application of Revenues” below.

Highway Senior Debt Service Reserve Subaccount

In order to provide a reserve for the payment of the principal of and interest on the Senior Bonds, the Certificate creates a Highway Senior Debt Service Reserve Subaccount in the Highway Revenue Special Account. The Certificate requires that moneys on deposit in the Highway Senior Debt Service Reserve Subaccount shall be maintained in an amount at least equal to one-half (1/2) of the maximum Aggregate Bond Service for the Senior Bonds at the time outstanding for any Bond Year (the “Reserve Requirement”), beginning with the Bond Year in which such determination is made. In lieu of the deposit of moneys to the Highway Senior Debt Service Reserve Subaccount, the Certificate allows the Department to credit one or more Support Facilities in an amount equal to the difference between the Reserve Requirement and the aggregate of: (1) moneys already deposited in such Subaccount and (2) amounts available to be drawn under any Support Facility already credited to such Subaccount. See “Highway Senior Debt Service Reserve Subaccount” and definitions of Aggregate Bond Service, Bond Year and Support Facility in Appendix A - “SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE” attached hereto.

The Department will fund the Reserve Requirement from a cash deposit to the Highway Senior Debt Service Reserve Subaccount.

The Department is proposing to eliminate the Highway Senior Debt Service Reserve Subaccount and to apply monies presently in the Highway Senior Debt Service Reserve Subaccount for other purposes upon receipt of consent of 100% of the holders of the Series 2021 Bonds and all outstanding Senior Bonds. By purchasing the Series 2021 Bonds, the initial holders of the Series 2021 Bonds, upon confirmation of their acceptance of the Series 2021 Bonds, shall be deemed to have consented to an amendment to the Certificate for this purpose, and such consent shall be binding on all successive holders of the Series 2021 Bonds. See “SECURITY FOR THE BONDS - Proposed Amendment to the Certificate” below.

Funds and Accounts and Application of Revenues

The Certificate creates the Highway Revenue Special Account, comprised of the subaccounts listed below, within the State Highway Fund and provides that, so long as any Bonds are Outstanding: (1) the State Highway Fund and the Highway Revenue Special Account shall both be continued; and (2) all Revenues deposited in the State Highway Fund shall be credited to the Highway Revenue Special Account. Revenues from specified sources are deposited into the State Highway Fund. See “REVENUE SOURCES” below. Moneys that are paid into and are on deposit in the State Highway Fund constitute the Revenues that are pledged to the payment of the Bonds. Revenues credited or to be credited to the Highway Revenue Special Account are required to be applied and used in the following order of priority:

FIRST: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Senior Interest Subaccount;
- (b) Highway Senior Principal Subaccount; and
- (c) Highway Senior Debt Service Reserve Subaccount;

SECOND: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (d) Highway Subordinate Interest Subaccount;
- (e) Highway Subordinate Principal Subaccount; and
- (f) Highway Subordinate Debt Service Reserve Subaccount;

THIRD: For payment of Operation and Maintenance Expenses of the State Highway System;

FOURTH: For payment of the costs of acquisition (including real property and interests therein), construction, addition, expansion, improvement, renewal, replacement, reconstruction, engineering, investigation and planning for the Undertaking and bikeways, all or any of which in the judgment of the Department are necessary to the performance of its duties or functions;

FIFTH: To reimburse the general fund of the State for Reimbursable General Obligation Bonds;

SIXTH: All or any portion of available moneys credited to the Highway Revenue Special Account, after satisfying the requirements of priority items FIRST through FIFTH above, determined in conformance with law by the Director of Transportation to be in excess of 135% of the requirements for the ensuing 12 months for the Highway Revenue Special Account, or such other percentage as may be authorized by law, may be transferred from the Highway Revenue Special Account as permitted by and in accordance with State law; and

SEVENTH: To provide funds for other special reserve funds and other special funds as may be created by law.

Additional Bonds and Refunding Bonds

The Certificate permits the issuance of Additional Bonds payable from and secured by Pledged Funds on a parity with the Series 2021 Bonds, the Outstanding Bonds and other Senior Bonds, or the issuance of Additional Bonds which are Subordinate Bonds, for the purpose of paying or reimbursing the cost of acquisition or construction of properties to constitute part of the State Highway System or the making of additions to or expansions of, improvements of, renewals of, or reconstructions of the State

Highway System or the properties which shall constitute part of the State Highway System. Additional Bonds which are Senior Bonds must be fixed rate bonds. Additional Bonds which are Subordinate Bonds may be fixed rate bonds or variable rate bonds. The conditions for issuance of Additional Bonds include, among other things, that the Director certify that:

(1) at the time of issuance of the Additional Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bond; no deficiency exists in the State Highway Fund or the Highway Revenue Special Account; and there does not exist any Event of Default under the Certificate or a condition which upon the passage of time would constitute such an Event of Default;

(2) upon delivery of such Bonds, there shall be credited to the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount an amount equal to, in each case, the Reserve Requirement; provided that such requirement may be satisfied by a deposit of proceeds of such Bonds or a Support Facility; and

(3) the Revenues for any twelve (12) consecutive calendar month's period out of the last eighteen (18) consecutive calendar month's period immediately preceding the date of issuance of such Bonds, as derived from the most recent publically available financial statements of the Department, shall be at least equal to: (a) in the case of Senior Bonds proposed to be issued, two (2) times maximum Aggregate Bond Service for any future Fiscal Year on all Senior Bonds to be Outstanding after the issuance of such Additional Senior Bonds; and (b) in the case of Subordinate Bonds proposed to be issued, one and thirty-hundredths (1.30) times maximum Aggregate Bond Service for any future Fiscal Year on all Bonds to be Outstanding after the issuance of such Additional Subordinate Bonds.

The Certificate permits the issuance of Refunding Bonds payable from and secured by Pledged Funds on a parity with the Series 2021 Bonds and other Senior Bonds, or Refunding Bonds which are Subordinate Bonds, for the purpose of refunding any then outstanding Bonds, so long as the State has satisfied the requirement set forth in the first and second subparagraphs described above and without satisfying any financial tests. See Appendix A - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds" attached hereto.

The Certificate permits the issuance of other bonds or obligations payable from the Revenues subordinate and inferior to the payment of the Bonds from the Revenues.

Proposed Amendment to the Certificate

The Department proposes to amend Section 5.05 of the Certificate to eliminate the Highway Senior Debt Service Reserve Subaccount and to apply monies presently in the Highway Senior Debt Service Reserve Subaccount, at the discretion of the Department, to pay debt service, fund capital projects, or for other purposes. The proposed amendments read as follows:

(a) Section 5.05 of the Certificate shall be deleted and the Highway Senior Reserve Subaccount established thereunder shall be released, whereupon such Section and all references in the Certificate to the Highway Senior Debt Service Reserve Subaccount and the Reserve Requirement and all provisions for the funding and application of the Highway Senior Debt Service Reserve Subaccount shall have no further force and effect.

(b) Moneys remaining in the Highway Senior Debt Service Reserve Subaccount upon the release thereof shall be applied, at the discretion of the Department, to fund the costs of capital projects, to pay debt service on Bonds then Outstanding or for such other purposes as the Department may

deem advisable; provided, however, that any such application of moneys released from the Highway Senior Debt Service Reserve Subaccount shall be subject to receipt by the Department of an opinion of nationally recognized bond counsel to the effect that such application will not adversely affect the tax-exempt status of any Bonds then Outstanding.

The foregoing amendments were first proposed in 2016 pursuant to Section 9.02 of the Certificate, and have been approved by the holders of the Series 2016 A Bonds, the Series 2016 B Bonds, the Series 2019 A Bonds and the Series 2019 B Bonds expected to be delivered on or about October 7, 2021. The amendments shall take effect at such time as the Holders of all Outstanding Senior Bonds shall have consented to such amendments. Each purchaser of a Series 2021 Bond and any Senior Bond of a subsequent Series (unless otherwise provided in the applicable Supplemental Certificate), by such purchaser's acceptance of such Bond (upon confirmation of such acceptance), shall be deemed to have consented to the foregoing amendments, which consent shall be binding on all successive Holders of such Bond. The Department shall be entitled to rely upon such purchase and acceptance as conclusive evidence of the purchaser's consent. The Department does not propose to solicit consent of the Holders of any of the Outstanding Bonds issued prior to 2016. Consent of the Holders of all Senior Outstanding Bonds is not expected to occur until all Outstanding Bonds issued prior to issuance of the Series 2016 A Bonds and the Series 2016 B Bonds have been retired (at maturity or upon redemption) or refunded. As of May 1, 2021, \$4,425,000 Series 2005 B Bonds, \$32,335,000 Series 2011 A Bonds, \$5,095,000 Series 2011 B Bonds, \$78,225,000 Series 2014 A Bonds and \$18,005,000 Series 2014 B Bonds, were outstanding.

The State, acting by and through the Department, expects to deliver the Series 2019 B Bonds on or about October 7, 2021. If delivered, the Series 2019 B Bonds will refund \$26,825,000 principal amount of the outstanding Series 2011 A Bonds.

REVENUE SOURCES

State Highway Fund

The State imposes taxes, fees, and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the State Highway Fund established under Section 248-8, HRS. Moneys deposited in the State Highway Fund are used for acquisition, planning, design, construction, operation, repair, and maintenance of the State Highway System.

The current taxes, fees, and charges deposited to the State Highway Fund consist of: (1) highway fuel license taxes; (2) vehicle registration fees; (3) vehicle weight taxes; and (4) rental motor vehicle, tour vehicle and car-sharing vehicle surcharge taxes. Together, these taxes, fees and charges accounted for most of the receipts of the State Highway Fund in the Fiscal Year ended June 30, 2020. See "Historical Revenues" below. Other sources of Revenues include interest earnings on moneys previously credited to the State Highway Fund, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees and other miscellaneous Revenues. There are no toll roads or toll bridges in the State. The primary sources of Revenues are further described below.

Sources of Revenues and Pledged User Taxes

The following is a summary of the sources of Revenues that are deposited to the State Highway Fund. This summary does not purport to be a complete description of each of these Revenue sources and accordingly is qualified by reference to the Hawaii Revised Statutes regarding sources of Revenues. The Legislature has altered and may in the future alter the statutes governing these Revenue sources, the rates of the Pledged User Taxes and their allocation.

Highway Fuel License Taxes. Highway fuel license taxes consist of license taxes on fuel sold to motor vehicle operators pursuant to Chapter 243, HRS. The distributor of motor vehicle fuel pays the fuel license tax for liquid fuel produced or imported by the distributor to be sold or used by the distributor. Highway fuel license taxes are assessed at a rate of \$0.16 per gallon of gasoline and diesel oil (highway use), \$0.052 per gallon of liquid petroleum gas (highway use) (\$0.0025 (\$0.01 x 0.25 under Section 243-4(c)(1), HRS) plus \$0.0495 (\$0.15 x 0.33 under Section 243-4(c)(2)(D), HRS)), and \$0.01 per gallon of gasoline, diesel oil, and liquid petroleum gas (non-highway use). Highway fuel license taxes are also assessed at various rates on alternative fuels including Ethanol, Methanol, Biodiesel, Naptha, Compressed Natural Gas, and Liquefied Natural Gas. The highway fuel license taxes are collected by the Department of Taxation, which then transfers the receipts to the State Highway Fund. The counties have a similar tax that is not included in the State's fuel license tax rate, as described in Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION." Receipts of aviation fuel taxes and taxes collected with respect to liquid fuel sold for use in small boats are transferred to the Airport Revenue Fund and the Boating Special Fund, respectively, and not to the State Highway Fund.

Vehicle Registration Fees. Section 249-31, HRS, requires all motor vehicles to be registered annually with one of the four counties of the State. Effective July 1, 2011, vehicle owners must pay a State registration fee of \$45 for each vehicle, an increase of \$20 per vehicle from the prior rate pursuant to Act 162, SLH 2011 (SB 1328). From each annual motor vehicle registration fee, \$40 is deposited into the State Highway Fund and \$5 into the emergency medical services special fund. Pursuant to Act 174, SLH 2019, an annual vehicle registration surcharge of \$50 will be assessed for electric vehicles and alternative fuel vehicles effective January 1, 2020, \$45 of which will be deposited into the State Highway Fund with the remaining \$5 deposited into the emergency medical services special fund. The four counties each collect the vehicle registration fee along with their respective county registration fees and transfer the State's vehicle registration fee to the State Highway Fund. See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION."

Vehicle Weight Taxes. All motor vehicles are assessed an annual State vehicle weight tax pursuant to Section 249-33, HRS. Effective July 1, 2011, the tax rate is \$0.0175 per pound for vehicles weighing less than 4,000 pounds, \$0.02 per pound for vehicles weighing between 4,001 and 7,000 pounds, and \$0.0225 per pound for vehicles weighing between 7,001 and 10,000 pounds, an increase from \$0.0075 to \$0.01 per pound in each weight class from the prior rate. Also, effective July 1, 2011, vehicles weighing over 10,000 pounds are taxed a flat rate of \$300 per vehicle, an increase of \$150 per vehicle from the prior rate. The four counties each collect the vehicle weight tax along with their respective county vehicle taxes and transfer the State's vehicle weight tax to the State Highway Fund. See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION."

Rental Motor Vehicle, Tour Vehicle and Car-Sharing Vehicle Surcharge Taxes. Chapter 251, HRS, imposes a surcharge tax on all rental motor vehicles, tour vehicles and car-sharing vehicles. The rental motor vehicle surcharge tax is imposed on the owner of the rental company when a rental motor vehicle is rented or leased. The State Legislature passed HB 485, which is currently awaiting approval by the Governor. HB 485 increases the rental motor vehicle surcharge by \$0.50 each year from January 1, 2022 through December 31, 2027 for a total increase of \$3 per day (from \$5 per day to \$8 per day), to be collected and deposited into the State Highway Fund.

The tour vehicle surcharge tax is imposed on the tour vehicle operators. Act 215, SLH 2018 increased the tour vehicle surcharge tax effective on January 1, 2019, from \$15 to \$16 per month for each tour vehicle with eight to twenty-five passenger seats during each month the vehicle is used. The surcharge

tax for each tour vehicle with more than twenty-five passenger seats increased from \$65 to \$66 per month during each month the vehicle is used.

The car-sharing vehicle surcharge tax is imposed on the car-sharing organization. The surcharge tax is \$0.25 per half hour, or \$3.00 per rental of six hours or more. All rental and tour companies and car-sharing organizations must register with the State. The registration fee is a one-time \$20 fee.

State Highway Enforcement Program. Act 250, SLH 2019 implemented a \$200 parking violation surcharge effective on July 1, 2019 that will be imposed for parking violations on State highways. Half of the surcharge will be deposited into the State Highway Fund, with the other half of the surcharge disbursed to the county police department in which the violation occurred. The State also imposes a \$250 fine for mobile electronic device violations and a \$200 fine for parking a vehicle on a bicycle lane or path.

Interest Earnings. Interest income is derived from the investment of moneys on deposit in the State Highway Fund.

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Historical Revenues

The following table sets forth the sources of Revenues that were deposited into the State Highway Fund for each of the last ten fiscal years ended on June 30. See “IMPACT OF THE COVID-19 PANDEMIC ON THE STATE AND THE STATE HIGHWAY SYSTEM” herein for more information on the impact of COVID-19 on the State Highway System’s Revenues.

Sources of Revenue Deposited in the State Highway Fund (\$ in thousands)

Fiscal Year	<u>Pledged User Taxes</u>						Total Revenues
	Fuel Taxes	Registration Fees	Weight Taxes	Rental/Tour Vehicle Surcharge	Interest	Misc. ⁽¹⁾	
2011	\$89,349	\$20,841	\$33,423	\$43,892	\$4,006	\$5,631	\$197,142
2012	86,980	34,311	58,679	44,988	1,132	6,453	232,543
2013	85,775	42,291	73,902	47,593	103	6,438	256,102
2014	86,819	43,137	76,160	42,852	700	5,763	255,431
2015	86,583	44,487	75,984	51,940	1,132	8,535	268,661
2016	87,768	44,071	79,440	54,873	1,809	9,815	277,776
2017	83,021	45,734	81,522	53,187	2,674	11,686	277,824
2018	83,239	46,162	83,146	54,844	2,286	12,199 ⁽²⁾	281,876
2019	83,138	46,249	84,065	57,991	2,756	13,484	287,683
2020	77,285	42,494	76,965	72,500	10,377	8,334	287,955

⁽¹⁾ Miscellaneous Revenues include vehicle weight tax penalties, periodic motor vehicle inspection charges, and rents from State Highway System properties, commercial license fees, fines for illegal parking on bikeways and for the use of mobile electronic devices while driving, and other miscellaneous Revenues.

⁽²⁾ Excludes \$11 million recovery from settlement of litigation related to replacement of the Department’s financial reporting system previously reported as miscellaneous pledged revenues.

Source: Department of Transportation.

See “DEBT SERVICE COVERAGE” herein for a discussion of projected Revenues.

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THE DEPARTMENT OF TRANSPORTATION

Department Organization

The Department is one of 18 principal executive departments of the State. Chapter 26, HRS empowers the Department to establish, maintain and operate the transportation facilities of the State, including highways, airports, harbors and other transportation facilities. The Department's activities are carried out through three primary operating divisions: Airports, Harbors, and Highways.

Through the Highways Division (the "Highways Division"), the Department has general supervision of the management and maintenance of the State Highway System and the location, design and construction of new highways, roads and facilities. The Highways Division provides supervision to assure completion of State highway contracts in accordance with plans and specifications.

The Department also has administrative offices which are responsible for Department-wide administrative functions and multi-modal statewide transportation planning. See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION" attached hereto for additional information regarding the Department.

Department Management

The Department is headed by the Director, a single executive appointed by the Governor and confirmed by the State Senate. The Governor is authorized to appoint a First Deputy Director with Senate confirmation, and without State Senate confirmation, three additional Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms coterminous with the Governor's term.

The Highways Division is managed by the Deputy Director - Highways Division and the Highways Division Administrator. Each of the major islands is managed by a district manager. The district manager of the Maui District is responsible for three islands in the Maui District-Maui, Molokai and Lanai. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management and methods, standards and evaluation functions of the Highways Division. Other major functional operations within the Highways Division include the Motor Vehicle Safety Office, Planning Branch, Design Branch, Materials Testing and Research Branch, Construction and Maintenance Branch, Traffic Branch and Rights of Way Branch.

Management Personnel

The following are the senior executives of the Department responsible for the management of the State Highway System:

Jade T. Butay, Director, has served as Director of the Department of Transportation since 2017. Previously, Mr. Butay served as Department of Transportation Deputy Director for Administration at the from 2011 to 2013 and again from 2015 to 2017. Between his time serving as Deputy Director of Administration, Mr. Butay served as Deputy Director at the Department of Labor and Industrial Relations. Prior to commencing his service for State government, Mr. Butay served in various leadership positions in the private sector. He received a bachelor's degree in Business Administration from the University of Hawaii and Master of Business Administration degree from Babson College.

Edwin H. Sniffen, Deputy Director, assumed his position as Department of Transportation Deputy Director for Highways in January 2015. Mr. Sniffen previously served as the Executive Assistant to Honolulu Mayor Kirk Caldwell and was the Highways Division Administrator from 2010 to 2011. He has also served as the Technical Design Engineer in the Highways Division Design Branch and Director for the Kamehameha Schools' Capital Program Management Division. Mr. Sniffen is a Professional Engineer, having received his B.S. in Civil Engineering from Santa Clara University.

George G. Abcede, Administrator, assumed his position as Highways Administrator in October 2020. Mr. Abcede has been with the Department of Transportation since 1991. He first started with the Harbors Division as a civil engineer in the Construction Engineering Section and, later, in the Maintenance Engineering Section. Then in 1999 he joined the Highways Division's Oahu District. Mr. Abcede served as the district's Maintenance Engineer from 2001 to 2017, then as the District Engineer until October 2020. Prior to joining the Department of Transportation, Mr. Abcede worked as a project engineer in the construction industry and for Harding Lawson and Associates, a soils consulting firm. Mr. Abcede is a Professional Engineer, having received his B.S. in Civil Engineering from the University of Hawaii.

Tammy Lee, Esq., Administrative Services Officer, has served the Department of Transportation, Highways Division since 2019. Previously, Ms. Lee spent thirteen years with the Department of Transportation, Administration Division in the Civil Rights Office, as the Contracting Officer and as the Business Management Officer. Ms. Lee is a Hawaii-licensed attorney. She received her B.A. in Sociology from the University of Hawaii and her Juris Doctorate from Gonzaga Law School.

Employees

The Highways Division presently has approximately 1129 positions. State law grants public employees in the State, except those excluded from any appropriate bargaining unit, the right to organize for the purpose of collective bargaining. Each recognized bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer.

Substantially all of the Highways Division employees are represented by two labor unions representing five bargaining units as listed below.

- United Public Workers Local 646 ("UPW") (Unit 1 Blue collar employees)
- Hawaii Government Employees' Association, Local 152 ("HGEA") (Unit 2 Blue collar supervisors; Unit 3 white collar workers; Unit 4 white collar supervisors and Unit 13 professional and scientific employees).

The status of negotiations and awards for wages and health benefits for the period from July 1, 2019 to June 30, 2021, and for the period from July 1, 2021 to June 30, 2023, are as follows:

Unit 1 (blue collar workers): An agreement was ratified by UPW on August 14, 2017, covering the four-year period from July 1, 2017 through June 30, 2021. The last two years of the agreement provides for across the board increases of 2% on July 1, 2019 and 2% on July 1, 2020. An agreement for additional across the board increases of 1.2% January 1, 2020 and January 1, 2021 was ratified in April 2019. Initial proposals for a successor agreement were exchanged on September 30, 2020. No negotiation meetings are scheduled at this time.

Unit 2 (blue collar supervisors): The current contract expires June 30, 2021. The agreement was ratified by HGEA on October 24, 2019, providing for a \$2,000 lump sum payment for all employees on

July 1, 2019; across-the-board increases and/or step adjustments of 5.29% effective on July 1, 2020; and an across-the-board increase of 1.20% effective on January 1, 2021. The agreement also provides for adjustments to uniform allowances, and meal allowances. Funding for the agreement was approved by the county councils and State legislature, and the Governor signed the funding bill for the State into law. Initial proposals for a successor agreement were exchanged on June 30, 2020. No negotiation meetings are scheduled at this time.

Unit 3 (white collar workers): The current contract expires June 30, 2021. The agreement was ratified by HGEA on January 8, 2020, providing a \$2,800 lump sum payment for all employees July 1, 2019. The agreement also provides for a one-step adjustment for most employees or an equivalent lump sum payment for employees not eligible for the step adjustment on July 1, 2020. Also, on July 1, 2020, the lowest step on the salary schedule is being eliminated and the lowest five ranges of the salary schedule are to be increased 2% - 10.1%. Effective January 1, 2021, an across-the-board increase of 3.46% is provided. The agreement also provides for adjustments to standby pay and time off for certain instances of overtime worked. The agreement also provides for adjustment to uniform allowances and meal allowances. Funding for the agreement was approved by the county councils and State legislature, and the Governor signed the funding bill for the State into law. Initial proposals for a successor agreement were exchanged on June 30, 2020. No negotiation meetings are scheduled at this time.

Unit 4 (white collar supervisors): The current contract expires June 30, 2021. The agreement was ratified by HGEA on March 3, 2020, providing a 5.98% lump sum payment for all employees July 1, 2019. The agreement also provides for the elimination of the lowest step on the salary schedule and an across-the-board increase of 3.60% effective July 1, 2020. Effective January 1, 2021, an across-the-board increase of 3.74% is provided. The agreement also provides for adjustments to standby pay and time off for certain instances of overtime worked. Funding for the agreement was approved by the county councils and State legislature, and the Governor signed the funding bill for the State into law. Initial proposals for a successor agreement were exchanged on June 30, 2020. No negotiation meetings are scheduled at this time.

Unit 13 (professional and scientific employees): The current contract expires June 30, 2021. The agreement was ratified by HGEA on October 11, 2019, providing for across-the-board increases of 2.15% effective July 1, 2019 and 2.03% effective July 1, 2020, step movements for eligible employees, and a \$750 lump sum payment each year for employees not eligible for step movements during the contract. The agreement also provides for adjustments to standby pay, uniform allowances, meal allowances, and time off for certain instances of overtime worked. Funding for the agreement was approved by the county councils and State legislature, and the Governor signed the funding bill for the State into law. Initial proposals for a successor agreement were exchanged on June 30, 2020. No negotiation meetings are scheduled at this time.

Employee Benefits

Employees' Retirement System. This section contains certain information relating to the Employees' Retirement System of the State (the "Retirement System" or "ERS"). The information contained in this section is primarily derived from information produced by the Retirement System, its independent accountant and its actuary. None of the State, the Department or the Highways Division has independently verified the information provided by the Retirement System, its independent accountant or its actuary, and such entities make no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the Retirement System and most recent valuation report of the Retirement System may be obtained by contacting the Retirement System. The comprehensive annual financial reports of the Retirement System are also available on the State's website at <http://portal.hawaii.gov/>, and other information about the Retirement System are available on the Retirement System's website at <http://ers.hawaii.gov/>. Such documents and other information are not

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

Employee benefits for employees of the Highways Division are an operating expense of the Highways Division. All full-time employees of the Department are required to participate in the Retirement System and are also entitled to health care and life insurance benefits afforded to all State employees. Department employees hired after June 30, 1984 participate in a non-contributory retirement plan. Employees hired before that date were given the option of remaining in a contributory retirement plan or joining the new non-contributory plan.

Effective July 1, 2006, the State implemented a new hybrid retirement plan. Members of the contributory and noncontributory plans were eligible to elect to transfer to the hybrid plan and all new employees hired on or after July 1, 2006, become members of the hybrid plan. Under the hybrid retirement plan, employees will receive a benefit multiplier of 2 percent for each year of credited service in the hybrid plan, but must contribute 6 percent of gross pay to this plan, while under the non-contributory retirement plan, employees receive a benefit multiplier of 1.25 percent and do not contribute any funds to the plan.

Legislation enacted in 2011 (Act 163, SLH 2011) changed the pension benefit structure for new employees that reduces the long-term cost to the ERS and provides an acceptable retirement package. All new employees will be affected by new requirements. This across the board revision effective for new hires after June 30, 2012 changes the employee contribution rate, retirement age, vesting period, average final compensation pick up, pension multiplier and post retirement increases. Provisions for interest rate credited to a member's contributions are effective for new hires after June 30, 2011.

Act 163, SLH 2011, also reduced the investment yield rate assumption for Fiscal Year 2011 from 8 percent to 7.75 percent and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the Retirement System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the Retirement System, the Board of Trustees adopted the assumption recommendations set forth in the Actuarial Experience Study for the five year period ended June 30, 2015, including setting the investment yield rate assumption at 7 percent. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012, and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

The Highways Division's pension contribution to the ERS for fiscal years 2018, 2019 and 2020 were approximately \$9,169,000, \$9,689,000 and \$11,213,000, respectively, and represented 100% of the required contribution for each year. Act 17, SLH 2017, which became effective July 1, 2017, increased employer contribution requirements as follows:

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

The total assets of the Retirement System on a market value basis amounted to approximately \$14.1 billion as of June 30, 2016, \$15.7 billion as of June 30, 2017, \$16.6 billion as of June 30, 2018, \$17.2 billion as of June 30, 2019, and \$17.3 billion as of June 30, 2020. The actuarial certification of assets was, \$15.0 billion as of June 30, 2016, \$15.7 billion as of June 30, 2017, \$16.5 billion as of June 30, 2018, \$17.3 billion as of June 30, 2019 and \$18.1 billion as of June 30, 2020. As of June 30, 2020, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the Retirement System amounted to approximately \$14.607 billion. Measurement of assets and actuarial valuations are made for the Retirement System as a whole and are not separately computed for individual participating employers such as the Highways Division.

The State anticipates that as the percentage of employees hired on and after July 1, 2012 increases, and increases in the employer contribution rates required by Act 17, SLH 2017, impact the Retirement System, the State will be able to fully amortize the UAAL over a 26-year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in Fiscal Year 2023. The combination of the higher contribution policies and new benefit structure for future employees should enable the Retirement System to absorb the prior adverse experience and the revised actuarial assumptions over the 26-year term.

Other Post-Employment Benefits. In addition to pension benefits, state and local governments are required to account for and report other post-employment benefits (“OPEBs”) under Governmental Accounting Standards Board Statement No. 75 (“GASB 75”) which was effective for fiscal years beginning July 1, 2016 and 2017. The State of Hawaii Public Employer-Union Health Benefit Trust Fund (the “Trust Fund”) provides OPEBs in the form of certain health and life insurance benefits to retired State and county employees, including retired Highways Division employees. Employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on employees’ hiring dates and years of service.

The State has received the Trust Fund July 1, 2020 Actuarial Valuation Report (the “Trust Fund Report”) and the GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions report (the “GASB 75 Report”) prepared for fiscal year ending June 30, 2020 of the Trust Fund’s OPEB liabilities. The Trust Fund and the GASB 75 Reports were prepared by the State’s professional actuarial advisors, Gabriel Roeder Smith & Company. The Trust Fund Report quantifies the Actuarial Accrued Liabilities (“AAL”) of the respective employers under GASB 75 and develops the Annual Required Contributions (“ARC”). The GASB 75 Report complements the Trust Fund Report and the calculation of the OPEB Trust liability for this report is not applicable for funding purposes of the OPEB Trust.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with prefunding of the ARC and a discount rate of 7%. The Trust Fund Report states that the State’s unfunded AAL as of July 1, 2020 is \$8,901.7 million. The corresponding ARC for the fiscal years ending June 30, 2021 and 2022 are \$842.5 million and \$877.2 million, respectively, of which 77% is an expense of the General Fund and 23% is to be paid from non-general funds of the State. The Trust Fund Report estimates the “pay-as-you-

go” funding amounts for fiscal years ending June 30, 2021 and 2022 are \$434.2 million and \$464.1 million, respectively.

In the past, the State funded its OPEB costs on a “pay-as-you-go” basis; however, the State began the process of pre-funding its OPEB costs with contributions in the amount of \$100 million for fiscal year ending June 30, 2014. The State has met its pre-funding OPEB contribution in accordance with Act 268, SLH 2013 (Act 268) for the fiscal years ending June 30, 2015, 2016, 2017, 2018, 2019 and 2020 with actual contributions of \$117.4 million (versus the \$83.0 million Act 268 required 2015 contribution), \$249.8 million (versus the \$163.6 million Act 268 required 2016 contribution), \$333.0 million (versus the \$230.2 million Act 268 required 2017 contribution) and \$337.1 million (versus the \$297.063 million Act 268 required 2018 contribution), and \$787.1 million (the Act 268 required 2019 contribution), and \$814.7 million (the Act 268 required 2020 contribution) respectively.

Act 268 provided that if the State public employer contributions into the fund are less than the amount of the annual required contribution commencing with the Fiscal Year 2019, general excise tax revenues will be used to supplement State public employer contribution amounts. If the county public employer contributions into the fund are less than the amount of the annual required contribution commencing with the Fiscal Year 2019, transient accommodations tax revenues will be used to supplement county public employer contribution amounts. This statute also required the Director of Finance to report to the Legislature on an implementation plan to have both the Trust Fund and the ERS jointly sharing investment information and services for the benefit of the Trust Fund.

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

**Hawaii EUTF Contributions
Fiscal Years 2014 — 2022**

Fiscal Year	ARC	Benefit Payment⁽¹⁾	UAAL Prefunding Balance	Act 268 Prefunding Requirement %	Act 268 Prefunding Requirement \$	Total Prefunding Contribution⁽²⁾	Total Requirement
2014	\$692,622,000	\$281,584,000	\$411,038,000	N/A	N/A	\$100,000,000	\$ N/A
2015	717,689,000	302,738,000	414,951,000	20%	\$82,990,000	117,400,000	N/A
2016	742,808,000	333,770,000	409,038,000	40%	163,615,000	249,827,434	N/A
2017	744,248,000	360,606,000	383,642,000	60%	230,185,000	333,049,894	N/A
2018	770,297,000	357,026,000	413,271,000	80%	297,063,000	337,129,000	N/A
2019	787,110,000	373,349,000	413,761,000	100%	787,110,000	787,110,000	787,110,000
2020 ⁽²⁾	814,659,000	409,165,000	405,494,000	100%	814,659,000	814,659,000	814,659,000
2021 ⁽²⁾	842,456,000	454,027,000	388,429,000	100%	842,456,000	--	--
2022 ⁽²⁾	877,193,000	495,481,000	381,712,000	100%	877,193,000	--	--

⁽¹⁾ Gabriel Roeder Smith & Company projections.

⁽²⁾ Fiscal years 2014, 2015, 2016, 2017, 2018 and 2019 are actual, and 2020, 2021, and 2022 are projected based on the 2019 Trust Fund Report and included in the State’s General Fund Financial Plan. The Act 268 requirement for 100% ARC payment was suspended effective July 17, 2020.

Measurement of the actuarial valuation and the ARC for OPEB costs are made for the State as a whole and are not separately computed for the individual State departments. The State allocates the ARC to the various departments and agencies. The Highways Division's share of the State's OPEB costs for fiscal years 2018, 2019 and 2020 were approximately \$19,354,000, \$26,636,100 and \$22,377,000, respectively, representing 100% of the required contribution.

The market value of the State's OPEB assets amounted to \$3.74 billion as of June 30, 2020. This valuation results in a funded ratio of 25.3% based on the State's AAL as of July 1, 2020, or \$11.5 million. Investment return net of fees on OPEB assets during fiscal year 2020 is estimated to be 1.8% versus the assumed 7%. On July 17, 2020, Governor David Ige issued a Tenth Proclamation Related to the COVID-19 Emergency which suspended the Act 268 UAAL prefunding payments for all public employers starting in fiscal year 2021 in order to help address budget shortfalls resulting from the impacts of the COVID-19 pandemic. As a result, the employers are required to only contribute their share of the monthly "pay-as-you-go" health benefit premiums and claims expenses for the fiscal year ending June 30, 2021.

Future fiscal years' suspensions will be through legislation proposed during the 2021 session. The duration of the suspensions is currently planned for the period from fiscal years 2021 through fiscal year 2022-2023 but this proposal is subject to change. This planned suspension currently is not expected to affect the funding of the Retirement System.

The State's current practice is to assess all departments, including the Department, a fixed percentage of non-general fund payroll to cover all fringe benefits, including the employer's share of social security tax, Medicare, retirement benefits for both employees and retirees, the employees' health fund and OPEB cost. The fringe benefit rate was 59.08% of covered payroll for fiscal year 2018 and the interim fringe benefit rates for fiscal year 2019, 2020 and 2021 were 60.08%, 63.08%, and 50.75% respectively. The decrease in fiscal year 2021 is primarily due to suspension of pre-funding of OPEB costs in fiscal year 2021.

CAPITAL IMPROVEMENT PROGRAM

General

In every odd-numbered year the Department prepares for the Governor's approval a capital improvements budget request for the next two fiscal years, including ongoing and proposed State Highway System capital improvement projects which the Department proposes to undertake during that period. After the Governor's decision is made, the succeeding two fiscal years' capital improvement projects for the State Highway System are submitted to the Legislature as a part of the Administration's executive biennium budget. The Legislature considers the executive biennium budget request and may authorize it with or without amendments. Subsequently, in every even-numbered year, the Department may propose amendments to the executive biennium budget for presentation to the Governor for approval and to the Legislature for authorization.

Authorization of a capital improvement project by the Legislature as a part of the executive biennium budget includes the appropriation of moneys from a designated source to pay for that project. The Legislature only appropriates funding for a two-year period, which typically lapses a year after the end of the second year of the biennium. An appropriation of state funds to match federal funds typically lapses five years after the end of the second year of the biennium. If additional appropriation to complete a project is required beyond existing levels or beyond lapse dates, the appropriation would typically need to be approved by a subsequent Legislature.

The Legislature can appropriate funds for the State Highway System capital improvement projects from six sources: bonds (either general obligation bonds, reimbursable general obligation bonds or revenue bonds), federal funds, the State general fund, special funds, other funds and private contributions (such as private development impact fees). The Legislature also authorizes the issuance of bonds to fund the appropriation for which bond funds are designated as the source for payment of a capital improvement project.

The Department prepares a four-year multimodal transportation improvement program for U.S. Department of Transportation review and approval and includes two illustrative years beyond the four approved years, to exhibit upcoming efforts. This program, called the Statewide Transportation Improvement Program (“STIP” or the “Program”), includes all projects for which the Department plans to request federal aid during the four-year period, as well as regionally significant projects. See Appendix B - “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION” attached hereto for additional information regarding the STIP.

The Program includes many capital improvement projects still in the preliminary stage. As the Program is continuously developed and revised, the individual capital improvement projects included in the Program undergo changes in priority, timing and cost. The current Program for fiscal years 2019 through 2022 provides authorization for completion of previously approved capital improvement projects, new capital improvement projects, and certain additional capital improvement projects which have not yet been authorized.

The STIP consists of separate capital improvement projects on the six major islands of the State. From the first year of issuance of Highway Revenue Bonds in 1993 through the 2020 legislative session, the Legislature has appropriated a total of \$8.15 billion, excluding lapses, for the planning, design, and acquisition and construction of projects.

Program Financing Summary

The Governor and the Legislature have approved the funding sources for all appropriations made in prior fiscal years. Of the \$8.15 billion appropriated from 1993 through the 2020 legislative session, excluding lapses, the Department has been authorized to finance approximately \$4.28 billion with federal funds, \$17 million of which consisted of American Recovery and Reinvestment Act of 2009 (“ARRA”) funds, approximately \$452 million with available State Highway funds, approximately \$25 million with the proceeds from general obligation bonds, approximately \$100 million with the proceeds from general obligation bond funds with debt service cost to be paid from special funds, approximately \$3.22 billion with the proceeds from the sale of revenue bonds, and approximately \$69 million with other funds.

The Department has previously received federal funds for surface transportation projects under the Intermodal Surface Transportation Efficiency Act of 1991, the Transportation Equity Act for the 21st Century of 1998, and the 2005 Safe, Accountable, Efficient Transportation Equity Act: a Legacy for Users (“SAFETEA-LU”), which authorized federal surface transportation programs for highways, highway safety, and transit for the five-year period from 2005 to 2009. Following the September 2009 expiration of SAFETEA-LU, federal fiscal years 2010 through 2012 were funded under continuing resolutions provided by the Surface Transportation Extension Act. In 2013 and 2014, the Department received obligation authority under the Moving Ahead for Progress in the 21st Century Act (“MAP-21”) in the amount of \$169.8 million (includes \$17 million of redistribution) and \$154.5 million respectively. In 2015, MAP-21 was extended and the Department received \$154.4 million (includes \$3.1 million of redistribution).

On December 4, 2015, the Fixing America’s Surface Transportation (“FAST”) Act was authorized to provide federal funds for federal fiscal years 2016 to 2020. The \$222.25 billion in spending authority for highways from the National Highway Trust Fund over the life of the bill yields a \$37.9 billion increase above the prior levels of highway investment, plus inflation. Specifically, the measure increased highway investment by 15% in fiscal year 2016, with modest increases in subsequent years. In addition to the State’s share of funding provided under these acts, the Department also received \$125.7 million under the ARRA.

Since the FAST Act expired at the end of fiscal year 2020, Congress passed a 1-year FAST Act extension until September 30, 2021 that provides \$162,316,087 in spending authority to the State. In addition to this, the State received an additional \$41,970,798 from Title IV of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (“CRRSAA”). A portion of the \$41,970,798 received from the CRRSAA was used by the Department to reimburse itself for revenue expended to pay debt service on outstanding Highway Revenue Bonds. The Department anticipates using the reimbursed monies and the remainder of the CRRSAA monies for various capital projects and for working capital.

Prior to 1993, the Department financed a major portion of the State’s share of the cost of capital improvement projects using reimbursable general obligation bonds. The Department is required to reimburse the State general fund for the payment of the principal of and interest on such bonds. The Department has approximately \$90,000 of reimbursable general obligation bonds outstanding and has a single \$100 million appropriation authorized in the 2020 legislative session for the widening of Farrington Highway from the Kapolei Golf Course to Fort Weaver Road.

Beginning in 1993, the State determined to finance the Program by issuing revenue bonds secured by the Pledged Funds rather than by issuing reimbursable general obligation bonds. As of May 1, 2021, there was \$400,790,000 aggregate principal amount of such bonds outstanding. The State, acting by and through the Department, expects to issue \$23,130,000 aggregate principal amount of Series 2019 B Bonds on or about October 7, 2021.

The Department has expended over \$931 million since fiscal year 2016 on capital improvements. Of the \$931 million, approximately 72% came from federal funding, with the remaining portion coming from the issuance of Highway Revenue Bonds and monies in the State Highway Fund. Nearly 48% of the \$931 million were designated for projects on Oahu. The following table illustrates capital improvements spending from fiscal year 2016:

Capital Improvement Program Expenditures (Fiscal Year 2016 to Fiscal Year 2020)

Fiscal Year	Branches⁽¹⁾	Oahu	Maui	Hawaii	Kauai	Total
2016	\$25,378,707	\$69,943,298	\$17,263,156	\$39,236,385	\$11,306,675	\$163,128,221
2017	35,420,710	64,281,331	14,102,379	34,672,805	5,840,957	154,318,182
2018	46,940,925	81,519,026	5,429,989	65,882,449	12,251,313	212,023,702
2019	38,356,478	125,795,292	8,292,219	23,221,532	32,342,533	228,008,054
2020	27,051,439	104,035,047	10,750,529	5,530,856	26,568,449	174,005,903 ⁽²⁾

⁽¹⁾ Staff Services, Design, Planning, Traffic, Materials Testing, Construction & Maintenance.

⁽²⁾ \$69,582 other expenditures included (Kauai Police Department and Maui Police Department).

DEBT SERVICE COVERAGE

Projected Revenues

The Department's current forecast of Revenues, as defined in the Certificate, assumes that future Revenues will grow at a lower rate than the historical growth.

The actual Revenues which will be collected and deposited into the State Highway Fund may vary from this projection because of fluctuating economic conditions, the impact and duration of the COVID-19 pandemic, changes by the Legislature in the laws governing the Pledged User Taxes and other variables affecting Revenues. Such variances could be material.

Projected Revenues Fiscal Years Ending June 30, 2021 through 2027 (\$ in thousands)

Pledged User Taxes

<u>Fiscal Year</u>	<u>Fuel Taxes</u>	<u>Registration Fees</u>	<u>Weight Taxes</u>	<u>Rental/Tour Vehicle Surcharge⁽¹⁾</u>	<u>Interest</u>	<u>Misc.⁽²⁾</u>	<u>Total Revenues</u>	<u>% Increase/ (Decrease) in Total Revenue</u>
2021	\$68,011	\$42,707	\$77,349	\$26,100	\$5,106	\$8,334	\$227,607	(21.0)%
2022	70,550	43,611	79,539	70,560	2,500	6,345	273,106	20.0
2023	74,700	44,516	81,729	88,320	2,513	6,680	298,457	9.3
2024	78,850	45,420	83,919	114,000	2,525	7,002	331,716	11.1
2025	83,000	46,324	86,109	129,600	2,538	7,535	355,106	7.1
2026	83,000	46,556	86,540	139,896	2,550	7,563	366,105	3.1
2027	83,000	46,789	86,972	149,544	2,563	7,592	376,461	2.8

⁽¹⁾ Reflects HB 485 passed by the State Legislature (currently awaiting approval by the Governor), which increases the rental motor vehicle surcharge by \$0.50 each year from January 1, 2022 through December 31, 2027 for a total increase of \$3 per day (from \$5 per day to \$8 per day), to be collected and deposited into the State Highway Fund.

⁽²⁾ Miscellaneous Revenues include vehicle weight tax penalties, periodic motor vehicle inspection charges, rents from State Highway System properties, commercial license fees, fines for illegal parking on bikeways and for the use of mobile electronic devices while driving, other miscellaneous Revenues, and beginning July 1, 2019 pursuant to Act 215, SLH 2019, fines for parking violations on State highways known as the State Highway Enforcement Program.

Source: Department of Transportation.

Debt Service Requirements for the Bonds

The following table sets forth the principal and interest requirements for the Series 2021 Bonds and the Outstanding Bonds:

<u>Fiscal Year</u>	<u>Outstanding Bonds Debt Service⁽¹⁾</u>	Revenue Bond Debt Service			<u>Combined Debt Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2021	\$51,077,475	-	-	-	\$51,077,475
2022	46,827,181	-	\$3,849,363	\$3,849,363	50,676,544
2023	45,299,525	-	6,860,250	6,860,250	52,159,775
2024	45,304,300	-	6,860,250	6,860,250	52,164,550
2025	44,956,850	-	6,860,250	6,860,250	51,817,100
2026	44,951,100	-	6,860,250	6,860,250	51,811,350
2027	40,790,700	\$3,720,000	6,860,250	10,580,250	51,370,950
2028	40,799,450	3,900,000	6,674,250	10,574,250	51,373,700
2029	40,796,700	4,095,000	6,479,250	10,574,250	51,370,950
2030	31,969,450	130,000	6,274,500	6,404,500	38,373,950
2031	32,430,200	-	6,268,000	6,268,000	38,698,200
2032	32,435,100	-	6,268,000	6,268,000	38,703,100
2033	23,207,400	7,895,000	6,268,000	14,163,000	37,370,400
2034	23,208,400	8,290,000	5,873,250	14,163,250	37,371,650
2035	14,877,850	17,035,000	5,458,750	22,493,750	37,371,600
2036	14,875,350	17,890,000	4,607,000	22,497,000	37,372,350
2037	6,983,250	12,175,000	3,712,500	15,887,500	22,870,750
2038	6,986,000	12,780,000	3,103,750	15,883,750	22,869,750
2039	6,984,250	13,420,000	2,464,750	15,884,750	22,869,000
2040	6,982,500	14,095,000	1,793,750	15,888,750	22,871,250
2041	-	21,780,000	1,089,000	22,869,000	22,869,000
TOTAL	\$601,743,031	\$137,205,000	\$104,485,363	\$241,690,363	\$843,433,394

⁽¹⁾ Excludes debt service on Series 2019 B Bonds anticipated to be issued on October 7, 2021 and includes debt service on certain maturities of the Series 2011 A Bonds expected to be refunded with the proceeds of the Series 2019 B Bonds.

Source: Department of Transportation.

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Historical and Projected Debt Service Coverage

The following table entitled “Historical and Projected Debt Service Coverage” sets forth historical and projected debt service coverage for fiscal years ending June 30, 2014 through 2027. Revenues for the fiscal years ending June 30, 2014 through 2020 are based on actual Revenues for such fiscal years; projected Revenues for present and future fiscal years are based on the Department’s projections identified in the table as “Pledged Revenues.” The Department has exceeded the minimum debt service coverage requirement of 2.0 over the previous twelve (12) consecutive calendar month’s period out of the last eighteen (18) consecutive calendar month’s period, a prerequisite to the issuance of the Series 2021 Bonds.

Historical and Projected Debt Service Coverage (Total Debt Service Supported by Highway Revenue)

<u>Fiscal Year</u>	<u>Pledged Revenues⁽¹⁾</u>	<u>Outstanding Revenue Bond Debt Service⁽²⁾</u>	<u>Series 2021 Bond Debt Service</u>	<u>Aggregate Revenue Bond Debt Service</u>	<u>Future Highway Revenue Bonds⁽³⁾</u>	<u>Aggregate Revenue Bond Debt Service (Including Future Bonds)</u>	<u>Coverage (Revenue Bonds)⁽⁴⁾</u>	<u>GO (R) Bonds Debt Service⁽⁵⁾</u>	<u>Aggregate Debt Service⁽⁶⁾</u>
2014	\$255,431,000	\$47,861,010	-	\$47,861,010	-	\$47,861,010	5.34x	\$4,008,495	\$51,869,505
2015	268,661,000	51,292,044	-	51,292,044	-	51,292,044	5.24x	3,762,555	55,054,599
2016	277,776,000	55,490,565	-	55,490,565	-	55,490,565	5.01x	2,329,822	57,820,387
2017	277,824,000	57,109,829	-	57,109,829	-	57,109,829	4.86x	2,942,647	60,052,476
2018	281,876,000	61,950,548	-	61,950,548	-	61,950,548	4.55x	-	61,950,548
2019	287,683,000	62,033,794	-	62,033,794	-	62,033,794	4.64x	-	62,033,794
2020	287,955,000	47,475,175	-	47,475,175	-	47,475,175	6.07x	-	47,475,175
2021	227,607,000	51,077,475	-	51,077,475	-	51,077,475	4.46x	-	51,077,475
2022	273,106,000	46,774,569	\$3,849,363	50,623,931	-	50,623,931	5.39x	1,804,073	52,428,005
2023	298,457,000	44,506,175	6,860,250	51,366,425	-	51,366,425	5.81x	5,550,098	56,916,523
2024	331,716,000	44,623,950	6,860,250	51,484,200	\$2,978,406	54,462,606	6.09x	7,496,775	61,959,381
2025	355,106,000	44,280,500	6,860,250	51,140,750	5,305,950	56,446,700	6.29x	7,497,525	63,944,225
2026	366,105,000	44,279,250	6,860,250	51,139,500	5,306,150	56,445,650	6.49x	7,492,675	63,938,325
2027	376,461,000	40,733,850	10,580,250	51,314,100	5,304,400	56,618,500	6.65x	7,496,425	64,114,925

⁽¹⁾ Reflects \$2 increase of rental motor vehicle surcharge effective on July 1, 2019 and reflects HB 485 passed by the State Legislature (currently awaiting approval by the Governor), which increases the rental motor vehicle surcharge by \$0.50 each year from January 1, 2022 through December 31, 2027 for a total increase of \$3 per day (from \$5 per day to \$8 per day), to be collected and deposited into the State Highway Fund.

⁽²⁾ Includes debt service on Series 2019 B Bonds anticipated to be issued on October 7, 2021 and excludes debt service on certain maturities of the Series 2011 A Bonds expected to be refunded with the proceeds of the Series 2019 B Bonds.

⁽³⁾ Assumes issuance of Highway Revenue Bonds in FY 2023 for \$80 million of projects.

⁽⁴⁾ Pledged Revenues and Debt Service Coverage projected for FY 2021 - FY 2027.

⁽⁵⁾ Assumes \$100 million of Reimbursable General Obligation Bonds spent in FY 2022 and FY 2023 with a 20-year level debt service amortization.

⁽⁶⁾ Totals may not add due to rounding.

Source: Department of Transportation.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The following table presents the operating results of the State Highway System for the fiscal years ended June 30, 2017, June 30, 2018, June 30, 2019 and June 30, 2020, including a summary of the Revenues available to pay Debt Service.

Fiscal Year Ended June 30,*				
Revenues	2017	2018	2019	2020
Federal Grants and Aid	\$37,647,148	\$23,612,565	\$63,084,621	\$48,440,219
Fuel Taxes	83,020,652	83,238,531	83,138,227	77,285,432
Rental and Tour Vehicle Surcharge Taxes	53,186,793	54,844,033	57,991,335	72,500,091
Vehicle Weight Taxes	81,521,921	83,145,442	84,064,866	76,964,482
Vehicle Registration Fees	45,734,122	46,162,181	46,248,553	42,494,220
Other	14,360,790	25,485,383	16,239,685	18,710,972
Transfer from State General Fund	37,000,000	-	23,692,530	12,005,823
Total Revenues	\$352,471,425	\$316,488,135	\$374,459,817	\$348,401,239
Expenditures	2017	2018	2019	2020
Operations and Maintenance	\$215,739,927	\$189,576,788	\$263,482,850	\$232,382,710
Highways Administration	23,553,365	20,433,631	23,528,792	21,865,389
Debt Service	71,556,289	69,198,749	47,234,838	49,366,800
Departmental Expenditures	10,028,814	10,494,289	11,770,871	13,044,591
Total Expenditures	\$320,878,395	\$289,703,457	\$319,017,350	\$316,659,490
Operating Income	\$31,595,047	\$26,784,678	\$55,442,467	\$31,741,749
Total Revenues Available for Debt Service	\$314,826,294	\$292,875,570	\$311,375,196	\$299,961,020

* Totals may not add due to rounding.

Other Department Initiatives

Capacity Building Program. One of the Department's capital improvement priority initiatives is to add capacity within existing Highway rights of way where possible. With the legislative authorization provided under Act 174, SLH 2019 to increase the Rental Motor Vehicle Surcharge tax by an additional \$2.00 per vehicle per day, effective July 1, 2019, generation of approximately \$33 million a year in additional revenues was anticipated; however, collection was severely diminished due to the COVID-19 pandemic beginning in the first quarter of calendar 2020. Program adjustment was thus required, which entailed reducing the number of projects which could proceed to construction from four to two, as well as deferring the start of others. The two projects mentioned below are currently in the design stage with construction contracts to be advertised in fiscal year 2022.

Oahu – Interstate Route H-1 East Bound Improvements, Ola Lane Overpass to Likelike Off-ramp
 Maui – Puunene Avenue Improvements, Kamehameha Avenue to Kuihelani Highway

Road Usage Charge. The Department is currently undertaking the Hawaii Road Usage Charge (“HiRUC”) demonstration project to determine the feasibility of implementing a road use charge (“RUC”) or similar method of charging users of the State Highway System based on vehicular road usage in lieu of fuel taxes, in response to an observed decrease in gasoline tax revenues. The Department conducted a feasibility study for a demonstration project in 2016 and later obtained a \$3.998 million FAST Act Grant to implement the HiRUC project as a 3-year pilot program to raise public awareness of transportation funding and to provide State residents an opportunity for a free “test-drive” of a per-mile fee system. This project started in 2018 and is anticipated to be completed in early 2022.

Beginning in late 2019 and continuing for a 12-month period, the Department will mail driving reports covering approximately 500,000 vehicles to the owners of registered passenger cars and light duty trucks in the State to show approximately how much state fuel tax they may have paid based on the previous year’s mileage between annual vehicle safety checks, and how much road usage charge they could pay if a road usage charge is implemented in the State. In 2020 the Department recruited approximately 2,000 volunteers to track the number of miles driven using an electronic device for a 9-month period, as is done under a program in Oregon.

The State is a participant in the Western Road Usage Charge Consortium, a multi-state organization created to research various issues related to RUC. The State and other states have utilized this consortium as a way to pool and leverage resources for an efficient way to advance knowledge of RUC.

Bridge Safety Program. The Highways Division is responsible for the inspection of all public highway bridges within the State, except for federally owned bridges. The Highways Division is also responsible for maintaining the functional and structural integrity of its bridges on all State highways.

There are 1,172 total bridges on state and county roadways in the State, of which 530 structures are on the National Highway System. In 2019, 97.7% of the Bridges on the National Highway System were classified as either in good or in fair condition. The ultimate goal of the bridge program is to provide a safe and well-maintained bridge system for the travelling public. The majority of bridges in the State are over 50 years old. In comparison, the average bridge-structure age of bridges nationwide is 40 years. The Highways Division is implementing its federally funded bridge program to provide for the replacement and rehabilitation of its state bridges.

Energy Saving Contract for Street Lighting. The Department has demonstrated its commitment to sustainability in 2015, by entering into an energy savings performance contract with Johnson Controls, Inc. intended to reduce annual energy use by an estimated 43.4 percent. Under this contract, 24,024 highway and tunnel lights in the highway systems on Oahu and Maui were replaced with energy-efficient lighting solutions.

This initiative is part of the Highways Energy Savings Program and supports the State’s commitment to the Performance Contracting Accelerator Program, part of the U.S. Department of Energy’s Better Buildings Initiative. The contract makes a significant contribution to energy efficiency and economic value by providing \$126 million guaranteed savings in energy costs over the eighteen-year performance period. The contract includes continuous monitoring capabilities that will enable the Highways Division to instantly identify when power is cut to an area, and smart controls that enable dimmable options. See <https://hidot.hawaii.gov/blog/2016/03/29/hdot-advances-sustainability-mission-and-improves-safety-with-enhanced-lighting-solutions/> for additional information.

Autonomous Vehicles. Recognizing that autonomous vehicles are a transformative technology that will be deployed globally, the State government is taking steps to implement a testing program to bring the

technology to the State. The Department is in the process of creating administrative rules that will formally allow testing of autonomous vehicles through the issuance of a permit.

In collaboration with staff from the City and County of Honolulu, the Department, and the University of Hawaii, the Connected Autonomous Vehicle committee is creating a strategic plan that will allow the seamless integration of autonomous vehicles into the State's roadways. Key elements of the plan take into consideration public policy, public education, public outreach, infrastructure, workforce requirements, testing, and early deployment. The plan outlines several transportation services programs and connected infrastructure programs that are almost ready to be implemented. With the plan, the Department envisions full deployment of its autonomous fleet and connected infrastructure by year 2025 and the wide scale integration of autonomous vehicles statewide by 2030. The testing of autonomous vehicles features will be conducted on State roads shortly. As a beginning effort, the Department of Transportation has started converting its fleet with Electric Vehicles through a service contract that provides for the electric vehicle and charging infrastructure on a usage fee basis. All costs, including maintenance costs will be included in the usage fee.

Projected Capital Borrowing

In addition to the issuance of the Series 2021 Bonds, the State, acting by and through the Department, contemplates issuing approximately \$80 million in Highway Revenue Bonds in calendar year 2023.

CERTAIN INVESTMENT CONSIDERATIONS

The Series 2021 Bonds may not be suitable for all investors. Prospective purchasers of the Series 2021 Bonds should give careful consideration to the information set forth in this Official Statement, including, in particular, the matters referred to in the following summary and above under the heading "IMPACT OF THE COVID-19 PANDEMIC ON THE STATE AND THE STATE HIGHWAY SYSTEM". However, the following summary does not purport to be a comprehensive or exhaustive discussion of risks or other considerations which may be relevant to investing in the Series 2021 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other considerations not discussed herein will not become material in the future. **The risks to the State Highway System related to COVID-19, although not purported to be a comprehensive or exhaustive discussion, can be found above under the heading "IMPACT OF THE COVID-19 PANDEMIC ON THE STATE AND THE STATE HIGHWAY SYSTEM."** The risks below present a summary of additional risks to the State Highway System and Revenues, not related to COVID-19, that prospective purchasers of the Series 2021 Bonds should give careful consideration to prior to purchasing the Series 2021 Bonds.

COVID-19

See "IMPACT OF THE COVID-19 PANDEMIC ON THE STATE AND THE STATE HIGHWAY SYSTEM" above for risks associated with the Series 2021 Bonds and the State Highway System resulting from the COVID-19 pandemic.

Future outbreaks of highly contagious or infectious disease may have an adverse effect on the State Highway System operations, expenses or operating revenues.

External Conditions Affecting Revenues

A significant portion of the State Highway System Revenues is dependent on a number of economic, demographic and environmental factors. The amount of Pledged User Taxes deposited into the State Highway Fund may fluctuate based on, among other things, the condition of the State and national economies, population growth, income and employment levels, levels of tourism, weather conditions, environmental regulation, State and county regulation (including regulations impacting eligibility for motor vehicle registration), fuel prices, road conditions, the availability of alternate modes of transportation, and the development of alternative fuel vehicles and more fuel efficient vehicles. There can be no assurance that downturns in any of the numerous factors affecting these revenues will not materially adversely affect the future levels of Pledged User Taxes deposited into the State Highway Fund.

Climate Change Issues

Climate change concerns have led, and may continue to lead, to new laws and regulations at the federal and state levels that could have a material adverse effect on the operations of the State Highway System.

On June 7, 2017 Governor Ige signed Act 32 Session Laws of Hawai'i, 2017 (the "Climate Change Act") into law, which, among other things, renamed the Interagency Climate Adaptation Committee as the Hawaii Climate Change Mitigation and Adaptation Commission (the "Climate Commission"), clarified and expanded the duties of the Climate Commission and made Hawai'i the first state to enact legislation implementing parts of the Paris climate accord. The Climate Change Act anticipates that the Climate Commission will provide direction, facilitation, coordination and planning among state and county agencies, federal agencies, and other partners about climate change mitigation (reduction of greenhouse gases) and climate change resiliency strategies, including, but not limited to, sea level rise adaptation, water and agricultural security, and natural resource conservation. The Fifth Assessment Report by the Intergovernmental Panel on Climate Change (the "IPCC Report"), predicted that if greenhouse gas ("GHG") continue at the then-current (2014) rate of increase, there would be 3.2 feet of global sea level rise by the year 2100. Based upon the IPCC Report, other federal research, and additional scientific literature the Climate Commission prepared the State of Hawaii's 2017 Hawaii Sea Level Rise Vulnerability and Adaptation Report (the "2017 Climate Report") which is available at https://climateadaptation.hawaii.gov/wp-content/uploads/2017/12/SLR-Report_Dec2017.pdf.

The 2017 Climate Report includes descriptions of the anticipated Sea Level Rise Exposure Areas that would be impacted by 1.0, 2.0 and 3.2 feet of sea level rise, and estimates of impacts on private property in the State and on the State's public infrastructure, including roadways comprising a portion of the State Highway System. The 2017 Climate Report predicted that if the State's sea levels were to rise 3.2 feet, over 25,800 acres of coastal and low-lying land and 38 miles of coastal roads in the Sea Level Rise Exposure Areas would be chronically flooded.

On Maui an estimated 5.1 miles of major coastal roads in the Sea Level Rise Exposure Area would be flooded with 1.1 feet of sea level rise, increasing to 11.2 miles, with 3.2 feet of sea level rise. Parts of Honoapi'ilani Highway which connects West Maui and Central Maui, would become chronically flooded. On Oahu an estimated 5.5 miles of major coastal roads in the Sea Level Rise Exposure Area would be flooded with 1.1 feet of sea level rise, increasing to over 17 miles, with 3.2 feet of sea level rise. Portions of major coastal roads such as Kamehameha Highway in Windward Oahu would become chronically flooded and eroded away. On Kauai an estimated 2.3 miles of major coastal roads in the Sea Level Rise Exposure Area would be flooded with 1.1 feet of sea level rise, increasing to 6.5 miles, with 3.2 feet of sea level rise.

The Department is committed to improving the resiliency of the State Highway System. The Department generally estimates 10-15% of the State's Highway System would be affected by sea level rise. The Department commissioned the University of Hawaii at Manoa, Department of Civil and Environmental Engineering to develop a methodical and rigorous approach to achieve a reliable ranking of critical road sections that takes into account environmental variables such as sea level rise and climate change affecting the State. In August 2019, the Department published a Statewide Coastal Highway Program Report. The report identified and prioritized by tier rankings all State coastal roads in need of immediate and short-term erosion control/shoreline remediation measures, as well as sites that should be monitored. The rankings are based on a new index system identified as Coastal Road Erosion Susceptibility Index or CRESI. The report prioritizes the State Highways in immediate need of relocation and/or hardening. See https://hidot.hawaii.gov/highways/files/2019/09/State-of-Hawaii-Statewide-Coastal-Highway-Program-Report_Final_2019.pdf and <https://hidot.hawaii.gov/wp-content/uploads/2019/04/20190423-climate-change-commission.pdf>.

The Department is developing a Climate Adaptation Action Plan (the "Action Plan") which identifies and assesses hazards to the State's Highway System. The hazard types being assessed are rockfall and landslides, passive flooding, annual high wave flooding, coastal erosion, storm surge, tsunami, wildfire and lava flows. The Action Plan will include immediate, near-term, and long-term recommendations with the goal of integrating considerations of climate risk and long-term climate change resiliency into agency practices.

The 2017 Climate Report and Statewide Coastal Highway Program Report are not incorporated in this Official Statement and are not a part of this Official Statement. The Department cannot predict what, if any, sea level rise will occur in the future or what impact sea level rise will have on State Highway System operations, expenses or operating revenues.

Cybersecurity Risks

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

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

There can be no assurance that either the State or the Department will not suffer a breach, and the State cannot predict the impact of any such breach on the State Highway System.

Natural Disasters

Scientists have observed, documented and predicted that a warming planet will increase the frequency and severity of natural disasters, including hurricanes and volcanic activity (attributed to changing pressure on the Earth's crust from melting ice and increasing sea levels). In August of 2018, a weakened Hurricane Lane caused severe mudslides and flash flooding on the Island of Hawaii, where a maximum of 52 inches (1,321 mm) of rain was recorded. Additionally, the 2018 lower Puna eruption of Kīlauea volcano located on the Island of Hawaii resulted in the destruction of over 700 homes, the evacuation of approximately 2,000 residents, temporary highway blockages and other adverse disruptions. Record 24-hour rainfall on Kauai in that same year caused a community to be cut off for months. No assurances can be given as to the frequency or severity of any future natural disasters nor what impact, individually or in the aggregate, such disasters may have on the State Highway System its operations, expenses or operating revenues.

Potential Limitation of Tax Exemption of Interest on the Series 2021 Bonds

From time to time, the President of the United States, the United States Congress and/or state legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the Series 2021 Bonds to be subject, directly or indirectly, as a whole or in part, to federal income taxation and state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, or court decisions may also cause interest on the Series 2021 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or may cause interest on the Series 2021 Bonds to be subject to state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of the Series 2021 Bonds. Prospective purchasers of the Series 2021 Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. See "TAX MATTERS" herein.

Risk of Tax Audit

The Internal Revenue Service ("IRS") includes a subdivision that is specifically devoted to tax-exempt bond compliance. If the IRS undertook an examination of the Series 2021 Bonds, or other Bonds issued by the Department as tax-exempt bonds, it may have a material adverse effect on the marketability or the market value of the Series 2021 Bonds.

LITIGATION

The State is subject to litigation in connection with the day-to-day operation of the State Highway System by the Department. There are no claims or judicial proceedings affecting the State Highway System or the Pledged Funds, except for claims incidental to the operation of the State Highway System. The State is self-insured with respect to tort claims against the Department and the State Highway System. To pay for tort judgments and settlements involving the State Highway System, the Legislature appropriates money from the State Highway Fund after providing for payment of the Bonds and required reserves. There is no litigation now pending or threatened to restrain or to enjoin the issuance and delivery of the Series 2021 Bonds or the power and authority of the Department or the State to impose, prescribe or collect Pledged User Taxes or in any manner questioning the power and authority of the Department or State to impose, prescribe or collect such Pledged User Taxes or to issue and deliver the Series 2021 Bonds or affecting the validity of the Series 2021 Bonds.

TAX MATTERS

General

In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions, and assuming compliance by the State and the Department with certain covenants and the accuracy of certain representation, interest on the Series 2021 Bonds is not includable in gross income for federal income tax purposes. Bond Counsel is of the further opinion that interest on the Series 2021 Bonds is not an “item of tax preference” for purposes of the federal alternative minimum tax.

The Internal Revenue Code of 1986, as amended (the “Code”), imposes various limitations, conditions and other requirements which must be met at the date of issue of the Series 2021 Bonds and on a continuous basis during the term of the Series 2021 Bonds in order that interest on the Series 2021 Bonds will be and remain not includable in gross income for federal income tax purposes. Included among these requirements are restrictions on the investment and use of proceeds of the Series 2021 Bonds, restrictions on the use of property financed by the Series 2021 Bonds and, in certain circumstances, payment of amounts in respect of such proceeds to the United States. Failure to comply with the requirements of the Code may cause interest on the Series 2021 Bonds to be includable in gross income for purposes of federal income tax, possibly from the date of original issuance of the Series 2021 Bonds. In such event, the Certificate does not require either acceleration of payment of principal of, or interest on, the Series 2021 Bonds or payment of any additional interest or penalties to the owners of the Series 2021 Bonds. In the Certificate and the Tax Compliance Certificate, the State, acting through the Department, has covenanted to comply with certain procedures, and it has made certain representations and certifications, designed to assure satisfaction of the requirements of the Code in respect of the Series 2021 Bonds. The opinion of Bond Counsel assumes compliance with such covenants and the accuracy, in all material respects, of such representations and certifications. Bond Counsel expresses no opinion with respect to the exclusion from gross income for federal income tax purposes of interest on the Series 2021 Bonds in the event that any such representations and certifications are materially inaccurate or that there occurs a failure to comply with such covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel’s legal judgment as to exclusion of interest on the Series 2021 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the IRS or any court. Further, Bond Counsel cannot give, and has not given, any opinion or assurance about the future activities of the Department, or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State, acting through the Department, has covenanted to comply with the requirements of the Code.

Certain requirements and procedures contained or referred to in the Certificate and the Tax Compliance Certificate and other relevant documents and certificates may be changed and certain actions may be taken subsequent to the date of issue, under the circumstances and subject to the terms and conditions set forth in such documents or certificates, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest on the Series 2021 Bonds of any such modification or change that occurs or is taken in reliance upon an opinion obtained by the State or the Department from counsel other than Katten Muchin Rosenman LLP.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issue of the Series 2021 Bonds may

adversely affect the value of, or the federal, state and local tax status of interest on, the Series 2021 Bonds. No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, will not cause interest on the Series 2021 Bonds to be subject, directly or indirectly, to federal or State or local income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2021 Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation. Further, no assurance can be given that the introduction or enactment of any proposed legislation, or a future court decision, or any action of the IRS, including but not limited to regulation, ruling, or selection of the Series 2021 Bonds for audit examination, or the course or result of any IRS examination of the Series 2021 Bonds, or obligations which present similar tax issues, will not affect the market price and marketability of the Series 2021 Bonds.

Bond Counsel's engagement with respect to the Series 2021 Bonds ends with the issuance of the Series 2021 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the State or the beneficial owners of the Series 2021 Bonds regarding the tax status of interest on the Series 2021 Bonds in the event of an audit by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2021 Bonds, under current procedures parties other than the State and its appointed counsel, including the beneficial owners of the Series 2021 Bonds, would have little, if any, right to participate in the audit process. Moreover, because achieving judicial review in connection with any audit of tax-exempt bonds is difficult, obtaining an independent judicial review of IRS positions with which the State legitimately disagrees, may not be practical. Any action of the IRS, including but not limited to selection of the Series 2021 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market prices for, or the marketability of, the Series 2021 Bonds, and may cause the State and the beneficial owners of the Series 2021 Bonds to incur significant expense.

Prospective purchasers of the Series 2021 Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of, tax-exempt obligations may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors as to any possible collateral tax consequences in respect of the Series 2021 Bonds. Bond Counsel expresses no opinion regarding any such collateral tax consequences.

Series 2021 Bonds Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of each maturity of the Series 2021 Bonds is sold to the public (the "Offering Price") and the principal amount payable at maturity of such Series 2021 Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Series 2021 Bond, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Series 2021 Bond, the difference between the two is known as "original issue discount."

Bond premium and original issue discount are amortized over the term of a Series 2021 Bond on the basis of the Series 2021 Bond's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as a reduction in the amount of tax-exempt interest earned during such period and is subtracted from the owner's tax basis in the Series 2021 Bond. The amount of original issue discount

accruing during each period is treated as interest that is not includable in the gross income of the owner of such Series 2021 Bond for federal income tax purposes, to the same extent and with the same limitations as current interest and is added to the owner's tax basis in the Series 2021 Bond. A Series 2021 Bond's adjusted tax basis is used to determine whether, and to what extent, the owner realizes taxable gain or loss upon the disposition of the Series 2021 Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the Series 2021 Bond).

Owners who purchase Series 2021 Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Series 2021 Bonds. In addition, owners of Series 2021 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series 2021 Bonds; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

Back-up Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2021 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient. If an owner purchasing a Series 2021 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2021 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Change in Law

The opinions of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date the Series 2021 Bonds are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Series 2021 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Series 2021 Bonds.

State and Local Considerations

Interest on the Series 2021 Bonds is exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Ownership of the Series 2021 Bonds may result in other state and local tax consequences to certain taxpayers, and Bond Counsel expresses no opinion regarding any such consequences arising with respect to the Series 2021 Bonds. Prospective purchasers of the Series 2021 Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Series 2021 Bonds are subject to the approving legal opinion of Katten Muchin Rosenman LLP, who has been retained by, and acts as, Bond Counsel to, the State. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering materials relating to the Series 2021 Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in its capacity as Bond Counsel, Katten Muchin Rosenman LLP has, at the request of the State reviewed the information under the headings “THE SERIES 2021 BONDS,” “PLAN OF FINANCE,” “SECURITY FOR THE BONDS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE” as well as Appendices A and G. This review was undertaken solely at the request and for the benefit of the State and did not include any obligation to establish or confirm factual matters set forth herein. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2021 Bonds. The form of opinion Bond Counsel proposes to render is set forth in Appendix E attached hereto.

Certain legal matters will be passed upon for the Underwriters by their counsel, Dentons US LLP.

The Thirteenth Supplemental Certificate of the Director, providing for the issuance of the Series 2021 Bonds, will be approved as to form and legality by the Attorney General of the State.

RATINGS

Moody’s Investors Service and S&P Global Ratings have assigned to the Series 2021 Bonds ratings of “Aa2” with a stable outlook and “AA+” with a stable outlook, respectively. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007 and S&P Global Ratings, 55 Water Street, New York, New York 10041. 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 that such ratings will continue for any given period of time or that such ratings will not be revised downward, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The State undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings may have an adverse effect on the market price of the Series 2021 Bonds.

UNDERWRITING

Subject to the terms and conditions of a Bond Purchase Agreement, the State, acting through the Department, has agreed to sell to Morgan Stanley & Co. LLC, BofA Securities, Inc. and Wells Fargo Bank, National Association (collectively, the “Underwriters”), and the Underwriters have agreed to purchase from the State, all of the Series 2021 Bonds. The Underwriters have agreed to purchase the Series 2021 Bonds at a price of \$180,800,388.21, being the aggregate principal amount of the Series 2021 Bonds plus the original issue premium of \$43,908,934.70, less an underwriting discount of \$313,546.49. The Underwriters will be responsible for the payment of certain costs of issuing the Series 2021 Bonds. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2021 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the Series 2021 Bonds may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2021 Bonds to certain dealers (including dealers depositing Series 2021 Bonds into unit investment trusts, certain of which may be sponsored or

managed by the Underwriters) at prices lower than the public offering prices stated on the cover of this Official Statement.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2021 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2021 Bonds.

BofA Securities, Inc., one of the Underwriters of the Series 2021 Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Series 2021 Bonds.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), one of the Underwriters of the Series 2021 Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2021 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2021 Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2021 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

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

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

FINANCIAL ADVISOR

The Department has retained PFM Financial Advisors LLC, as financial advisor with respect to the issuance of the Series 2021 Bonds. PFM Financial Advisors LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM Financial Advisors LLC is an independent financial advisory firm.

CONTINUING DISCLOSURE

The Department will execute a Continuing Disclosure Certificate (the “Disclosure Certificate”) for the benefit of the Holders and beneficial owners of the Series 2021 Bonds to provide annually certain financial information and operating data relating to the Department and to provide notice of the occurrence of certain enumerated events to the Municipal Securities Rulemaking Board pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “Rule”). See Appendix G - “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. The Department has appointed U.S. Bank National Association as Dissemination Agent to assist the Department in providing the necessary reports.

A failure by the Department to comply with the Disclosure Certificate will not constitute an event of default under the Certificate or the Series 2021 Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2021 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2021 Bonds and their market price. Except as noted below, within the last five years, the Department has not failed to comply in all material respects with any previous undertaking with regard to the Rule to provide annual reports or notices of listed events. The Department reported a non-material reduction in pledged revenues for fiscal year 2018, resulting from a mis-characterization of litigation settlement proceeds. In addition, the Department failed to file a complete Annual Report for fiscal year 2019 in a timely manner. The Department filed the completed Annual Report by April 1, 2021.

The obligations of the Department described in the Disclosure Certificate will remain in effect until the Series 2021 Bonds are no longer Outstanding (within the meaning of the Certificate) or the Rule no longer applies to the Series 2021 Bonds. Any provision of the Disclosure Certificate may be amended or waived upon the conditions set forth therein.

The Disclosure Certificate is solely for the benefit of the Holders and beneficial owners from time to time of the Series 2021 Bonds. The exclusive remedy for any breach of the Disclosure Certificate by the Department is limited to the right of the Holders and beneficial owners to cause to be instituted and maintained proceedings to obtain specific performance by the Department of its obligations under the Disclosure Certificate. Any such proceedings challenging the adequacy of the information provided in accordance with the Disclosure Certificate may be instituted and maintained only by Holders and beneficial owners of not less than 25% in principal amount of the Series 2021 Bonds then Outstanding.

FINANCIAL STATEMENTS

The audited financial statements of the Highways Division as of and for the fiscal year ended June 30, 2020 are set forth in Appendix D to this Official Statement. These financial statements have been audited by KKDLY LLC, independent certified public accountants, whose report is set forth in Appendix D attached hereto.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or similar words. Such forward-looking statements include, among others, statements found under the heading “DEBT SERVICE COVERAGE-Projected Revenues” and “DEBT SERVICE COVERAGE -Historical and Projected Debt Service Coverage” herein and in Appendix

B - “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION” and Appendix C - “GENERAL INFORMATION ABOUT THE STATE OF HAWAII” attached hereto.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE STATE DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN CHANGES OCCUR TO ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED.

MISCELLANEOUS

The references in this Official Statement to Acts of the Legislature and the Certificate (including the supplements thereto) do not purport to be complete and are subject to the detailed provisions thereof to which reference is hereby made. The Acts and other State statutes may be amended by the Legislature. The Department has provided the information in this Official Statement relating to the Highways Division, and other matters, as indicated.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such statements will be realized. The agreements of the Department and the State are fully set forth in the Certificate and the General Revenue Bond Law, and the Official Statement is not to be construed as a contract or agreement between the Department or the State and the purchasers or Holders of any of the Series 2021 Bonds.

DEPARTMENT OF TRANSPORTATION STATE OF
HAWAII

By: /s/ Jade T. Butay
Jade T. Butay, Director of Transportation

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

For purposes of this Appendix A, “Certificate” means the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as previously supplemented and as further supplemented by the Thirteenth Supplemental Certificate. The following is a summary of certain of the provisions of the Certificate. The summary does not purport to be complete or to follow the exact language of the Certificate, and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meanings set forth in the Certificate. For the complete provisions of the Certificate and the precise wording thereof, reference should be made to the Certificate, copies of which are available upon request at the office of the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

Definitions of Certain Terms [Certificate Section 1.01]

The following are definitions in summary form of certain terms contained in the Certificate and used in this Official Statement.

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

“Average Annual Bond Service” of a Series of Bonds means the result obtained by dividing (A) the aggregate Bond Service for such Series for the period from the date of issuance of such Series until the final maturity date of such Series by (B) the number of Bond Years in such period.

“Bond” or “Bonds” means any Senior Bond or Subordinate Bond, some of the Senior Bonds or Subordinate Bonds or all of the Senior Bonds or Subordinate Bonds.

“Bondholder” or “Holder” or “Holder of Bonds” or “Owner” or “Owner of Bonds” means the person in whose name any Bond is registered upon the Bond Registrar maintained by the Registrar pursuant to the Certificate.

“Bond Service” means, as of any date of calculation and with respect to any period for any Series of Bonds, an amount equal to the sum of: (i) the interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from (y) amounts credited to the Highway Senior Interest Subaccount or the Highway Subordinate Interest Subaccount, (z) any other account set aside exclusively for the payment of interest, and (ii) that portion of the next succeeding Principal Installment for the Bonds of such Series accruing during such period assuming each such Principal Installment were deemed to accrue daily (based on a year of 12 months each of 30 days duration) in equal amounts from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding Principal Installment due date for such Series, then from a date one year preceding the due date of such Principal Installment or from the date of delivery of the Bonds of such Series, whichever is later). Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof. The Bond Service definition contains additional provisions concerning the calculation of debt service on Variable Rate Bonds and Capital Appreciation Bonds.

“Bond Year” means, with respect to any Series of Bonds, any period of 12 consecutive months terminating on the due date of a Principal Installment for the Bonds of such Series; provided that the initial Bond Year for each Series shall be of such duration as is set forth in the Supplemental Certificate providing for such Series.

“Business Day” means any day of the year other than a day (i) which is a holiday of the State, (ii) on which banks located in any one of the cities in which the principal offices of the (a) Registrar and (b) any Support Provider are located are required or authorized to remain closed, or (iii) on which the New York Stock Exchange is closed.

“Code” means the Internal Revenue Code of 1986, as from time to time amended, and any successor statute thereto, and any Treasury regulations or proposed regulations thereunder. Any reference in the Certificate to any Section of the Code shall be deemed to refer to any amended or successor provision enacted or promulgated after the date of the Certificate, but only with respect to each particular Series of Bonds to the extent effective to such Series.

“Department” or “Department of Transportation” means the Department of Transportation of the State and any successor thereto.

“Event of Default” means any occurrence or event specified in Section 10.01 of the Certificate.

“Federal Securities” means any of the following:

(i) any direct and general obligations of, or any obligations fully and unconditionally guaranteed as to the full and timely payment of principal and interest by, the United States of America;

(ii) obligations issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America: Export-Import Bank of the United States (backed by the full faith and credit of USA); Government National Mortgage Association (Ginnie Mae) (backed by the full faith and credit of USA); Public Housing Authority (backed by the full faith and credit of USA); Farm Credit System Financial Assistance Corporation (senior debt rated in highest category by the Rating Agencies); Student Loan Marketing Association (Sallie Mae) (senior debt rated in highest category by the Rating Agencies); Tennessee Valley Authority (senior debt rated in highest category by the Rating Agencies); Inter-American Development Bank (senior debt rated in highest category by the Rating Agencies); World Bank (International Bank for Reconstruction & Development) (senior debt rated in highest category by the Rating Agencies); Federal Farm Credit Banks (Consolidated System wide Bonds) (Senior debt rated in highest category by the Rating Agencies); Federal Home Loan Banks (consolidated debt of banks and deposits of 8 of the 12 individual banks rated in highest category by the Rating Agencies); Federal Home Loan Mortgage Corp. (senior debt (not subordinated debt) rated in highest category by the Rating Agencies); Federal National Mortgage Association (senior debt (not subordinated debt) rated in highest category by the Rating Agencies); and Resolution Funding Corporation (Refcorp) (rated in highest category by the Rating Agencies);

(iii) any obligations of any state or political subdivision of a state (collectively, “Municipal Bonds”) which Municipal Bonds are either (A) rated “Aaa” by Moody’s and “AAA” by S&P (whether such rating is based upon the credit of the issuer, an insurance policy, a letter of credit or otherwise) or (B) are fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bonds, and which Municipal Bonds are rated “Aaa” by Moody’s and “AAA” by S&P and provided, however, that such Municipal Bonds are accompanied by (a) an opinion of Bond Counsel to the effect that such Municipal

Bonds are not subject to redemption prior to the date the proceeds of such Municipal Bonds will be required for the purposes of the investment being made therein and (b) a report of an Independent Public Accountant verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bonds; and

(iv) securities commonly referred to as CATs, TGRs, STRIPs, or other certificates of direct ownership of the principal of, or interest on, direct and general obligations of the United States of America or certificates of direct ownership of the interest on obligations of the Resolution Funding Corporation, which obligations are held by a commercial bank which is a member of the Federal Reserve System in trust on behalf of the holders of the derivative product;

provided, however, that the term Federal Securities shall exclude unit investment trusts or mutual funds which otherwise meet the criteria set forth above in clauses (i) through (iv) unless the trust or fund is in the highest rating category of the Rating Agency.

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

“Highway Bond Proceeds Account” means the special account created in the State Bond Fund into which shall be credited proceeds of any Bond for the payment of the costs of highway and road projects, and other related facilities and properties constituting a part of the Undertaking.

“Highway Revenue Special Account” means the special account of that name created in the Certificate in the State Highway Fund.

“Highway Senior Debt Service Reserve Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Debt Service Reserve Subaccount.”

“Highway Senior Interest Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Interest Subaccount.”

“Highway Senior Principal Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Principal Subaccount.”

“Highway Subordinate Debt Service Reserve Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Subordinate Debt Service Reserve Subaccount.”

“Highway Subordinate Interest Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Subordinate Interest Subaccount.”

“Highway Subordinate Principal Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Subordinate Principal Subaccount.”

“Investment Securities” means any of the following securities, but only if at the time of investment such security is permitted by law as an investment for the fund or account being considered:

- (i) Federal Securities;
- (ii) obligations issued or guaranteed by any of the following United States Government agencies: Federal Home Loan Bank System (senior debt obligations); Federal Home Loan Mortgage Corporation (participation certificates and senior debt obligations); Federal National Mortgage Association (mortgage-backed securities and senior debt obligations); and Student Loan Marketing Association (senior debt obligations);
- (ii) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under the Certificate such obligations are rated in either of the two highest major rating categories by the Rating Agency (without taking into account any plus or minus designation or numerical modification used by the Rating Agency to indicate relative standing within a major rating category);
- (iii) repurchase agreements with domestic banks which are members of the Federal Deposit Insurance Corporation and rated “A” or above by the Rating Agencies or government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York, secured by Federal Securities, provided that each such repurchase agreement (a) is in commercially reasonable form, as determined in the sole judgment of the State, and is for a period not to exceed 30 days and (b) results in transfer to the State of legal title to, or the grant to the Paying Agent of a prior perfected security interest in, identified securities referred to in item (i) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party commercial bank with trust powers (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Department; provided that such securities acquired pursuant to such repurchase agreements shall be valued weekly at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement, and if the value of such securities drops below 103% of the value of the cash transferred by the Department, then additional cash and/or acceptable securities must be transferred to the Department from the applicable bank or government bond dealer;
- (v) time deposits (which may be represented by certificates of deposit) in any bank or trust company, provided that such time deposits (a) do not exceed at any one time in the aggregate 10% of the total net worth of such bank or trust company, (b) are continuously and fully secured by Federal Securities, which shall have a market value (not including accrued interest) at all times at least equal to the principal amount of such certificates and shall be lodged with the Department, as custodian, by the bank or trust company issuing such certificates, and the bank or trust company issuing each such certificate required to be so secured shall furnish the Department with either the securities pledged to the security thereof or a joint custody receipt evidencing the securities pledged thereunder, or (c) are 100% insured by the Federal Deposit Insurance Corporation;
- (iv) Bankers’ acceptances with a maximum term of one year drawn on and accepted by commercial banks having a total net worth of at least \$50,000,000 (or, in the case of a commercial bank not organized under the laws of the United States of America or any state thereof (in which event the bankers’ acceptances shall be dollar-denominated), a total net worth of at least \$1,000,000,000) and having an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A1” or “A” or better by S&P;

(v) Commercial or finance company paper of a maturity not in excess of one (1) year which is rated in the highest short-term rating category by the Rating Agency (without taking into account any plus or minus designation or numerical modification used by the Rating Agency to indicate relative standing within a major rating category);

(vi) Corporate bonds rated in one of the two highest rating categories by the Rating Agency (without taking into account any plus or minus designation or numerical modification used by the Rating Agency to indicate relative standing within a major rating category);

(vii) investment agreements rated no lower than the second highest rating category given by the Rating Agency and if not so rated then investment agreements with companies or banks whose senior debt obligations are rated no lower than the second highest rating category given by the Rating Agency (without taking into account any plus or minus designation or numerical modification used by the Rating Agency to indicate relative standing with a major rating category) at the time of the execution and delivery of such agreement;

(vi) short term obligations by or on behalf of any state of the United States of America or political subdivision thereof provided at the time of their purchase under the Certificate such obligations are rated in the highest short-term category by the Rating Agency (without taking into account any plus or minus designation or numerical modification used by the Rating Agency to indicate relative standing within a major rating category);

(viii) any cash sweep or similar account arrangement of the Paying Agent the investments of which are limited to investments described in items (i) or (ii) of this definition of Investment Securities and any money market fund rated in the highest category by the Rating Agency the entire investments of which are limited to investments described in (i) or (ii) of this definition of Investment Securities; and

(ix) any other investments authorized by the Department if, after written notification to the Rating Agency, written notification is received from the Rating Agency confirming that the use of such investments will not result in a downgrading of the then current rating of the Bonds Outstanding (taking into account for such purposes any minus designation or numerical modification used by the Rating Agency to indicate relative standing within a major rating category).

“Operation and Maintenance Expenses” means the expenses of operation, maintenance and repair of the properties constituting the Undertaking, including without limitation, the cost of equipment and general administrative overhead in connection with those properties, but excluding any (i) arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148 of the Code, (ii) depreciation expense, and (iii) surcharges imposed by the State for central services relating to administration of funds of the Department.

“Opinion of Counsel” means a written opinion of counsel experienced in the field of law relating to the opinion being rendered, retained by the Department and which, with respect to the Federal tax law relating to tax-exempt obligations, is nationally recognized.

“Outstanding”, when used with respect to any Bond, shall have the construction given to such word in Section 11.01 of the Certificate, as described below under “Discharge of Obligations of the State Under the Certificate”. For purposes of the Certificate, in the event any Bonds of a Series are issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount or the compounding of interest, the amount of such Bonds deemed to be Outstanding for the purpose of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or

direction or the taking of any other action that the Holders of the Bonds are entitled to take pursuant to Articles X and XI of the Certificate or otherwise, shall be the accreted value thereof.

“Paying Agents” means the Director of Finance of the State, and, for any Series of Bonds, the additional paying agents therefor appointed pursuant to Section 7.02 of the Certificate in the Supplemental Certificate providing for the issuance of such Bonds.

“Pledged Funds” means the Revenues and the moneys held in the Highway Revenue Special Account, the Highway Bond Proceeds Account and such other funds and accounts which may be hereafter pledged to the payment of the principal of and interest on the Bonds.

“Pledged User Taxes” means the highway fuel license taxes, the vehicle weight taxes, the vehicle registration fees, the rental motor vehicle surcharge taxes, tour vehicle and car-sharing vehicle surcharge taxes levied and paid pursuant to Sections 243-4, 248-8, 249-33, 249-31, 251-2 and 251-2.5, Hawaii Revised Statutes, and other user taxes, fees or charges currently or hereafter derived from or arising through the ownership, operation, and management of the Undertaking and the furnishing and supplying of the services thereof, which are deposited in the State Highway Fund and made available pursuant to State law for the payment of the Bonds.

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

“Rating Agency” means Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Financial Services (“S&P”) and their respective successors and assigns or, if either (or both) shall for any reason no longer perform the functions of a securities rating agency, such other nationally recognized rating agency designated by the Department; provided, however, that any reference to a Rating Agency in the Certificate (other than in the definitions of Federal Securities and Investment Securities) shall only be effective while such Rating Agency is providing a rating on the Outstanding Bonds.

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

“Registrar” means the entity defined as Registrar to the Certificate.

“Reimbursable General Obligation Bonds” means general obligation bonds of the State to which the State has pledged its full faith and credit and which are payable from the general fund of the State, the proceeds of which were or are to be used to finance highway and road projects with respect to properties constituting part of the Undertaking, and with respect to which the general fund of the State is to be reimbursed from Revenues, except insofar as the obligation or reimbursement has been or is cancelled by the State Legislature.

“Reserve Requirement” means with respect to Senior Bonds or Subordinate Bonds, an amount, as of any date of determination, equal to one-half (1/2) of the maximum Aggregate Bond Service for Senior

Bonds or Subordinate Bonds, as the case may be, in any Bond Year, beginning with the Bond Year in which the date of determination occurs and ending with the Bond Year after which no Senior Bonds or Subordinate Bonds, as the case may be, are Outstanding.

“Revenues” means and includes the items set forth below when and to the extent the same are deposited in the State Highway Fund to the credit of the Highway Revenue Special Account: (A) all income, revenues and moneys collected by the State from the ownership or operation of the Undertaking or the supplying and furnishing of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from rates, rentals, fees, tolls and charges prescribed for the uses and services of, and the facilities and commodities furnished by, the Undertaking; (B) earnings on the investment of moneys held under the Certificate and the proceeds of the sale of any such investments; (C) income, revenues and moneys paid to the State or the Department with respect to properties that constitute part of the Undertaking on the effective date of the Certificate but are sold, leased or otherwise disposed of or transferred pursuant to the provisions of the Certificate so as to no longer constitute part of the Undertaking; (D) the Pledged User Taxes; and (E) any other moneys or funds deposited by the State or the Department into the Highway Revenue Special Account; provided, however, that the term “Revenues” shall not include: (i) moneys received as proceeds from the sale of Bonds; (ii) condemnation proceeds or insurance proceeds except insurance proceeds received from rental or business interruption insurance; (iii) grants-in-aid or similar payments received from the Federal Government or public agencies if (1) the application of such moneys are restricted to a specific purpose other than payment of principal of and interest on indebtedness of the State, or (2) such grants or payments constitute a reimbursement to the State for expenditures previously made from the State Highway Fund or the Highway Revenue Special Account; (iv) moneys or securities received by the State or the Department as gifts or grants, the use of which is restricted by the donor or grantor; (v) investment income derived from any moneys or securities which may be placed in escrow or trust to defease bonds of the State, including the Bonds, or which may be held in the Highway Bond Proceeds Account; (vi) any arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148(f) of the Code; and (vii) the proceeds of any Support Facility.

“Senior Bond” or “Senior Bonds” means any Bond, some of the Bonds or all of the Bonds issued under and at any time Outstanding pursuant to the Certificate, being the Highway Revenue Bonds, Series 1998, Series 2005 B, Series 2008, Series 2011 A, Series 2011 B, Series 2014 A, Series 2014 B, Series 2014 C, Series 2016 A, Series 2016 B, Series 2019 A and any Additional Senior Bonds issued pursuant to the Certificate, and any Refunding Senior Bonds issued pursuant to the Certificate.

“Series” means all of the Bonds designated as being of the same Series which are authenticated and delivered on original issuance in a simultaneous transaction.

“Sinking Fund Installment” means, with respect to each Series of Bonds, the amount designated as such in the Supplemental Certificate authorizing such Series of Bonds. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Certificate toward the same (as the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

“State” means the State of Hawaii.

“State Bond Fund” means the fund created in the Treasury of the State by Section 40-2, Hawaii Revised Statutes, into which certain available moneys and proceeds of bonds and other obligations of the State and its various departments are deposited for the payment of capital projects and improvements and other public purposes.

“State Highway Fund” means the special fund of that name created in the Treasury of the State by Section 248-8, Hawaii Revised Statutes.

“Subordinate Bond” or “Subordinate Bonds” means any Bond, some of the Bonds or all of the Bonds issued under and at any time Outstanding pursuant to the Certificate, being any Additional Subordinate Bonds and any Refunding Subordinate Bonds issued pursuant to the Certificate.

“Supplemental Certificate” or “Certificate supplemental to the Certificate,” means a certificate duly issued by the Director of Transportation for any of the purposes of Article X of the Certificate or otherwise amendatory of or supplemental to the Certificate but only if and to the extent specifically authorized thereunder.

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

“Support Facility” means any instrument such as a letter of credit, a committed line of credit, an insurance policy, a surety bond or a standby bond purchase agreement, or any combination of the foregoing, and issued by a bank or banks, other financial institution or institutions, or any combination of the foregoing, which provides for: (i) with respect to any Series of Bonds, the payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such Series, or providing for the purchase of such Bonds or a portion thereof by the issuer of such Support Facility; or (ii) with respect to the Highway Senior Debt Service Reserve Subaccount or the Highway Subordinate Debt Service Reserve Subaccount, the funding, in whole or in part, of the Reserve Requirement.

“Support Provider” means a financial institution which provides a Support Facility.

“Undertaking” means and includes all highways and roads, and other related facilities and properties (real, personal or mixed) now belonging to or controlled by the State and under the administration, jurisdiction, control and management of the Department, and all improvements, betterments or extensions thereto hereafter constructed or acquired, except bikeways, and without limiting the generality of the foregoing, the term “Undertaking” shall include each and every, all and singular, the properties and facilities constructed or acquired from the proceeds of Bonds issued under the Certificate or constructed or acquired from the proceeds of any other bonds, notes or other evidences of indebtedness payable, or the principal and interest of which is reimbursable, from the State Highway Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the State Highway Fund or in any other fund maintained therefrom.

“Value of Investment Securities” and words of like import means the amortized value thereof, provided, however, that all United States Treasury Obligations - State and Local Government Series shall be valued at par and those obligations which are redeemable or otherwise subject to payment (including purchase) at the option of the owner thereof shall be valued at the price at which such obligations are then redeemable or otherwise subject to payment. The computations made under this definition shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition, “amortized value”, when used with respect to a security purchased at par, means the purchase price of such security and when used with respect to a security purchased at a premium above or discount below par means, as of any subsequent date of valuation, the value obtained by dividing the total premium or discount by the number of interest payment dates remaining to maturity on any such security after such purchase and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase and (i) in the case of a security purchased at a

premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of a security purchased at a discount, by adding the product thus obtained to the purchase price.

“Variable Rate Bonds” means any Subordinate Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof, based upon an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For the purposes of this definition, Subordinate Bonds shall not be considered to be Variable Rate Bonds upon the establishment of or conversion of the rate of interest thereon to a fixed interest rate.

Allocation and Application of Revenues [Certificate Section 5.01]

So long as any Bonds are Outstanding, (1) the State Highway Fund and the Highway Revenue Special Account shall both be continued and (2) all Revenues that are deposited in the State Highway Fund shall be immediately credited to the Highway Revenue Special Account. The Revenues credited or to be credited to the Highway Revenue Special Account shall be applied, used and disposed of as follows, and in the following order of priority:

FIRST: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Senior Interest Subaccount;
- (b) Highway Senior Principal Subaccount;
- (c) Highway Senior Debt Service Reserve Subaccount;

SECOND: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (d) Highway Subordinate Interest Subaccount;
- (e) Highway Subordinate Principal Subaccount; and
- (f) Highway Subordinate Debt Service Reserve Subaccount;

THIRD: For payment of Operation and Maintenance Expenses;

FOURTH: For payment of the costs of acquisition (including real property and interests therein), construction, addition, expansion, improvement, renewal, replacement, reconstruction, engineering, investigation, and planning for the Undertaking and bikeways, all or any of which in the judgment of the Department are necessary to the performance of its duties or functions;

FIFTH: To reimburse the general fund of the State for Reimbursable General Obligation Bonds;

SIXTH: All or any portion of available moneys credited to the Highway Revenue Special Account, after satisfying the requirements of priority items FIRST through FIFTH above, determined in conformance with Section 248-9, Hawaii Revised Statutes, as amended, or any successor statute thereto, by the Director of Transportation to be in excess of 135% of the requirements for the ensuing 12 months for the Highway Revenue Special Account, or such other percentage of such requirements as may be authorized by law, may be transferred from the Highway Revenue Special Account as permitted by and in accordance with Section 37-53, Hawaii Revised Statutes, as amended, or any successor statute thereto; and

SEVENTH: To provide funds for other special reserve funds and other special funds as may be created by law.

Highway Senior Interest Subaccount [Certificate Section 5.02]

The moneys credited to the Highway Senior Interest Subaccount shall be disbursed solely for the purpose of paying interest on the Senior Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Senior Bonds, if any, is provided for from the proceeds of a Series of Senior Bonds, commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Senior Bonds of such Series are Outstanding, the Department shall credit to the Highway Senior Interest Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Senior Bonds on such Interest Payment Date or the amount required to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment thereof. In making the credits to the Highway Senior Interest Subaccount required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Senior Bonds, and for interest capitalized from the proceeds of a Series of Senior Bonds (which accrued or capitalized interest shall in each case be deposited in the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount), and for any other credits otherwise made to said account.

Highway Senior Principal Subaccount [Certificate Section 5.03]

In the event of the issuance of any Senior Bonds under the Certificate maturing serially, in the form customarily known as “serial bonds,” in order to provide for the payment of principal of such Senior Bonds of such Series, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such Senior Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Senior Bonds maturing serially and in each month thereafter so long as any of such Senior Bonds so maturing are Outstanding, there shall be credited to the Highway Senior Principal Subaccount an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Senior Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding each such next principal payment date be equal to the principal amount of said Senior Bonds becoming due on such principal payment date.

In the event of the issuance of any Senior Bonds under the Certificate in the form customarily known as “term bonds”, for the purpose of retiring such Senior Bonds, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such term Senior Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Senior Bonds is due, and in each month thereafter so long as any of such Senior Bonds are Outstanding, there shall be credited to the Highway Senior Principal Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment falls due be sufficient to redeem the term Senior Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the Highway Senior Principal Subaccount for the purpose of providing for the retirement of Senior Bonds issued in the form of term bonds shall be applied by the

Director of Finance, without further authorization or direction, to the redemption of the Senior Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Senior Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Senior Bonds with the second Sinking Fund Installment for each such Series, semi-annually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment date. The Director of Finance shall give notice of all such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the Highway Senior Principal Subaccount for the retirement of term Senior Bonds of a Series to the purchase of said Senior Bonds; provided, however, that no Senior Bonds shall be purchased during the interval between the date on which notice of redemption of said Senior Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Senior Bonds so purchased are Senior Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Highway Senior Principal Subaccount for such Series, and provided further, that no purchases of Senior Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Highway Senior Principal Subaccount unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Senior Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Senior Bonds as described in this paragraph may be made with or without tenders of Senior Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. All Senior Bonds purchased or redeemed as described in this paragraph shall be cancelled and not reissued.

If the principal amount of Senior Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Senior Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking Fund Installments, such excess or the principal amount of Senior Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a Certificate of the Director of Transportation and delivered to the Registrar on or prior to the forty-fifth day preceding the next Sinking Fund Installment due date established for such Senior Bonds.

Highway Senior Debt Service Reserve Subaccount [Certificate Section 5.05]

(a) There is created in the Highway Revenue Special Account a “Highway Senior Debt Service Reserve Subaccount,” which shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Senior Bonds for the payment of which there shall be insufficient money in the Highway Senior Interest Subaccount or Highway Senior Principal Subaccount. The Reserve Requirement shall be determined at the time of issuance of a Series of Senior Bonds, the deposit therein of any Support Facility, July 1 of each year and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Senior Bonds.

(b) Subject to the remaining provisions as described under the caption “Highway Senior Debt Service Reserve Subaccount,”

(i) if at any time during a Fiscal Year the moneys on credit to the Highway Senior Debt Service Reserve Subaccount are less than the Reserve Requirement (including any deficiency in any Reserve Fund Facility), the amount of the deficiency shall be restored from the first available Pledged Funds (after making the deposits and credits required by the Certificate);

(ii) if at the end of any Fiscal Year, the moneys (taking into account the amount then available to be drawn under any Reserve Fund Facility) credited to the Highway Senior Debt Service Reserve Subaccount are less than the Reserve Requirement, the Department shall (after making the deposits and credits required by the Certificate) credit an amount to the Highway Senior Debt Service Reserve Subaccount from Pledged Funds credited to the Highway Revenue Special Account so that there shall then be credited to the Highway Senior Debt Service Reserve Subaccount an amount equal to the Reserve Requirement;

(iii) if the deficiency in the Highway Senior Debt Service Reserve Subaccount is due to the application of moneys credited thereto (or payments under any Reserve Fund Facility) to pay principal of or interest on any Senior Bonds, then in each month, commencing with the month which follows the month in which such application or payment is made from the Highway Senior Debt Service Reserve Subaccount, the Department shall (after making the deposits and credits required by the Certificate) credit from the Pledged Funds credited to the Highway Revenue Special Account to the Highway Senior Debt Service Reserve Subaccount the greater of (A) 1/12th of the aggregate Reserve Fund Facility Costs relating to each draw under any Reserve Fund Facility, which moneys shall be used by the Department to pay Reserve Fund Facility Costs or (B) an amount which, if the same amount were so credited in each month thereafter until such day as the Department shall determine, which day shall not be more than 60 months from the making of the first of such credits there shall be credited to such Subaccount on such day an amount not less than the Reserve Requirement;

(iv) if at any time and for so long as the moneys credited to the Highway Senior Debt Service Reserve Subaccount are at least equal to the Reserve Requirement and all Reserve Fund Facility Costs have been paid, then no further credits shall be made to such Subaccount, and any amounts in excess of the Reserve Requirement may be retained in the Highway Revenue Special Account for use and application as are all other moneys on deposit therein; and

(v) Any Reserve Fund Facility Costs shall be paid by the Department from amounts deposited into the Highway Senior Debt Service Reserve Subaccount to the account specified in writing to the Department by the applicable Reserve Facility Issuer.

(c) When Senior Bonds are refunded in whole or in part or are otherwise paid so that all or a portion of the Senior Bonds are no longer Outstanding and no Reserve Fund Facility Costs are unpaid, then moneys credited to the Highway Senior Debt Service Reserve Subaccount in excess of the Reserve Requirement may be withdrawn from the Highway Revenue Special Account to pay or provide for the payment of such Senior Bonds or refunded Senior Bonds, as the case may be, or may be transferred and applied by the Department to any other subaccount in the Highway Revenue Special Account to the extent of any deficiency therein or to any other account in the State Highway Fund, in accordance with instructions of the Director or pursuant to law; provided that immediately after such withdrawal or transfer there shall be on credit to the Highway Senior Debt Service Reserve Subaccount an amount equal to the Reserve Requirement.

(d) In lieu of the credit of moneys to the Highway Senior Debt Service Reserve Subaccount, the Department may cause to be so credited one or more Support Facilities in an amount equal to the difference between the Reserve Requirement and the aggregate of (i) the amounts then credited to the Highway Senior Debt Service Reserve Subaccount and (ii) the amounts then available to be drawn under any Reserve Fund Facility then credited to such Subaccount. In the event a Support Facility is obtained to satisfy a portion of the Reserve Requirement, so long as such Support Facility is in effect, to the extent that there are moneys (or Investment Securities) on deposit in such Subaccount, such moneys shall be used (and such Investment Securities liquidated and proceeds used) to make deposits to as described under the

Certificate prior to any drawings under any Reserve Fund Facility therein. The Support Facility shall be payable (upon the giving of notice as required under the Certificate) on any date on which moneys will be required to be applied from the Highway Senior Debt Service Reserve Subaccount to the payment of the principal of or interest on any Senior Bonds. Prior to the use of a Support Facility pursuant to the provisions under this caption "Highway Senior Debt Service Reserve Subaccount" (other than any such use at the time of issuance of the Bonds), the Department shall receive written confirmation from the Rating Agency that the rating on the Senior Bonds Outstanding as then in effect shall not be reduced as a result of such use.

If a disbursement is made pursuant to a Support Facility provided pursuant to provisions under this caption "Highway Senior Debt Service Reserve Subaccount," the Department shall be obligated either (i) to reinstate the maximum limits of such Support Facility or (ii) to credit to the Highway Senior Debt Service Reserve Subaccount, funds in the amount of the disbursement made under such Support Facility, or a combination of such alternatives, as shall provide that the amount credited to the Highway Senior Debt Service Reserve Subaccount equals the Reserve Requirement for the Senior Bonds; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period permitted by paragraph (b) above. Notwithstanding the provisions of paragraph (b) above, the Department shall not permit any Support Facility which has been established in lieu of a deposit into the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount to terminate or expire prior to depositing to such Subaccount for credit to such Subaccount the amount satisfied previously by such Support Facility.

Highway Subordinate Interest Subaccount [Certificate Section 5.06]

Moneys on credit to the Highway Subordinate Interest Subaccount shall be disbursed solely for the purpose of paying interest on the Subordinate Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Subordinate Bonds, if any, is provided for from the proceeds of a Series of Subordinate Bonds, (a) with respect to each Series of Subordinate Bonds (other than Variable Rate Subordinate Bonds which have Interest Payment Dates occurring at intervals of one month or less), commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Subordinate Bonds of such Series are Outstanding, the Department shall credit to the Highway Subordinate Interest Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Subordinate Bonds on such Interest Payment Date or the amount required to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment thereof, and (b) with respect to Variable Rate Subordinate Bonds which have Interest Payment Dates occurring at intervals of one month or less, on the first Business Day of the month prior to each Interest Payment Date the Department shall credit to the Highway Subordinate Interest Subaccount from amounts credited to the Highway Revenue Special Account the amount required together with other funds available therefor credited to such account, to pay, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of, the interest payable on such Interest Payment Date or Dates on the Outstanding Variable Rate Subordinate Bonds. In making the credits to the Highway Subordinate Interest Subaccount required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Subordinate Bonds, and for interest capitalized from the proceeds of a Series of Subordinate Bonds (which accrued or capitalized interest shall in each case be deposited in the Highway Revenue Special Account for credit to the Highway Subordinate Interest Subaccount), and for any other credits otherwise made to said account. Variable Rate Subordinate Bonds shall be assumed to bear interest at the assumed interest rate as determined pursuant to the Certificate, and monthly credits made with respect to Variable Rate Subordinate Bonds shall be adjusted to the extent possible to reflect the actual interest rate on Variable Rate Subordinate Bonds in the preceding

month so that, as of any Interest Payment Date, the amount available is sufficient to pay the interest then due; provided, however, that any payments to a Support Provider pursuant to a Support Agreement as Holder of a Subordinate Bond which are in excess of the stated rate of interest on such Subordinate Bond, whether denominated additional interest, penalty rate, or otherwise, shall not constitute interest for purposes of this paragraph.

Highway Subordinate Principal Subaccount [Certificate Section 5.07]

In the event of the issuance of any Series of Subordinate Bonds under the Certificate maturing serially, in the form customarily known as “serial bonds”, in order to provide for the payment of principal of such Subordinate Bonds of such Series, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such Subordinate Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Subordinate Bonds maturing serially and in each month thereafter so long as any of such Subordinate Bonds so maturing are Outstanding, there shall be credited to the Highway Subordinate Principal Subaccount an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Subordinate Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding each such next principal payment date be equal to the principal amount of said Subordinate Bonds becoming due on such principal payment date.

In the event of the issuance of any Subordinate Bonds under the Certificate in the form customarily known as “term bonds,” for the purpose of retiring such Subordinate Bonds, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such term Subordinate Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Subordinate Bonds is due, and in each month thereafter so long as any of such Subordinate Bonds are Outstanding, there shall be credited to the Highway Subordinate Principal Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment falls due be sufficient to redeem the term Subordinate Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the Highway Subordinate Principal Subaccount for the purpose of providing for the retirement of Subordinate Bonds issued in the form of term bonds shall be applied by the Director of Finance, without further authorization or direction, to the redemption of the Subordinate Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Subordinate Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Subordinate Bonds with the second Sinking Fund Installment for each such Series, semi-annually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment dates. The Director of Finance shall give notice of all such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the Highway Subordinate Principal Subaccount for the retirement of term Subordinate Bonds of a Series to the purchase of said Subordinate Bonds; provided, however, that no Subordinate Bonds shall be purchased during the interval between the date on which notice of redemption of said Subordinate Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Subordinate Bonds so purchased are Subordinate Bonds

called for redemption in such notice or are purchased from moneys other than those credited to the Highway Subordinate Principal Subaccount for such Series, and provided further, that no purchases of Subordinate Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Highway Subordinate Principal Subaccount unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Subordinate Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Subordinate Bonds as described in this paragraph may be made with or without tenders of Subordinate Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. All Subordinate Bonds purchased or redeemed as described in this paragraph shall be cancelled and not reissued.

If the principal amount of Subordinate Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Subordinate Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking Fund Installments, such excess or the principal amount of Subordinate Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a Certificate of the Director of Transportation and delivered to the Registrar on or prior to the forty-fifth day preceding the next Sinking Fund Installment due date established for such Subordinate Bonds.

Highway Subordinate Debt Service Reserve Subaccount [Certificate Section 5.09]

The Highway Subordinate Debt Service Reserve Subaccount shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Subordinate Bonds for the payment of which there shall be insufficient money in the Highway Subordinate Interest Subaccount or Highway Subordinate Principal Subaccount. The Reserve Requirement shall be determined at the time of issuance of a Series of Subordinate Bonds, July 1 of each year, at the time any Variable Rate Subordinate Bonds of a Series cease to be Variable Rate Subordinate Bonds, and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Subordinate Bonds.

Subject to the remaining provisions described under this caption, (a) if at any time during a Fiscal Year the moneys on credit to the Highway Subordinate Debt Service Reserve Subaccount are less than the Reserve Requirement (including any deficiency in a Support Facility used to fund all or a portion of the Reserve Requirement), the amount of the deficiency shall be restored from the first available Pledged Funds; (b) if at the end of any Fiscal Year, the moneys credited to the Highway Subordinate Debt Service Reserve Subaccount are less than the Reserve Requirement, the Department shall (after making the deposits and credits to other subaccounts and purposes as required by the Certificate) credit an amount to the Highway Subordinate Debt Service Reserve Subaccount from Pledged Funds credited to the Highway Revenue Special Account so that there shall then be credited to the Highway Subordinate Debt Service Reserve Subaccount an amount equal to the Reserve Requirement; (c) if the deficiency in the Highway Subordinate Debt Service Reserve Subaccount is due to the application of moneys credited thereto to pay principal of or interest on a Series of Subordinate Bonds, then in each month, commencing with the month which follows the month in which such application is made from the Highway Subordinate Debt Service Reserve Subaccount, the Department shall (after making the deposits and credits to other subaccounts and purposes as required by the Certificate) credit from the Pledged Funds credited to the Highway Revenue Special Account to the Highway Subordinate Debt Service Reserve Subaccount an amount which, if the same amount were so credited in each month thereafter until such day as the Department shall determine, which day shall not be more than 60 months from the making of the first of such credits, there shall be

credited to such account on such day an amount not less than the Reserve Requirement; and (d) if at any time and for so long as the moneys credited to the Highway Subordinate Debt Service Reserve Subaccount are at least equal to the Reserve Requirement, no further credits shall be made to the account, and any amounts in excess of the Reserve Requirement may be retained in the Highway Revenue Special Account for use and application as are all other moneys on deposit therein.

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

In lieu of the credit of moneys to the Highway Subordinate Debt Service Reserve Subaccount, the Department may cause to be so credited a Support Facility in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the Highway Subordinate Debt Service Reserve Subaccount. In the event a Support Facility is obtained to satisfy a portion of the Reserve Requirement allocable to a Series of Subordinate Bonds, so long as such Support Facility is in effect, the Owners of such Series of Subordinate Bonds shall not be entitled to payment from or a lien on the funds credited to the Highway Revenue Special Account credited to the Highway Subordinate Debt Service Account to satisfy that portion of the Reserve Requirement allocable to other Series of Subordinate Bonds, nor shall the Owners of Subordinate Bonds of such other Series be entitled to any payment from such Support Facility. The Support Facility shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be applied from the Highway Subordinate Debt Service Reserve Subaccount to the payment of the principal of or interest on any Subordinate Bonds of such Series and such withdrawals may not be made from amounts credited to the Highway Subordinate Debt Service Reserve Subaccount for such Series of Subordinate Bonds. Prior to the use of a Support Facility pursuant to the provisions of this paragraph, the Department shall receive written confirmation from the Rating Agency that the rating on the Subordinate Bonds Outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a Support Facility provided pursuant to this paragraph, the Department shall be obligated either (i) to reinstate the maximum limits of such Support Facility or (ii) to credit to the Highway Subordinate Debt Service Reserve Subaccount, funds in the amount of the disbursement made under such Support Facility, or a combination of such alternatives, as shall provide that the amount credited to the Highway Subordinate Debt Service Reserve Subaccount allocable to a Series of Subordinate Bonds equals that portion of the Reserve Requirement allocable to such Series; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period described in clause (b) under "Events of Default; Remedies-Events of Default" below. Notwithstanding the provisions of said clause (b), the Department shall not permit any Support Facility which has been established in lieu of a deposit into the Highway Revenue Special Account for credit to the Highway Subordinate Debt Service Reserve Subaccount to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the Support Facility.

Investment of Moneys [Certificate Section 5.10]

Moneys in the Highway Revenue Special Account credited to the Highway Senior Interest Subaccount, the Highway Senior Principal Subaccount, the Highway Subordinate Interest Subaccount, and the Highway Senior Subordinate Principal Subaccount therein shall be invested by the Director of Finance in Investment Securities which have ratings provided by Moody's and S&P that are not less than the ratings

given to the Senior Bonds then Outstanding and which mature in such amounts and at such times so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at maturity or upon the redemption thereof. Moneys in the Highway Revenue Special Account credited to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount therein shall be invested by the Director of Finance in Federal Securities which have ratings provided by Moody's and S&P that are not less than the ratings given to the Senior Bonds then Outstanding and which have maturities or are redeemable at the option of the Holder thereof in not more than 5 years from the date of investment, but in any event no later than the last or final maturity date of the Senior Bonds then Outstanding or the Subordinate Bonds then Outstanding, as the case may be. The Department in the Certificate grants its approval for all investments made by the Director of Finance pursuant to the Certificate, and no further approvals of the Department shall be necessary therefor.

Income derived from investments made pursuant to the foregoing provisions of the Certificate shall be treated as Revenues; expenses of purchase, safekeeping, sale and redemption, and all other expenses attributable to such investments shall be proper expenses of the Undertaking. Investment Securities so purchased shall be considered as being deposited in the custody or control of the Director of Finance by the Department.

All moneys in the Highway Revenue Special Account and the Highway Bond Proceeds Account, the investment of which is not otherwise provided for in the Certificate, may be invested, and the income from such investments disbursed or applied, as may be provided by applicable law.

All securities shall constitute a part of the respective fund or account from which the investment therein was made. For the purposes of making any calculations or computations at any time and from time to time of the amounts in the State Highway Fund, or any fund or account therein, which may be required for the purposes of the Certificate, the Value of Investment Securities shall be determined at the time of any withdrawal therefrom and as of July 1 of each year.

The Department will maintain records to enable it to cause to be made the computations necessary to determine whether a Series of Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes meets the requirements of Section 148 of the Code, including, but not limited to, records showing the dates and amounts of all investments of funds credited to a subaccounts in the Highway Revenue Special Account and the Highway Bond Proceeds Account.

Revenues Held in Trust, Lien of Bonds [Certificate Section 5.11]

The moneys in the State Highway Fund shall be, until used, applied and disbursed in accordance with the provisions of the Certificate, held in trust: (i) for the equal benefit and security of the Holders from time to time of the Senior Bonds; and (ii) subject to the prior and senior rights, benefits and security of the Holders from time to time of the Senior Bonds, for the equal benefit and security of the Holders from time to time of the Subordinate Bonds. Subject to the provisions of the Certificate relating to application of moneys, all Senior Bonds shall have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount, the Highway Senior Principal Subaccount and the Highway Senior Debt Service Reserve Subaccount therein and the investments in which such Revenues may from time to time be invested, over and ahead of all Subordinate Bonds and all bonds, notes or other evidences of indebtedness which may subsequently be issued, and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred, and all the Senior Bonds shall be equally and ratably secured, without priority by reason of series, number, date of execution or of any Supplemental Certificate providing for the issuance thereof, date of Senior Bonds, date of issuance, date of sale, date of execution, date of authentication, or date of delivery, by such lien in accordance with the provisions of the Certificate. Subject to the prior and paramount lien provided in the

preceding sentence in respect of the Senior Bonds and further subject to the provisions of the Certificate relating to application of moneys, all Subordinate Bonds shall have a lien on the Revenues paid into the Highway Revenue Special Account for credit to the Highway Subordinate Interest Subaccount, the Highway Subordinate Principal Subaccount and the Highway Subordinate Debt Service Reserve Subaccount therein and the investments in which such Revenues may from time to time be invested, over and ahead of all bonds, notes or other evidences of indebtedness which may subsequently be issued, and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred, and all the Subordinate Bonds shall be equally and ratably secured, without priority by reason of series, number, date of execution or of any Supplemental Certificate providing for the issuance thereof, date of Subordinate Bonds, date of issuance, date of sale, date of execution, date of authentication, or date of delivery, by such lien in accordance with the provisions of the Certificate. Subject to the provisions of the Certificate relating to application of moneys, no claim, encumbrance or obligation against the Pledged Funds subsequently arising or incurred shall be secured by or entitled to a lien or charge thereon prior to or equal with the payments required by the Certificate to be made from the Pledged Funds to provide for the payment of the Bonds.

Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds [Certificate Section 4.02]

The Department at any time and from time to time may authorize the issuance of one or more Series of: (i) additional Senior Bonds (“Additional Senior Bonds”) or refunding Senior Bonds (“Refunding Senior Bonds”) payable from the Highway Revenue Special Account on a parity with all other Senior Bonds then Outstanding and equally and ratably secured therewith, or (ii) additional Subordinate Bonds (“Additional Subordinate Bonds”) or refunding Subordinate Bonds (“Refunding Subordinate Bonds”) payable from the Highway Revenue Special Account on a parity with any Additional Subordinate Bonds or Refunding Subordinate Bonds then Outstanding and equally and ratably secured therewith, in each case upon compliance with the following conditions:

1. The issuance of the Additional Bonds or Refunding Bonds shall have been authorized by law as confirmed by an Opinion of Counsel and are issued under and pursuant to a Supplemental Certificate or Certificates;
2. The Supplemental Certificate providing for the issuance of such Bonds shall provide that any accrued interest received upon the sale of said Bonds or any interest capitalized from the proceeds of said Bonds shall be paid into the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount or the Highway Subordinate Interest Subaccount;
3. At the time of the issuance of such Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bond; no deficiencies exist in the State Highway Fund or the Highway Revenue Special Account; and there does not exist an “Event of Default” or a condition which upon the passage of time would constitute such an “Event of Default”;
4. Upon the delivery of such Bonds, there shall be credited to the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount an amount equal to, in each case, the Reserve Requirement; provided however, that the Supplemental Certificate providing for the issuance of such Series of Bonds may provide that part of the proceeds thereof shall be paid or a Support Facility may be deposited, into the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount or the Highway Subordinate Debt Service Reserve Subaccount, as the case may be;

5. In the case of the issuance of Additional Bonds, upon compliance with the additional conditions summarized below under the heading “Additional Conditions for the Issuance of Additional Bonds”; and

6. In the case of the issuance of Refunding Bonds, upon compliance with the additional conditions summarized below under the heading “Additional Conditions for the Issuance of Refunding Bonds.”

Additional Conditions for the Issuance of Additional Bonds [Certificate Section 4.03]

Each of the following conditions, in addition to those set forth above under the heading “Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds,” be met upon the issuance of Additional Bonds:

(a) Such Bonds shall be issued only for the purpose of the payment or reimbursement of the cost of the acquisition or construction of properties to constitute part of the Undertaking or the making of additions to, expansions of, improvements of, renewals of, replacements of, or reconstructions of, the Undertaking or of properties which shall constitute part of the Undertaking; and

(b) The Revenues for any twelve (12) consecutive calendar month’s period out of the last eighteen (18) consecutive calendar month’s period immediately preceding the date of issuance of the Series of Bonds, as derived from the most recent publicly available financial statements of the Department, shall be at least equal to: (i) in the case of Senior Bonds proposed to be issued, two (2) times maximum Aggregate Bond Service for any future Fiscal Year on all Senior Bonds to be Outstanding after the issuance of such Additional Senior Bonds; and (ii) in the case of Subordinate Bonds proposed to be issued, one and thirty-hundredths (1.30) times maximum Aggregate Bond Service for any future Fiscal Year on all Bonds to be Outstanding after the issuance of such Additional Subordinate Bonds.

Additional Conditions for the Issuance of Refunding Bonds [Certificate Section 4.04]

The following conditions, in addition to those set forth above under “Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds,” shall be met upon the issuance of Refunding Bonds:

(a) Such Refunding Bonds are being issued for the purpose of refunding at their maturity or at any time within one year prior to their maturity, any of the then Outstanding Bonds, for the payment of which sufficient funds are not available, which Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds; and

(b) Refunding Bonds may be issued to refund prior to maturity all or part of the Outstanding Bonds, including therein amounts to pay principal of, and redemption and acquisition premium and interest on the Bonds to be refunded, which Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds.

Variable Rate Bonds [Certificate Section 4.02]

Nothing in the Certificate shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Department from issuing Variable Rate Bonds; provided, however, that no Variable Rate Bond may be issued as a Senior Bond. The Supplemental Certificate providing for the issuance of such Variable Rate Bonds may provide for, without limitation, the following: Support Facilities or alternative Support

Facilities and support agreements in connection therewith; remarketing agreements and the appointment of remarketing agents; the appointment of tender agents to accept mandatory or optional tenders of Variable Rate Bonds; the payment, redetermination and accrual over specified periods of interest; the establishment, use, composition, adjustment and change of interest indices or modes or the establishment and use of alternative interest indices or modes or the establishment of a fixed interest rate or rates; the establishment of special funds and accounts in connection with the issuance of such Variable Rate Bonds; special redemption or purchase provisions for such Variable Rate Bonds and notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Bonds; and any other terms and provisions not in conflict with the Certificate.

Annual Audit [Certificate Section 6.04]

The Department shall maintain and keep, or cause to be maintained and kept, proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking. Such accounts shall show the amount of the Revenues and the application of such Revenues to the purposes specified in the Certificate and all financial transactions in connection therewith, including all deposits into and disbursements from the State Highway Fund, the Highway Revenue Special Account and the Highway Bond Proceeds Account.

The Department shall cause its accounts to be audited by an accountant (herein defined and referred to as the “Independent Public Accountant”) employed by it, such period of appointment or employment to be from year to year. Such Independent Public Accountant shall be selected with special reference to his general knowledge, skill and experience in auditing books and accounts, and shall be a certified or licensed accountant or firm of certified or licensed accountants who, or each of whom, is in fact independent and not under the domination of the State (including the Department) and who, or each of whom, is not connected with the State (including the Department) as an officer or employee thereof, but who may be regularly retained to make annual or similar audits of any of the books of the State (including the Department). Such audit shall be made annually and shall be completed within 270 days after the close of each Fiscal Year, shall include a detailed statement of the Revenues and the expenditure and application thereof for such year and a detailed balance sheet of the Undertaking as of the close of such year, including therein a statement of the State Highway Fund and the Highway Revenue Special Account and accounts therein, and be accompanied in writing by a certificate of the Independent Public Accountant. Each such audit shall certify as to the correctness of the schedules contained in the audit report. A copy of each such annual audit shall be filed with the Director of Finance and shall be open for public inspection, and shall be mailed to any Holder of the Bonds filing with the Department a request for same. The cost of any such audit shall be an Operation and Maintenance Expense.

Annual Budget [Certificate Section 6.05]

The Department shall prepare and file with the proper officers of the State at the time and in the manner prescribed by law, an estimated budget of Revenues and Operation and Maintenance Expenses, Bond Service, capital improvements and any other proposed expenditures for the Undertaking for each Fiscal Year, which budgets shall be open to inspection by any Holder of Bonds or other interested party.

Amending Certificate Without Consent of Bondholders [Certificate Section 9.01]

The State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time and without the consent or concurrence of the Holder of any Bond, may make and execute a Supplemental Certificate (i) for the purpose of providing for the issuance of Additional Bonds or the issuance of Refunding Bonds, (ii) to make any changes or modifications thereof, or amendments, additions or deletions thereto which may be required to permit the Certificate to be qualified

under the Trust Indenture Act of 1939 of the United States of America, and (iii) if the provisions of such Supplemental Certificate shall not materially adversely affect the rights of the Holders of the Bonds then Outstanding, for any one or more of the following purposes:

1. To make any changes or corrections in the Certificate or any supplement thereto as to which it shall have been advised by its counsel that the same are minor clerical or typographical corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained therein or in any such supplement thereto, or to insert in the Certificate such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable;
2. To add additional covenants and agreements of the State for the purpose of further securing the payment of the Bonds, provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements contained in the Certificate as originally issued or as amended with the consent of Bondholders;
3. To surrender any right, power or privilege reserved to or conferred upon the State by the terms of the Certificate or any supplement hereto;
4. To confirm as further assurance any lien, pledge or charge, or the subjection of any additional revenue, property or collateral to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any supplement thereto;
5. To grant to or confer upon the Holders of the Bonds or any Support Provider, any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them;
6. To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the State payable from the Revenues;
7. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to obtain a favorable rating or ratings from any Rating Agency;
8. To add or modify any provision of the Certificate as a result of enactment of any State or federal law which changes the treatment of the Bonds or interest thereon for tax purposes;
9. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to permit such Series to be available through a book-entry system maintained by, or to be cleared through, The Depository Trust Company, New York, New York, or other securities depository, clearing corporation, or clearing agency;
10. To make any changes or corrections to the Certificate as are necessary to provide for the issuance of Bonds in a form not contemplated by the express provisions of the Certificate, including without limitation in the form of commercial paper, indebtedness which converts from a variable rate to a fixed rate, indebtedness which initially compounds or accrues interest and then converts to a current interest-bearing instrument, and a Series of Bonds whereby the State pays a particular rate of interest and such interest payment is divided in a manner such that certain Bondholders receive a variable interest rate determined by the market and other Bondholders receive a residual interest rate approximating the difference between the interest payment paid by the State and such variable rate of interest; or

11. To modify, amend or supplement in any other respect any of the provisions of the Certificate, provided that such modifications shall have no adverse effect as to any Bond or Bonds which are then Outstanding.

Except for Supplemental Certificates providing for the issuance of Additional Bonds or Refunding Bonds, the State shall not make and execute any instrument or Certificate supplemental to the Certificate, unless in the Opinion of Counsel (which opinion may be combined with the Opinion required under the Certificate) the making and entering into of such instrument or such Supplemental Certificate is permitted by the provisions of the Certificate and the provisions of such instrument or of such Supplemental Certificate are not contrary to or inconsistent with the covenants or agreements of the State contained in the Certificate as originally issued or as amended with the consent of the Bondholders.

Amending Certificate With Consent of Bondholders [Certificate Section 9.02]

With the consent of the Holders of not less than a majority of the principal amount of the Bonds then Outstanding, the State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time, may make and execute an instrument or certificate amending or supplementing the provisions of the Certificate for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any supplement thereto, or modifying or amending the rights and obligations of the Department thereunder, or modifying in any manner the rights of the Holders of the Bonds; provided, however, that, without the specific consent of the Holder of each Bond which would be affected thereby, whether or not such Bond shall then be deemed to be Outstanding thereunder, no such instrument or certificate amending or supplementing the provisions thereof shall: (1) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (2) reduce the aforesaid percentage of Bonds, the Holders of which are required to consent to any such instrument or certificate amending or supplementing the provisions thereof; (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Certificate; (4) authorize the creation of any pledge of the Revenues or any lien or charge thereon prior or superior to or on a parity with the pledge of and lien and charge thereon created in the Certificate for the payment of the Bonds except to the extent provided in the Certificate; or (5) deprive any Holder of the Bonds of the pledge and lien created by the Certificate; and provided further, that if moneys or Federal Securities shall have been deposited in accordance with the provisions of the Certificate for the payment of particular Bonds and such Bonds shall not in fact have been paid, no amendments or supplements to the provisions of Article XI of the Certificate shall be made without the specific consent of the Holder of each Bond which would be affected thereby. A modification or amendment of the provisions of Article V of the Certificate with respect to any of the accounts therein shall not be deemed a change in the terms of payment of the Bonds; provided, however, that no such modification or amendment shall, except upon the consent of the Holders of all Bonds then Outstanding affected thereby, reduce the amount or amounts required to be deposited in the Highway Revenue Special Account for credit to all accounts therein.

Events of Default; Remedies [Certificate Sections 10.01 to 10.05]

Events of Default. The following shall constitute “Events of Default:”

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

(b) If the Department shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate or in any Certificate supplemental thereto, on the part of the Department to be performed, and such default shall continue for 90 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Department by the Holders of not less than 20% in principal amount of the Bonds then Outstanding, or any trustee or committee therefor; provided, however, that if such failure shall be such that it cannot be corrected within such 90-day period, it shall not constitute an Event of Default if correction action is instituted within such period and diligently pursued until the failure is corrected; or

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

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

(e) If the Department or the State shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

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

Bondholders' Committee. Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the Holders of not less than 20% in principal amount of the Senior Bonds then Outstanding and not less than 20% in principal amount of the Subordinate Bonds then Outstanding may call a meeting of the Holders of Bonds for the purpose of electing a Bondholders' Committee. Such

meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to the Certificate. At such meeting the Holders of not less than a majority of the principal amount of the Senior Bonds then Outstanding and not less than a majority of the principal amount of the Subordinate Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any notice. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the Holders of a majority in principal amount of the Senior Bonds and by the Holders of a majority in principal amount of the Subordinate Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it, and may provide for the termination of the existence of the Bondholders' Committee.

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

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

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

Discharge of Obligations of the State Under the Certificate [Certificate Section 11.01]

The obligations of the State, including, without limiting the generality of the foregoing, of the Department, under the Certificate and the liens, pledges, charges, trusts, assignments, covenants and agreements of the State, including the Department, therein made or provided for, shall be fully discharged

and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding under the Certificate,

(A) if such Bond shall have been purchased and cancelled by the State or surrendered to the Director of Finance or other Paying Agent, transfer agent or Registrar for cancellation or be subject to cancellation by him or it, or

(B) as to any Bond not theretofore purchased and cancelled, surrendered for cancellation or subject to cancellation, when payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest on such principal (calculated, in the case of Variable Rate Bonds, at the maximum numerical rate permitted by the terms thereof) to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in the Certificate, or otherwise) either

(1) shall have been made or caused to be made when due and payable in accordance with the terms thereof, or

(2) shall have been provided by irrevocably depositing with the Director of Finance or other Paying Agent therefor, in trust solely for such payment, either (i) moneys sufficient to make such payment or (ii) Federal Securities maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, or (iii) a combination of both moneys and Federal Securities, and all necessary and proper fees, compensation and expenses of any Paying Agent, transfer agent or Registrar appointed by the State pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such Paying Agent, transfer agent or Registrar. At such time as a Bond shall be deemed to be no longer Outstanding under the Certificate, as aforesaid, except for the purpose of any such payment from such moneys or Federal Securities, such Bond shall no longer be secured by or entitled to the benefits of the Certificate and shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided therein, or otherwise).

Notwithstanding the foregoing, with respect to Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof and which the State elects to so redeem or prepay, no deposit under clause (2) of subparagraph (B) above shall constitute such discharge and satisfaction as aforesaid until such Bonds shall have matured or shall have been irrevocably called or designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been given as provided in the Certificate or irrevocable provision shall have been made for the giving of such notice; provided that nothing in the foregoing shall require or be deemed to require the State to elect to redeem or prepay such Bonds or, in the event the State shall elect to redeem or prepay such Bonds, shall require or be deemed to require the redemption or prepayment as of any particular date or dates.

Any such moneys so deposited with the Director of Finance or other Paying Agents as described above may at the direction of the Department be invested and reinvested in Federal Securities, maturing in the amounts and times as hereinbefore set forth, and all income from all such Federal Securities in the hands of the Director of Finance and other Paying Agents which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys shall have been so deposited, shall, to the extent permitted by law, be deposited in the Highway Revenue Special Account as and when realized and collected for use and application as are other moneys deposited in such Fund.

Notwithstanding the foregoing, the payment of (i) the purchase price of and interest on Variable Rate Bonds tendered for purchase pursuant to the terms thereof and of a remarketing agreement, or similar agreement, or (ii) principal of or interest on any Variable Rate Bonds with a draw, borrowing or payment under a Support Facility shall not be deemed payment of such Variable Rate Bonds pursuant to the Certificate; provided, however, that with respect to (ii) above, a reimbursement or other payment by the State with respect to a draw, borrowing or payment under a Support Facility for the payment of principal, premium, if any, or interest on Variable Rate Bonds when due, shall be deemed to the payment of such Variable Rate Bonds for the purpose of said provision.

All moneys or Federal Securities set aside and held in trust pursuant to the foregoing provisions for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Federal Securities have been so set aside in trust.

If moneys or Federal Securities have been deposited or set aside with the Director of Finance or other Paying Agent pursuant to the Certificate for the payment of Bonds and such Bonds shall be deemed to have been paid and be no longer Outstanding, but such Bonds shall not have in fact been actually paid in full, no amendment to the provisions of the Certificate relating to the defeasance of Bonds shall be made without the consent of the Holder of each Bond affected thereby and such Bonds shall be considered to be Outstanding for purposes of the Certificate.

The State may at any time surrender to the Director of Finance for cancellation by him any Bonds previously executed and delivered, which the State may have acquired in any manner whatsoever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding under the Certificate.

APPENDIX B

ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION

This Appendix B contains additional information relating to Revenue sources and other factors affecting the Department’s ability to raise Revenues, federal aid to the State of Hawaii (the “State” or “Hawaii”), the State Highway System and the Department of Transportation. Certain information in this Appendix B predates the COVID-19 pandemic. All of this information should be considered in light of the negative and adverse impacts from COVID-19 subsequent to the dates of such data. See “IMPACT OF THE COVID-19 PANDEMIC ON THE STATE AND THE STATE HIGHWAY SYSTEM” on page 3 of this Official Statement for more information on the impact of COVID-19 on the State Highway System’s Revenues.

INFORMATION RELATING TO REVENUE SOURCES

Motor Vehicle Registration. The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2020.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370
2012	1,033,975	91	2,621	203,323	38,223	32,053	1,310,286
2013	1,089,709	98	2,669	207,496	41,180	30,189	1,371,341
2014	1,042,818	105	2,565	200,934	37,771	28,252	1,312,445
2015	1,001,879	108	2,465	196,240	32,831	27,820	1,261,343
2016	1,000,684	119	2,377	198,469	31,082	28,826	1,261,557
2017	1,016,088	114	2,344	201,668	39,312*	29,010	1,288,554
2018	1,023,774	103	2,278	201,686	39,936*	28,438	1,296,415
2019	1,038,642	101	2,146	199,817	39,137*	28,501	1,308,344
2020	1,000,939	105	1,940	195,274	36,881*	27,399	1,262,538

* Includes mopeds.

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

Licensed Drivers. The following table sets forth the total number of drivers’ licenses in force in the State for the ten calendar years ending December 31, 2020.

Drivers’ Licenses in Force

Calendar Year	Oahu	Hawaii	Maui	Kauai	Total
2011	621,769	129,087	110,993	53,184	915,033
2012	618,492	128,423	110,666	52,683	910,264
2013	612,380	128,537	110,585	52,998	904,500
2014	607,823	129,753	111,664	53,350	902,590
2015	617,293	132,461	114,569	54,445	918,768
2016	629,476	137,450	118,852	56,100	941,878
2017	634,231	139,028	120,703	56,519	950,481
2018	627,030	140,057	121,448	56,628	945,163
2019	622,673	142,285	122,140	57,061	944,159
2020	602,938	136,564	121,224	56,223	916,949

Source: State of Hawaii Driver Distribution, All Licensed Drivers, Various Years, Department of Information Technology, City & County of Honolulu.

Fuel Consumption. Revenues from fuel taxes are projected to be static or to grow only incrementally as fuel consumption declines. The following table is a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel tax for the ten fiscal years ending June 30, 2020.

**Motor Vehicle Fuel Consumption
(In Thousands of Gallons)**

<u>Fiscal Year</u>	<u>Gasoline</u>	<u>Diesel</u>	<u>Alternative Fuels</u>	<u>Total</u>
2011	446,720	200,222	34,823	681,765
2012	455,703	193,739	29,075	678,517
2013	444,308	152,210	31,026	627,544
2014	450,589	190,844	28,805	670,238
2015	449,689	181,748	32,994	664,431
2016	467,645	210,826	23,187	701,658
2017	468,009	178,172	31,610	677,791
2018	465,973	157,719	28,172	651,864
2019	463,318	183,762	41,022	688,102
2020	430,203	197,057	36,619	663,879

Source: *Liquid Fuel Tax Base & Tax Collections - FY Ending June 30, 2020, Hawaii Department of Taxation.*

FACTORS THAT MAY IMPACT REVENUE SOURCES

Other Federal and State Taxes

Fuel taxes are presently imposed by federal, state, and county governments. The retail price of a gallon of gasoline in the City and County of Honolulu presently includes fuel taxes of \$0.509 (\$0.184 federal + \$0.16 state + \$0.165 county) plus the State’s 4.5% general excise tax, of which taxes only \$0.16 is the State fuel license tax. The feasibility of imposing additional taxes and fees on fuel and motor vehicles is affected in part by the amount and rate of fuel and other taxes and fees imposed by federal, state and county governments. These other taxes and fees are not pledged to the payment of the Bonds and are not available for such payment. The following is a summary of the various fuel taxes presently imposed by the federal government, the State and fuel and vehicle taxes presently imposed by county governments:

Federal Fuel Taxes. The Internal Revenue Code imposes federal fuel taxes at the rate of \$0.184 per gallon of gasoline and \$0.244 per gallon of diesel fuel.

State General Excise Tax. The State’s 4.0% general excise tax on goods and services (4.5% in the City and County of Honolulu) extends to gasoline, diesel fuel, and liquid petroleum gas. Since 1991, general excise tax collections on fuel have been paid to the State general fund, not the State Highway Fund.

County Fuel Taxes, Weight Taxes and Registration Fees

County Fuel Taxes. Each county imposes a tax on gasoline, diesel oil and liquid petroleum gas for highway use. County fuel taxes are collected by the Department of Taxation together with the fuel license taxes and deposited into the respective county highway funds to be expended by each county on county highway improvements. The fuel tax rates for the County of Hawaii are \$0.23 per gallon of gasoline and diesel oil, and \$0.076 per gallon of liquid petroleum gas. The fuel tax rates for the City and County of Honolulu are \$0.165 per gallon of gasoline and diesel oil, and \$0.054 per gallon of liquid petroleum gas. The fuel tax rates for the County of Maui are \$0.23 per gallon of gasoline and diesel oil, and \$0.115 per gallon of liquid petroleum gas. The fuel tax rates for the County of Kauai are \$0.17 per gallon of gasoline and diesel oil, and \$0.056 per gallon of liquid petroleum gas.

County Vehicle Weight Taxes. Each county imposes and collects a tax on all vehicles, including motor vehicles, based on weight. Each county collects both State and county vehicle taxes and remits the State vehicle weight tax to the State to be paid into the State Highway Fund.

The county vehicle tax rates for the City and County of Honolulu are \$0.05 per pound for passenger motor vehicles and noncommercial vehicles not exceeding 6,500 pounds, and \$0.055 per pound for commercial vehicles and all other motor vehicles, with a minimum of \$12.00 annually for all motor vehicles.

The tax rates for the County of Maui are \$0.03 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.0436 per pound for non-passenger commercial vehicles and all other motor vehicles, with a minimum of \$12.00 annually for all vehicles.

The tax rates for the County of Kauai are \$0.02 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.03 per pound for non-passenger vehicles and all other motor vehicles, with a minimum of \$12.00 annually for all vehicles.

The tax rates for the County of Hawaii are \$0.0125 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.025 per pound for non-passenger motor vehicles and commercial vehicles and motor vehicles over 6,500 pounds, with a minimum of \$12.00 annually for all vehicles.

County Registration Fees. Each county imposes various registration fees for vehicles, including fees for certificates of registration, license plates and decals. Each county collects both State and county vehicle registration fees and remits the State vehicle registration fees to the State to be paid into the State Highway Fund. The county vehicle registration fees are \$20.00 for the City and County of Honolulu, \$5.00 for the County of Hawaii, \$17.00 for the County of Kauai, and \$17.50 for the County for Maui. The fees range from \$0.50 for decals, from \$5.00 to \$10.00 for registration certificates, from \$5.00 to \$5.75 for license plates, and from \$1.00 to \$10.00 for highway beautification fees.

None of such federal or county taxes or fees, nor the State general excise tax, is pledged to the payment of the Bonds or provides a source of revenues for such payment, but such taxes and fees do affect the feasibility of imposing additional charges on the use of vehicles.

Corporate Average Fuel Economy Standards

The Department has not made a determination regarding the potential impact of the 2012 federally mandated increases in Corporate Average Fuel Economy standards to an average of 34.1 mpg by 2016 and 54.5 mpg by 2025, which may have the effect of reducing the amount of fuel sold per vehicle in the future.

FEDERAL AID TO HAWAII

Federal Aid Reimbursements

Generally the costs of financing highways for which the federal government provides assistance is undertaken on a shared basis with the State, with the federal government providing reimbursement to the State for 90% of eligible costs, in general, when federal-aid funding is used on Interstate Highways and 80% of the costs, in general, on other highways and streets not functionally classified as local or rural minor collector roads. Federal aid reimbursements are deposited in the State Highway Fund. Such amounts are not Pledged Funds under the Certificate.

The following table sets forth federal aid reimbursements to the State for each of the last ten fiscal years ended June 30, 2020.

Federal Aid Reimbursements to the State

Fiscal Year	Interstate	Other	Total Amount Reimbursed
2011	\$14,115,541	\$166,163,713	\$180,279,254
2012	9,570,059	152,192,192	161,762,251
2013	6,130,740	191,068,851	197,199,591
2014	6,565,656	196,324,578	202,890,234
2015	15,277,795	195,890,977	211,168,772
2016	28,074,553	172,238,962	200,313,515
2017	7,323,314	137,516,102	144,839,372
2018	2,932,856	156,880,127	159,812,983
2019	57,332,727	177,581,450	234,914,177
2020	7,298,563	181,812,151	189,110,714

Source: Hawaii Department of Transportation.

The Federal-aid Highway Program Generally

The Federal-aid Highway Program is an “umbrella” term that encompasses most of the federal programs providing highway funds to the states.

Fixing America’s Surface Transportation Act

On December 4, 2015, President Obama signed the Fixing America’s Surface Transportation (“FAST”) Act, Public Law No. 114-94. The FAST Act authorized federal funding for federal fiscal years 2016 through 2020 and generally retained the highway program structure established under the Moving Ahead for Progress in the 21st Century (“MAP-21”) Act. The main program areas are as follows: National Highway Performance Program, Surface Transportation Block Grant Program, Congestion Mitigation & Air Quality Program, Highway Safety Improvement Program, Transportation Alternatives, Metropolitan Planning, and the National Freight Program. The new program area is the National Freight program that funds freight related highway improvements. Since the FAST Act expired at the end of fiscal year 2020, Congress passed a 1-year FAST Act extension (the “FAST Act Extension”) until September 30, 2021 that provides \$162,316,087 in spending authority to Hawaii.

Coronavirus Response and Relief Supplemental Appropriations Act (“CRRSAA”) of 2021

In addition to the funds provided under the FAST Act Extension, Hawaii received an additional \$41,970,798 in spending authority from Title IV of the CRRSAA of 2021. A portion of the \$41,970,798 received from the CRRSAA of 2021 was used by the Department to reimburse itself for revenue expended to pay debt service on outstanding Highway Revenue Bonds. The Department anticipates using the reimbursed monies and the remainder of the CRRSAA of 2021 monies for various capital projects and for working capital.

The federal funding level for Hawaii in federal fiscal year 2020 was \$187,308,045 under the FAST Act, and for federal fiscal year 2021 is scheduled to be \$185,156,052 by formula apportionment under the FAST Act Extension, before post apportionment set asides, penalties and sequestration.

At a national level, the FAST establishes an annual Obligation Limitation (“OL”) of \$42.3 billion in federal fiscal year 2016, \$43.3 billion in 2017, \$44.2 billion in 2018, \$45.3 billion in 2019, \$46.4 billion in 2020, and \$46.7 billion in 2021 for the purpose of limiting federal highway spending each year. OL is a restriction or “ceiling” on the amount of federal funds that may be obligated (committed to projects or programs for eligible activities for federal reimbursements) during a specific time period. The amount of funds that Congress allows the states to obligate each year (the OL) is less than the funds apportioned, and it varies from year to year. For 2021, the OL provided is 87.7% of funds apportioned to Hawaii and therefore a theoretical amount of funds remain unspent every year. Distribution of the OL to the states remains similar to distribution of OL under previous appropriation acts based on various highway statistics. The FAST Act and FAST Act Extension continues the requirement to recover annually unused OL and redistribute it to states that can use it before the end of the same fiscal year. This statutory budget control does not affect the overall apportionment or allocation of funds, but controls how these funds may be obligated and used.

In recent years, the Department improved its project delivery process to procure and construct projects in a timely manner and thus gained the support of the Federal Highway Administration to obtain additional OL on a regular basis through the federal redistribution process. The additional \$91 million in additional OL received in 2017, 2018, 2019 and 2020 enabled the Department to obligate more federal funds so that much needed improvements could be funded. Some examples are: emergency repair work in response to flood events, advancing the Kuhio Highway improvements to help alleviate traffic in the busy Kapaa corridor, constructing the Interstate Route H-1 shoulder and concrete repairs to improve operations and safety in Hawaii’s busiest corridor, repair the Airport Viaduct, and providing much needed repaving and rehabilitation on Pali, Kamehameha and other highways.

The Department continues to explore different ways to improve and streamline project delivery. With the successful implementation of a FHWA Special Experimental Project program that allows the construction activities involving resurfacing, restriping and installing certain safety improvements to roadways to proceed using an abbreviated procurement process that conforms to Federal Requirements, this allowed much needed improvements to be awarded and delivered to the public in a shortened timeframe. Over \$105 million in federal funds in work has been awarded since the inception of this program from 2018 to date. These efforts have garnered further support of obtaining additional OL through the federal redistribution process and is helping the Department achieve pavement condition requirements set by the MAP-21 Act.

Federal Funding Summary - Obligation Limitation vs. Funding Apportionment

Fed FY	Apportioned Funds	Obligation Limitation	Redistribution	Total OL
2008	\$145,229,684	\$137,765,174	\$9,673,669	\$147,438,843
2009	\$146,371,519	\$135,989,190	\$8,655,466	\$144,644,656
2010	\$175,491,519	\$151,785,924	\$0	\$151,785,924
2011	\$175,514,253	\$161,375,815	\$0	\$161,375,815
2012	\$163,854,386	\$154,246,395	\$0	\$154,246,395
2013	\$163,108,318	\$153,717,246	\$17,000,000	\$170,717,246
2014	\$163,244,192	\$152,271,400	\$0	\$152,271,400
2015	\$163,244,192	\$151,300,289	\$3,111,657	\$154,411,946
2016	\$171,562,378	\$160,260,961	\$0	\$160,260,961
2017	\$173,975,237	\$159,016,134	\$41,149,572	\$200,165,706
2018	\$178,068,202	\$160,913,890	\$20,000,000	\$180,913,890
2019	\$182,657,719	\$162,187,712	\$10,000,000	\$172,187,712
2020	\$186,320,764	\$166,332,200	\$20,000,000	\$186,332,200

THE STATE HIGHWAY SYSTEM

General

In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties, and various federal agencies. The State is served by approximately 4,369.15 linear miles of public highways, streets, and roads administered by the Department and the counties. An additional 129.54 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

There are four counties in the State: the City and County of Honolulu includes the entire island of Oahu and the uninhabited windward islands, Kauai County includes the islands of Kauai and Niihau; Maui County includes the islands of Molokai, Maui, Lanai and Kahoolawe; and Hawaii County is comprised of the island of Hawaii. There are no roadways or bridges connecting one island to another.

There are two Metropolitan Planning Organizations in the State. The first is the Oahu Metropolitan Planning Organization, commonly called Oahu MPO or OMPO. Approximately 70% of the population of the State lives on Oahu. The second is the Maui Metropolitan Planning Organization, commonly called Maui MPO, which was created in 2016.

The State's highways, streets and roads are discussed below, first by the level of government responsible for administering the roadways, followed by a discussion of the federal aid system and the functional classifications. The State Highway System receives most of the federal aid highway funds made available to the State. The State Highway System follows federal policy and regulations that sets transportation urban boundary areas and classifies roads.

State Highway System

The State Highway System, which is administered by the Department, consists of 948.82 linear miles of roadways. The Department has classified the State Highway System as follows: Interstate, Freeway Expressway, Principal Arterial, Minor Arterial, Major Collector, Minor Collector, and Local.

The following table sets forth the number of miles of the various categories of public highways, streets and roads, comprising the State Highway System.

State Highway System Miles by Island

Functional Classification	Oahu	Hawaii	Maui	Kauai	Molokai	Lanai	Total
Interstate	54.86	0.00	0.00	0.00	0.00	0.00	54.86
Freeway Expressway	33.64	0.00	0.00	0.00	0.00	0.00	33.64
Principal Arterial	123.59	110.31	61.59	23.12	0.00	0.00	318.60
Minor Arterial	21.71	183.49	34.20	49.96	0.00	0.00	289.37
Major Collector	3.30	39.20	78.99	27.72	53.48	13.84	216.53
Minor Collector	10.17	12.66	0.00	2.79	0.00	0.00	25.62
Local	7.50	0.00	0.00	0.00	0.00	0.00	10.20
Total Miles	254.77	345.66	174.78	103.59	53.48	13.84	948.82

Source: Hawaii Department of Transportation, Highways Division.

The following table sets forth the number of lane miles comprising the State Highway System and the daily vehicle miles traveled.

State Highway System Lane Miles and Daily Vehicle Miles Traveled

	<u>Lane Miles</u>	<u>Percent</u>	<u>Daily Vehicle Miles</u>	
			<u>Traveled</u>	<u>Percent</u>
Oahu	970	39%	10,015,566	61%
Hawaii	723	30%	2,872,659	17%
Maui	432	17%	2,399,779	14%
Kauai	217	9%	1,228,208	7%
Molokai	107	4%	90,981	1%
Lanai	<u>28</u>	<u>1%</u>	<u>15,564</u>	<u>0%</u>
Statewide	2,477	100%	16,622,757	100%

Source: Hawaii Department of Transportation, Highways Division.

The most important component of the State Highway System is the interstate system on Oahu. The Interstate is comprised of four interstate routes, (1) Interstate H-1 is a 27.15-mile freeway that bifurcates the Primary Urban Center (“PUC”) of Oahu from the Leeward District on the western end of Oahu to the East Honolulu District on the eastern end, (2) Interstate H-201 is a 4.08-mile route that parallels the Interstate H-1 in the PUC. (3) Interstate H-2 is an 8.32-mile route from the Interstate H-1 to the Central District of the island, and (4) Interstate H-3 is a 15.32-mile route from the PUC to the Windward District. The PUC contains the island’s and the State’s most populated area, and its primary business center and industrial areas. The interstate supports the State’s economy by the connection of Oahu’s four major districts (Leeward, Central, Windward, and East Honolulu) to the PUC. It further connects the island’s two commercial harbors and the international airport with the island’s four major districts and PUC. In support of national security, the interstate links all of the military bases to one another.

Other major and important State highways on the island of Oahu include the Pali Highway and Likelike Highway which connect the Windward District communities that are Kailua and Kaneohe with the PUC; and Kamehameha Highway and Farrington Highway, which circle the island’s Windward and Leeward coastlines, respectively. Kalaniana’ole Highway circles the East Honolulu and parts of the Windward coastlines and connects to the PUC.

Major State highways on the island of Hawaii which provides a circuit around the island and connects the island’s four urban communities (Hilo, Keaau-Pahoa, Kona and Waimea), the three airports and the two commercial harbors are the Kuakini Highway, the Queen Kaahumanu Highway, the Kawaihae Road, the Hawaii Belt Road and the Mamalahoa Highway . The Daniel K. Inouye Highway, previously referred to as “Saddle Road,” connects Hilo on the east-side to Kona on the west-side of the island.

Major State highways on the island of Kauai include Kuhio Highway and Kaunualii Highway. Kuhio Highway links the East and North portions of the island with the island’s urban center Lihue, the airport and the primary commercial harbor. Kaunualii Highway links the South and West portions of the island respectively.

Major State highways in Maui County include Honoapiilani Highway and Kahekili Highway which connects the West Maui district with the island’s primary urban center Kahului-Wailuku, the primary airport, and the commercial harbor. The Mokulele Highway and the Piilani Highway connect the South portion, and the Hana Highway and the Haleakala Highway connects the north-east portion of the island to the primary center. Maunaloa Highway (North-West portion of island) and Kamehameha V Highway

(South-East portion) are the major State roads of Molokai that connect to the island's primary town center, airport and commercial sea-port.

Federal Agencies

Various federal agencies have jurisdiction over certain public highways, streets, and roads open to the public in national parks and military reservations in the State, including the United States National Park Service and the military services. The United States National Park Service also builds and maintains roads within the boundaries of the national parks.

There is an additional 11.90 miles of federally owned minor arterial roadway at Volcanoes National Park on the island of Hawaii that are maintained by the State.

THE DEPARTMENT OF TRANSPORTATION

Management Directions. On January 5, 2007, a Letter of Agreement and Stewardship Plan between the Department and the Federal Highway Administration was approved. These documents accomplished a major goal of the respective agencies, which was to, in partnership, further improve program and project delivery in the State through the outlining of responsibilities and accountability.

The Department continues to focus its management efforts on programs that will bring about operational improvements and cost efficiencies through innovation and new technology. The Department implemented a new concept approach to working with the private sector referred to as "partnering." All parties must agree to commit to the quality, safety, timeliness and cost efficiency of the project.

To increase efficiency for planning and maintaining highway improvements, the Department is utilizing an integrated and automated database management system. This Coordinated Data System ("CDS") will compile all highway improvement data (e.g., road inventory, pavement condition survey, vehicular traffic, highway improvement and maintenance expenditure) provided by the various offices within the Department. Updating and maintenance of such data will be transmitted electronically to the CDS.

To service the general public more efficiently, the Department installed electronic highway message signs at various locations on Oahu to forewarn motorists of lane closures, obstructions or accidents ahead. The Department also keeps the employees and general public informed on projects, events, public hearings and departmental news with newsletters, an internet site and provides telephone hotlines for instant information and feedback.

Oahu Metropolitan Planning Organization ("OahuMPO" or "OMPO"). The Federal Surface Transportation Assistance Act of 1973 and other federal laws require states to designate and fund a metropolitan planning organization if certain federal funds are expended in the designated metropolitan planning area for any urbanized area with a population greater than 50,000 to ensure the transportation planning and programming for each metropolitan area shall provide for the development and integrated management and operation of transportation systems and facilities that will function as an intermodal transportation system for the metropolitan area. The process for developing the plans and programs is required to provide for the consideration of all modes of transportation and to be continuing, comprehensive, and cooperative.

In 1975, the State Legislature established the OahuMPO, a decision making organization responsible for the transportation planning and programming for Oahu. The decision making body of OMPO is its Policy Board, which consists of four State legislators, three Honolulu City Council members,

the Director of the State Department of Transportation, the Director of the City and County of Honolulu Department of Transportation Services, the Director of the City and County of Honolulu Department of Planning and Permitting, and the Executive Director of the Honolulu Authority for Rapid Transportation.

OMPO is responsible for identifying Oahu's future transportation needs and programming the federal funds for projects and programs. The federal funds are programmed based on a process which prioritizes the projects based on needs and available funding. This is achieved through the development of the following five required efforts:

- (a) The Oahu Regional Transportation Plan - The 25-year long range transportation plan for Oahu.
- (b) The Overall Work Program - Annual work program that identifies all of OMPOs planning activities.
- (c) The Transportation Improvement Program - The four-year multimodal transportation improvement program for Oahu. The Transportation Improvement Program also includes two illustrative years beyond the four approved years (six years total). It is updated at least every four years and is adopted directly into the Statewide Transportation Improvement Program, without change.
- (d) The development and use of a Participation Plan.
- (e) The development and use of a Congestion Management Process.

Maui Metropolitan Planning Organization (“Maui MPO” or “MMPO”). The Federal Surface Transportation Assistance Act of 1973 and other federal laws require states to designate and fund a metropolitan planning organization if certain federal funds are expended in the designated metropolitan planning area for any urbanized area with a population greater than 50,000 to ensure the transportation planning and programming for each metropolitan area shall provide for the development and integrated management and operation of transportation systems and facilities that will function as an intermodal transportation system for the metropolitan area. The process for developing the plans and programs is required to provide for the consideration of all modes of transportation and to be continuing, comprehensive, and cooperative. The Kahului-Wailuku area surpassed the 50,000 population threshold as of the 2010 US Census, thus necessitating creation of the Maui MPO. The metropolitan planning area covers the island of Maui.

In 2016, the Maui MPO, a decision making organization responsible for the transportation planning and programming for Maui was established. The decision making body of the MMPO is its Policy Board, which consists of three Maui County Council members, the Director of the State Department of Transportation, the Director of the County Department of Public Works, the Director of the County Department of Planning and the County Department of Transportation.

Maui MPO is responsible for identifying the island of Maui's future transportation needs and programming the federal funds for projects and programs. The federal funds are programmed based on a process which prioritizes the projects based on needs and available funding. This is achieved through the development of the following four required efforts:

- (a) The Maui Regional Transportation Plan - The 25-year long range transportation plan for the island of Maui.

(b) The Overall Work Program - Annual work program that identifies all of Maui MPOs planning activities.

(a) The Transportation Improvement Program - The four-year multimodal transportation improvement program for the island of Maui. The Transportation Improvement Program also includes two illustrative years beyond the four approved years (six years total). It is updated at least every four years and is adopted directly into the Statewide Transportation Improvement Program, without change.

(c) The development and use of a Participation Plan.

Statewide Transportation Improvement Program (“STIP”). The four-year multimodal transportation improvement program for the State. The STIP includes two illustrative years beyond the four approved years. On October 4, 2018, the Federal Highway Administration approved the STIP for fiscal years 2019 to 2022. Along with the four approved years of the STIP, two illustrative years were also included to show upcoming efforts. Since the initial approval of the 2019-2022 (+2) STIP, it has been revised five times; two times with major amendments, and three times with minor administrative modifications, with the last modification and amendment approved in August 2020.

Statewide Long-Range Plan. The Department completed the Federal-Aid Highways 2035 Transportation Plan in 2014. The purpose of the plan is to provide a 20-year outlook on the transportation needs of the State Highway System, and to provide recommendations on policy and priorities based on limited resources.

Transportation Asset Management Plan (“TAMP”). The Department completed the TAMP in 2018. The TAMP identifies and prioritizes pavement and bridge projects on the National Highway System (a component of the State Highway System) for the next ten years. These TAMP projects are prioritized by a performance-based investment methodology.

Authorized Projects. The following capital improvements projects have been authorized for implementation by the State Legislature and the Governor and comprise a part of the total highway program.

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	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
2	INTERSTATE ROUTE H-3, HALAWA VALLEY MITIGATION	Design		115
4	KAMEHAMEHA HIGHWAY WETLAND ENHANCEMENT, VICINITY OF UKOA POND	Plan		1,690
5	LEEWARD BIKEWAY, PHILIPPINE SEA ROAD TO WAIPAHU DEPOT STREET	Construction		755
6	KAMEHAMEHA HIGHWAY, WAI AHOLE BRIDGE REPLACEMENT	Land		2,093
7	KAMEHAMEHA HIGHWAY, WAI AHOLE BRIDGE REPLACEMENT	Design		3,393
8	FREEWAY MANAGEMENT SYSTEM, PHASE 4	Design		400
9	INTERSTATE ROUTE H-2 AND MOANALUA FREEWAY GUARDRAIL AND SHOULDER IMPROVEMENTS, Phase 2	Construction	915	
10	GUARDRAIL AND SHOULDER IMPROVEMENTS, VARIOUS LOCATIONS, OAHU, Phase 2	Design		277
12	GUARDRAIL AND SHOULDER IMPROVEMENTS, VARIOUS LOCATIONS, OAHU, Phase 3	Design		170
13	KALANIANA'OLE HIGHWAY, INTERSECTION IMPROVEMENTS AT WAA STREET	Construction	2,093	
14	PALI HIGHWAY RESURFACING, VINEYARD BOULEVARD TO WAOKANAKA STREET	Construction	2,004	
15	TRAFFIC OPERATIONAL IMPROVEMENTS AT VARIOUS LOCATIONS, OAHU	Design		360

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
16	INTERSTATE ROUTE H-1 EAST BOUND (EB) IMPROVEMENTS, OLA LANE OVERPASS TO LIKELIKE OFF-RAMP	Design		3,400
17	INTERSTATE H-1, H-2, AND H-201 DESTINATION SIGN & STRUCTURE UPGRADE/REPLACEMENT, PHASE III, OAHU	Design	353	
18	INTERSTATE H-1, H-2, AND H-201 DESTINATION SIGN & STRUCTURE INSPECTION	Plan		150
19	KAMEHAMEHA HIGHWAY, KAIPAPAU STREAM BRIDGE REPLACEMENT	Land	100	
20	KAMEHAMEHA HIGHWAY, KAIPAPAU STREAM BRIDGE REPLACEMENT	Construction	160	
21	FARRINGTON HIGHWAY, MAKAHA BRIDGES #3 & #3A REPLACEMENT, OAHU (SB3010 Project)	Construction	1,000	
22	KAMEHAMEHA HIGHWAY, KALUANUI STREAM BRIDGE REPLACEMENT, OAHU	Land		135
23	KAMEHAMEHA HIGHWAY, KALUANUI STREAM BRIDGE REPLACEMENT, OAHU	Construction		3,600
24	FORT BARRETTE ROAD OPERATIONAL IMPROVEMENTS, ROOSEVELT AVENUE TO FARRINGTON HIGHWAY	Construction	7,705	
26	INTERSTATE ROUTE H-1, ADDITION AND MODIFICATION OF FREEWAY ACCESS, KAPOLEI INTERCHANGE COMPLEX (PHASE 3)	Construction		7,000
27	KAMEHAMEHA HIGHWAY, LAIELOA STREAM BRIDGE REPLACEMENT	ROW		129
28	KAMEHAMEHA HIGHWAY, WAIPILOPILO STREAM BRIDGE REPLACEMENT	Design		2,030

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
29	MOANALUA FREEWAY, HIGHWAY LIGHTING IMPROVEMENTS, HALAWA HEIGHTS OFF-RAMP TO MIDDLE STREET OVERPASS, Ph. 2	Construction	1,400	
30	MOANALUA FREEWAY, HIGHWAY LIGHTING IMPROVEMNTS, HALAWA TO H-3 FREEWAY OVERPASS	Construction	1,000	
31	INTERSTATE ROUTE H-1, HIGHWAY LIGHTING IMPROVEMENTS, KAIMAKANI OVERPASS TO MIDDLE STREET, PHASE 1	Design		200
33	EROSION CONTROL AND BEST MANAGEMENT PRACTICES FOR STORM WATER PERMIT COMPLIANCE, VARIOUS LOCATIONS ON OAHU (Ph.9)	Construction	575	
35	MISCELLANEOUS PERMANENT BEST MANAGEMENT PRACTICES, PHASE III, OAHU	Design	1,400	
36	BEST MANAGEMENT PRACTICES AT VARIOUS LOCATIONS, OAHU	Design	600	
37	MISCELLANEOUS PERMANENT BEST MANAGEMENT PRACTICES, PHASE III, OAHU	Land		100
38	INTERSTATE ROUTE H-1, AIRPORT VIADUCT IMPROVEMENTS, VICINITY OF VALKENBURGH STREET TO MIDDLE STREET, Phase 2	Design	800	
39	INTERSTATE ROUTE H-1, AIRPORT VIADUCT IMPROVEMENTS, VICINITY OF VALKENBURGH STREET TO MIDDLE STREET, Phase 2	Construction	1,690	
41	CULVERT ASSESSMENT AND REMEDIATION, OAHU, Phase 4	Construction		4,000
42	INTERSTATE ROUTE H-3, LULUKU CULVERT REPAIR, VICINITY OF INTERSTATE ROUTE H-3 AND LIKELIKE HIGHWAY	Design		400
43	SAND ISLAND ACCESS ROAD, TRUCK WEIGH STATION, Ph. 1	Construction	800	

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
44	SAND ISLAND ACCESS ROAD, TRUCK WEIGH STATION, Ph. 2	Construction		2,613
45	INTERSTATE ROUTE H-3, TUNNEL IMPROVEMENTS, OAHU	Design		500
46	ALA MOANA BOULEVARD ELEVATED PEDESTRIAN WALKWAY, OAHU	Construction		5,000
48	RAIL LINE HIGHWAY IMPROVEMENTS, OAHU	Construction		1,097
49	FARRINGTON HIGHWAY INTERSECTION IMPROVEMENTS AT NANAKULI AVENUE AND HALEAKALA AVENUE, Phase 2	Construction		153
50	KAMEHAMEHA HIGHWAY IMPROVEMENTS, VICINITY OF LANIAKEA BEACH	Plan	3,000	
52	WAHIAWA PEDESTRIAN BRIDGE, WHITMORE VILLIAGE TO WAHIAWA	Construction		4,700
53	LIKELIKE HIGHWAY INTERSECTION IMPROVEMENTS AT KAMEHAMEHA HIGHWAY	Design		425
54	KAWAIHAE ROAD, WAIAKA STREAM BRIDGE REPLACEMENT AND REALIGNMENT OF APPROACHES	Plan	1,360	
55	KAWAIHAE ROAD, WAIAKA STREAM BRIDGE REPLACEMENT AND REALIGNMENT OF APPROACHES	Land		600
56	KANOELEHUA AVENUE INTERSECTION IMPROVEMENTS AT KEKUANA OA STREET	Design		100
57	KANOELEHUA AVENUE INTERSECTION IMPROVEMENTS AT KEKUANA OA STREET	Construction		600

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
58	TRAFFIC OPERATIONAL IMPROVEMENTS AT VARIOUS LOCATIONS, STATEWIDE (Hawaii)	Design		100
59	KEAAU-PAHOA ROAD INTERSECTION IMPROVEMENTS AT MAKUU DRIVE AND ORCHIDLAND DRIVE	Design	400	
60	KEAAU-PAHOA ROAD INTERSECTION IMPROVEMENTS AT MAKUU DRIVE AND ORCHIDLAND DRIVE	Land	400	
61	KEAAU-PAHOA ROAD INTERSECTION IMPROVEMENTS AT MAKUU DRIVE AND ORCHIDLAND DRIVE	Construction		3,000
63	HAWAII BELT ROAD, WAILUKU BRIDGE REPAIRS	Construction		404
64	HAWAII BELT ROAD, WAILUKU BRIDGE REHABILITATION	Plan (PE1)		800
65	HAWAII BELT ROAD, KOLEKOLE STREAM BRIDGE REPAIR, Ph. 1	Construction		1,200
66	HAWAII BELT ROAD, KOLEKOLE STREAM BRIDGE REPAIR	Design		300
67	HAWAII BELT ROAD, REHABILITATION / REPLACEMENT OF HAKALAU BRIDGE	Design		350
68	GUARDRAIL AND SHOULDER IMPROVEMENTS, KULA HIGHWAY, VICINITY OF AAPUEO PARKWAY TO OMAPIO ROAD, & PIILANI HIGHWAY, NORTH KIHEI ROAD TO LIPOA PARKWAY	Construction	434	
69	GUARDRAIL AND SHOULDER IMPROVEMENTS ON STATE HIGHWAYS, MAUI, Part 5	Design		400

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
70	HONOAPIILANI HIGHWAY REALIGNMENT, PHASE IB-2, HOKIOKIO PLACE TO RELOCATED SOUTHERN TERMINUS	Land		1,252
71	HONOAPIILANI HIGHWAY REALIGNMENT, PHASE IB2, HOKIOKIO PLACE TO RELOCATED SOUTHERN TERMINUS	Construction	300	
72	HONOAPIILANI HIGHWAY REALIGNMENT, PHASE 1C, KEAWE STREET TO VICINITY OF KAA NAPALI	Design		2,510
73	HANA HIGHWAY ROCKFALL MITIGATION, MILEPOST 12	Construction	2,180	
74	HANA HIGHWAY, ROCKFALL MITIGATION, HUELO TO HANA, MAUI, Ph.4	Design		200
75	PIILANI HIGHWAY, INTERSECTION IMPROVEMENTS AT KIHEI HIGH SCHOOL	Design		600
76	KAHULUI BEACH ROAD INTERSECTION IMPROVEMENTS AT KANALOA AVENUE	Design		400
77	HANA HIGHWAY IMPROVEMENTS, Phase 2B, HUELO TO HANA, MAUI	Construction	1,376	
78	HANA HIGHWAY IMPROVEMENTS, Phase 2D, HUELO TO HANA	Construction		4,000
79	HONOAPIILANI HIGHWAY IMPROVEMENTS, MILEPOST 10.5 TO MILEPOST 18.0	Plan		1,305
80	HONOAPIILANI HIGHWAY, COASTAL HIGHWAY REALIGNMENT, VICINITY OF MOPUA	Design	413	
81	HONOAPIILANI HIGHWAY, COASTAL HIGHWAY REALIGNMENT, VICINITY OF MOPUA	Construction		1,905

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
83	PUUNENE AVENUE IMPROVEMENTS, KAMEHAMEHA AVENUE TO KUIHELANI HIGHWAY	Design		2,180
84	HANA HIGHWAY, HISTORIC DISTRICT BRIDGE PRESERVATION, Phase 1	Design	700	
85	HANA HIGHWAY, HISTORIC DISTRICT BRIDGE PRESERVATION, Phase 1	Land		200
86	MAUI DISTRICT BASEYARD OFFICE EXPANSION & RENOVATION	Plan		700
87	MISCELLANEOUS DRAINAGE IMPROVEMENTS, MAUI	Design		250
88	PEDESTRIAN IMPROVEMENTS AT VARIOUS LOCATIONS, MAUI	Design		100
89	KUHIO HIGHWAY SHORT TERM IMPROVEMENTS, KUAMOO ROAD TO TEMPORARY KAPAA BYPASS ROAD	Land	100	
90	KUHIO HIGHWAY SHORT TERM IMPROVEMENTS, KUAMOO ROAD TO TEMPORARY KAPAA BYPASS ROAD	Construction	1,400	
91	KUHIO HIGHWAY SHOULDER IMPROVEMENTS, VICINITY OF HANALEI RIVER	Design		306
92	GUARDRAIL AND SHOULDER IMPROVEMENTS ON STATE HIGHWAYS, KAUAI, Part 6	Design		500
93	GUARDRAIL AND SHOULDER IMPROVEMENTS ON STATE HIGHWAYS, KAUAI, Part 6	Construction		400
94	KAUMUALII HIGHWAY, ELEELE PEDESTRIAN OVERPASS IMPROVEMENTS	Construction	2,000	

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
97	FLOOD FREQUENCY ESTIMATES FOR THE STATE OF HAWAII	Plan	482	
98	KAMEHAMEHA HIGHWAY DRAINAGE IMPROVEMENTS, VICINITY OF WAIKANE	Design	1,764	
100	FARRINGTON HIGHWAY SAFETY IMPROVEMENTS, H-1 FREEWAY TO POHAKUNUI AVENUE	Design	760	
101	FARRINGTON HIGHWAY SAFETY IMPROVEMENTS, H-1 FREEWAY TO POHAKUNUI AVENUE	Construction	800	
102	INTERSTATE ROUTE H-1 SAFETY IMPROVEMENT, BEGINNING OF H-1 (PALAILAI INTERCHANGE) TO WAIAWA OVERPASS, OAHU	Construction		404
103	INSTALLATION OF SPEED HUMPS AT VARIOUS LOCATIONS, MAUI	Construction		105
104	KUHIO HIGHWAY RAISED CROSSWALK, VICINITY OF HANAIEI SCHOOL	Construction		220
105	MAMALAHOA HIGHWAY SAFETY IMPROVEMENTS, MILEPOST 3.9 TO MILEPOST 6.9, HAWAII	Construction		589
109	FORT WEAVER ROAD PEDESTRIAN SAFETY IMPROVEMENTS	Construction		220
110	MAMALAHOA HIGHWAY SAFETY IMPROVEMENTS AT VARIOUS LOCATIONS	Design		300
111	SCOUR EVALUATION OF EXISTING BRIDGES, FY2020	Plan	1,602	
112	SCOUR EVALUATION OF EXISTING BRIDGES, FY2021	Plan		3,282

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
113	HIGHWAY CLIMATE HAZARDS ACTION PLAN, STATEWIDE	Plan	634	
114	MID-RANGE PLAN, PH. II	Plan	550	
115	CRASH TESTING OF VARIOUS BRIDGE GUARDRAILS AND TRANSITIONS - Phase 3	Plan		482
117	ENVIRONMENTAL PERMITTING GUIDELINE MANUAL	Plan		634
118	PILOT BROADBAND DEVELOPMENT, STATEWIDE	Plan		250
119	NHO CONSULTATION PROTOCOLS	Plan		100
122	DIGITAL MAPPING DATA, DISTANCE-PRECISION, AND TRANSPORTATION TAXATION	Plan		252
123	SHORELINE PROGRAMMATIC AGREEMENT	Plan		1,000
124	TRANSPORTATION ASSET MANAGEMENT PROGRAM	Plan		500
125	HIGHWAY PLANNING, STATEWIDE (SPR) (FY20) Part 1: Planning	Plan	1,195	
126	HIGHWAY PLANNING, STATEWIDE (SPR) (FY20) Part 2: Research	Plan	1,750	
127	HIGHWAY PLANNING, STATEWIDE (SPR) (FY21) Part 1: Planning	Plan		1,001

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
128	HIGHWAY PLANNING, STATEWIDE (SPR) (FY21) Part 2: Research	Plan		867
129	FY2021 SPR COMPILATION OF LATERAL EROSION RATES FOR COASTAL ROAD PROGRAM	Plan		150
130	BRIDGE INSPECTION AND APPRAISAL (FY21)	Plan		2,260
132	KAUAI TRAFFIC MANAGEMENT CENTER	Construction	941	
134	KAUMUALII HIGHWAY INTERSECTION IMPROVEMENTS AT WAIMEA CANYON DRIVE AND MENEHUNE ROAD/HALEPULE ROAD	Construction		2,560
135	KAUMUALII HIGHWAY, INTERSECTION IMPROVEMENTS AT LAUOHO ROAD AND KULI ROAD	Design		220
136	KAUMUALII HIGHWAY, INTERSECTION IMPROVEMENTS AT LAUOHO ROAD AND KULI ROAD	Land		250
138	KAUMUALII HIGHWAY INTERSECTION IMPROVEMENTS AT KAUAI NURSERY	Construction		1,300
140	KUHIO HIGHWAY TRAFFIC SIGNAL IMPROVEMENTS, VICINITY OF HANAIEI BRIDGE	Construction		1,000
143	WAIMEA CANYON DRIVE/KOKEE ROAD IMPROVEMENTS, Phase II	Design		100
144	KUHIO HIGHWAY, HANAIEI BRIDGE REPAIR, KAUAI	Design	1,260	
145	KUHIO HIGHWAY, WAILUA RIVER BRIDGE PERMANENT REPAIRS	Construction		6,000

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
146	KUHIO HIGHWAY, HANAIEI VALLEY/HANAIEI WILDLIFE REFUGE SCENIC STOP	Construction	1,000	
147	KUHIO HIGHWAY INTERSECTION IMPROVEMENTS AT KOLO ROAD / KALAMANIA ROAD	Design		500
148	TRAFFIC COUNTING STATIONS AT VARIOUS LOCATIONS STATEWIDE, PHASE 2	Design		870
149	TRAFFIC SIGNAL MODERNIZATION AT VARIOUS LOCATIONS, OAHU, PH. 1	Construction	1,033	
151	TRAFFIC SIGNAL CONTROLLER INSTALLATION, OAHU	Construction		6,824
152	HAWAII BELT ROAD, SEISMIC RETROFIT, EAST PAAUILO, AAMANU, KAINEHE, KALAPAHAPUU, WAILOA RIVER BRIDGES	Design		207
153	SEISMIC RETROFIT OF VARIOUS BRIDGES, MAUI	Design		145
154	INTERSTATE ROUTE H-1, SEISMIC RETROFIT, WAIALAE VIADUCT, OAHU	Design		133
155	STATEWIDE HIGHWAY SHORELINE PROTECTION STUDY	Plan	930	
156	ANNUAL STATEWIDE COASTAL HIGHWAY FIELD INSPECTION PROGRAM	Plan		287
157	SHORELINE PROTECTION / MITIGATION PROGRAM, VARIOUS AREAS ON OAHU DISTRICT, Priority 1	Design		500
158	KAMEHAMEHA HIGHWAY SHORELINE PROTECTION, VICINITY OF PUNALUU, HAUULA, KAAWA, & KUALOA	Design		420

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
159	KUHIO HIGHWAY COASTAL HIGHWAY MITIGATION, VICINITY OF WAIKOKO	Design		151
161	KAMEHAMEHA HIGHWAY, ROCKFALL PROTECTION AT WAIMEA BAY, Phase 1	Design	242	
163	KUHIO HIGHWAY EMERGENCY SLOPE STABILIZATION IN THE VICINITY OF KALIHIWAI BRIDGE	Construction	287	
164	HEIGHT MODERNIZATION FACILITIES, PHASE I, DIGITAL LEVELING, KAUAI	Design	404	
165	HEIGHT MODERNIZATION FACILITIES, DIGITAL LEVELING, HAWAII, Unit 1	Design		735
166	HEIGHT MODERNIZATION FACILITIES, DIGITAL LEVELING, HAWAII, Unit 2	Design		732
167	HEIGHT MODERNIZATION FACILITIES, STATEWIDE	Design	702	
168	HEIGHT MODERNIZATION FACILITIES, STATEWIDE	Construction		1,600
169	KALANIANAOLE HIGHWAY RESURFACING, POALIMA STREET TO VICINITY OF MAKAI PIER	Construction	4,630	
170	PALI HIGHWAY RESURFACING, VINEYARD BOULEVARD TO WAOKANAKA STREET	Construction	6,971	
171	KAMEHAMEHA HIGHWAY REHABILITATION, VICINITY OF KAPUHI STREET TO DAIRY ROAD	Construction		2,404
172	NIMITZ HIGHWAY AND ALA MOANA BOULEVARD RESURFACING, SAND ISLAND ACCESS ROAD TO VICINITY OF PIIKOI STREET	Construction		2,600

	Project Description	Phase	Allotments FY2020 (\$000)	Allotments FY2021 (\$000)
173	KAMEHAMEHA HIGHWAY, KAMANANUI ROAD, AND WILIKINA DRIVE REHABILITATION, VICINITY OF WEED CIRCLE TO INTERSTATE ROUTE H-2	Construction		5,692
174	KAMEHAMEHA HIGHWAY RESURFACING, LAIEWAI BRIDGE TO WAIPUHI BRIDGE	Construction		287
175	INTERSTATE ROUTE H-1 RESURFACING, MILLER PEDESTRIAN OVERPASS TO KAPIOLANI INTERCHANGE	Construction		7,240
177	KAHEKILI HIGHWAY RESURFACING, WAIEHU BEACH ROAD TO CAMP MALUHIA	Construction		1,000
178	MAJOR PAVEMENT IMPROVEMENTS, HAWAII	Construction		3,499
179	MAJOR PAVEMENT IMPROVEMENTS, MAUI	Construction		300
180	MAJOR PAVEMENT IMPROVEMENTS, KAUAI	Construction		3,339
181	INTELLIGENT TRAFFIC SYSTEM (ITS) - SYSTEM MANAGER	Design	442	
185	IMPLEMENTING CELLULAR V2X TECHNOLOGY, STATEWIDE	Construction		500
186	FARRINGTON HIGHWAY CORRIDOR STUDY	Plan	220	

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APPENDIX C

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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

INTRODUCTION

General

The State of Hawaii (the “State” or “Hawaii”) was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, 1,211,537 in 2000, and 1,360,301 in 2010, making the State the 40th most populous state in the Union as of 2010. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port, Honolulu, are located on Oahu. According to the 2010 U.S. Census, about 70.1 percent of the population of the State lives on Oahu. Hawaii’s population exhibits greater ethnic diversity than other states because it is descended from immigrants from Asia as well as from Europe and the mainland United States. Based on the 2010 U.S. Census, approximately 38.6 percent of the State’s population is of Asian descent and about 24.7 percent of the State’s population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 10.0 percent of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State has been excerpted from the State of Hawaii State Department of Business, Economic Development and Tourism (“DBEDT”) Second Quarter 2021 Quarterly Statistical and Economic Report (“QSER”) or from other materials prepared by DBEDT, some of which may be found at <http://dbedt.hawaii.gov/>. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The following descriptions of certain components of the State’s economy are primarily related to the visitor industry, and DBEDT’s outlook for the economy are below under “State of the Economy” as well as brief descriptions in the “Outlook for the Economy” and “Tourism” sections below explaining the impact of these components on the State’s fiscal position.

State of the Economy

Hawaii's major economic indicators were mainly negative in the first quarter of 2021. Visitor arrivals, wage and salary jobs, State general fund tax revenues, and government contracts awarded all decreased in the quarter compared to the first quarter of 2020. Only private building authorizations increased in the quarter.

In the first quarter of 2021, the total number of visitors arriving by air to Hawaii decreased 1,248,651 or 59.6 percent. Due to longer lengths of stay, the daily visitor census decreased 51.6 percent in the quarter.

In the first quarter of 2021, jobs in the construction sector decreased 0.3 percent or 100 jobs compared with the same quarter of 2020. The government contracts awarded totaled \$418.8 million in the first quarter of 2021. In the first quarter of 2021, the permit value for private construction increased \$17.9 million or 2.3 percent compared with the same quarter of 2020. According to the most recent excise tax base data available, current construction put-in-place increased \$13.5 million or 0.6 percent in the fourth quarter of 2020, compared with the same quarter of the previous year.

In the first quarter of 2021, State general fund tax revenues were down \$192.0 million or 10.7 percent over the same period of 2020. The net individual income tax revenues increased \$97.4 million or 17.4 percent, the state general excise tax revenue decreased \$177.8 million or 18.3 percent, and the transient accommodations tax (TAT) decreased \$136.8 million or 69.4 percent. In 2020, State general fund tax revenues decreased \$901.5 million or 12.3 percent, and state general excise tax revenue decreased \$563.4 million or 15.6 percent, compared to the previous year.

Labor market conditions were all negative. In the first quarter of 2021, Hawaii's non-agricultural wage and salary jobs averaged 547,000 jobs, a decrease of 113,300 jobs or 17.2 percent from the same quarter of 2020.

In this quarter, the private sector lost about 101,800 non-agricultural jobs compared to the first quarter of 2020. All private sectors lost jobs in the quarter. Jobs decreased the most in Accommodation, which lost 22,300 jobs or 51.3 percent; followed by Food Services and Drinking Places, which lost 20,800 jobs or 30.0 percent, Retail Trade, which lost 11,600 jobs or 16.4 percent, Transportation, Warehousing & Utilities, which lost 10,800 jobs or 29.6 percent, Professional & Business Services, which lost 7,400 jobs or 9.9 percent, Other Services, which lost 6,600 jobs or 23.5 percent, and Arts, Entertainment & Recreation, which lost 6,000 jobs or 44.4 percent in the quarter. The Government sector lost approximately 11,500 jobs or 8.9 percent in the first quarter of 2021 compared to the same quarter of 2020. The Federal Government lost approximately 1,200 jobs or 3.4 percent, the State Government lost approximately 10,000 jobs or 13.4 percent, and the Local Government lost approximately 200 jobs or 1.1 percent, compared to the first quarter of 2020.

In the fourth quarter of 2020, total annualized nominal GDP decreased \$6,235 million or 6.4 percent, from the fourth quarter of 2019. In 2020, total annualized nominal GDP decreased \$5,888 million or 6.1 percent from the same period of the previous year. In the fourth quarter of 2020, total annualized real GDP (in chained 2012 dollars) decreased \$6,934 million or 8.4 percent from the fourth quarter of 2019. In 2020, total annualized real GDP decreased \$6,609 million or 8.0 percent from the previous year.

Turning to personal income, in the fourth quarter of 2020, total non-farm private sector annualized earnings decreased \$4,814.0 million or 11.7 percent from the fourth quarter of 2019. In dollar terms, the largest decrease occurred in accommodation and food services; followed by transportation and warehousing, retail trade, arts, entertainment, and recreation, administration and management services, and

other services. Increases were seen in construction and health care and social assistance, During the fourth quarter of 2020, total government earnings decreased \$381.5 million or 2.3 percent from the same quarter of 2019. Earnings from the federal government increased \$164.1 million or 1.8 percent. Earnings from the state and local governments decreased \$545.5 million or 7.3 percent in the quarter.

In the second half of 2020, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.6 percent from the same period in 2020. This is 0.4 of a percentage point above the U.S. average CPI-U and is higher than the second half of 2020 Honolulu CPI-U increase of 1.3 percent from the same period of the previous year. In the second half of 2020, the Honolulu CPI-U increased the most in Food and Beverages (6.9 percent), followed by Recreation (4.5 percent), Education and Communication (4.2 percent), and Housing (1.4 percent). The price of Apparel decreased 7.1 percent; the price of Transportation decreased 5.2 percent, and the price of Other Goods and Services decreased 1.8 percent compared to the second half of 2020.

Outlook for the Economy

Hawaii's economy has been greatly impacted by the COVID-19 pandemic. During the April 2020-March 2021 period, the average unemployment rate (not seasonally adjusted) was 13.5 percent. Hawaii lost 130,400 non-agriculture payroll jobs during the April 2020-March 2021 period as compared with the same period a year ago. All industry sectors lost jobs except for federal government jobs. The accommodation and food services & drinking places accounted for 42.2 percent of the total job losses, with a decline of 55,000 jobs. Overall, statewide non-agriculture payroll jobs decreased by 19.8 percent during the April 2020-March 2021 period.

Hawaii's unemployment rate increased from 2.0 percent in the first quarter of 2020 to 19.4 percent in the second quarter of 2020. After this peak, the rate declined to 14.5 percent in the third quarter of 2020, 11.2 percent in the fourth quarter of 2020, and then 9.0 percent in the first quarter of 2021.

Visitor arrivals to the State during the first quarter of 2021 totaled 847,044, a decrease of 59.6 percent from the same quarter in 2020. However, due to the longer average length of stay, the average daily visitor census decreased only 51.6 percent in the first quarter of 2021.

The value of private building permits showed an increase of 2.3 percent or \$17.9 million during the first quarter of 2021. The largest increase occurred in the residential category, which was up by \$76.7 million or 33.5 percent. The value of commercial & industrial building permits declined by 2.9 percent, and the value for additions & alterations permits declined by 12.7 percent during the same period. In the first quarter of 2021, the state government spending on capital investment projects (CIP) decreased by 18.5 percent or \$58.8 million, and government contracts awarded decreased 85.6 percent or \$1,148.8 million over the first quarter of 2020.

At the national level, U.S. real GDP growth fell to a negative 9.0 percent in the second quarter of 2020, following a 0.3 percent increase in the first quarter. Growth then began to gradually improve with negative 2.8 percent growth in the third quarter, negative 2.4 percent in the fourth quarter, and positive 0.4 percent growth in the first quarter of 2021, as compared to the same quarter in the previous year. The Blue Chip Economic Indicators report from May 10, 2021, which is the consensus of 50 economic forecasting organizations, projected that the U.S. economic growth rate for 2021 will increase by 6.6 percent. The report projected a positive 4.4 percent U.S. economic growth for 2022. The Blue Chip forecasts for foreign countries were all positive for 2021. Based on the above developments, DBEDT projects that Hawaii's economic growth rate, as measured by the real gross domestic product (GDP), will increase by 3.5 percent in 2021, 3.0 percent in 2022, 2.3 percent in 2023, and 1.8 percent in 2024.

Hawaii will welcome 6.6 million visitors in 2021, an increase of 144.4 percent from the 2020 level. Visitor arrivals will increase to 8.6 million in 2022, 9.5 million in 2023, and 10.1 million in 2024. Visitor spending will increase 117.8 percent in 2021, then will increase 34.0 percent in 2022, 12.9 percent in 2023, and 7.2 percent in 2024.

Non-agriculture payroll jobs will increase 8.0 percent in 2021, then will increase by 3.4 percent in 2022, 1.6 percent in 2023, and 1.4 percent in 2024.

Overall for 2021, the average annual unemployment rate is forecast to be 7.7 percent, then decrease to 6.3 percent in 2022, 5.6 percent in 2023, and 5.0 percent in 2024. These rates are much higher than Hawaii's average unemployment rate of 2.5 percent from 2017 to 2019.

Nominal personal income is forecast to decrease by 0.9 percent in 2021 and 2.5 percent in 2022. It is then expected to increase 2.8 percent in 2023 and 3.3 percent in 2024.

Hawaii's consumer inflation rate, as measured by the Honolulu Consumer Price Index for All Urban Consumers, is expected to increase 2.5 percent in 2021, increase 2.3 percent in 2022, and increase 2.0 percent per year in 2023 and 2024.

Hawaii's population is expected to increase 0.1 percent in 2021, and increase by 0.2 percent in 2022, 2023, and 2024.

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Table 1

SELECTED ECONOMIC INDICATORS: STATE OF HAWAII

SERIES	1st QUARTER			YEAR-TO-DATE		
	2020	2021	% CHANGE YEAR AGO	2020	2021	% CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	674,700	655,300	-2.9	674,700	655,300	-2.9
Civilian employed, NSA	661,450	596,200	-9.9	661,450	596,200	-9.9
Civilian unemployed, NSA	13,250	59,150	346.4	13,250	59,150	346.4
Unemployment rate, NSA (%) 1/ 2/	2.0	9.0	7.0	2.0	9.0	7.0
Total wage and salary jobs, NSA	665,300	(NA)	(NA)	665,300	(NA)	(NA)
Total non-agric. wage & salary jobs	660,300	547,000	-17.2	660,300	547,000	-17.2
Nat. Resources, Mining, Constr.	36,600	36,500	-0.3	36,600	36,500	-0.3
Manufacturing	13,700	11,200	-18.2	13,700	11,200	-18.2
Wholesale Trade	18,000	16,700	-7.2	18,000	16,700	-7.2
Retail Trade	70,700	59,100	-16.4	70,700	59,100	-16.4
Transp., Warehousing, Util.	36,500	25,700	-29.6	36,500	25,700	-29.6
Information	8,800	6,500	-26.1	8,800	6,500	-26.1
Financial Activities	29,800	26,600	-10.7	29,800	26,600	-10.7
Professional & Business Services	74,600	67,200	-9.9	74,600	67,200	-9.9
Educational Services	14,400	11,700	-18.8	14,400	11,700	-18.8
Health Care & Social Assistance	73,800	69,900	-5.3	73,800	69,900	-5.3
Arts, Entertainment & Recreation	13,500	7,500	-44.4	13,500	7,500	-44.4
Accommodation	43,500	21,200	-51.3	43,500	21,200	-51.3
Food Services & Drinking Places	69,400	48,600	-30.0	69,400	48,600	-30.0
Other Services	28,100	21,500	-23.5	28,100	21,500	-23.5
Government	128,700	117,200	-8.9	128,700	117,200	-8.9
Federal	34,900	33,700	-3.4	34,900	33,700	-3.4
State	74,900	64,900	-13.4	74,900	64,900	-13.4
Local	18,800	18,600	-1.1	18,800	18,600	-1.1
Agriculture wage and salary jobs	5,000	(NA)	(NA)	5,000	(NA)	(NA)
State general fund revenues (\$1,000)	1,791,047	1,599,011	-10.7	1,791,047	1,599,011	-10.7
General excise and use tax revenues	971,273	793,430	-18.3	971,273	793,430	-18.3
Income-individual	560,056	657,418	17.4	560,056	657,418	17.4
Declaration estimated taxes	200,257	214,006	6.9	200,257	214,006	6.9
Payment with returns	41,907	61,324	46.3	41,907	61,324	46.3
Withholding tax on wages	571,532	562,169	-1.6	571,532	562,169	-1.6
Refunds ('-' indicates relative to State)	-253,639	-180,081	-29.0	-253,639	-180,081	-29.0
Transient accommodations tax	197,145	60,366	-69.4	197,145	60,366	-69.4
Honolulu County Surcharge 3/	90,433	80,297	-11.2	90,433	80,297	-11.2
Private Building Permits (\$1,000)	784,793	802,667	2.3	784,793	802,667	2.3
Residential	228,653	305,358	33.5	228,653	305,358	33.5
Commercial & industrial	120,465	116,911	-2.9	120,465	116,911	-2.9
Additions & alterations	435,676	380,398	-12.7	435,676	380,398	-12.7
Visitor Days - by air	19,422,405	9,306,233	-52.1	19,422,405	9,306,233	-52.1
Domestic visitor days - by air	14,366,974	9,127,368	-36.5	14,366,974	9,127,368	-36.5
International visitor days - by air	5,055,431	178,865	-96.5	5,055,431	178,865	-96.5
Visitor arrivals by air - by air	2,095,695	847,044	-59.6	2,095,695	847,044	-59.6
Domestic flight visitors - by air	1,483,416	839,457	-43.4	1,483,416	839,457	-43.4
International flight visitors - by air	612,279	7,587	-98.8	612,279	7,587	-98.8
Visitor expend. - arrivals by air (\$1,000)	3,879,416	(NA)	(NA)	3,879,416	(NA)	(NA)
Hotel occupancy rates (%) 2/	70.4	32.4	-38.0	70.4	32.4	-38.0

NA Not available.

1/ Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.

2/ Change represents absolute change in rates rather than percentage change in rates.

3/ 0.5% added to the general excise tax to pay for O'ahu's mass transit system and took effect January 1, 2007.

Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.

Source: Hawaii State Department of Business, Economic Development, & Tourism <<http://www.hawaii.gov/dbedt/inf/>>.

Hawaii State Department of Labor & Industrial Relations <<http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>>.

Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC.

5/21/2021

Table 2

ACTUAL AND FORECAST OF KEY ECONOMIC INDICATORS FOR HAWAII:
2019 TO 2024

Economic Indicators	2019	2020 1/	2021	2022	2023	2024
	Actual		Forecast			
Total population (thousands) 2/	(NA)	1,455	1,457	1,459	1,463	1,466
Visitor arrivals (thousands) 3/	10,387	2,716	6,637	8,553	9,543	10,138
Visitor days (thousands) 3/	90,361	28,702	60,386	76,473	84,499	88,857
Visitor expenditures (million dollars) 3/	17,844	5,111	11,132	14,911	16,833	18,048
Honolulu CPI-U (1982-84=100)	281.6	286.0	293.2	299.9	305.9	312.0
Personal income (million dollars)	80,727	85,446	84,706	82,599	84,875	87,666
Real personal income (millions of 2012\$) 4/	61,855	65,210	63,426	60,774	61,384	62,356
Non-agricultural wage & salary jobs (thousands)	658.5	557.1	601.6	621.9	632.1	641.1
Civilian unemployment rate	2.5	11.6	7.7	6.3	5.6	5.0
Gross domestic product (million dollars)	95,744	89,856	95,045	99,901	104,019	107,780
Real gross domestic product (millions of 2012\$)	82,471	75,863	78,518	80,874	82,734	84,223
Gross domestic product deflator (2012=100)	116.1	118.4	121.0	123.5	125.7	128.0
Annual Percentage Change						
Total population	(NA)	(NA)	0.1	0.2	0.2	0.2
Visitor arrivals	5.0	-73.9	144.4	28.9	11.6	6.2
Visitor days	2.4	-68.2	110.4	26.6	10.5	5.2
Visitor expenditures	1.1	-71.4	117.8	34.0	12.9	7.2
Honolulu CPI-U	1.6	1.6	2.5	2.3	2.0	2.0
Personal income	2.9	5.8	-0.9	-2.5	2.8	3.3
Real personal income	0.7	5.4	-2.7	-4.2	1.0	1.6
Non-agricultural wage & salary jobs	0.0	-15.4	8.0	3.4	1.6	1.4
Civilian unemployment rate 5/	0.1	9.1	-3.9	-1.4	-0.7	-0.7
Gross domestic product	2.8	-6.1	5.8	5.1	4.1	3.6
Real gross domestic product	0.3	-8.0	3.5	3.0	2.3	1.8
Gross domestic product deflator (2012=100)	2.5	2.0	2.2	2.0	1.8	1.8

NA. Not available or not applicable.

1/ Some of the indicators are preliminary such as visitor arrivals, visitor days and expenditures.

2/ Census of Population April 1, 2020 count.

3/ Visitors who came to Hawaii by air or by cruise ship. Expenditures includes supplementary expenditures.

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

5/ Absolute change from previous year.

Source: Hawaii State Department of Business, Economic Development & Tourism, May 24, 2021.

Tourism

Due to the impact of COVID-19, domestic visitor arrivals and international visitor arrivals both decreased in the first quarter of 2021. Due to longer lengths of stay, the daily visitor census decreased less than the decrease of visitor arrivals in the quarter.

The total number of visitor arrivals by air decreased 1,248,651 or 59.6 percent in the first quarter of 2021, compared to the same quarter of 2020. The total average daily census was down 110,030 or 51.6 percent in the quarter. In 2020, total visitor arrivals by air decreased 7,556,762 or 73.8 percent, while the average daily census decreased 167,700 or 68.2 percent from the previous year.

In the first quarter of 2021, total visitor arrivals on domestic flights decreased 643,959 or 43.4 percent compared to the same quarter of 2020. In 2020, domestic arrivals were down 5,191,164 or 71.6 percent from the previous year.

Arrivals on international flights decreased 604,692 or 98.8 percent in the first quarter of 2021 compared to the first quarter of 2020. In 2020, international arrivals decreased 2,365,598 or 79.1 percent from the previous year.

In terms of major market areas, from the first quarter of 2020 to the same period of 2021, arrivals from the U.S. West decreased 335,885 or 37.0 percent, arrivals from the U.S. East decreased 266,459 or 51.8 percent, and arrivals from Japan decreased 291,318 or 99.0 percent. In 2020, arrivals from the U.S. West were down 3,288,931 or 71.6 percent; arrivals from the U.S. East were down 1,600,460 or 70.3 percent; and Japanese arrivals were down 1,278,962 or 81.1 percent from the previous year.

In the first quarter of 2021, the length of stay per visitor increased. Due to the longer length of stay, the average total daily visitor census decreased less than the decrease in visitor arrivals in the quarter. The total average daily visitor census was down 51.6 percent or 110,030 visitors per day in the first quarter of 2021, over the same quarter of 2020. The domestic average daily census decreased 35.8 percent or 56,464 visitors per day, while the international average daily census decreased 96.4 percent or 53,567 visitors per day. In 2020, the domestic average daily census decreased 118,580 or 65.1 percent; and the international average daily census declined 49,119 or 77.4 percent from the previous year.

According to the most recent data available, nominal visitor expenditures by air totaled \$3,879.4 million in the first quarter of 2020, down 13.4 percent or \$601.6 million from the same quarter of 2019. In 2019, visitor expenditures increased \$193.3 million or 1.1 percent from the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, decreased 45.0 percent or 1,464,726 seats in the first quarter of 2021, domestic seats decreased 27.8 percent or 658,535 seats; international seats declined 91.3 percent or 806,191 seats, compared to the same quarter of 2020. In 2020, the number of total available seats decreased 60.6 percent or 8,194,218 seats from the previous year.

In the first quarter of 2021, the statewide hotel occupancy rate averaged 32.4 percent, 38.0 percentage points lower than the same quarter of 2020. In 2020, the statewide hotel occupancy rate averaged 37.1 percent, 43.7 percentage points lower than that of the previous year.

Readers interested in visitor statistics on a monthly basis can find them on the DBEDT website at: <http://dbedt.hawaii.gov/visitor/tourism/> and those interested in daily passenger arrival data may access them at: <http://dbedt.hawaii.gov/visitor/daily-passenger-counts/>.

Table 3

VISITOR ARRIVALS BY AIR
Average Length of Stay, Visitor Days, Average Daily Census

	2017	2018	2019	2020	% Change 2017-2018	% Change 2018-2019	% Change 2019-2020
Total Arrivals							
Total	9,277,613	9,761,448	10,243,165	2,686,403	5.2	4.9	-73.8
Domestic	6,239,748	6,736,736	7,253,806	2,062,642	8.0	7.7	-71.6
International	3,037,865	3,024,712	2,989,359	623,761	-0.4	-1.2	-79.1
Average Length of Stay							
Total	9.0	9.0	8.8	10.6	-0.3	-2.4	21.5
Domestic	9.6	9.5	9.2	11.3	-1.5	-3.0	23.2
International	7.8	7.9	7.8	8.4	1.9	-1.3	8.6
Visitor Days							
Total	83,608,118	87,724,599	89,692,422	28,560,253	4.9	2.9	-68.2
Domestic	59,959,536	63,732,896	66,535,081	21,935,014	6.3	4.4	-77.0
International	23,648,582	23,991,703	23,157,341	6,625,239	1.5	-1.2	-71.4
Average Daily Census							
Total	229,063	240,341	245,733	78,033	4.9	2.2	-68.2
Domestic	164,273	174,611	182,288	63,708	6.3	4.4	-65.1
International	64,791	65,731	63,445	14,326	1.5	-3.5	-77.4

Source: Hawaii Tourism Authority

Table 4

HOTEL OCCUPANCY RATE (%)

<i>Year</i>	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>	<i>Annual Average</i>
In Percent					
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012	80.3	73.8	78.9	74.5	76.9
2013	82.0	74.2	77.8	72.3	76.5
2014	80.8	74.0	78.7	74.7	77.0
2015	80.0	77.7	79.4	77.8	78.7
2016	80.7	77.5	80.5	77.5	79.0
2017	81.4	79.4	81.4	78.6	80.2
2018	83.5	81.1	80.1	76.4	80.3
2019	80.5	80.3	82.8	79.6	80.8
2020 1/	70.4	12.9	20.7	21.9	37.1
2021 1/	32.4	(NA)	(NA)	Year-to-Date	32.4

NA Not available.

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

1/ Source revises each month of previous year when current year is released.

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

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APPENDIX D

**FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND INDEPENDENT
AUDITORS' REPORT**

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**Highways Division
Department of Transportation
State of Hawaii**

Financial Statements
(With Independent Auditors' Report Thereon)

June 30, 2020

Submitted by
**THE AUDITOR
STATE OF HAWAII**

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Financial Statements

June 30, 2020

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Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division), as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the Highways Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Highways Division as of June 30, 2020, and the respective changes in financial position and the respective budgetary comparison of the State Highway Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Relationship to the State of Hawaii

As discussed in Note 1, the financial statements of the Highways Division are intended to present the financial position, the changes in financial position, and the budgetary comparison of only that portion of the governmental activities and each major fund of the State of Hawaii that is attributable to the transactions of the Highways Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2020, and the changes in its financial position, and the budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021, on our consideration of the Highways Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Highways Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Highways Division's internal control over financial reporting and compliance.

KKDL Y LLC

Honolulu, Hawaii
March 17, 2021

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The following Management's Discussion and Analysis (MD&A) of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Highways Division as of and for the year ended June 30, 2020. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Territorial Highway Department was created by the Territorial Legislature on April 24, 1925 by Act 78 to qualify Hawaii for participation in the Federal-Aid Program. The purpose of the Federal-Aid Program was to ensure the development of an integrated network of highways in the United States. Congress defined that the Federal government would provide the funds for construction on a matching contribution basis while the State or its political subdivisions would administer the highways.

The Department of Transportation was created in 1959 by the Hawaii State Government Reorganization Act. In creating the new department, the legislature transferred the responsibilities of the old Highway Department to the Highways Division of the new Department of Transportation.

The mission of the Highways Division is to facilitate the rapid, safe, and economical movement of people and goods within the State by providing, maintaining, and operating land transportation facilities and support services. The major goals of the Highways Division are to plan, design, construct, and maintain highway facilities. In addition, the Highways Division, together with the Statewide Transportation Planning Office, implements innovative and diverse approaches to congestion management to increase the efficiency of the transportation system.

The Highways Division is managed by the Division Administrator. Each island in the system is managed by a district manager with the exception of the Maui District, which includes the islands of Molokai and Lanai. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management, and methods, standards and evaluation functions of the Highways Division. Other major functional operations within the Highways Division include Project Coordination and Technical Services Office, Engineering Services Office, Motor Vehicle Safety Office, Planning Branch, Design Branch, Rights-of-Way Branch, Materials Testing and Research Branch, Construction and Maintenance Branch, and Traffic Branch.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Highways Division's financial statements. The Highways Division's financial statements consist of three sections: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. These sections are described as follows:

Government-Wide Financial Statements

The government-wide statements report information about the Highways Division as a whole in a manner similar to a private-sector business. The statements provide both long-term and short-term information about the Highways Division's overall financial status. They are prepared using the economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year, regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The *Statement of Net Position* presents all of the Highways Division's assets, deferred outflows of resources, and liabilities, with the difference reported as "net position." Over time, increases or decreases in the Highways Division's net position are an indicator of whether its financial health is improving or deteriorating.

The *Statement of Activities* presents information showing how the Highways Division's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Highways Division's activities are considered governmental activities and are primarily funded by taxes, charges for services, and intergovernmental revenues.

The government-wide financial statements can be found on pages 15 and 16 of this report.

Fund Financial Statements

Governmental Funds

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Highways Division, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Governmental funds financial statements are prepared using the current financial resources measurement focus and the modified-accrual basis of accounting. These statements provide a detailed short-term view of the Highways Division's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Highways Division.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Highways Division's near-term financing decisions. A reconciliation to facilitate this comparison between governmental funds financial statements and government-wide financial statements is included on pages 19 and 22 of this report.

The Highways Division has three governmental funds, all of which are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The Highways Division's three governmental funds are the State Highway Fund (SHF) (a special revenue fund), the Debt Service Fund, and the Capital Projects Fund.

The governmental funds financial statements can be found on pages 17 through 22 of this report.

Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis) - State Highway Fund

The governmental funds financial statements are followed by a budgetary comparison statement, which compares the SHF's original budget, final budget, and actual amounts prepared on a budgetary basis. A reconciliation between the actual SHF revenues and expenditures compared to the SHF revenues and expenditures prepared for budgetary purposes is included in Note 3 to the financial statements.

The Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis) - State Highway Fund can be found on page 23 of this report.

Fiduciary Fund

The fiduciary fund is used to account for assets held by the Highways Division on behalf of other departments of the State. The statement of fiduciary net position of the agency fund can be found on page 24.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the governmental funds financial statements. The notes to financial statements can be found on pages 25 through 61 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

The assets and deferred outflows of resources of the Highways Division exceeded its liabilities at June 30, 2020 by \$4.8 billion. Of this amount, \$228 million is considered unrestricted and may be used to meet the Highways Division's ongoing obligations.

The Highways Division's net position decreased by \$31 million during the year ended June 30, 2020.

Fund Financial Statements

At June 30, 2020, the Highways Division's governmental funds reported a combined ending fund balance of \$324 million. The combined fund balance increased by \$60 million from the prior year's ending fund balance.

The Highways Division's SHF, the major operating fund, reported an ending fund balance of \$258 million. There was a \$8 million increase in fund balance during the year ended June 30, 2020.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary Schedule of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Highways Division's financial position. The Highways Division's assets and deferred outflows of resources exceeded liabilities by \$4.8 billion at June 30, 2020 and 2019, respectively.

	2020	2019
Assets:		
Current and other assets	\$ 423,698,330	\$ 369,519,826
Capital assets, net	5,007,050,155	5,030,423,739
Total assets	5,430,748,485	5,399,943,565
Deferred Outflows of Resources:		
Deferred charge on refunding, net	7,796,440	9,358,188
Liabilities:		
Current liabilities	100,839,974	107,007,965
Long-term liabilities	566,211,586	499,503,424
Total liabilities	667,051,560	606,511,389
Net Position:		
Net investment in capital assets	4,543,496,295	4,546,247,419
Restricted for capital projects activity	-	28,061,662
Unrestricted	227,997,070	228,480,743
Total net position	\$ 4,771,493,365	\$ 4,802,789,824

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The largest portion (95%) of the Highways Division's net position (\$4.5 billion at June 30, 2020 and 2019) reflects its net investment in capital assets (e.g., land and land improvements, buildings and improvements, vehicles and equipment, and infrastructure), which is net of any related debt and other borrowings used to acquire those assets that is still outstanding and deferred charge on refunding, net. The Highways Division uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Highways Division's net investment in capital assets is reported net of related debt and other borrowings, it should be noted that the resources needed to repay the debt and other borrowings must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Highways Division's net position represents resources that are subject to restrictions as to how they may be used. This primarily relates to net assets restricted to capital projects activity, amounting to nil and \$28 million at June 30, 2020 and 2019, respectively.

The remaining net position (\$228 million at June 30, 2020 and 2019) is unrestricted and may be used to meet the Highways Division's on-going obligations to citizens and creditors.

Current and other assets increased by \$54 million or 15% from June 30, 2019 to June 30, 2020, due primarily to increases in cash and cash equivalents and receivables of \$37 million and \$17 million, respectively.

Capital assets, net decreased by \$23 million from June 30, 2019 to June 30, 2020, primarily due to net additions to capital assets of \$186 million, offset by depreciation expense of \$209 million.

Current liabilities decreased by \$6 million or 6% from June 30, 2019 to June 30, 2020, primarily due to a \$21 million decrease in accounts and contracts payable, offset by an increase in security deposits of \$12 million.

Long-term liabilities increased by \$67 million or 13% from June 30, 2019 to June 30, 2020, primarily due to an increase in revenue bonds payable of \$63 million. Refer to "Long-Term Debt" section on page 13 for discussion on revenue bond issuance in December 2019.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

Summary Schedule of Changes in Net Position

The following condensed financial information reflects how the Highways Division's net position changed during the year ended June 30, 2020 and 2019.

	2020	2019
Expenses:		
Depreciation expense	\$ 209,237,344	\$ 204,844,826
Operations and maintenance	157,615,560	201,836,892
Administration of Highways Division	109,500,501	54,268,113
Interest expense	14,991,048	14,929,035
Motor Vehicle Safety Office	6,213,063	16,931,082
Other	24,373,377	74,093,014
Total expenses	521,930,893	566,902,962
Revenues:		
Program revenues:		
Capital grants and contributions	96,694,042	155,803,401
Operating grants and contributions	93,333,621	95,558,522
Charges for services	50,674,007	54,863,101
Total program revenues	240,701,670	306,225,024
Net program expenses	(281,229,223)	(260,677,938)
General revenues:		
Taxes	227,206,617	224,607,058
Investment income and other	22,726,147	27,031,796
Total general revenues	249,932,764	251,638,854
Change in net position	(31,296,459)	(9,039,084)
Net Position, beginning of year	4,802,789,824	4,811,828,908
Net Position, end of year	\$ 4,771,493,365	\$ 4,802,789,824

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

Total revenues decreased by \$67 million or 12% from \$558 million in fiscal year 2019 to \$491 million in fiscal year 2020, due primarily to a decrease in program revenues of \$65 million or 21%, and a decrease in general revenues of \$2 million or 1%.

Program revenues, which comprise charges for services, as well as capital and operating grants, accounted for 49% and 55% of total revenues in fiscal years 2020 and 2019, respectively. The largest components of program revenues (79% for fiscal year 2020 and 82% for the fiscal year 2019) resulted from capital and operating grants and contributions primarily from the Federal Highway Administration for the maintenance and construction of roads and other infrastructure. Capital and operating grants and contributions decreased by \$61 million from \$251 million in fiscal year 2019 to \$190 million in fiscal year 2020 due primarily to grants and contributions received for the decreased costs associated with the statewide highway maintenance programs.

General revenues, which consist of taxes, including state fuel taxes, vehicle weight taxes and penalties, and rental motor and tour vehicle surcharge taxes, as well as investment income, accounted for 51% and 45% of total revenues in fiscal years 2020 and 2019, respectively.

Total expenses decreased by \$45 million or 8% from \$567 million in fiscal year 2019 to \$522 million in fiscal year 2020. This decrease is due primarily to the decreases in operations and maintenance expenses and other expenses of \$44 million and \$50 million respectively, offset by an increase in administration of Highways Division expenses of \$55 million.

The decrease in net position was \$31 million in fiscal year 2020 as compared to the decrease in net position of \$9 million in fiscal year 2019.

FINANCIAL ANALYSIS OF THE HIGHWAYS DIVISION'S GOVERNMENTAL FUNDS

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

The focus of the Highways Division's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Highways Division's financing requirements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

At June 30, 2020, the Highways Division's governmental funds reported combined ending fund balance of \$324 million, representing an increase of \$60 million from the prior year. \$258 million of the fund balance is committed to indicate that amounts can only be used for specific purposes pursuant to formal action of the Legislature. \$67 million of the fund balance is restricted to indicate that amounts are restricted to specific purposes imposed by external parties.

At June 30, 2019, the Highways Division's governmental funds reported combined ending fund balance of \$264 million, representing a decrease of \$39 million from the prior year. \$250 million of the fund balance is committed to indicate that amounts can only be used for specific purposes pursuant to formal action of the Legislature. \$14 million of the fund balance is restricted to indicate that amounts are restricted to specific purposes imposed by external parties.

The SHF is the major operating fund of the Highways Division. The State imposes taxes, fees, and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the SHF established under Section 248-8, Hawaii Revised Statutes (HRS). Monies deposited in the SHF are used for acquisition, planning, design, construction, operation, repair, and maintenance of the State Highway System.

The current taxes, fees, and charges deposited to the SHF consist of: (1) the highway fuel taxes; (2) the vehicle registration fees; (3) the vehicle weight tax; and (4) the rental motor vehicle and tour vehicle surcharge taxes. Together, these taxes, fees, and charges accounted for most of the receipts of the SHF. Other sources of revenues include interest earnings on monies previously credited to the SHF, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees, and other miscellaneous revenues.

At June 30, 2020 and 2019, the total fund balance of the SHF was \$258 million and \$250 million, respectively. SHF's fund balance increased by \$8 million in the current year compared to a \$3 million increase in the prior year. The current year increase was mainly due to revenues over expenditures of \$73 million and net transfers out of \$65 million.

The Debt Service Fund (DSF) is used to track the revenue bond debt service for the Highways Division. Debt service requirements are primarily transferred from the SHF. The debt service expenditures were \$53 million and \$51 million for fiscal year 2020 and fiscal year 2019, respectively.

The Capital Projects Fund (CPF) accounts for the Highways Division's capital improvements program. At June 30, 2020, the CPF had a total fund balance of \$67 million. The CPF fund balance increased by \$52 million in fiscal year 2020 as compared to a \$41 million decrease in the prior year. The increase in the current year fund balance was mainly due to expenditures over revenues of \$60 million offset by net transfers in of \$11 million and \$101 million in other financing sources from revenue bond issuances.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

STATE HIGHWAY FUND BUDGETARY HIGHLIGHTS

The final SHF budget had total revenues of \$284 million. The actual revenues on a budgetary basis were \$4 million or 1% more than the final budget, primarily due to higher than budgeted revenues for rental motor and tour vehicle surcharge taxes of \$14 million and investment income of \$8 million, offset by lower than budgeted revenues for vehicle weight taxes of \$8 million, state fuel taxes of \$6 million, and vehicle registration fees of \$4 million.

Expenditures on the budgetary actual basis were \$53 million or 17% lower than the final budgeted amounts. The majority of the difference was due to actual operations and maintenance expenditures being \$12 million lower than the final budget, and actual expenditures related to the administration of the Highways Division being \$40 million lower than final budget. The lower than budgeted expenditures were primarily due to the deferral of several projects that had been budgeted for during the fiscal year and lower payroll expenditures due to staffing vacancies.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Highways Division's investment in capital assets as of June 30, 2020 amounted to \$5.0 billion, net of accumulated depreciation of \$6.4 billion. This investment in capital assets includes land and land improvements, buildings and building improvements, vehicles and equipment, infrastructure assets and construction in progress. Infrastructure assets consist of land, roadways, tunnels and bridges, and miscellaneous roadway components.

During fiscal year 2020, the Highways Division had bid openings for 40 projects, with contract amounts totaling approximately \$61 million. There were 21 projects on Oahu, 5 projects on Maui, (includes Molokai and Lanai), 4 projects on Hawaii, 7 projects on Kauai, and 3 statewide projects.

During fiscal year 2019, the Highways Division had bid openings for 9 projects, with contract amounts totaling approximately \$33 million. There were 4 projects on Oahu, 1 project on Maui, (includes Molokai and Lanai), 2 projects on Hawaii, and 2 statewide projects.

Additional information on the Highways Division's capital assets can be found in Note 7 to the financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

Long-Term Debt

As of June 30, 2020, outstanding State of Hawaii Highway Revenue Bonds amounted to \$431 million, compared to \$379 million as of June 30, 2019. These revenue bonds are payable solely from, and collateralized solely by, certain revenues held in the State Highway Fund. The proceeds of the revenue bonds are used to finance highway capital improvement projects and other related projects for the State Highways System.

<u>Series</u>	<u>Interest Rates</u>	<u>Final Maturity Date (July 1)</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
2005B	3.00-5.25%	2021	\$ 123,915,000	\$ 12,555,000
2011	2.00-5.00%	2032	117,365,000	42,700,000
2014	2.00-5.00%	2034	135,660,000	103,535,000
2016	1.26-5.00%	2036	204,485,000	190,860,000
2019	3.00-5.00%	2040	81,835,000	81,835,000
			<u>\$ 663,260,000</u>	<u>\$ 431,485,000</u>

On December 11, 2019, the Highways Division issued \$82 million of State of Hawaii Revenue Bonds Series 2019A (the 2019A Bonds). The 2019A Bonds bear interest at rates ranging from 3.00% to 5.00% and mature in annual installments through 2040. These bonds were issued at a premium of \$19 million.

The Highways Division's revenue bond rating by Moody's Investors Service, Inc. and Standard & Poor's Corporation are "Aa2," and "AA+," respectively.

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 that such ratings will continue for any given period of time or that such ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The State undertakes no responsibility to oppose any such revision, suspension, or withdrawal.

See Notes 9 and 10 to the financial statements for additional information on the State of Hawaii Highway Revenue Bonds.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The Highways Division entered into an equipment lease purchase agreement to fund the acquisition and installation of energy conservation measures at selected Highways Division locations. Lease payments commenced on August 1, 2017 and will continue through August 1, 2031 at an interest rate of 2.63%. See Note 14 to the financial statements for further information on this capital lease obligation, which amounted to \$56 million and \$58 million at June 30, 2020 and 2019, respectively.

Additional information on the Highways Division's other long-term liabilities can be found in Note 9 to the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Highways Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Administrative Services Officer, State of Hawaii, Department of Transportation, Highways Division, 869 Punchbowl Street, Honolulu, Hawaii, 96813.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Governmental Activities

Statement of Net Position

June 30, 2020

Assets:	
Cash and cash equivalents	\$ 231,992,742
Receivables, net:	
Due from U.S. government	45,496,958
Due from city and counties	10,416,878
Due from State of Hawaii	52,881
Other receivables	1,763,790
Restricted cash and cash equivalents:	
Capital projects	94,111,332
Revenue bond debt service	18,538,169
Security deposits	20,509,037
Other assets	816,543
Capital assets, net of accumulated depreciation	<u>5,007,050,155</u>
Total assets	<u>5,430,748,485</u>
Deferred Outflows of Resources:	
Deferred charge on refunding, net	<u>7,796,440</u>
Liabilities:	
Accounts payable	30,395,276
Accrued payroll	6,330,244
Accrued interest payable	1,477,825
Contracts payable:	
Current portion	16,405,968
Retainage payable	7,183,455
Payable from restricted assets:	
Revenue bonds - due within one year	8,130,000
Interest payable	10,408,169
Security deposits	20,509,037
Long-term liabilities:	
Due within one year:	
Accrued vacation payable	3,663,768
Workers' compensation payable	1,154,101
Capital lease obligation	2,543,062
Revenue bonds payable	22,565,000
Due after one year:	
Accrued vacation payable	9,314,124
Workers' compensation payable	11,303,616
Capital lease obligation	53,460,121
Revenue bonds payable	<u>462,207,794</u>
Total liabilities	<u>667,051,560</u>
Net Position:	
Net investment in capital assets	4,543,496,295
Unrestricted	<u>227,997,070</u>
Total net position	<u>\$ 4,771,493,365</u>

See accompanying notes financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Governmental Activities

Statement of Activities

Year Ended June 30, 2020

Expenses:

Operations and maintenance:	
Oahu highways and services	\$ 65,211,422
Kauai highways and services	15,415,685
Hawaii highways and services	23,860,749
Maui highways and services	16,268,353
Molokai highways and services	2,370,820
Lanai highways and services	606,471
Pass through for County highways and services	33,882,060
Depreciation expense	209,237,344
Administration of Highways Division	109,500,501
Interest expense	14,991,048
Repairs and maintenance	12,735,425
Surcharge on gross receipts	11,637,952
Motor Vehicle Safety Office	<u>6,213,063</u>
Total expenses	<u>521,930,893</u>

Program Revenues:

Capital grants and contributions	96,694,042
Operating grants and contributions	93,333,621
Charges for services:	
Vehicle registration fees	42,755,532
Penalties and fines	3,556,240
Other fees and permits	3,315,920
Rentals	<u>1,046,315</u>
Total program revenues	<u>240,701,670</u>
Net program expenses	<u>(281,229,223)</u>

General Revenues:

Taxes:	
Vehicle weight taxes and penalties	77,421,094
State fuel taxes	77,285,432
Rental motor and tour vehicle surcharge taxes	72,500,091
Investment income	10,483,264
Other revenues	<u>12,242,883</u>
Total general revenues	<u>249,932,764</u>
Change in net position	(31,296,459)

Net Position:

Beginning of year	<u>4,802,789,824</u>
End of year	<u>\$ 4,771,493,365</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Governmental Funds

Balance Sheet

June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 194,317,530	\$ -	\$ 37,675,212	\$ 231,992,742
Receivables:				
Due from capital projects fund	71,822,696	-	-	71,822,696
Due from U.S. government	14,112,295	-	31,384,663	45,496,958
Due from city and counties	10,409,013	-	7,865	10,416,878
Due from State of Hawaii	52,881	-	-	52,881
Other receivables	1,763,790	-	-	1,763,790
Restricted cash and cash equivalents:				
Capital projects	-	-	94,111,332	94,111,332
Revenue bond debt service	-	18,538,169	-	18,538,169
Security deposits	20,509,037	-	-	20,509,037
Other assets	793,976	-	22,567	816,543
	<u>\$ 313,781,218</u>	<u>\$ 18,538,169</u>	<u>\$ 163,201,639</u>	<u>\$ 495,521,026</u>
Total assets				

See accompanying notes to financial statements.

(Continued)

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Governmental Funds

Balance Sheet (Continued)

June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Liabilities:				
Accounts payable	\$ 22,222,906	\$ -	\$ 8,172,370	\$ 30,395,276
Accrued payroll	6,330,244	-	-	6,330,244
Contracts payable:				
Current portion	1,530,705	-	14,875,263	16,405,968
Retainage payable	5,545,433	-	1,638,022	7,183,455
Payable from restricted assets:				
Revenue bond debt service	-	18,538,169	-	18,538,169
Security deposits	20,509,037	-	-	20,509,037
Due to State Highway Fund	-	-	71,822,696	71,822,696
Total liabilities	<u>56,138,325</u>	<u>18,538,169</u>	<u>96,508,351</u>	<u>171,184,845</u>
Fund Balances:				
Restricted - Capital Projects Fund	-	-	66,693,288	66,693,288
Committed - State Highway Fund	257,642,893	-	-	257,642,893
Total fund balances	<u>257,642,893</u>	<u>-</u>	<u>66,693,288</u>	<u>324,336,181</u>
Total liabilities and fund balances	<u>\$ 313,781,218</u>	<u>\$ 18,538,169</u>	<u>\$ 163,201,639</u>	<u>\$ 495,521,026</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

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

June 30, 2020

Total fund balances - governmental funds		\$ 324,336,181
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds financial statements. These assets consist of:		
Governmental capital assets	\$ 11,411,595,981	
Less accumulated depreciation	<u>(6,404,545,826)</u>	
		5,007,050,155
Deferred charges on refunding are recorded as expenditures in governmental funds financial statements when the corresponding debt is first issued. However, in government-wide financial statements, such amounts are recorded as a deferred outflow of resources and amortized over the life of the related bonds.		
		7,796,440
Accrued interest payable is not recognized in governmental funds		
		(1,477,825)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds financial statements:		
Revenue bonds payable	(484,772,794)	
Capital lease obligation	(56,003,183)	
Accrued vacation payable	(12,977,892)	
Workers' compensation payable	<u>(12,457,717)</u>	
		<u>(566,211,586)</u>
Net position of governmental activities		<u>\$ 4,771,493,365</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Governmental Funds

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

Year Ended June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Revenues:				
Charges for services:				
Vehicle registration fees	\$ 42,755,532	\$ -	\$ -	\$ 42,755,532
Penalties and fines	3,556,240	-	-	3,556,240
Other fees and permits	3,315,920	-	-	3,315,920
Rentals	1,046,315	-	-	1,046,315
Capital grants and contributions	-	-	96,694,042	96,694,042
Operating grants and contributions	93,333,621	-	-	93,333,621
Taxes:				
Vehicle weights taxes and penalties	77,421,094	-	-	77,421,094
State fuel taxes	77,285,432	-	-	77,285,432
Rental motor and tour vehicle surcharge taxes	72,500,091	-	-	72,500,091
Investment income	10,483,264	-	-	10,483,264
Other revenues	12,005,823	-	237,060	12,242,883
Total revenues	<u>393,703,332</u>	<u>-</u>	<u>96,931,102</u>	<u>490,634,434</u>
Expenditures:				
Operations and maintenance:				
Oahu highways and services	92,139,535	-	-	92,139,535
Hawaii highways and services	28,085,474	-	-	28,085,474
Kauai highways and services	19,955,830	-	-	19,955,830
Maui highways and services	17,774,753	-	-	17,774,753
Molokai highways and services	2,370,820	-	-	2,370,820
Lanai highways and services	606,471	-	-	606,471
Pass through for County highways and services	33,882,060	-	-	33,882,060
Administration of Highways Division	108,360,203	-	-	108,360,203
Surcharge on gross receipts	11,637,952	-	-	11,637,952
Motor Vehicle Safety Office	6,213,062	-	-	6,213,062
Capital outlay	-	-	156,662,403	156,662,403
Debt service:				
Principal payments	-	32,499,406	-	32,499,406
Interest expense	-	20,653,975	-	20,653,975
Total expenditures	<u>321,026,160</u>	<u>53,153,381</u>	<u>156,662,403</u>	<u>530,841,944</u>
Revenues over (under) expenditures, carried forward	<u>\$ 72,677,172</u>	<u>\$ (53,153,381)</u>	<u>\$ (59,731,301)</u>	<u>\$ (40,207,510)</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Governmental Funds

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

Year Ended June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Revenues over (under) expenditures, brought forward	\$ 72,677,172	\$ (53,153,381)	\$ (59,731,301)	\$ (40,207,510)
Other Financing Sources (Uses):				
Transfers in	-	53,153,381	11,456,075	64,609,456
Transfers out	(64,609,456)	-	-	(64,609,456)
Issuance of revenue bonds	-	-	81,835,000	81,835,000
Premiums on revenue bonds	-	-	18,660,847	18,660,847
Total other financing sources (uses)	<u>(64,609,456)</u>	<u>53,153,381</u>	<u>111,951,922</u>	<u>100,495,847</u>
Net change in fund balances	8,067,716	-	52,220,621	60,288,337
Fund Balances:				
Beginning of year	<u>249,575,177</u>	<u>-</u>	<u>14,472,667</u>	<u>264,047,844</u>
End of year	<u>\$ 257,642,893</u>	<u>\$ -</u>	<u>\$ 66,693,288</u>	<u>\$ 324,336,181</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
HIGHWAYS DIVISION**

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

Year Ended June 30, 2020

Net change in fund balances - total governmental funds \$ 60,288,337

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in
the statement of activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	\$ 186,168,839	
Net loss of disposal of capital assets	(305,079)	
Less current fiscal year depreciation	<u>(209,237,344)</u>	(23,373,584)

Borrowings provide current financial resources to governmental funds;
however, issuing debt increases long-term liabilities in the statement
of net assets

Issuance of revenue bonds	(81,835,000)	
Premiums on revenue bonds	<u>(18,660,847)</u>	(100,495,847)

Repayment of long-term debt and capital lease is reported as
expenditures in the governmental funds financial statements, but the
repayment reduces long-term liabilities in the government-wide
financial statements:

Bond principal repayment	29,845,000	
Capital lease obligation	2,254,406	
Change in debt service liability recognized in debt service fund	<u>400,000</u>	32,499,406

Governmental funds report the effect of original issue premium and
deferred charge on refunding when the corresponding debt is first
issued, whereas the amounts are amortized to expense over the
remaining life of the related bond in the government-wide financial
statements:

Amortization of bond premiums	7,165,977	
Amortization of deferred charge on refunding	<u>(1,561,748)</u>	5,604,229

Other revenues and expenditures in the government-wide financial
statements do not provide or use current financial resources and
therefore are not reported as revenues and expenditures in
governmental funds financial statements.

(5,819,000)

Change in net position - governmental activities \$ (31,296,459)

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

State Highway Fund

Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2020

	Original	Final	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
Revenues:				
State fuel taxes	\$ 83,553,918	\$ 83,553,918	\$ 77,285,432	\$ (6,268,486)
Vehicle weight taxes	84,485,190	84,485,190	76,964,482	(7,520,708)
Rental motor and tour vehicle surcharge taxes	58,281,292	58,281,292	72,500,091	14,218,799
Vehicle registration fees	46,479,796	46,479,796	42,494,220	(3,985,576)
Investment income	2,770,090	2,770,090	10,377,360	7,607,270
Other fees and penalties	8,187,637	8,187,637	8,333,612	145,975
Total revenues	<u>283,757,923</u>	<u>283,757,923</u>	<u>287,955,197</u>	<u>4,197,274</u>
Expenditures:				
Operations and maintenance:				
Oahu highways and services	81,609,688	81,605,749	79,576,856	2,028,893
Hawaii highways and services	14,727,444	15,958,238	12,360,519	3,597,719
Maui highways and services	14,967,547	14,979,417	11,483,897	3,495,520
Kauai highways and services	9,389,613	9,449,521	7,650,505	1,799,016
Molokai highways and services	1,974,925	1,977,466	1,477,028	500,438
Lanai highways and services	522,718	523,563	399,835	123,728
Administration of Highways Division including debt service	165,287,980	162,553,550	122,719,832	39,833,718
Surcharge on gross receipts	11,637,952	13,044,591	12,744,591	300,000
Motor Vehicle Safety Office	9,581,991	9,581,991	8,615,580	966,411
Total expenditures	<u>309,699,858</u>	<u>309,674,086</u>	<u>257,028,643</u>	<u>52,645,443</u>
Revenues over (under) expenditures and other uses	<u>\$ (25,941,935)</u>	<u>\$ (25,916,163)</u>	<u>\$ 30,926,554</u>	<u>\$ 56,842,717</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Agency Fund

Statement of Fiduciary Net Position

June 30, 2020

Asset:

Cash and cash equivalents	\$ 1,435,991
Total asset	<u>\$ 1,435,991</u>

Liability:

Due to others	\$ 1,435,991
Total liability	<u>\$ 1,435,991</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

(1) Financial Reporting Entity

Act 1, Session Laws of Hawaii (SLH), Second Special Session 1959, the Hawaii State Government Reorganization Act of 1959 (the Act), established the Department of Transportation (the Department) whose function is to establish, maintain, and operate transportation facilities of the State of Hawaii (the State), including highways, airports, harbors and such other transportation facilities and activities as may be authorized by law. The Department's activities are carried out through three primary operating divisions: Airports, Harbors, and Highways (the Highways Division). Through the Highways Division, the Department has general supervision of the management and maintenance of the State Highways System and the location, design, and construction of new highways and facilities. The Highways Division provides supervision to assure completion of State highway contracts in accordance with plans and specifications.

Taxes, fees, and charges authorized and collected relating to the operation and use of motor vehicles on public highways of the State are deposited into the State Highway Fund, and expenditures for purposes of the Act are made from the State Highway Fund.

The State Highway Fund also includes the Motor Vehicle Safety Office (MVSO). The MVSO was originally established as the Highway Safety Coordinator's Office to implement the 1967 Hawaii Highway Safety Act. It was reorganized by the 1977 State Legislature to encompass the additional duty of the safety of operations of heavy motor vehicles. The MVSO is assigned as a staff office under the Highways Division.

The accompanying financial statements present only the activities of the Highways Division and are not intended to present fairly the financial position of the governmental activities and the respective major funds of the State, and the respective changes in financial position and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

(2) Significant Accounting Policies

Basis of Presentation

The Highways Division's financial statements are prepared in conformity with GAAP. The Governmental Accounting Standards Board (the GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Governmental Funds Financial Statements

The accounts of the Highways Division are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues,

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. For financial reporting purposes, the Highways Division includes all funds that are controlled by or dependent on the Highways Division's administrative head. Control by or dependence on the Division was determined on the basis of statutory authority and monies flowing through the Highways Division to each fund or account.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Highways Division considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Revenues susceptible to accrual include federal grants and tax and fee revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

A description of the funds administered by the Highways Division are included in the governmental funds financial statements follows:

State Highway Fund – The State Highway Fund generally accounts for revenues and expenditures for highway operations, maintenance, and administration.

The State Highway Fund is a special revenue fund of the State established by Section 248-8, Hawaii Revised Statutes (HRS). All fuel taxes collected under Section 243-4, HRS except county fuel taxes, aviation fuel taxes, and taxes on fuel sold for use by small boats are deposited in the State Highway Fund.

Section 248-9, HRS provides that monies in the State Highway Fund shall be expendable by the Department of Transportation for the design, construction, reconstruction, repair and maintenance, and for acquisition of rights-of-way for public highways included in the State Highway Fund established under Section 264-41, HRS.

Debt Service Fund – The Debt Service Fund accounts for the Highways Division's financial resources obtained and used for the payment of principal and interest on State of Hawaii Highway Revenue Bonds.

Capital Projects Fund – The Capital Projects Fund accounts for the Highways Division's construction projects and the related sources of financing.

The accompanying financial statements include highway projects authorized by legislative acts through June 30, 2020.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

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

Nonspendable – Balances that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature. Legislation is required to modify or rescind a fund balance commitment.

Assigned – Balances that are constrained by management to be used for specific purposes, authorized by the HRS, but are neither restricted nor committed.

Unassigned – Residual balances that are not contained in the other classifications.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of interfund activity has been removed from these financial statements.

Statement of Net Position – The statement of net position includes all capital assets and long-term liabilities that are excluded from the governmental funds financial statements. The net position is reported in three categories: net investment in capital assets; restricted for capital projects activity; and unrestricted.

Statement of Activities – The statement of activities reports expenses and revenues in a format that focuses on the cost of the Highways Division's programs. Revenues are classified as either program revenues or general revenues. Program revenues include charges paid by users, as well as capital or operating grants. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

Fiduciary Fund Financial Statement

The agency fund is used to account for assets held by the Highways Division on behalf of other departments of the State. Cash and cash equivalents reported in the agency fund statement of fiduciary net position consist of amounts held in State Treasury, including deposits received and held for others in the amount of \$1,435,991 at June 30, 2020.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts held in State Treasury as discussed in Note 4. The State's investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of amounts held in State Treasury, the use of which is legally restricted. Restricted cash and cash equivalents accounts for the principal and interest amounts accumulated to make debt service payments on the Highways Division's revenue bonds, security deposits collected from third parties, and bond proceeds restricted for the construction of capital projects.

Fair Value Measurements

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

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

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

**HIGHWAYS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on collection history and current information regarding the credit worthiness of the tenants and others doing business with the Highways Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

Capital Assets

Capital assets, which include land and land improvements, buildings and improvements, vehicles and equipment, infrastructure (i.e., roads, bridges, tunnels), and construction in progress, are reported in the government-wide statement of net position. Such assets are recorded at cost or at estimated fair market value at the date of donation. Capital outlays are recorded as expenditures of the State Highway Fund or Capital Projects Fund in the governmental funds and as assets in the government-wide statement of net position to the extent the capitalization threshold is met.

Capital assets are depreciated by the straight-line method over their useful lives estimated by management as follows:

<u>Class of Assets</u>	<u>Estimated Useful Life</u>	<u>Capitalization Threshold</u>
Land improvements	15 years	\$ 100,000
Buildings	30 years	\$ 100,000
Building improvements	30 years	\$ 100,000
Vehicles and equipment	5 to 7 years	\$ 5,000
Infrastructure	28 to 75 years	\$ 100,000

Disposals of assets are recorded by removing the costs and related accumulated depreciation from the accounts with the resulting gain or loss recorded in operations.

Repairs and maintenance, and minor replacements, renewals, and betterments are charged against operations. Major replacements, renewals, and betterments are capitalized.

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Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources is a consumption of net position by a government that is applicable to a future reporting period and deferred inflows of resources is an acquisition of net position by a government that is applicable to a future reporting period. Both deferred outflows of resources and deferred inflows of resources are reported in the statement of net position, but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the Highways Division is the deferred charge of refunding. The Highways Division does not currently have any deferred inflows of resources.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

In the governmental funds financial statements, bond premiums are recognized when received. The face amount of debt and any related premium are reported as other financing sources.

Bond Issuance Costs

Costs relating to the issuance of bonds are expensed as incurred in the accompanying financial statements.

Refunding of Debt

The difference between the reacquisition price of issued bonds and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred charge on refunding, net amounted to \$7,796,440 at June 30, 2020, and is reported as deferred outflows of resources in the statement of net position.

Compensated Absences

It is the Highways Division's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the accompanying government-wide financial statements. A liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example as a result of employee resignations and retirements.

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Risk Management

The Highways Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The State is self-insured for workers' compensation as discussed in Note 16. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as transfers in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

GASB Statement No. 84

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 (GASB 95) for one year. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

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GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2019, postponed by GASB 95 for eighteen months. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 92

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective at multiple periods depending on when certain statements are implemented, postponed by GASB 95 for one year. The Highways Division is currently evaluating the impact that the statement will have on its financial statements.

GASB Statement No. 93

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB 95 for one year. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 94

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

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GASB Statement No. 95

During fiscal year 2020, the State implemented GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The requirements of this statement are effective immediately. This statement did not have any effect on the Highways Division's financial statements.

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

(3) Budget and Budgetary Accounting

State Highway Fund

In the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) for the State Highway Fund, amounts reflected as original and amended budgeted revenues are the official estimates as compiled by the Highways Division's management and the State Department of Budget and Finance at the time of budget consideration and adoption by the State Legislature. Revenue received from federal grants-in-aid is not included in the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) for the State Highway Fund since such grants are normally reimbursements of costs incurred on approved projects.

In the case of expenditures, the original and amended budgeted amounts reflected on the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) for the State Highway Fund are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii.

Allotments are made and expenditures are controlled at the program level for the State Highway Fund. Allotments for the State Highway Fund lapse at year-end.

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The table below reconciles the revenues over expenditures and other uses shown on the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) for the State Highway Fund to the revenues over expenditures, before other financing uses, on a GAAP basis shown on the statement of revenues, expenditures and changes in fund balances for the State Highway Fund. The expenditures shown on the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) are based on the budgetary allotted expenditures while the expenditures shown on the statement of revenues, expenditures and changes in fund balance are based on GAAP. Therefore, significant difference may exist between these two basis.

Revenues over expenditures and other uses,	
non-GAAP budgetary basis	\$ 30,926,554
Federal grants in aid - not included in budgeted revenues but included in GAAP basis revenues	93,333,621
Miscellaneous differences in revenues based on budgetary basis and GAAP basis	12,414,514
Pass through expenditures for county projects not included in allotted expenditures on budgetary basis but included in GAAP basis expenditures	(33,882,060)
Debt service payment budgeted as part of Administrative of Highways Division, but not shown as an expenditures in State Highway Fund	53,153,381
Differences in operations and maintenance expenses between allotted expenditures on budgetary basis and expenditures on GAAP basis	(47,984,243)
Differences in Highways Division administrative expenditures between allotted expenditures on budgetary basis and expenditures on GAAP basis (less budgeted debt service payment)	(38,793,752)
Differences in Motor Vehicle Safety Office expenditures and gross receipts surcharge between allotted expenditures on budgetary basis and expenditures on GAAP basis	<u>3,509,157</u>
Revenues over expenditures, before other financing uses, GAAP basis	<u><u>\$ 72,677,172</u></u>

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Capital Projects Fund

Excess Capital Projects Fund allotments lapse after completion of the project, which is generally two or three years subsequent to allotment.

(4) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2020, consisted of amounts held in State Treasury and are reflected in the accompanying financial statements at June 30, 2020 as follows:

	Governmental Activities	Agency Fund	Total
Cash and cash equivalents	\$ 231,992,742	\$ 1,435,991	\$ 233,428,733
Restricted cash and cash equivalents:			
Capital projects	94,111,332	-	94,111,332
Revenue bond debt service	18,538,169	-	18,538,169
Security deposits	20,509,037	-	20,509,037
Total cash and cash equivalents	\$ 365,151,280	\$ 1,435,991	\$ 366,587,271

Amounts Held in State Treasury

The Director of Finance of the State Department of Budget and Finance (B&F) is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the pool participants based upon their equity interest in the pooled monies.

Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

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At June 30, 2020, amounts held in State Treasury by the Highways Division totaled \$366,587,271. The amounts held in State Treasury reported in the accompanying statement of net position reflects the Highways Division's relative position in the State's investment pool based upon the average monthly investment balance of each participant in the investment pool.

Information relating to the cash and investments in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool and collateralization of the investment pool balances is included in the comprehensive annual financial report (CAFR) of the State.

Cash and Cash Equivalents

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

Investments

The State holds investments both for its own benefit and as an agent for other parties. Further, the State pools all excess funds into an investment pool that is administered by B&F. The pool's investment options are limited to investments listed in the HRS.

At the end of each quarter, B&F allocates the investment pool amount to each of the participants. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The Hawaii Employer-Union Health Benefits Trust Fund (the EUTF) maintains a separate investment pool. The EUTF board is responsible for safekeeping these monies and has appointed an investment committee responsible for investing EUTF assets in compliance with HRS Sections 87A-24(2) and 88-119. Money is invested in accordance with the EUTF's investment policy.

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The following table presents the fair value of the investments included in the State's investment pool at June 30, 2020 (amounts expressed in thousands):

	Reported Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government:				
Investments measured by fair value level:				
U.S. government securities	\$ 2,228,705	\$ 1,431,333	\$ 797,372	\$ -
Mutual funds	84,914	84,914	-	-
	2,313,619	\$ 1,516,247	\$ 797,372	\$ -
Investments measured at amortized cost:				
Certificates of deposit	742,902			
Total investments	\$ 3,056,521			
Fiduciary funds:				
Investments by fair value level:				
Equity securities	\$ 462,167	\$ 462,167	\$ -	\$ -
U.S. government securities	584,823	221,053	363,770	-
Mutual funds	71,949	71,949	-	-
Derivatives	(450)	-	(450)	-
	1,118,489	\$ 755,169	\$ 363,320	\$ -
Investments at net asset value (NAV):				
Commingled funds:				
Domestic equity	814,557			
International equity	703,635			
Domestic core fixed income	109,944			
Domestic inflation-linked fixed income	184,646			
Real estate	375,657			
Alternative investments	589,910			
Total investments at fair value	3,896,838			
Investments measured at amortized cost:				
Certificates of deposit	114,733			
Total investments	\$ 4,011,571			
Invested securities lending collateral at NAV:				
Money market fund	\$ 18,499			

Cash and Cash Equivalents, Certificates of Deposit, and Repurchase Agreements

The State considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts for cash equivalents, certificates of deposit, and repurchase agreements are measured at amortized cost.

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Debt Securities; Mutual Funds; Equity Securities; Commingled Funds, Real Estate, and Alternative Investments; and Money Market Funds

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

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

Mutual funds – The mutual funds held by the State are open-ended mutual funds that are registered with the Securities Exchange Commission. The fair value of these mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. These investments are categorized in Level 1 of the fair value hierarchy.

Equity securities – Equity securities held by the State are valued at the closing price reported on the active market on which the individual securities are traded. These investments are categorized as Level 1 of the fair value hierarchy.

Commingled funds, real estate, and alternative investments – Investments in commingled funds, real estate, and alternative investments are valued at the NAV of the investment vehicles. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

Money market funds – Investments in money market funds are valued at the NAV of the custodian bank liquid asset portfolio. NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the State's investments have fluctuated since June 30, 2020.

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The following table presents the State's investments by maturity period at June 30, 2020 (amounts expressed in thousands):

	Reported Value	Maturity (in years)		
		Less than 1	1-5	More than 5
Primary government:				
Certificates of deposit	\$ 742,902	\$ 686,304	\$ 56,598	\$ -
U.S. government securities	2,228,705	1,500,400	728,305	-
	2,971,607	\$ 2,186,704	\$ 784,903	\$ -
Mutual funds	84,914			
Total investments	\$ 3,056,521			
Fiduciary funds:				
Certificates of deposit	\$ 114,733	\$ 110,296	\$ 4,437	\$ -
U.S. government securities	584,823	187,494	397,329	-
Derivatives	(450)	-	(450)	-
	699,106	\$ 297,790	\$ 401,316	\$ -
Equity securities	462,167			
Mutual funds	71,949			
Commingled funds	1,812,782			
Real estate	375,657			
Alternative investments	589,910			
Total investments	\$ 4,011,571			

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Notes to Financial Statements

June 30, 2020

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Concentration of Credit Risk

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

Foreign Currency Risk

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

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(5) Tax and Fee Revenues

State Fuel Tax

The primary source of revenue for the State Highway Fund is the state tax on liquid (motor vehicle) fuel. For fiscal year 2020, the tax imposed on each gallon of fuel was as follows:

Gasoline	16 cents
Diesel fuel:	
Non-highway use	1 cent
Highway use	16 cents
Liquefied petroleum gas	5.2 cents

Vehicle Weight Tax and Penalties

The vehicle weight tax was 1.75 to 2.25 cents per pound of net vehicle weight, to a maximum of \$300 per vehicle.

Rental Motor and Tour Vehicle Surcharge Taxes

The rental motor vehicle surcharge tax was \$5 a day that a rental motor vehicle is rented or leased.

The tour vehicle surcharge tax was \$66 a month for tour vehicles categorized by the Public Utilities Commission as an over 25-passenger carrier vehicle and \$16 a month for tour vehicles categorized as an 8 to 25 passenger carrier vehicle.

Vehicle Registration and Motor Carrier Safety Inspection Fees

The vehicle registration fee was \$45 per vehicle, of which \$5 is earmarked for deposit into the Emergency Medical Services (EMS) special fund. During the year ended June 30, 2020 the Highways Division collected approximately \$5,570,000 on behalf of the EMS special fund.

The motor carrier safety inspection fee was \$1.50 per vehicle.

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(6) Federal Grants-In-Aid

The Highways Division has projects in progress in which part of the funding is being provided by the Federal Highway Administration (FHWA) through grants-in-aid. Such projects are generally accounted for in the Capital Projects and State Highway Funds. At June 30, 2020, receivables totaling \$45,496,958 from the U.S. government are comprised of billed costs, pending reimbursement, as well as unbilled costs, which are eligible for reimbursement.

In addition, the MVSO has projects in progress in which part of the funding is being provided through federal grants-in-aid. The grants contain various compliance requirements, which must be met by the MVSO, including a matching of the grant amounts with state and local highway safety expenditures as defined in a formula. MVSO's matching requirement is met through the expenditures of the Division of Driver Education, The Judiciary, State of Hawaii. Cost reimbursement by the FHWA and National Highway Traffic Safety Administration (NHTSA) are subject to final audit by federal agencies. In addition, FHWA and NHTSA reserve the right to examine the Highways Division for economy, efficiency, and program results. The Highways Division's management believes that any federal aid received as of June 30, 2020 that might be required to be repaid to the FHWA or NHTSA based on federal audits would not be material to the financial position of the various funds of the Highways Division at June 30, 2020, or the results of operations of such funds for the year then ended.

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(7) Capital Assets

Changes in capital assets during the year ended June 30, 2020 were as follows:

	Balance July 1, 2019	Additions	Deductions	Transfers	Balance June 30, 2020
Nondepreciable assets:					
Land	\$ 1,266,227,017	\$ 990,775	\$ (3,493)	\$ -	\$ 1,267,214,299
Construction in progress	369,060,392	178,718,825	(257,402)	(244,272,176)	303,249,639
Total nondepreciable assets	<u>1,635,287,409</u>	<u>179,709,600</u>	<u>(260,895)</u>	<u>(244,272,176)</u>	<u>1,570,463,938</u>
Depreciable assets:					
Land improvements	2,215,473	-	-	-	2,215,473
Buildings and improvements	58,203,300	-	-	3,013,358	61,216,658
Vehicles and equipment	88,532,753	6,459,239	(4,794,273)	-	90,197,719
Infrastructure	9,449,628,885	-	(3,385,510)	241,258,818	9,687,502,193
Total depreciable assets	9,598,580,411	6,459,239	(8,179,783)	244,272,176	9,841,132,043
Less accumulated depreciation	(6,203,444,081)	(209,237,344)	8,135,599	-	(6,404,545,826)
Total depreciable assets, net	<u>3,395,136,330</u>	<u>(202,778,105)</u>	<u>(44,184)</u>	<u>244,272,176</u>	<u>3,436,586,217</u>
Total capital assets, net	<u>\$ 5,030,423,739</u>	<u>\$ (23,068,505)</u>	<u>\$ (305,079)</u>	<u>\$ -</u>	<u>\$ 5,007,050,155</u>

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June 30, 2020

(8) Net Position

At June 30, 2020, net position consisted of the following:

Net investment in capital assets:

Net property, plant and equipment	\$ 5,007,050,155
Less: Revenue bonds payable	(484,772,794)
Add: Unspent revenue bond proceeds	94,111,332
Add: Deferred charge on refunding, net	7,796,440
Less: Capital lease obligation, net of unused proceeds and financed interest cost	(56,003,183)
Less: Capital-related accounts and contracts payable	<u>(24,685,655)</u>

Total net investment in capital assets 4,543,496,295

Unrestricted 227,997,070

Total net position \$ 4,771,493,365

**HIGHWAYS DIVISION
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June 30, 2020

(9) General Long-Term Liabilities

Changes in general long-term liabilities during the year ended June 30, 2020 were as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2020</u>	<u>Amount Due Within One Year</u>
Accrued vacation payable	\$ 12,675,753	\$ 5,389,478	\$ (5,087,339)	\$ 12,977,892	\$ 3,663,768
Workers' compensation payable (Note 16)	6,882,158	6,655,787	(1,080,228)	12,457,717	1,154,101
Capital lease obligation (Note 14)	58,257,589	-	(2,254,406)	56,003,183	2,543,062
Revenue bonds payable (Note 10)	379,495,000	81,835,000	(29,845,000)	431,485,000	30,695,000
Revenue bonds payable - unamortized premium (Note 10)	49,922,924	18,660,847	(7,165,977)	61,417,794	-
Total governmental activities long-term liabilities	<u>\$ 507,233,424</u>	<u>\$ 112,541,112</u>	<u>\$ (45,432,950)</u>	<u>\$ 574,341,586</u>	<u>\$ 38,055,931</u>

(10) Revenue Bonds

In 1993, the Director of the Department of Transportation issued the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds* (Certificate). Subsequent issues of revenue bonds were covered by supplemental certificates to the original 1993 Certificate.

These revenue bonds are payable solely from, and collateralized solely by, the revenues held in the State Highway Fund consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, rental motor vehicle and tour vehicle surcharge taxes, and interest earnings on monies previously credited to the State Highway Fund. The proceeds of the revenue bonds are used to finance certain highway capital improvement projects and other related projects for the State Highways System.

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On February 20, 2005, the Highways Division issued \$123,915,000 in State of Hawaii Revenue Bonds Series B (2005B Bonds) with interest rates ranging from 3.0% to 5.25% and mature in annual installments through 2021. These bonds were issued at a premium of \$15,000,442, which will be amortized over the life of the bonds using the effective interest method.

On December 15, 2011, the Highways Division issued \$112,270,000 in State of Hawaii Revenue Bonds Series 2011A (2011A Bonds). The 2011A Bonds bear interest at rates ranging from 2.00% to 5.00% and mature in annual installments through 2032. These bonds were issued at a premium of \$13,152,124, which will be amortized over the life of the bonds using the effective interest method.

On December 15, 2011, the Highways Division also issued \$5,095,000 in State of Hawaii Revenue Bonds Series 2011B (2011B Bonds) with an interest rate of 4.00% and mature in annual installments through 2032. These bonds were issued at a premium of \$466,702, which will be amortized over the life of the bonds using the effective interest method. The 2011B bonds were issued to provide funds for a current refunding of the outstanding 2001 Bonds. The payments for the current refunding of revenue bonds amounted to \$5,400,000.

On August 14, 2014, the Highways Division issued \$103,375,000 in State of Hawaii Revenue Bonds Series 2014A (2014A Bonds). The 2014A Bonds bear interest at rates ranging from 2.00% to 5.00% and mature in annual installments through 2034. These bonds were issued at a premium of \$17,291,491, which will be amortized over the life of the bonds using the effective interest method.

On August 14, 2014, the Highways Division also issued \$32,285,000 in State of Hawaii Revenue Bonds Series 2014B (2014B Bonds). The 2014B Bonds bear interest at rates ranging from 3.00% to 5.00% and mature in annual installments through 2026. These bonds were issued at a premium of \$5,865,358, which will be amortized over the life of the bonds using the effective interest method.

On September 8, 2016, the Highways Division issued \$103,395,000 in State of Hawaii Revenue Bonds Series 2016A (2016A Bonds). The 2016A Bonds bear interest at rates ranging from 2.00% to 5.00% and mature in annual installments through 2030. These bonds were issued at a premium of \$17,107,039, which will be amortized over the life of the bonds using the effective interest method.

On September 8, 2016, the Highways Division also issued \$101,090,000 in State of Hawaii Revenue Bonds Series 2016B (2016B Bonds). The 2016B Bonds bear interest at rates ranging from 1.26% to 5.00% and mature in annual installments through 2036. These bonds were issued at a premium of \$25,989,247, which will be amortized over the life of the bonds using the effective interest method. The Highways Division issued the bonds to advance refund \$111,590,000 of the outstanding callable series 2008 and 2011A bonds with interest rates ranging from 4.80% to 6.00%.

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The net proceeds of \$128,188,095 (after an additional contribution of \$2,019,488, payment of \$513,820 in underwriting fees, insurance, and other issuance costs, and payment of \$396,820 in accrued interest) were used to purchase U.S. Treasury securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2008 and 2011A series bonds. As a result, that portion of the 2008 and 2011A series bonds are considered defeased, and the Highways Division has removed the liability from its accounts.

On December 11, 2019, the Highways Division issued \$81,835,000 of State of Hawaii Revenue Bonds Series 2019A (the 2019A Bonds). The 2019A Bonds bear interest at rates ranging from 3.00% to 5.00% and mature in annual installments through 2040. These bonds were issued at a premium of \$18,660,847. The 2019A Bonds maturing on and before January 1, 2029 are not subject to redemption prior to their respective maturity dates. The 2019A Bonds maturing on or after January 1, 2030 are subject to redemption prior to their respective maturity dates at the option of the State at 100% plus accrued interest.

The following is a summary of revenue bonds issued and outstanding at June 30, 2020:

<u>Series</u>	<u>Interest Rates</u>	<u>Final Maturity Date (July 1)</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
2005B	3.00-5.25%	2021	\$ 123,915,000	\$ 12,555,000
2011	2.00-5.00%	2032	117,365,000	42,700,000
2014	2.00-5.00%	2034	135,660,000	103,535,000
2016	1.26-5.00%	2036	204,485,000	190,860,000
2019	3.00-5.00%	2040	81,835,000	81,835,000
			<u>\$ 663,260,000</u>	431,485,000
			Add: unamortized premium	61,417,794
			Less: current portion	<u>(30,695,000)</u>
			Noncurrent portion	<u>\$ 462,207,794</u>

During 2020, \$49,366,802 was transferred from the State Highway Fund to the Debt Service Fund for repayment of revenue bonds principal of \$22,115,000 and \$8,130,000 on January 1, 2020 and July 1, 2020, and interest of \$8,713,632 and \$10,408,170 due on January 1, 2020 and July 1, 2020, respectively.

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The approximate maturities in each of the next five years and thereafter are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 30,695,000	\$ 20,382,477	\$ 51,077,477
2022	27,980,000	18,847,182	46,827,182
2023	27,615,000	17,684,526	45,299,526
2024	28,670,000	16,634,300	45,304,300
2025	29,710,000	15,246,850	44,956,850
2026-2030	144,805,000	54,502,400	199,307,400
2031-2035	104,185,000	21,973,950	126,158,950
2036-2040	37,825,000	4,986,350	42,811,350
Total	<u>\$ 431,485,000</u>	<u>\$ 170,258,035</u>	<u>\$ 601,743,035</u>

A comparison of revenues pledged as collateral for debt service payments recognized for the year ended June 30, 2020 to the principal and interest requirements of the bonds for the period is as follows:

Pledged user taxes	\$ 277,880,624
Principal and interest requirements	\$ 47,475,175

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(11) Transfers

Transfers are accounted for in the governmental funds statement of revenues, expenditures, and changes in fund balances as other financing sources and uses, and in the government-wide statement of activities as transfers, and are summarized as follows:

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Funding of revenue bond bond and capital lease debt service	\$ (53,153,381)	\$ 53,153,381	\$ -	\$ -
Funding of highway capital projects	<u>(11,456,075)</u>	<u>-</u>	<u>11,456,075</u>	<u>-</u>
	<u>\$ (64,609,456)</u>	<u>\$ 53,153,381</u>	<u>\$ 11,456,075</u>	<u>\$ -</u>

(12) Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the Highways Division, are required to be members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: <http://ers.hawaii.gov/resources/financials>.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability, and death benefits with three membership classes known as the noncontributory, contributory, and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for

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members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits

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

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Ordinary death benefits are available to employees who were active at the time of death with at least 10 years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. 10 years of credited service is required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

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Death Benefits

For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

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Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. 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 rate for fiscal year 2020 was 22.0% for general employees. Contributions to the pension plan from the Highways Division were approximately \$11,213,000 for the fiscal year ended June 30, 2020.

Pursuant to Act 17 SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for general employees increased to 22.0% on July 1, 2019 and 24.0% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Highways Division. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's CAFR. Accordingly, the Highways Division's proportionate share of the State's pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's CAFR. The State's CAFR can be obtained at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

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Postemployment Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage, but must pay the difference.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the Highways Division was approximately \$22,377,000 for the fiscal year ended June 30, 2020. The employer is required to make all contributions for members.

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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Highways Division. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's CAFR. Accordingly, the Highways Division's proportionate share of the State's OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB are not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's CAFR.

Deferred Compensation Plan

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

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

(13) Transactions With Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the State Highway Fund, after deducting any amounts pledged, charged, or encumbered for the payment of bonds and interest during the year. During fiscal year 2020, the assessment amounted to approximately \$11,638,000, which is included as the caption surcharge on gross receipts expense/expenditures in the accompanying financial statements.

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The Highways Division is also assessed a percentage of the cost of the general administration expenses of the Highways Division. During fiscal year 2020, assessments net of amounts refunded amounted to approximately \$6,889,000, which is included in administration of Highways Division expense/expenditures in the accompanying financial statements.

(14) Lease Commitments

Capital Lease Obligation

On July 8, 2015, the Highways Division entered into an equipment lease purchase agreement for the acquisition and installation of energy conservation measures at selected Highways Division locations. Annual lease payments commenced on August 1, 2017, and will continue through August 1, 2031 at an interest rate of 2.63%. Assets under capital leases at June 30, 2020 totaled \$60,286,091, net of accumulated depreciation of \$5,382,687.

Future minimum lease payments are as follows:

Years Ending June 30,	Principal	Interest	Total
2021	\$ 2,543,062	\$ 1,472,884	\$ 4,015,946
2022	2,851,146	1,406,001	4,257,147
2023	3,179,770	1,331,016	4,510,786
2024	3,520,110	1,247,388	4,767,498
2025	3,903,401	1,154,546	5,057,947
2026-2030	26,024,836	4,013,391	30,038,227
2031-2032	13,980,858	559,101	14,539,959
	<u>\$ 56,003,183</u>	<u>\$ 11,184,327</u>	<u>\$ 67,187,510</u>

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Operating Leases

Rental Revenue

The Highways Division is a lessor of various properties under non-cancelable lease agreements that expire through fiscal year 2044. Scheduled annual minimum revenues are as follows:

Years Ending June 30,	
2021	\$ 305,000
2022	302,000
2023	302,000
2024	302,000
2025	302,000
2026-2030	1,076,000
2031-2035	415,000
2036-2040	360,000
2041-2044	<u>360,000</u>
Total	<u><u>\$ 3,724,000</u></u>

(15) Commitments

Condemnation Proceedings

The Highways Division occasionally finds it necessary to condemn property for construction of highways. These proceedings require the Highways Division to compensate existing property owners for the fair market value of their real property. Prior to the determination of the fair market value, the Highways Division is required to deposit funds in State courts for these proceedings. The amount of funds deposited in the State courts was approximately \$119,000 at June 30, 2020. Such funds deposited may not be sufficient to cover the full amount required for compensation purposes. Management, however, believes any additional compensation in excess of amounts deposited with State courts will not be material to the financial statements of the Highways Division. The funds deposited in the State courts are reflected in capital projects expenditures in the governmental fund statement of revenue, expenditures, and changes in fund balances and in capital assets on the government-wide statement of net position in the year in which the deposits were made.

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Accumulated Sick Leave

Full-time employees are credited with sick leave at the rate of one and three-quarters days for each month. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credits in the ERS. Accumulated sick leave at June 30, 2020 amounted to approximately \$25,374,000.

(16) Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$1,000,000 per occurrence of property losses such as fires and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes, and floods, the first \$5,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime and cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence of property losses is \$200,000,000, except for terrorism, which is \$100,000,000 per occurrence. The annual aggregate limit for general liability losses is \$9,000,000 per occurrence, \$50,000,000 for cyber liability losses and, for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate.

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$15,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year end, non-incremental estimates (based on projections of historical developments) or claims incurred but not reported, and non-incremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Highways Division believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations.

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Accrued workers' compensation amounted to approximately \$12,457,717 and \$6,882,158 at June 30, 2020 and 2019, respectively. Changes in the workers' compensation liability for the years ended June 30, 2020 and 2019 are shown below:

	2020	2019
Beginning balance	\$ 6,882,158	\$ 5,911,067
Current year claims	6,655,787	2,747,468
Claims paid	(1,080,228)	(1,776,377)
Ending balance	\$ 12,457,717	\$ 6,882,158

(17) Contingencies and Other

Prior Years Defeased Bonds

At various dates in prior years, the Highways Division has placed proceeds from bond issuances in irrevocable refunding escrow accounts for the purpose of providing sufficient funds to pay all principal and interest refunded bond issues and remaining payment dates (defeased bonds). The likelihood of the earnings and principal not being sufficient to pay the defeased bonds appears remote and accordingly the escrow accounts and defeased bonds are not included in the accompanying financial statements. Defeased bonds principal outstanding at June 30, 2020 was \$39,560,000.

Litigation

The State is the defendant in lawsuits seeking damages allegedly related to State highways and highway construction contracts. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Highways Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the State Highway Fund. Accordingly, no provision for any liabilities that might result from the lawsuits have been made in the accompanying financial statements.

Environmental Issues

The Highways Division is subject to laws and regulations relating to the protection of the environment. The Highways Division has been identified by the State Department of Health as a potentially responsible party for petroleum contamination in the Honolulu Harbor/Iwilei area. Pursuant thereto, the Highways Division entered into a voluntary agreement with the Department of Health and other third parties to share in the responsibility for the investigation and potential

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remediation of petroleum contamination in the Iwilei District. This group of potentially responsible parties, known as the Iwilei District Participating Parties (IDPP), has conducted various investigations to determine potential contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations.

The remediation alternative selected involves the management of the contamination in-place with limited extraction, plume monitoring, active institutional controls including education/awareness and outreach of landowners, potential developers and utility operators, and reimbursement of future incremental project costs attributable to the contamination. However, the project has not yet advanced to the stage where total costs to the IDPP can reasonably be estimated due to: (1) the extent of the environmental impact, (2) the undetermined allocation among the potentially responsible parties, and (3) the continued discussion with the regulatory authorities. As a result, it is not possible to reasonably estimate the amount of the potential cost to the IDPP and allocable share of the Division, and if there would be a material impact to the Division's financial statements. Accordingly, no estimate of loss has been recorded in the accompanying financial statements.

(18) Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus infection known as COVID-19 to be a global pandemic. The financial impact of COVID-19 on the economy of the United States, including Hawaii, is expected to be significant. Management is currently evaluating the short-term and long-term impact that COVID-19 could have on the Highways Division's operations. Because of the uncertainties surrounding the duration and severity of this pandemic, management is unable to make a reasonable estimate regarding the long-term effect on its operations and financial condition.

The 14th supplementary proclamation, issued on October 13, 2020, suspended specific provisions of law. Included were Sections 87A-42(b)-(f), HRS, other postemployment benefits trust, 87A-43, HRS, payment of public employer contributions to the other postemployment benefits trust, and 237-31(3), HRS, remittances, related to the requirement for public employers to pay the annual required contribution to the EUTF in fiscal year 2021.

The Highways Division has evaluated subsequent events through March 17, 2021, the date the financial statements were available to be issued, and determined that there are no other matters to disclose.

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Jade Butay
Director of Transportation
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

\$137,205,000
STATE OF HAWAII
Highway Revenue Bonds, Series 2021

Dear Mr. Butay:

At the request of the State of Hawaii (the “State”) acting through its Department of Transportation (the “Department”), we have acted as Bond Counsel in connection with the issuance by the State of its \$137,205,000 aggregate principal amount of State of Hawaii Highway Revenue Bonds, Series 2021 (the “Series 2021 Bonds”).

The Series 2021 Bonds are issued under and pursuant to (i) the Constitution and certain statutes of the State, including, in particular, Part III of Chapter 39, Hawaii Revised States, as amended, and (ii) the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as heretofore amended and supplemented (the “Master Certificate”), and as further supplemented by the Thirteenth Supplemental Certificate of the Director of Transportation Authorizing State of Hawaii Highway Revenue Bonds, Series 2021, dated as of June 1, 2021 (the “Supplemental Certificate” and, together with the Master Certificate, the “Certificate”). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Certificate.

The Series 2021 Bonds are dated June 9, 2021, are in the denomination of \$5,000 or any integral multiple thereof, and mature on January 1 in the year and in the principal amount set forth below, with the Series 2021 Bonds bearing interest payable semiannually each January 1 and July 1, commencing January 1, 2022 at the rate per annum, as follows:

<u>Maturity (January 1)</u>	<u>Amount (\$)</u>	<u>Interest Rate (%)</u>
2027	3,720,000	5.000
2028	3,900,000	5.000
2029	4,095,000	5.000
2030	130,000	5.000
2033	7,895,000	5.000
2034	8,290,000	5.000
2035	17,035,000	5.000
2036	17,890,000	5.000
2037	12,175,000	5.000
2038	12,780,000	5.000
2039	13,420,000	5.000
2040	14,095,000	5.000
2041	21,780,000	5.000

The Series 2021 Bonds are subject to redemption by the State prior to the respective stated maturities thereof as set forth in the Certificate (as defined herein).

The Internal Revenue Code of 1986 (the “Code”) contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2021 Bonds. These requirements relate to, among other things, the use and investment of the proceeds of the Series 2021 Bonds, the periodic payment of certain amounts to the United States of America, and the use and tax ownership of any property financed or refinanced with proceeds of the Series 2021 Bonds. In the Tax Compliance Certificate dated the date hereof (the “Tax Certificate”), the Department has made certain certifications and representations and made certain covenants with respect to the Series 2021 Bonds in order to comply with these requirements. Our opinion expressly assumes and relies upon as being true, correct and complete, the certifications and representations and upon compliance with the covenants set forth in the Tax Certificate.

In rendering our opinions set forth herein, we have also assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State or the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate, the Supplemental Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2021 Bonds to be included in gross income for federal income tax purposes under the Code.

The rights and obligations under the Series 2021 Bonds, the Certificate, the Supplemental Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Based on and subject to the foregoing and existing law and in reliance thereon, as of the date hereof, we are of the following opinions:

(1) The Series 2021 Bonds have been duly authorized and issued by the State and, constitute valid special obligations of the State payable solely from and secured solely by a lien upon and pledge of Pledged Funds, on a parity with all bonds which heretofore have been or hereafter may be issued under the Certificate, as set forth in the Certificate.

(2) The provisions of the Certificate and the Supplemental Certificate are valid in accordance with their terms.

(3) Under existing law, interest on the Series 2021 Bonds (including original issue discount treated as interest, if any) is excludable from gross income for federal income tax purposes, and interest on the Series 2021 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax.

(4) Interest on the Series 2021 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2021 Bonds or income therefrom.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Supplemental Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Series 2021 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Series 2021 Bond or the interest thereon if any such change occurs or action is taken or omitted in reliance upon an opinion obtained from counsel other than Katten Muchin Rosenman LLP.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We have not undertaken to determine, or to inform any person, as to any change in any existing law, regulation, ruling or judicial decision or the effect of any such change. Our engagement with respect to the Series 2021 Bonds concludes with their issuance, and we disclaim any obligation to update this letter after the date hereof.

Very truly yours,

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APPENDIX F

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 State and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State.

General. DTC will act as securities depository for the Series 2021 Bonds. The Series 2021 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 Series 2021 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and its Participants. 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 and www.dtc.org.

Purchases of Bonds. Purchases of Series 2021 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2021 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2021 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2021 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 Series 2021 Bonds, except in the event that use of the book-entry system for the Series 2021 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2021 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 Series 2021 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 Series 2021 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2021 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices. 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 Series 2021 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2021 Bonds, such as redemptions defaults, and proposed amendments to the Series 2021 Bond documents. For example, Beneficial Owners of the Series 2021 Bonds may wish to ascertain that the nominee holding the Series 2021 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 Series 2021 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2021 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal and interest payments and redemption payments on the Series 2021 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 State, 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 State 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.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as depository with respect to the Series 2021 Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2021 Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2021 Bond certificates will be printed and delivered to DTC.

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Series 2021 Bond certificates are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Series 2021 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System, and (ii) notices that are to be given to owners or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices of the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to: (i) the accuracy of any records maintained by the DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Series 2021 Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Series 2021 Bonds, or (v) any other event or purpose.

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APPENDIX G

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the State of Hawaii (the “State”), acting by and through the State Director of Transportation, in connection with the issuance of \$137,205,000 State of Hawaii Highway Revenue Bonds, Series 2021 (the “Bonds”). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State and that certain Certificate of the Director of Transportation Providing for the issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as supplemented and amended by the Thirteenth Supplemental Certificate of the Director of Transportation Authorizing State of Hawaii Highway Revenue Bonds, Series 2021, dated as of June 1, 2021 (collectively, the “Certificate”).

Pursuant to the Thirteenth Supplemental Certificate, the State, acting by and through its Director of Transportation, covenants and agrees as follows:

Section 1. ***Purpose of the Disclosure Certificate.*** This Disclosure Certificate is being executed and delivered by the State for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below). The State is the only “obligated person” (as defined in the Rule) for the Bonds.

Section 2. ***Definitions.*** In addition to the definitions set forth in the Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

“*Beneficial Owner*” means any person which: (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, 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*” means the U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the Director of Transportation and which has filed with the Director of Transportation a written acceptance of such designation.

“*Division*” means the Highways Division of the State of Hawaii Department of Transportation.

“*Financial Obligation*” means a (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of one of the foregoing; provided, however, that the term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means 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>.

“*Official Statement*” shall mean the Official Statement, dated May 26, 2021, prepared and distributed in connection with the initial sale of the Bonds.

“*Participating Underwriters*” means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“*Rule*” means 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 State shall, or shall cause the Dissemination Agent to, not later than the first day of the tenth month after the end of each fiscal year (or the next succeeding securities market business day if that day is not a securities market business day) of the State (presently June 30), commencing with the report for the fiscal year ending June 30, 2021, provide to the MSRB an Annual Report that 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. If the State’s fiscal year changes, the State, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) In a timely manner prior to the date set forth in subsection (a) above, the State shall provide the Annual Report to the Dissemination Agent (if other than the State). If the State is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the State shall send a notice to the MSRB in substantially the form attached as Exhibit A. The audited financial statements of the Division 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.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the State) file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. *Content of Annual Reports.*

(a) The Annual Report shall contain or incorporate by reference the following information:

(i) Audited financial statements of the Division for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Division’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement relating to the Bonds, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available;

(ii) Budgeted revenues and expenditures of the Division for the current fiscal year; and

(iii) To the extent not provided in the audited financial statements, historical information of the type set forth under the subheadings “REVENUE SOURCES-Historical Revenues” and “DEBT SERVICE COVERAGE-Debt Service Requirements for the Bonds” (where there is a change other than from scheduled principal maturities) in the front part of the Official Statement, and “INFORMATION RELATING TO REVENUE SOURCES” in Appendix B to the Official Statement.

(b) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been made available to the public on the MSRB’s website. The State 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 State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten business days after the occurrence of the event:

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults, if material;
- iii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
- v. Substitution of credit or liquidity providers, or their failure to perform;
- vi. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- vii. Modifications to rights of Bond holders, if material;
- viii. Bond calls, if material, and tender offers;
- ix. Defeasances;
- x. Release, substitution, or sale of property securing repayment of the Bonds, if material;
- xi. Rating changes;
- xii. Bankruptcy, insolvency, receivership or similar event of the obligated person;

- xiii. 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, if material;
- xiv. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- xv. Incurrence of a Financial Obligation of the Division, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Division, any of which affect Bond holders, if material; or
- xvi. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Division, any of which reflect financial difficulties.

For the purposes of the event identified in subparagraph (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The State 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 3, as provided in Section 3.

(c) The State shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event described in subsection (a) above, (1) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (2) in all events, file notice of such occurrence with the MSRB.

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

Section 6. ***Termination of Reporting Obligation.*** The State’s obligations under this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the Outstanding Bonds, or if less than all of the Bonds are defeased, with respect to those Bonds. If such termination occurs prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. **Dissemination Agent.** The initial Dissemination Agent shall be the U.S. Bank National Association. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the State, and the Director of Finance may discharge the Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the State shall be the Dissemination Agent. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the State. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder.

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

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, 5(a), (b) or (c), or 8(a), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations), 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 selected by the State, 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 Certificate for amendments to the Certificate with the consent of Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel selected by the State, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Nothing in this Disclosure Certificate shall be deemed to prevent the State from supplementing this Disclosure Certificate to provide that it shall also govern continuing disclosure for one or more issues of Additional Bonds (as defined in the Certificate).

Section 10. **Failure to Perform.** (a) The agreements of the State set forth in Sections 3 and 4 of this Disclosure Certificate are intended to be for the benefit solely of the Bondholders and Beneficial Owners from time to time of the Bonds.

The sole remedy for any breach of this Disclosure Certificate by the State shall be limited, as hereinafter described, to a right of Bondholders and Beneficial Owners to cause proceedings at law or in equity to be instituted and maintained to obtain mandamus or specific performance by the State of its obligations hereunder. Any individual Bondholder or Beneficial Owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the State to provide or cause to be provided a pertinent filing if such a filing is due and has not been made. Any such proceedings challenging the adequacy of the information provided in accordance with this Disclosure Certificate may be instituted and maintained only by the Bondholders and the Beneficial Owners of not less than 25% in principal amount of the Bonds then outstanding or their agent.

(b) Any failure of the State to comply with any provisions of this Disclosure Certificate shall not be a default or an event of default with respect to the Bonds under the Certificate.

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

Section 12. **Recordkeeping.** The Director of Finance shall maintain records of all Annual Information and notice of material Listed Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 13. **Governing Law.** This Disclosure Certificate shall be governed by the laws of the State of Hawaii.

Date: June 9, 2021

STATE OF HAWAII

By: _____
Jade T. Butay
Director, Department of Transportation

ACCEPTANCE BY DISSEMINATION AGENT

The undersigned hereby accepts its appointment as Dissemination Agent for the Bonds referred to in the foregoing Certificate upon the terms set forth therein.

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Officer

Date: June 9, 2021

EXHIBIT A

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

Name of Issuer: State of Hawaii
Name of Bond Issue: Highway Revenue Bonds, Series 2021
Date of Issuance: June 9, 2021

NOTICE IS HEREBY GIVEN that the State of Hawaii (the “State”) has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated June 9, 2021, executed by the State for the benefit of the holders and beneficial owners of the above-referenced Bonds. The State anticipates that the Annual Report will be filed by _____.

Dated: _____

STATE OF HAWAII

By: _____
Authorized Signatory

