NEW ISSUE
BOOK-ENTRY ONLY

RATINGS:
Moody's: A2
Fitch: A-
(See "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department of Hawaiian Home Lands, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and all of the Series 2009 Bonds and the income therefrom will be 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. In the further opinion of Bond Counsel, interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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 2009 Bonds. See "TAX MATTERS" herein.

$42,500,000
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Revenue Bonds, Series 2009

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

The State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2009 (the "Series 2009 Bonds"), are being issued by the Department of Hawaiian Home Lands of the State of Hawaii (the "Department"). The Series 2009 Bonds are issuable in fully registered, book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, security depository for the Series 2009 Bonds. Individual purchases of the Series 2009 Bonds will be made exclusively in book-entry form. Purchasers of the Series 2009 Bonds will not receive physical certificates representing their interests in the Series 2009 Bonds purchased. Payments of the principal or redemption price of and interest on the Series 2009 Bonds will be made directly to DTC or its nominee. Upon receipt of payments of such principal and interest, DTC will in turn remit such payments to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Series 2009 Bonds. Purchases of the Series 2009 Bonds may be made in denominations of $5,000 or any integral multiple thereof. See "THE SERIES 2009 BONDS – Book-Entry Only System."

Interest on the Series 2009 Bonds shall be payable on April 1 and October 1 of each year, commencing October 1, 2009. The Series 2009 Bonds are subject to redemption prior to maturity as herein described.

The Series 2009 Bonds will be issued under a Master Bond Indenture, as supplemented by a First Supplemental Indenture (together, and as further amended and supplemented from time to time, the "Indenture"), by and between the Department and Wells Fargo Bank, National Association, as Trustee and Paying Agent. The Series 2009 Bonds are being issued: (i) to fund the costs of certain capital improvements for the Department; (ii) to fund a Debt Reserve Account established under the Indenture; and (iii) to provide for the expenses of issuance of the Series 2009 Bonds.

The Series 2009 Bonds are limited special obligations of the Department payable solely from, and secured solely by, a pledge of proceeds of the Series 2009 Bonds held or set aside under the Indenture, the Revenues (as defined in the Indenture), and certain funds and accounts established under the Indenture. **Neither the State of Hawaii nor any department or political subdivision thereof, including the Department, is obligated to pay the principal or redemption price of and interest on the Series 2009 Bonds from any other source whatsoever, and neither the full faith and credit nor the taxing power of the State of Hawaii or any department or political subdivision thereof, including the Department, are pledged to such payments.**

The Series 2009 Bonds are offered when, as and if issued and received by the Underwriter, and are subject to the approval of validity by Orrick, Herrington & Sutcliffe,LLP, Bond Counsel to the Department. Certain legal matters will be passed upon for the State of Hawaii by the Attorney General and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Series 2009 Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about April 2, 2009.

Merrill Lynch & Co.

Dated: March 18, 2009

$42,500,000
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Revenue Bonds, Series 2009

MATURITY SCHEDULE

Serial Maturities

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	Maturity Date (April 1)	Principal Amount	Interest Rate	Yield
2010	$ 130,000	2.000%	2.070%	2017	$ 765,000	5.000%	4.560%
2010	510,000	4.000	2.070	2018	115,000	4.625	4.750
2011	50,000	3.000	2.740	2018	775,000	5.000	4.750
2011	605,000	4.000	2.740	2019	585,000	4.875	4.950
2012	680,000	4.000	3.040	2019	350,000	5.000	4.950
2013	210,000	4.000	3.480	2020	1,000,000	5.500	5.150*
2013	500,000	4.500	3.480	2021	1,025,000	5.125	5.260
2014	10,000	4.000	3.890	2022	655,000	5.250	5.400
2014	730,000	4.500	3.890	2024	1,210,000	5.500	5.660
2015	275,000	4.000	4.120	2025	750,000	5.625	5.750
2015	500,000	5.000	4.120	2026	1,030,000	5.750	5.840
2016	310,000	4.250	4.350	2027	1,100,000	5.750	5.880
2016	500,000	5.000	4.350	2028	600,000	5.875	5.900
2017	85,000	4.500	4.560				

Term Maturities

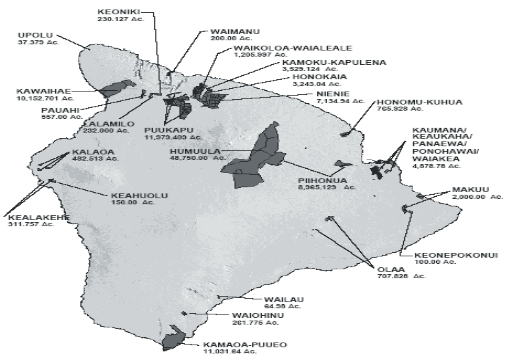
$1,580,000 5.500% Term Bonds Maturing April 1, 2023, yield 5.600%
$3,675,000 5.875% Term Bonds Maturing April 1, 2029 yield 5.950%
$9,505,000 5.875% Term Bonds Maturing April 1, 2034, yield 6.100%
$12,685,000 6.000% Term Bonds Maturing April 1, 2039, yield 6.180%

* Priced to call at par on April 1, 2019.

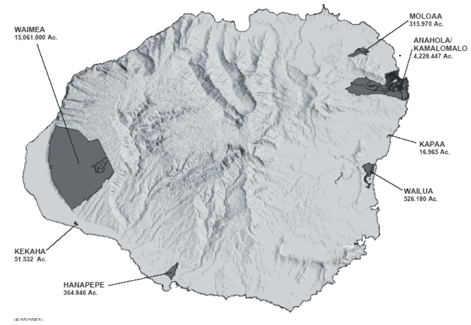
Overview of the Hawaiian Home Lands

(Not Shown to Scale)

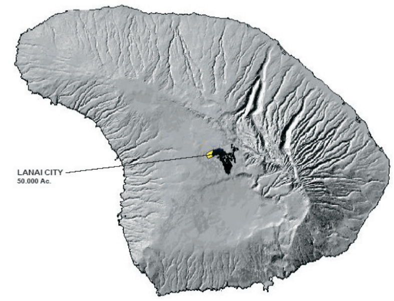
Hawaii



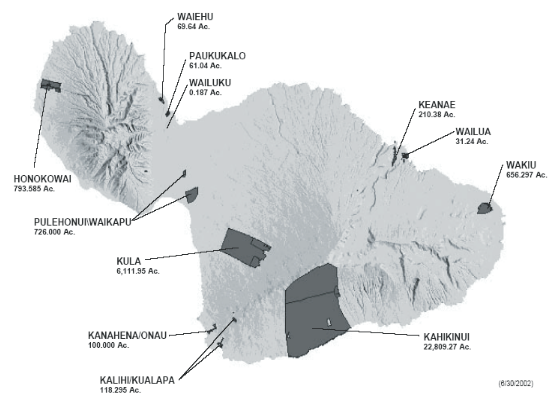
Kauai



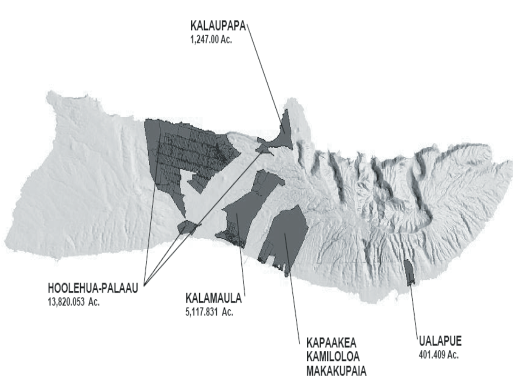
Lanai



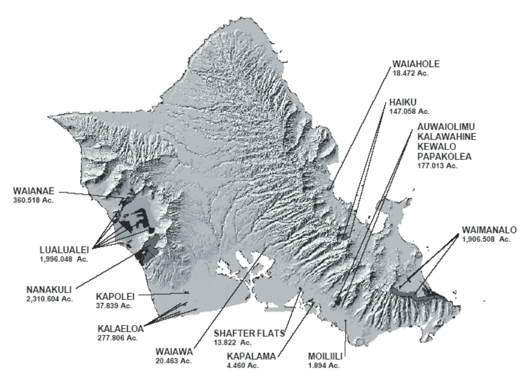
Maui



Molokai



Oahu



STATE OF HAWAII

Linda Lingle, Governor
James R. "Duke" Aiona, Jr., Lieutenant Governor

DEPARTMENT OF HAWAIIAN HOME LANDS

Micah A. Kane, Chairman of
the Hawaiian Homes Commission

Kaulana H.R. Park	Deputy to the Chairman
Robert J. Hall	Executive Assistant to the Chairman; Acting Administrator, Homestead Services Division
Larry M. Sumida	Administrator, Land Development Division
Linda L. Chinn	Administrator, Land Management Division
Rodney K.M. Lau	Administrative Services Officer
James X.C. Pao	Fiscal Management Officer

HAWAIIAN HOMES COMMISSION

Micah A. Kane, Chairman

Perry Artates	Francis K. Lum
Donald S.M. Chang	Trish Morikawa
Stuart K. Hanchett	Henry K. Tancayo, Sr.
Malia P. Kamaka	Alapaki Nahale-a

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

Wells Fargo Bank, National Association
Los Angeles, California

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2009 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2009 Bonds, and if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

THE SERIES 2009 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2009 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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$42,500,000
STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Revenue Bonds, Series 2009

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to furnish information concerning the Department of Hawaiian Home Lands of the State of Hawaii (the "Department"), and certain other information in connection with the offering and sale by the Department of $42,500,000 aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2009 (the “Series 2009 Bonds”). Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Indenture referred to below and in Appendix C hereto.

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

The issuance of the Series 2009 Bonds by the Department is authorized under the terms of: (i) the HHCA; (ii) Part III of Chapter 39, Hawaii Revised Statutes (the “Bond Act”); (iii) Section 7 of Act 158, Session Laws of Hawaii 2008, and (iv) an authorizing resolution adopted by the Commission on January 27, 2009 (the “Series 2009 Resolution”). The Series 2009 Bonds will be issued pursuant to a Master Bond Indenture, as supplemented by a First Supplemental Indenture, each dated as of March 1, 2009 (together, and as amended and supplemented from time to time, the “Indenture”), between the Department and Wells Fargo Bank, National Association, as trustee (in such capacity, the “Trustee”) and paying agent (in such capacity, the “Paying Agent”).

The Series 2009 Bonds are being issued: (i) to finance the construction of certain capital improvements (the "Improvements") for the Department; (ii) to fund a Debt Reserve Account established under the Indenture; and (iii) to provide for the expenses of issuance of the Series 2009 Bonds. Reference is made to "THE PROJECT" herein for a description of the Improvements.

The Series 2009 Bonds, together with any additional bonds hereafter issued under the Indenture (“Additional Bonds” and, together with the Series 2009 Bonds, “Bonds”), will be equally and ratably secured under the Indenture by a pledge of the Department’s “Revenues” (as defined in the Indenture) and by the funds and accounts established with the Trustee under the Indenture (excluding the Rebate Account, which shall not secure the Bonds) as specified under the Indenture. Reference is made to “SECURITY AND SOURCES OF PAYMENTS FOR THE SERIES 2009 BONDS” and Appendix C – “Summary of Certain Provisions of the Indenture” for a further discussion of the security for the Series 2009 Bonds.

Brief descriptions of the Series 2009 Bonds, the Indenture and other documents are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to the actual documents.

THE SERIES 2009 BONDS

General

The Series 2009 Bonds will be issued in the aggregate principal amount of $42,500,000 will be dated as of the date of their initial issuance and delivery, and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover of this Official Statement. The Series 2009 Bonds will be issued in minimum denominations of $5,000 principal amount. Interest will accrue from the date of issuance of the Series 2009 Bonds and will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2009 (each, an "Interest Payment Date").

Redemption Provisions

Optional Redemption. The Series 2009 Bonds maturing on or after April 1, 2020 are subject to redemption at the option of the Department on or after April 1, 2019 in whole or in part at any time, from any maturities selected by the Department at a redemption price equal to 100% of the principal amount of the Series 2009 Bonds or portions thereof to be redeemed, plus accrued interest to the date of redemption.

Sinking Fund Redemption. The Term Bonds maturing on April 1 of the years 2023, 2029, 2034 and 2039 are subject to mandatory sinking fund redemption, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, on April 1 of the years and in the respective principal amounts indicated below:

Term Bonds Maturing on April 1, 2023

Year	Principal Amount
2022	$ 435,000
2023 (maturity)	1,145,000

Term Bonds Maturing on April 1, 2029

Year	Principal Amount
2025	$ 525,000
2026	320,000
2027	325,000
2028	910,000
2029 (maturity)	1,595,000

Term Bonds Maturing on April 1, 2034

Year	Principal Amount
2030	$ 1,690,000
2031	1,790,000
2032	1,895,000
2033	2,005,000
2034 (maturity)	2,125,000

Term Bonds Maturing on April 1, 2039

Year	Principal Amount
2035	$ 2,250,000
2036	2,385,000
2037	2,530,000
2038	2,680,000
2039 (maturity)	2,840,000

Selection of Series 2009 Bonds for Redemption. So long as the Book-Entry System for the Series 2009 Bonds is in effect (as described under "Book-Entry Only System" below), if less than all of the Series 2009 Bonds of any one maturity are to be redeemed, the particular Series 2009 Bonds or portions of Series 2009 Bonds of such maturity to be redeemed will be selected by DTC and its Participants in such manner as DTC and its Participants may determine. If the Book-Entry System for the Series 2009 Bonds is no longer in effect, selection for redemption of less than all Series 2009 Bonds of any one maturity will be made by the Paying Agent by lot as provided in the Indenture.

Notice of Redemption. Notice of redemption of any Series 2009 Bond shall be mailed by the Paying Agent not less than thirty (30) days or more than sixty (60) days prior to the redemption date, by first class mail, postage prepaid, to the Owner of such Series 2009 Bond at his address as it appears on the Bond Register. A conditional notice of redemption may be given. If the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. If the conditions are not satisfied, the redemption shall not be made and the Paying Agent shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

Effect of Redemption. If a Series 2009 Bond is subject by its terms to redemption and has been duly called for redemption, if moneys for the payment of the redemption price of such Series 2009 Bond (or of the principal amount thereof to be redeemed) and the accrued interest on such Series 2009 Bond (or the principal amount thereof to be redeemed) are held for the purpose of such payment by the Paying Agent, and if all conditions (if any) to the redemption of such Series 2009 Bond have been satisfied, then such Series 2009 Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable on the applicable redemption date, and interest on such Series 2009 Bond (or the principal amount thereof to be redeemed) so called for redemption shall cease to accrue.

Debt Service Requirements

The following table sets forth the annual principal and interest requirements for the Series 2009 Bonds (assuming no optional redemptions):

Table 1
Debt Service Schedule

Period Ending June 30	Principal	Interest	Total
2010	$ 640,000	$ 2,370,491	$ 3,010,491
2011	655,000	2,354,094	3,009,094
2012	680,000	2,328,394	3,008,394
2013	710,000	2,301,194	3,011,194
2014	740,000	2,270,294	3,010,294
2015	775,000	2,237,044	3,012,044
2016	810,000	2,201,044	3,011,044
2017	850,000	2,162,869	3,012,869
2018	890,000	2,120,794	3,010,794
2019	935,000	2,076,725	3,011,725
2020	1,000,000	2,030,706	3,030,706
2021	1,025,000	1,975,706	3,000,706
2022	1,090,000	1,923,175	3,013,175
2023	1,145,000	1,864,863	3,009,863
2024	1,210,000	1,801,888	3,011,888
2025	1,275,000	1,735,338	3,010,338
2026	1,350,000	1,662,306	3,012,306
2027	1,425,000	1,584,281	3,009,281
2028	1,510,000	1,501,938	3,011,938
2029	1,595,000	1,413,225	3,008,225
2030	1,690,000	1,319,519	3,009,519
2031	1,790,000	1,220,231	3,010,231
2032	1,895,000	1,115,069	3,010,069
2033	2,005,000	1,003,738	3,008,738
2034	2,125,000	885,944	3,010,944
2035	2,250,000	761,100	3,011,100
2036	2,385,000	626,100	3,011,100
2037	2,530,000	483,000	3,013,000
2038	2,680,000	331,200	3,011,200
2039	2,840,000	170,400	3,010,400
Totals	$ 42,500,000	$ 47,832,666	$ 90,332,666

Note: Totals may not agree due to rounding

Book-Entry Only System

Unless otherwise noted, the following description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 2009 Bonds, payment of interest and other payments on the Series 2009 Bonds to Participants (defined below) or Beneficial Owners (defined below) of the Series 2009 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2009 Bonds and other bond-related transactions by and among DTC, the Participants and Beneficial Owners of the Series 2009 Bonds is based solely on information furnished by DTC. Accordingly, the Department and the Underwriter do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Series 2009 Bonds. The Series 2009 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 Series 2009 Bond will be issued for each maturity of the Series 2009 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 has Standard & Poor's highest rating: AAA. 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. Such website is not incorporated herein by this reference.

Purchases of Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 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 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 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 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2009 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of redemption proceeds, principal and interest with respect to the Series 2009 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 issuer or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor depository is not obtained, Series 2009 Bonds are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository), subject to DTC's rules. In the event of such discontinuation, Series 2009 Bonds will be printed and delivered.

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

In reviewing this Official Statement it should be understood that while the Series 2009 Bonds are in the book-entry system, references in other sections of this Official Statement to Owners should be read to include the person for which a Direct or Indirect Participant acquires an interest in the Series 2009 Bonds, but: (i) all rights of ownership must be exercised through DTC and the system of book-entry; and (ii) notices that are to be given to Owners by the Department will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Direct Participants by its usual procedures so that the Direct and Indirect Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

The Department will have no responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or any Indirect Participants, or (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest with respect to the Series 2009 Bonds, or (iii) any notice which is permitted or required to be given to Owners under the Trust Agreement, or (iv) the selection by DTC of any Direct Participant to receive payment in the event of a partial redemption of the Series 2009 Bonds, or (v) any consent given or other action taken by DTC as Owner of the Series 2009 Bonds, or (vi) any other event or purpose.

THE PROJECT

Proceeds of the Series 2009 Bonds will be used to construct the infrastructure for various residential housing projects throughout the State.

Table 2
Estimated Sources And Uses Of Funds

The proceeds of the Series 2009 Bonds, together with funds contributed by the Department, are expected to be applied as follows:

Sources:	
Principal Amount	$ 42,500,000.00
Less Net Original Discount	(522,518.50)
Department Contribution	757,676.57
Total Sources	$ 42,735,158.07
Uses:	
Construction Fund Deposit	$ 38,442,260.43
Debt Reserve Account Deposit	3,030,706.26
General Account Deposit*	757,676.57
Costs of Issuance**	504,514.81
Total Uses	$ 42,735,158.07

* The funds contributed by the Department will be used to make the initial deposit into the General Account pursuant to the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS – General Account” herein.

** Includes Underwriter's discount.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS

The following is a brief description of certain provisions of the Indenture pertaining to the security and sources of payment for the Series 2009 Bonds. Reference is made to Appendix C – “Summary of Certain Provisions of the Indenture” for further information regarding the security and sources of payment for the Series 2009 Bonds and for the definitions of certain terms used, but not otherwise defined, below.

General

The Series 2009 Bonds, and any series of Additional Bonds hereafter issued, shall be special limited obligations of the Department payable from and equally and ratably secured pursuant to the Indenture by a pledge of (i) the Revenues, and (ii) the Accounts therein (other than the Rebate Account, which shall not secure the Bonds) to the extent that such Accounts contain Revenues, including the interest, profits, earnings and other income derived from the investment thereof, if any. Pursuant to the Indenture, the Bondowners shall have an irrevocable first lien on, and a prior and paramount security interest in, such Revenues and Accounts (to the extent that they contain Revenues). All Bonds shall be equally and ratably secured by such lien and pledge, without priority by reason of series, number, or date of Bonds, sale, execution or delivery.

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

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

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

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

Establishment of Accounts; Deposit of Revenues Therein

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

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

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

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

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

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

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

(2) in the Debt Reserve Account the amount, if any, required to be deposited therein as provided in the Indenture (and described under "Debt Reserve Account" below); and (b) in

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

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

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

Debt Service Account

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

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

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

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

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

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

Debt Reserve Account

The Indenture requires, to the extent that the Debt Reserve Account is required to be funded pursuant to a Supplemental Indenture, the Debt Reserve Account to be maintained in an amount equal to the Debt Reserve Requirement, which is defined in the Indenture as the maximum annual debt service requirements for all Outstanding Bonds, calculated in accordance with the Indenture; *provided* in no event shall such amount with respect to a series of Bonds, the interest on which is excluded from gross income for federal income tax purposes, exceed 10% of the Proceeds of such series of Bonds, or such greater amount as set forth in a Supplemental Indenture upon receipt by the Trustee of an opinion of Bond Counsel that such greater amount will not affect the exclusion of interest on such series of Bonds from gross income for federal income tax purposes. In connection with the issuance of the Series 2009 Bonds, an initial deposit will be made into the Debt Reserve Account in an amount equal to the Debt Reserve Requirement. Additional deposits will be required in connection with the issuance of any Additional Bonds (unless such Additional Bonds are secured by a Separate Series Reserve Account) to the extent necessary to increase the amount therein to the Debt Reserve Requirement for all Bonds to be Outstanding upon such issuance. In addition, in the event that the amount credited to the Debt Reserve Account is less than the Debt Reserve Requirement, the Department shall pay from Revenues to the Trustee, for credit to such Account, the amount necessary to restore the balance therein to the Debt Reserve Requirement. Such payment shall be made not later than five Business Days prior to the first Interest Payment Date which is at least six months after the occurrence of the deficiency.

In the event of a deficiency in the Debt Service Account, the Trustee shall transfer moneys from the Debt Reserve Account to the Debt Service Account in the amount necessary to make up the deficiency (after any transfer of available moneys from the General Account as described above).

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

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

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

Separate Series Reserve Account

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

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

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

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

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

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

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

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

General Account

On or before the date of issuance of each Series of Bonds under the Indenture, the Department shall pay to the Trustee from Revenues, for credit to the General Account, an amount equal to 0.25 times the Aggregate Debt Service on all Outstanding Bonds during the first full Fiscal Year following such issuance. Thereafter, during each Fiscal Year in which any Bonds remain Outstanding, the Department shall pay to the Trustee from Revenues, for credit to the General Account (1) not later than five Business Days prior to the first Interest Payment Date occurring in such Fiscal Year, the amount, if any, required to maintain in the General Account an amount equal to 0.25 of the Aggregate Debt Service coming due on all Outstanding Bonds during such Fiscal Year, (2) in the event of a transfer to the Debt Service Account or Debt Reserve Account pursuant to the Indenture, not later than five Business Days prior to the first Interest Payment Date occurring at least six months after such transfer, the amount required to restore the amount so transferred, and (3) not later than five Business Days prior to each principal or interest payment date for Subordinated Indebtedness occurring during such Fiscal Year, such additional amount, if any, required to pay the debt service coming due on Subordinated Indebtedness on such date.

The Trustee shall apply moneys on credit to the General Account in accordance with the following provisions:

(i) Not later than five Business Days prior to each Interest Payment Date, the Trustee shall transfer from the General Account to the Debt Service Account, the Debt Reserve Account and any Separate Series Reserve Account the amount, if any, necessary (or all the moneys in the General Account if less than the amount necessary) to make up any deficiencies in payments to such Accounts required under the Indenture, in each case without further direction from the Department and prior to any payments therefor from the Debt Reserve Account, any Separate Series Reserve Account or the Construction Account.

(ii) Moneys credited to the General Account and not required for the purposes described in the preceding paragraph, to the extent in excess of 0.25 times Aggregate Debt Service on all Outstanding Bonds during the then current Fiscal Year, may be used, at the Written Direction of the Department, for the following purposes in the following order of priority: FIRST, to redeem Bonds to the extent such moneys were received as a result of the condemnation of Program Lands; SECOND, to pay debt service on Subordinated Indebtedness; THIRD, to reimburse the general fund of the State for Reimbursable General Obligation Bonds; and FOURTH, to be transferred to the Department for application to any lawful purpose free and clear of the trusts, liens, pledges, encumbrances and restrictions created or imposed by or pursuant to this Indenture.

Construction Account

The Construction Account shall be established for the purpose of paying Costs of Construction of Public Facilities, and other improvements authorized by law, for or to the Undertakings, including the Improvements to be funded by the issuance of the Series 2009 Bonds. In connection with the issuance of the Series 2009 Bonds, an initial deposit of Series 2009 Bond proceeds will be made into the Construction Account to fund the Costs of Construction of the Improvements. Additional deposits will be made, as appropriate, from the proceeds of Additional Bonds or from other funds provided by the Department, including funds transferred from the General Account at the direction of the Department.

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

Rebate Account

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

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

***Additional Bonds and Refunding Bonds*.**

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

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

In estimating Revenues for the five (5) full Fiscal Years following the date of issuance of a Series of Bonds the consultant preparing such Cash Flow Statement shall only rely on Revenues estimated to be produced based on leases, contracts, and agreements in effect as of the date of the Cash Flow Statement, assuming all payments to the Department thereunder shall be made as and when due and payable, and only such increases or decreases in such payments to the Department as are contained in such leases, contracts, or agreements shall be effective during such period.

(ii) an Accountant's Certificate showing that Revenues produced in each of the three Fiscal Years preceding the issuance of such Additional Bonds were at least equal to 1.25 times Aggregate Debt Service on Outstanding Bonds for each such Fiscal Year; and

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

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

***Rate Covenant*.**

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

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

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

***Other Covenants*.**

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

THE DEPARTMENT OF HAWAIIAN HOME LANDS

Purpose of the Department

On July 9, 1921, President Warren G. Harding signed into law the Hawaiian Homes Commission Act of 1920 (the "HHCA") passed by the United States Congress. The purpose of the HHCA was to rehabilitate native Hawaiians by placing them on lands set aside as Hawaiian home lands. The term "native Hawaiian" is defined in the HHCA as "any descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian Islands previous to 1778."

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

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

Hawaiian Home Lands and Available Lands

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

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

Table 3
Distribution And Use Of Hawaiian Home Lands
(As of October 1, 2008)

	Hawaii	Kauai	Maui	Molokai	Lanai	Oahu	Total Acreage
Homesteads	29,885	906	2,645	11,005	14	1,111	45,566
General Leases	12,765	27	512	1,763	0	67	15,134
Licenses	17,811	87	7,326	720	0	319	26,263
Others	57,016	19,545	21,313	12,281	36	5,998	116,189
Totals:	117,477	20,565	31,796	25,769	50	7,495	203,152

Source: State of Hawaii; Department of Hawaiian Home Lands

Organization of the Department

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

The Department has 155 employees working in its administrative offices and three operating divisions: the Homestead Services Division, the Land Development Division, and the Land Management Division.

Administration of the homestead lease program is vested in the Homestead Services Division. Homestead leases run for ninety-nine years and are classified as residential, agricultural and pastoral. At present the Homestead Services Division has approved and offered approximately 9,500 leases on 45,000 acres. About 85 percent of these leases are residential leases.

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

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

The Land Management Division undertakes archeological, environmental and topographical-mapping studies to protect properly those lands not slated for development and better manage the Department's land inventory system. Since 1965, the Land Management Division has offered general, non-homestead leases to serve a variety of purposes, including leases for commercial and industrial purposes. These general leases are offered at competitive market rates through a public auction. Though few in number, general leases make up a substantial share of total rental income. As of October 1, 2008, there were approximately 15,134 acres of Hawaiian home lands under general leases. Additionally, the Land Management Division also leases land to other State agencies, including the Department of Land

and Natural Resources, for the establishment of environmental preservation reserves. Land has also been leased to public utilities.

In addition to long term leases, income is also generated through the issuance of licenses and permits for temporary uses of lands by community, government, and military agencies. As of October 1, 2008, approximately 26,263 acres of land were being utilized under licenses, approximately 28,883 acres under permits and approximately 87,306 acres under other uses.

Goals and Plans of the Department

Slightly more than 22 percent of Hawaiian home lands (45,566 acres) are being used for homestead purposes, representing approximately 9,500 leases. Because the number of applicants seeking homestead leases exceeds the number of homesteads available for lease, the Department has adopted a strategic plan which establishes a goal to award approximately 5,000 new homestead leases over a 5-year period. Many of these awards will be offered as part of master-planned communities, and will include turnkey and owner-built homes, vacant lots, and undivided interest awards. Master-planned communities will also contain commercial areas to provide local employment opportunities to residents.

Another goal of the Department's strategic plan is to pursue financial self-sufficiency by increasing the revenue generated from the Department's income properties. The immediate goal is to generate income to replace the $30 million received annually under the Act 14 settlement with the State, which will end in 2015. See "Management Discussion" below for a discussion of the Act 14 settlement.

The Land Management Division of the Department has identified a selection of land inventory on every major island for commercial/industrial development in order to achieve self-sufficiency by 2013. These include proposed projects such as an 11-acre parcel in Hilo for commercial/industrial mixed use; a 9-acre parcel in Hilo for industrial mixed use; a 1.89-acre parcel in Moiliili, Oahu for commercial/industrial mixed development; a 50-acre parcel in Honokowai, Maui for commercial development; a 43-acre parcel in Kalaeloa, Oahu for industrial park development; a 127-acre parcel in Kalaoa, Hawaii for commercial/industrial mixed development; a 140-acre parcel in Hilo, Hawaii for industrial/business park development; a 15-acre parcel in Kapaa, Kauai for industrial use; and a 3-acre parcel in Waianae, Oahu for industrial use.

The Land Management Division is currently finalizing negotiations for the following general leases:

- 67.7 acres in Kapolei, Oahu with DeBartolo Hawaii LLC (anticipated annual ground lease rent is $4,688,000);
- 12.0 acres in Kawaihae, West Hawaii with Big Island Carbon LLC (anticipated annual ground lease rent is $450,000);
- 15.5 Acres in Waiakea, East Hawaii with a joint venture of Target/Safeway (anticipated annual ground lease rent is $568,461); and
- 1.01 Acres in Shafter Flats, Oahu with Pacific Transfer LLC (anticipated annual ground lease rent is $236,000).

Members of the Commission

Micah A. Kane – Chairman, Oahu; Appointed as Chairman of the Hawaiian Homes Commission, Department of Hawaiian Home Lands, on January 1, 2003. Term expires 2010.

Perry Artates – Maui; Serves as Director of Hawaii Operating Engineers Industry Stabilization Fund and a member of the construction industry. Also served as president of the Waiohuli Homestead Community. Term expires 2011.

Trish Morikawa – Oahu; Currently employed as a Deputy Prosecutor with the Prosecuting Attorney's Office of the City and County of Honolulu. Term expires 2011.

Henry K. Tancayo, Sr. – Molokai; Retired fire chief from Maui County and serves on his church Board. Term expires 2012.

Malia P. Kamaka – Hawaii; Customer service representative with Hawaii Electric Light Company. Term expires 2009.

Alapaki Nahale-a – Hawaii; Serves as Director of Ka 'Umeke Ka'eo Hawaiian Immersion Public Charter School in Keaukaha, Hawaii. Term expires 2012.

Stuart K. Hanchett – Kauai; Self-employed for the last 15 years. Term expires 2009.

Donald S.M. Chang – Oahu; Retired as Fire Chief with Honolulu Fire Department after 35 years. Term expires 2011.

Francis K. Lum – Oahu; Recently retired as Chief of Protocol for five Hawaii governors. Term expires 2010.

Management Personnel

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

Kaulana H.R. Park, Deputy to the Chairman, was appointed in 2008. Prior to 2008, Mr. Park served as Executive Assistant to the Chairman, Hawaiian Home Lands (2003-2005); Business Loan Manager for the Office of Hawaiian Affairs (1997-2003); Branch Manager & Assistant Vice-President, Bank of America, FSB (1994-1997); Assistant Branch Manager, First Hawaiian Bank (1992-1994); and Business Banking Officer, Wells Fargo Bank (1987-1992). Mr. Park graduated from Stanford University with a B.S. in Petroleum Engineering in 1985.

Robert J. Hall, Executive Assistant to the Chairman, Acting Homestead Services Division Administrator, was appointed to Executive Assistant to the Chairman in 2008. Mr. Hall also serves in the Department as Acting Homestead Services Division Administrator (2005-present); and has served as Finance and Development Specialist (2003-2005) and Homestead Development Coordinator and Project Manager (1976-1977); Acting Executive Director and Executive Assistant of the Housing and Community Development Corporation of Hawaii (2002-2003), and Public Housing Manager, Supervisor and Specialist (1978-2002). Mr. Hall attended the University of Hawaii, Manoa.

Rodney K.M. Lau, Administrative Services Officer, was appointed in 1992. From 1982 to 1991, Mr. Lau also held the following positions within the Department: Acting Fiscal Management Officer (1988-1992), Systems and Internal Control Supervisor (1985-1988), and Accountant (1982-1985). Mr. Lau graduated from Eastern Washington University with a B.A. in Professional Accounting in 1973 and is a Licensed Certified Public Accountant in Hawaii and a member of the American Institute of Certified Public Accountants (AICPA).

James X. C. Pao, Fiscal Management Officer, was appointed in 1997. Prior to 1997, Mr. Pao served as Accounting Staff Supervisor of the Department (1988-1997); Liquor Commission Auditor for the City and County of Honolulu (1987-1988); and Accountant for a CPA firm in Hawaii (1980-1987). Mr. Pao graduated from Chaminade University of Honolulu with a M.B.A. in 1979. Mr. Pao is a Licensed Certified Public Accountant in Hawaii and a member of the American Institute of Certified Public Accountants (AICPA) and the Hawaii Society of Certified Public Accountants.

Darrell C. Yagodich, Planning Program Manager, was appointed in 1995. Prior to 1995, Mr. Yagodich also held the following positions within the Department: Manager for settlement of Department land title and related claims (1991-1994); Manager for income generation and land management (1985-1990); Manager for federal, community, and economic development programs (1980-1984); and Planner at the State Department of Planning and Economic Development (1975-1979). Mr. Yagodich graduated from the University of Hawaii, Manoa with a B.A. in History and the University of California at Los Angeles with a M.A. in Architecture and Urban Planning in 1974.

Larry M. Sumida, Land Development Division Administrator, was appointed in 2005. Prior to 2005, Mr. Sumida served as Real Estate Development Specialist for the Department (2003-2005); and Principal Broker, General Manager, and Sales Manager for realty firm (1973-2003). Mr. Sumida received his Real Estate Broker License after graduating from the University of Hawaii, Manoa in 1971 with a B.A. in Business Administration.

Linda L. Chinn, Land Management Division Administrator, was appointed in 2003. In her previous position, Ms. Chinn was manager of the Land Management Branch and prior to that, of all lands not in homestead use on the island of Hawaii. Ms. Chinn joined the department in 1986 after many years in real estate brokerage and appraisal work in the private sector.

Employee Relations and Pension Benefits

Employee Relations. The State Constitution grants public employees the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawaii Revised Statutes (HRS), provides for 13 recognized bargaining units for all public employees throughout the State, including Department employees. Each of these bargaining units designates an employee organization as the exclusive representative of all employees of such unit in negotiations with the public employer.

In the case of bargaining units which represent both State and county employees, the State and the counties are required to bargain jointly with the bargaining units. Decisions by the employer representatives are determined by a majority of the votes cast, with the Governor having varying numbers of votes depending on the bargaining unit involved. In the event of an impasse, the only union representing Department employees that is permitted by law to conduct an employee strike is bargaining unit 1, which represents the Department's blue collar, non-supervisory employees. In the case of all other bargaining units, an impasse is required to be resolved through mediation, fact finding, and compulsory "final and binding arbitration." Although HRS Chapter 89 characterizes arbitration as "final and binding," it also provides that all cost items are subject to approval by the respective legislative bodies of the State and each county.

As of June 30, 2008, the Department had 155 employees, 149 of whom were represented by the eight public employee bargaining units referenced below, and two of whom (*i.e.*, the Chairman of the Hawaiian Homes Commission, and the Deputy to the Chairman of the Hawaiian Homes Commission) were not represented by any bargaining unit. The bargaining units representing Department employees were:

Bargaining Unit	Employees Covered
1	Blue Collar, Non-Supervisory
3	White Collar, Non-Supervisory
13	White Collar, Non-Supervisory, Professional and Scientific
23	White Collar, Supervisory, Professional and Scientific
35	White Collar, Managerial
63	White Collar
73	White Collar, Non-Supervisory, Professional and Scientific
93	White Collar, Supervisory

All of these bargaining units have two-year collective bargaining agreements expiring June 30, 2009.

Pensions. The Employees' Retirement System of the State of Hawaii (the "State Retirement System") began operation on January 1, 1926. The State Retirement System is a cost-sharing, multiple-employer defined benefit pension plan. The State Retirement System covers all regular employees of the State (including the Department) and each of its counties, including judges and elected officials.

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

The State Retirement System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the State Retirement System. Act 327, SLH 1997, amended HRS Section 88-107, so that, beginning with the June 30, 1997 valuation, the State Retirement System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. For those two valuations, the investment earning in excess of a 10% actuarial return is to be applied as a reduction to the employer contributions.

In accordance with the statutory funding provisions (Section 88-122 of HRS Chapter 88, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund is comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement is determined in the aggregate for all employers in the State Retirement System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation is paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the State Retirement System during the 2000-2001 fiscal year. The actuarial cost method used to calculate employer contributions was changed by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation.

Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the State Retirement System. Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers will contribute 15.75% for their police officers and firefighters and 13.75% for other employees. Employer contributions beginning July 1, 2008 will increase to 19.70% for police officers and firefighters and 15.00% for all others pursuant to Act 256, SLH 2007.

The Department's share of the State Retirement System expense for the year ended June 30, 2008 was included as an item to be expended by the Department of Budget and Finance and is not reflected in the Department's financial statements.

Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the State Retirement System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan.

On July 1, 2006, a new defined benefit contributory plan was established pursuant to Act 179, SLH 2004. The new plan provides certain current and new employees with the opportunity to participate in a defined benefit contributory plan. It provides portability for shorter-term employees and is expected to improve recruitment for and retention of public sector employees. The State Retirement System's actuary has determined that the new plan is cost neutral, an important factor given the escalating costs of the retirement program.

Post-Retirement Benefits. In addition to the pension benefits provided to Department employees by the State Retirement System, retired Department employees also receive certain health care (medical, prescription drug, vision and dental) and life insurance benefits from the State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund"). Contributions to the Fund are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health and other non-pension benefits ("OPEB"). GASB 45 generally requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they do for pensions. Annual OPEB costs for most local governments will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. A governmental entity may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the local government's income statement. GASB 45 also establishes disclosure requirements for information about the plans in which a local government participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain local governments, the extent to which the plan has been funded over time. Accounting for these benefits

- primarily post-retirement medical benefits - can have significant impacts on state and local government financial statements.

On August 29, 2008, Aon Consulting, the State's independent actuarial advisor, issued a report on the actuarial accrued liabilities and annual OPEB costs to be recognized by the State with respect to Trust Fund OPEBs under GASB 45. The report quantifies the Actuarial Accrued Liabilities of the State as of July 1, 2007, and develops an Annual Required Contribution as the basis for determining the amount that the State will report under GASB 45 for the fiscal year ending June 30, 2008. The report provides costs based on stated actuarial assumptions with no prefunding of the Annual Required Contribution. The report states that the State's Actuarial Accrued Liabilities as of July 1, 2007 is $7,192.3 million, and estimates that the corresponding Annual Required Contribution for the fiscal year ending June 30, 2008 would be $517.8 million. The estimated pay-as-you-go funding amount for such fiscal year is $200.1 million. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term.

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

The following combined statements of revenues, expenditures and changes in fund balance of the Department for the three years ended June 30, 2005 through 2007 are taken from the audited financial statements of the Department for such years. The statement of revenues, expenditures and changes in fund balances as set forth below for the year ended June 30, 2008 has not been audited by independent auditors and remains subject to audit adjustments. See "FINANCIAL STATEMENTS" herein for certain information regarding the pending audit of the Department's financial statements for the year ended June 30, 2008. Management of the Department has presented this statement in the manner below, which is not in accordance with generally accepted accounting principles, in order to facilitate comparison to results of operations of the prior years on a summarized basis.

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

	Years Ended June 30			
	2005	2006	2007	2008 (Unaudited)
Revenues:				
General Leases	$ 5,739,010	$ 6,656,560	$ 6,729,249	$ 7,417,184
Licenses and Permits	1,928,037	3,911,577	2,885,849	3,541,175
Interest and Investment income[1]	9,212,037	11,827,161	13,884,860	13,717,386
Allotted appropriations	823,857	3,148,523	3,955,115	4,195,766
Sales of Homes	0	0	21,320,841	65,456,071
Intergovernmental revenues	9,008,371	3,942,027	5,940,464	18,572,331[2]
Other revenues	1,115,770	1,422,077	2,586,838	1,238,560
Total Revenues	$ 27,827,082	$ 30,907,925	$ 57,303,216	$114,138,473
Expenditures:				
Operating	$ 19,217,764	$ 16,622,248	$ 23,002,289	$ 46,048,534[3]
Capital projects/Home construction	30,357,325	34,669,698	103,104,386	138,301,824
Debt Service[4]				
Principal	1,300,083	1,427,111	8,847,627	62,793
Interest	498,627	440,403	361,247	19,385
Total Expenditures	51,373,799	53,159,460	135,315,549	184,432,536
Excess (deficiency) of revenues over (under) expenditures	(23,546,717)	(22,251,535)	(78,012,333)	(70,294,063)
Other Financing Sources (Uses)[5]	30,000,000	30,000,000	30,000,000	74,500,000
Lapsed appropriations	(168,175)	(169,133)	(193,959)	(228,026)
Net change in fund balances	$ 6,285,108	$ 7,579,332	($48,206,292)	$ 3,977,911
Fund Balances	$271,282,723	$278,862,055	$230,655,763	$234,633,674

(1) Includes interest from short-term investments and loans.

(2) Consists of Native American Housing Assistance and Self-Determination Act (NAHASDA) and other governmental reimbursements.

(3) Includes $24.5 million present value of capitalized lease obligations for the Department headquarters building in compliance with generally accepted accounting principles.

(4) Comprised of the Department's portion of the State's reimbursable general obligation bonds. Fiscal Year 2007 figure also includes debt service on revenue bonds defeased in October 2006. See "Outstanding Indebtedness" below.

(5) Includes Act 14 settlement funds (see "Management Discussion" below), which are not available for payment of the Series 2009 Bonds or the Department's 2006 issue of certificates of participation (see "Outstanding Indebtedness" below). Fiscal Year 2008 figure consists of Act 14 settlement funds of $30 million, plus a $20 million advance of the settlement and capitalized lease of $24.5 million.

Source: State of Hawaii; Department of Hawaiian Home Lands

Outstanding Indebtedness

In October 2006, the Department defeased all of its then outstanding revenue bonds.

In December 2006, the Department issued $24.5 million aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Certificates of Participation (Kapolei Office Facility), 2006 Series A, to finance the construction of an office building and conference facility for the Department in the City and County of Honolulu. In connection with the financing of such improvements, the Department entered into a 25-year facility lease agreement with Wells Fargo Bank, National Association, as lessee of the facility. The facility was completed and occupied as of May 2008. Upon expiration of the lease, title to the facility will be transferred to the Department. The future minimum lease payments related to this agreement are shown in the notes to the audited financial statements included as Appendix A hereto.

As of June 30, 2008, there were $802,942 aggregate principal amount of outstanding reimbursable general obligation bonds of the State allocated to the Department. Principal and interest payments on such reimbursable general obligation bonds are made from the General Fund of the State. The Department reimburses the General Fund for its allocable share of such payments from the Hawaiian Home Operating Fund established under the HHCA.

The Department also guarantees certain loans obtained by lessees of homestead property from the Department and as of June 30, 2008 was contingently liable under such guarantees for $20.26 million of loans. The HHCA limits the Department's authority to incur liability under such guarantees to a maximum of $50 million. In the event that the Department is required to perform under any of these guarantees, funds are drawn from the Hawaiian Home General Loan Fund. For a more complete discussion of these guaranteed loans, see Note 12 - Commitments and Contingencies to the Department's audited financial statements for the fiscal year ended June 30, 2007, included as Appendix A hereto.

Management Discussion

The Department's primary sources of revenue include revenues from leasing and licensing of Department lands, interest and investment income, and annual appropriations from the State. The Department's funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the Department, are invested in securities prescribed in HRS Section 36-21.

Revenues from licenses and permits consist primarily of church licenses, easements, and revocable commercial and pasture leases. Interest and investment income, which, as of June 30, 2008, totaled about $13.7 million (unaudited), is derived primarily from interest earnings on the Department's cash investments and from interest payments to the Department on outstanding loans. These interest payments are from approximately 1,400 loans, totaling $49.2 million (unaudited, net of allowance for losses of $7.8 million), made to native Hawaiian lessees for the purposes which are specified in the HHCA.

Allotted appropriations represent funds that have been appropriated by the State and spent in that year for administrative and operating costs as well as various capital projects. Each year the Department submits a budget to the State for review. In each of the years in which a budget has been submitted, the State has generally appropriated the administrative and operating amounts requested. General Fund support for administrative and operating costs has increased from $1,150,779 in fiscal year 2007 to $1,320,434 in fiscal year 2008. Capital project funding has not been appropriated to the Department in recent years.

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

As mentioned above, the State appropriates funds to the Department for its administrative and operating costs and various capital projects. However, revenue is recognized only to the extent that authorized expenditures are incurred. The Department's administrative and operating costs have ranged between $19.2 million in Fiscal Year 2005 and $46 million (unaudited) in Fiscal Year 2008. As indicated in Table 4 above, the Department's administrative and operating expenses in Fiscal Year 2008 represented a $23 million increase from the prior year total due to the inclusion of the $24.5 million present value of the Department's capitalized lease obligations for its new headquarters. See "Outstanding Indebtedness" above for a discussion of this lease.

Since the passage of the HHCA in 1921 and continuing with Hawaii's acceptance of the trust in 1959, thousands of acres on Hawaiian home lands were used or withdrawn by the Territory of Hawaii and the State. In 1995, Act 14 SpSLH, was enacted to resolve the disputed lands claims and brought to a close long-standing controversies associated with the trust since 1959. Highlights of the settlement included: 1) Payment of $600 million at $30 million a year over a period of 20 years (ending in 2015) into a non-lapsing "Hawaiian Home Lands Trust Fund." In the event an annual payment is not made, interest would accrue on the unpaid amount. 2) Compensation for past public uses of Hawaiian home lands. 3) Land exchanges for roads and highways on Hawaiian home lands and 4) Clearing land disputes in specified areas by land transfers.

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

See "FINANCIAL STATEMENTS" herein for certain information regarding the pending audit of the Department's financial statements for the year ended June 30, 2008.

THE GENERAL LEASES AND AVAILABLE LANDS

Legislative Basis for General Leases

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

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

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

Nature of the General Leases

As of October 1, 2008, there were 113 general leases of land generating approximately $7.32 million of revenue annually. See Appendix B – "Schedule of Existing General Leases" for detailed information. The Department has a few additional leases under negotiation. See "THE DEPARTMENT OF HAWAIIAN HOME LANDS – Goals and Plans of the Department" herein. The typical general lease has a term of 55 years. HRS Section 171-36(b) provides the Department with an option to extend industrial and commercial leases that were issued for less than 55 years authorized under HRS Section 171-36(a)(2), so that the aggregate of the original term and the extended term span 55 years.

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

Table 5
General Leases by Classification
(As of October 1, 2008)

	Number of Leases	Annual General Lease Revenues	% of Annual General Lease Revenues
Agriculture	3	$ 87,550	1.20%
Church	2	2,982	0.04
Commercial	6	2,925,498	39.98
Industrial	81	3,831,175	52.35
Military	2	2	0.00
Park	1	200,000	2.73
Pasture	2	47,475	0.65
Public Service	5	62,821	0.86
Residential	2	2	0.00
School	3	3	0.00
Telecommunication	2	63,600	0.87
Utility	4	96,938	1.32
Totals:	113	$7,318,047	100.00%

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

The following table presents the lease revenue attributed to each island, based on the distribution of current general lease revenues. Approximately 71.8% of the revenues are concentrated in Hilo on the Island of Hawaii and in the Fort Shafter Flats area on Oahu, as discussed in "Concentration of Lease Revenues" below.

Table 6
Geographic Distribution of General Leases
(As of October 1, 2008)

	Number of Leases	% of Annual General Lease Revenues
Hilo, Hawaii	58	47.73%
Fort Shafter Flats, Oahu	18	24.07
Other, Hawaii	17	9.95
Other, Oahu	10	13.82
Kauai	1	0.01
Molokai	7	3.45
Maui	2	0.97
Totals:	113	100.00%

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

Lease Criteria

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash Flows from Rentals

The following table presents the Department's historical and projected cash flows from rentals under general leases, licenses and revocable permits of available lands for the fiscal years ending June 30, 2006 through June 30, 2013.

Table 7
Historical and Projected Rental Cash Flows

Fiscal Year Ending June 30	General Leases	Licenses & Revocable Permits	Interest	Totals
2006	$6,656,560	$3,911,577	$590,321	$11,158,458
2007	6,729,249	2,885,849	791,726	10,406,824
2008	7,417,184	3,541,175	720,281	11,678,640
2009	7,400,000	3,500,000**	700,000	11,600,000
2010	9,200,000*	3,700,000**	400,000	13,300,000
2011	10,800,000*	3,900,000**	400,000	15,100,000
2012	11,600,000*	4,100,000**	400,000	16,100,000
2013	16,700,000*	4,300,000**	400,000	21,400,000

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* Reflects anticipated commencement of rental payments for projects under negotiation identified in "THE DEPARTMENT OF HAWAIIAN HOME LANDS – Goals and Plans of the Department."
** Assumes a 5% annual increase due to annual review/adjustment.

Source: State of Hawaii; Department of Hawaiian Home Lands

Certain Factors Affecting General Lease Revenues

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

Concentration of Lease Revenues. Currently, approximately 47.7 percent of the Department's general lease revenues are derived from commercial and industrial properties in Hilo, Hawaii. In addition, approximately 24 percent of the general lease revenues are derived from commercial and industrial properties in the Fort Shafter Flats area on the island of Oahu. As such, economic conditions pertaining in such locales may affect the ability of the lessees in those areas to make the required lease payments.

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

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

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

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

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

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

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

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

Litigation Challenging General Leases. In Ahia v. Dept. of Transportation, 69 Haw. 538 (1988), the plaintiffs, "native Hawaiians" who were "qualified applicants for Hawaiian Home Land Leases", sought: (a) a declaration that General Lease No. 213, issued by the Commission to the State Department of Transportation ("DOT"), was null and void; and (b) injunctions against the disposition of Hawaiian home lands by general lease to the DOT or non-native Hawaiians until eligible native Hawaiians were given an opportunity to lease such lands. The lease in question, General Lease No. 213, covered approximately 4.3 acres within the 11,000 acre tract at Kamaoa-Puueo, Ka'u, on the island of Hawaii. In 1983, the Commission authorized the issuance of General Lease No. 213 to the DOT to facilitate the construction of a boat-launching facility. The Hawaii Supreme Court, with two of the five justices dissenting, upheld the Commission's authority to lease the lands in question and concluded that the Department had complied with the applicable leasing procedure imposed by law.

The court found "good reason" that the lands in question had never been leased to native Hawaiians for any of the Section 207(a) purposes. The court indicated that the Commission's decision to lease 4.3 acres to the DOT was founded in part on belief that "[t]he arrangement...is one that would enhance Ka'u by bringing water to the area for the benefit of the Ka'u residents and making it possible to start a homesteading community there." Based on the foregoing, the Court could find no basis for holding that the lands in question were not disposable by lease pursuant to Section 204(a)(2) of the HHCA. The Court concluded that the Commission's decision to issue the DOT lease was not incompatible with the mandate of the HHCA to rehabilitate native Hawaiians through a series of projects. The Court held that the authorization for preferential treatment for native Hawaiians is applicable when leases of Hawaiian home lands are issued "for commercial, industrial, or other business purposes" and is not applicable when lands are leased by the Commission to a government agency for the construction and maintenance of a boat-launching facility. Finally, the Court determined that the Commission complied with the applicable procedure in issuing the lease.

The dissent contended that the lease had commercial as well as public aspects to it, and, therefore, the Commission members, as fiduciaries, had a duty at least to give consideration to making the lease to beneficiaries of the HHCA. Furthermore, the dissenters would not have construed "public" as including the government, and did not agree that the Department had the unrestricted power that makes leases for public purposes to other government agencies.

In *Kaniho v. Padeken*, Civ. No. 6108, the Third Circuit Court denied plaintiff's claim for cancellation or rescission of a commercial lease (GL 202) issued to a non-native Hawaiian for the development and operation of a shopping center in Hilo, Hawaii. However, the Court, while recognizing the authority of the Department and Commission to make general leases to non-native Hawaiians, enjoined the Department and the Commission from further leasing of Hawaiian home lands to non-native Hawaiians unless and until they sought the necessary legislative appropriation and funding for the administrative and operating expenses of the Department from moneys other than that generated from the general leasing of Hawaiian home lands. The judgment further provided that upon seeking such legislative appropriation and funding, the Department and the Commission could lease to non-native Hawaiians only on the following pre-conditions:

1. That the Department and the Commission have a reasonable basis to believe that the legislature cannot provide sufficient funds for administrative and operating expenses; or

2. That even if the legislature provides sufficient funds to the Department, it is determined by the Department and the Commission that special circumstances or conditions exist as to the specific lease which will be beneficial to native Hawaiian beneficiaries.

The Court agreed with the plaintiff that the only purpose for the issuance of GL 202 was the generation of income, which purpose is no longer necessary because of the 1978 Constitutional Amendment providing, in part, that "the legislature shall make sufficient funds available for" the administrative and operating budget of the Department.

The Hawaii Supreme Court reversed the Third Circuit Court, indicating that the relief granted "went far beyond the pleadings" and remanded the case to the lower court with instructions to dismiss the case, which it did in June 1985. Consequently, the description of pre-conditions to leasing to non-native Hawaiians does not represent current Hawaii law but is included to advise the reader of the diversity of judiciary views on matters related to the Commission and the Department.

FINANCIAL STATEMENTS

The financial statements of the Department as of and for the fiscal year ended June 30, 2007, included in Appendix A to this Official Statement, have been audited by Accuity LLP, independent auditors, as stated in such firm's reports appearing in Appendix A.

The audit of the Department's financial statements for the fiscal year ended June 30, 2008 is pending, and delivery of audited financial statements for such fiscal year is subject to resolution of the potential impairment issue discussed below regarding certain investments in the State Treasury.

With minor exceptions, the Department's funds are held in the State Treasury and invested on a pooled basis with funds of other State departments and agencies. Approximately 25% of these pooled investments are in the form of auction rate securities. Due to liquidity problems affecting auction rate securities in the marketplace, the State is considering whether, in order to comply with generally accepted accounting principles, it will record an impairment charge relating to such securities in the State's audited financial statements for the fiscal year ended June 30, 2008 (also pending). A final determination has not been made as to whether an impairment charge will be recorded or the amount of such a charge, if recorded.

The impairment charge, if recorded, may likely be allocated to the various departments and agencies, including the Department, whose funds are held in the State Treasury and invested on a pooled basis. The Department has concluded that such a charge, if recorded, would not have a material adverse effect on the Department's financial condition or liquidity.

If recorded, the impairment charge allocated to the Department would be reflected: (a) in the Department's Balance Sheet (Governmental Funds) as a decrease in "Equity in cash and cash equivalents held in State Treasury" and (b) in the Department's Statement of Revenues, Expenditures and Changes in Fund Balances (Governmental Funds) as an increase in current expenditures for "Administrative and support services" and a decrease in "Fund balances at June 30, 2008." Corresponding adjustments would also be made in the Department's department-wide financial statements.

In addition, in 2008, the Department has restated its June 30, 2007 department-wide net assets to correct an error in accounting for capital assets and home construction expenditures of $23.3 million. The restatement adjustment, which is not reflected in Appendix A hereto, reduced construction costs that were inappropriately capitalized as construction in progress in 2007 and reduced the previously reported June 30, 2007 department-wide net assets by $23.3 million. Accordingly, the Department's audited financial statements for the fiscal year ended June 30, 2008, when released, will reflect a corresponding reduction in department-wide net assets as of July 1, 2007 to correct the error. The Department believes that this restatement and related adjustment will not adversely affect the financial condition of the Department.

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, execution or delivery of the Series 2009 Bonds or in any other manner affecting the validity of the Indenture or the Series 2009 Bonds or the proceedings or authority pursuant to which the Series 2009 Bonds are to be issued and sold.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and the Series 2009 Bonds and the income therefrom will be exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2009 Bonds is less than the amount to be paid at maturity of such Series 2009 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2009 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2009 Bonds which is excluded from gross income for federal income tax purposes and State tax purposes For this purpose, the issue price of a particular maturity of the Series 2009 Bonds is the first price at which a substantial amount of such maturity of the Series 2009 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2009 Bonds accrues daily over the term to maturity of such Series 2009 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2009 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2009 Bonds. Beneficial Owners of the Series 2009 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2009 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2009 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2009 Bonds is sold to the public.

Series 2009 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2009 Bonds. The Department has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2009 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2009 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2009 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2009 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2009 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes and that the Series 2009 Bonds and the income therefrom are exempt from taxation by the State of Hawaii or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds may otherwise affect a holder's federal, state or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2009 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent holders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2009 Bonds. Prospective purchasers of the Series 2009 Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations and litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2009 Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Department, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Department has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2009 Bonds ends with the issuance of the Series 2009 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Department or the holders regarding the tax-exempt status of the Series 2009 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Department and their appointed counsel, including the holders, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Department legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2009 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2009 Bonds, and may cause the Department or the holders to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Series 2009 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the State by the Attorney General and for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP.

RATINGS

Moody's Investors Service and Fitch Ratings have assigned ratings of “A2” and “A-,” respectively, to the Series 2009 Bonds. Such ratings reflect only the respective views of the rating agencies, and any explanation of the significance of any such rating should be obtained from the rating agency providing the same. There is no assurance that any such rating will be retained for any given period of time or that the same will not be revised downward, suspended or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. The Department undertakes no responsibility to oppose any such downward revision, suspension or withdrawal. Any downward revision, suspension or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Series 2009 Bonds.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Underwriter”) has agreed to purchase the Series 2009 Bonds at an aggregate purchase price equal to $41,574,466.69 (representing the principal amount of the Series 2009 Bonds, less a net original issue discount of $522,518.50 and an Underwriter's discount of $403,014.81). The Underwriter will be obligated to purchase all of the Series 2009 Bonds if any are purchased.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2009 Bonds to the public. The Series 2009 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2009 Bonds into investment trusts) at prices lower than the public offering prices appearing on the inside cover, and the public offering prices may be changed from time to time.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

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

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

CONTINUING DISCLOSURE

The Department has entered into a Continuing Disclosure Certificate (the "Disclosure Certificate") for the benefit of the holders and Beneficial Owners of the Series 2009 Bonds to provide certain financial information and operating data relating to the State to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240. 15c2-12) (the "Rule"). See Appendix F – “Continuing Disclosure Certificate.”

The Department has not failed to comply with any of its previous continuing disclosure certificates under the Rule. A failure by the Department to comply with the Disclosure Certificate will not constitute an event of default of the Series 2009 Bonds, although any Series 2009 Bond holder or any Beneficial Owner may bring an action to compel the Department to comply with its obligations under the Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2009 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2009 Bonds and their market price.

MISCELLANEOUS

As far as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Series 2009 Bonds. The Department of Hawaiian Home Lands has prepared this Official Statement and has duly authorized the delivery hereof.

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

DEPARTMENT OF HAWAIIAN HOME LANDS

By: /s/ Micah A. Kane
Chairman

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APPENDIX A

DEPARTMENT OF HAWAIIAN HOME LANDS AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

Hawaiian Homes Commission
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Hawaiian Home Lands (the "Department"), as of and for the year ended June 30, 2007, which collectively comprise the Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Department. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 17 through 18, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The information on the combining balance sheet – nonmajor governmental funds and combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining balance sheet – nonmajor governmental funds and combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects on the basis of accounting described in Note 1, in relation to the basic financial statements taken as a whole.

Accuity LLP

Honolulu, Hawaii
March 28, 2008

The following Management's Discussion and Analysis ("MD&A") is designed to provide an overview of the financial performance of the State of Hawaii, Department of Hawaiian Home Lands (the "Department") for the fiscal year ended June 30, 2007. Please read it in conjunction with the Department's financial statements, which follow this section.

Financial Highlights for Fiscal Year 2007

- The Department's total net assets, the amount of assets exceeding liabilities, totaled $632.0 million. Of this amount, $230.6 million is unrestricted and $401.4 million is invested in capital assets, net of related debt.
- The Department's total net assets increased $47.3 million over the course of this year's operation.
- In fiscal year 2007, the Department's revenues (before transfers) exceeded expenditures by $17.3 million. In fiscal year 2006, revenues exceeded expenditures by $2.4 million.
- The total expenditures of the Department increased by $11.1 million, or 40%.
- The General Fund appropriation was $302,276 more than fiscal year 2006. This represents a 36% increase in General Fund appropriations.
- The total fund balance of the Department's governmental funds decreased by $48.2 million, which was largely due to capital outlay for large scale home construction and capital projects.

Overview of the Financial Statements

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

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

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

The statements are followed by a section of required supplementary information that further explains and supports the information in the fund financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Department-Wide Financial Statements

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

The statement of net assets presents all of the Department's assets and liabilities. The difference between the assets and liabilities are reported as "net assets."

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

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

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with legal requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Analysis of the Department as a Whole

Net Assets

The Department's total net assets increased by $47.3 million to approximately $632.0 million between fiscal year 2007 and 2006, primarily due to the $30 million annual settlement payment from the State of Hawaii in accordance with Act 14, SP SLH 1995. A large portion of the Department's net assets (63%) reflects its investment in capital assets such as land, buildings, infrastructure and construction-in-progress. The Department uses these capital assets to provide public lands which are leased to Native Hawaiians; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The following is a comparative statement of net assets:

Summary of Statement of Net Assets
(in millions)

	2007	2006	Increase (Decrease)
Current and other assets	$ 353.7	$ 318.6	$ 35.1
Capital assets	428.7	343.0	85.7
Total assets	$ 782.4	$ 661.6	$ 120.8
Long-term debt outstanding	$ 25.9	$ 35.6	$ (9.7)
Other liabilities	124.5	41.3	83.2
Total liabilities	$ 150.4	$ 76.9	$ 73.5
Net assets			
Invested in capital assets, net of related debt	$ 401.4	$ 304.7	$ 96.7
Unrestricted	230.6	280.0	(49.4)
	$ 632.0	$ 584.7	$ 47.3

Change in Net Assets

The Department's total program revenues increased from $17.5 million in 2006 to $52.3 million in 2007 (see statement of activities). Approximately 7.5% of the Department's program revenues came from loan interest income, 17.8% came from interest income on short-term investments, 44.4% came from home sales, and 19.1% came from the general lease program. A portion of the Department's program revenue, approximately 11.3%, came from grants and contributions. Total general revenues decreased by 20.7% to $33.8 million due to the reclassification of interest from short-term investments. The total cost of the Department's programs increased by $11.1 million, or 40.1%. The Department received $30 million as part of the annual settlement payment with the State of Hawaii in accordance with Act 14, SP SLH 1995. Cash was transferred from the Department of Budget and Finance for the Hawaiian Home Lands settlement payment.

Statement of Activities

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

The following is a comparative statement of changes in net assets:

Changes in Net Assets (in millions)

	2007	2006	Increase (Decrease)
Revenues			
Program revenue			
Administration and support services	$ 9.3	$ 8.2	$ 1.1
Homestead services	3.9	3.3	0.6
Land development	21.3	-	21.3
Home construction/capital projects	1.9	-	1.9
Land management	10.0	10.3	(0.3)
Intergovernmental revenues	5.9	3.9	2.0
Appropriation, net of lapsed appropriations	3.8	3.0	0.8
Other	-	1.4	(1.4)
Total revenues	56.1	30.1	26.0
Expenses			
Administration and support services	8.8	7.5	1.3
Homestead services	17.1	15.4	1.7
Land development	3.8	3.4	0.4
Home construction/capital projects	6.6	-	6.6
Land management	2.5	1.4	1.1
Total expenses	38.8	27.7	11.1
Excess of revenues over expenses	17.3	2.4	14.9
Transfers, net	30.0	30.0	-
Change in net assets	47.3	32.4	14.9
Net assets			
Beginning of year	584.7	552.3	32.4
End of year	$ 632.0	$ 584.7	$ 47.3

As noted, net assets increased $47.3 million from operations, an 8.1% growth this year. This amount is higher than fiscal 2006 when net assets increased $32.4 million, a 5.9% growth. Total revenue increased 86.4% over last year, which was largely due to an increase in activities in land development, and expenses increased by 40.1%, primarily due to home construction/capital projects.

Financial Analysis of the Department's Governmental Funds

Governmental Funds

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

As of the end of fiscal year 2007, the Department's governmental funds reported a combined decrease in fund balance of $48.2 million. The changes in fund balance for the governmental funds differ from the change in net assets for governmental activities. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported in the changes in net assets.

Comparison of Balance Sheet
(in millions)

	Assets			Liabilities			Fund Balances		
	2007	2006	Change	2007	2006	Change	2007	2006	Change
General Fund	$ 0.1	$ 0.1	$ -	$ -	$ -	$ -	$ 0.1	$ 0.1	$ -
General Loan Fund	65.0	67.1	(2.1)	9.4	7.3	2.1	55.6	59.8	(4.2)
Trust Fund	180.0	145.6	34.4	80.4	6.7	73.7	99.6	138.9	(39.3)
Federal Grants	24.8	19.8	5.0	23.5	18.5	5.0	1.3	1.3	-
Operating Fund	15.9	18.2	(2.3)	1.3	1.2	0.1	14.6	17.0	(2.4)
Receipts Fund	2.7	2.6	0.1	2.0	2.9	(0.9)	0.7	(0.3)	1.0
Administration Account	22.1	15.6	6.5	2.9	1.8	1.1	19.2	13.8	5.4
Other Funds	43.1	49.6	(6.5)	3.5	1.3	2.2	39.6	48.3	(8.7)
Total	$ 353.7	$ 318.6	$ 35.1	$ 123.0	$ 39.7	$ 83.3	$ 230.7	$ 278.9	$ (48.2)

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

	Revenues			Expenditures			Other Financing Sources and Lapsed Appropriations			Net Change in Fund Balance		
	2007	2006	Change	2007	2006	Change	2007	2006	Change	2007	2006	Change
General Fund	$ 1.2	$ 0.8	$ 0.4	$ 1.0	$ 0.7	$ 0.3	$ (.2)	$ (.1)	$ (.1)	$ -	$ -	$ -
General Loan Fund	-	-	-	4.2	0.2	4.0	-	-	-	(4.2)	(0.2)	(4.0)
Trust Fund	28.5	5.4	23.1	97.8	32.0	65.8	30.0	30.0	-	(39.3)	3.4	(42.7)
Federal Grants	5.9	3.9	2.0	5.9	2.5	3.4	-	-	-	-	1.4	(1.4)
Operating Fund	0.6	0.5	0.1	9.1	8.2	0.9	6.1	6.4	(0.3)	(2.4)	(1.3)	(1.1)
Receipts Fund	6.7	5.5	1.2	-	-	-	(5.7)	(5.7)	0.0	1.0	(0.2)	1.2
Administration Account	10.4	11.1	(0.7)	6.2	6.7	(0.5)	1.2	3.3	(2.1)	5.4	7.7	(2.3)
Other Funds	4.0	3.5	0.5	11.1	2.8	8.3	(1.6)	(3.9)	2.3	(8.7)	(3.2)	(5.5)
Total	$ 57.3	$ 30.7	$ 26.6	$ 135.3	$ 53.1	$ 82.2	$ 29.8	$ 30.0	$ (.2)	$ (48.2)	$ 7.6	$ (55.8)

At the end of fiscal year 2007, the Hawaiian Home Land Trust Fund reported a decrease in the fund balance of $39.3 million. The decrease in the fund balance is the result of home construction for our Native Hawaiians. The fund balance of the Hawaiian Home Administration Account increased by $5.4 million, which was the result of funds being transferred in from the Other Funds and $4.2 million was the result of operations. Overall, the assets for the Department increased by $35.1 million, liabilities increased by $83.3 million, and fund balance decreased by $48.2 million despite several funds rising in their values and due to the increase in due to State Treasury.

Budgetary Highlights

Actual expenditures in the General Fund were less than budgetary estimates by $196,753 or 17.1%. The favorable variance was created by expenditure control measures.

In the Hawaiian Home Administration Account, the actual revenue exceeded the budgeted amount by $1.9 million and expenditures were $2.0 million less than the budgeted amount. The favorable variances were created by increased general lease collections and spending cuts.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2007, the Department had invested $533.5 million in a broad range of capital assets, including land, building, improvements, equipment and infrastructure. This amount represents a net increase (including additions, deductions and reclassifications) of $91.2 million, or 20.6%, over last year.

Capital Assets
(in millions)

	2007	2006	Increase (Decrease)
Buildings and improvements	$ 11.9	$ 10.4	$ 1.5
Furniture and equipment	1.6	0.5	1.1
Motor vehicles	0.8	0.8	-
Infrastructure	306.0	304.5	1.5
Total depreciable assets	320.3	316.2	4.1
Less: accumulated depreciation	(104.8)	(99.3)	(5.5)
Net depreciable assets	215.5	216.9	(1.4)
Land	40.0	40.0	-
Construction in progress	173.2	86.1	87.1
Total capital assets	$ 428.7	$ 343.0	$ 85.7

In fiscal year 2007, the Department expended $99.7 million for various capital projects. The Department has no plan to issue additional debt to finance the infrastructure construction projects. The Department will continue to use its trust funds and federal funds to fund these projects.

Long-Term Debt

In October 2006, the Department paid off its outstanding revenue bonds. The Department is also obligated to repay a portion of the State general obligation bonds issued on the Department's behalf through reimbursable general obligation bonds. The total obligation is $0.9 million and will be paid in full through fiscal year 2018.

Outstanding Debt
(in millions)

	2007	2006	Increase (Decrease)
Revenue bonds	$ -	$ 8.7	$ (8.7)
General obligation bonds	0.9	1.1	(0.2)
Total	$ 0.9	$ 9.8	$ (8.9)

Economic Factors and Next Year's Budgets

In the 2007–2008 budget, the general fund appropriation is $1.2 million and reflects an increase of $0.1 million, or an 9.1% from fiscal year 2007.

Revenues generated from general leases, revocable permits, licenses and right of entry agreements are projected to total $10.4 million. This represents an 11.8% increase from the prior fiscal year projection. The increase is primarily due to new general lease dispositions and general lease rental re-openings.

Currently Known Facts or Decisions

The Department has revised its strategic plan which now covers the time period between 2007–2011. The Department now has 5 goals: deliver 1,000 homestead awards annually to the beneficiaries, provide beneficiaries with the necessary tools for long-term homeownership, improve overall operational efficiency and delivery of services to our beneficiaries, attain financial self-sufficiency, and effectively manage and protect the trust.

State of Hawaii
Department of Hawaiian Home Lands
Statement of Net Assets
June 30, 2007

Assets	
Cash and short-term investments held in State Treasury	$ 239,095,787
Cash and short-term investments held outside of State Treasury	1,153,320
Investments	21,836,900
Receivables	
Due from State	3,937,176
Loans, net of allowance for losses of $8,641,384	49,363,135
Accrued interest	4,410,344
General leases and licenses, net of allowance for losses of $893,000	474,337
Other	1,088,287
Inventory of homes for sale	30,739,084
Other assets	1,630,868
Capital assets, net	428,706,263
Total assets	$ 782,435,501
Liabilities	
Vouchers and contracts payable	$ 23,266,086
Accrued wages and employee benefits payable	663,892
Due to State Treasury	58,684,162
Advances of Federal grant funds	22,990,221
Other liabilities	13,561,757
Deferred revenue	2,421,357
Purchase note payable	
Due within one year	2,200,000
Due in more than one year	24,200,000
Bonds payable	
Due within one year	186,000
Due in more than one year	679,735
Accrued vacation	
Due within one year	468,770
Due in more than one year	1,029,376
Total liabilities	150,351,356
Commitments and contingencies	
Net Assets	
Invested in capital assets, net of related debt	401,440,528
Unrestricted	230,643,617
Total net assets	632,084,145
Total liabilities and net assets	$ 782,435,501

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

State of Hawaii
Department of Hawaiian Home Lands
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Program Expenses	Program Revenue: Interest, Rent and Fees	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Administration and support services	$ 8,767,508	$ 9,338,933	$ 2,529,835	$ 3,101,260
Homestead services	17,066,191	3,901,289	13,045	(13,151,857)
Land development	3,784,481	21,320,841	3,392,584	20,928,944
Home construction/capital projects	6,621,441	1,872,081	-	(4,749,360)
Land management	2,510,682	9,979,493	5,000	7,473,811
Total governmental activities	$ 38,750,303	$ 46,412,637	$ 5,940,464	13,602,798
General revenues				
State appropriations, net of lapsed appropriations of $193,959				3,761,156
Transfers, net				30,000,000
Total general revenues and transfers				33,761,156
Change in net assets				47,363,954
Net assets at July 1, 2006				584,720,191
Net assets at June 30, 2007				$ 632,084,145

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

State of Hawaii
Department of Hawaiian Home Lands
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Land Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Other Funds	Total
Assets									
Cash and short-term investments held in State Treasury	$ 86,295	$ 18,017,025	$ 147,953,830	$ 15,866,550	$ 2,509	$ 21,418,021	$ 27,986	$ 35,723,571	$ 239,095,787
Cash and short-term investments held outside of State Treasury	-	-	-	-	-	-	1,153,320	-	1,153,320
Investments	-	-	-	-	-	-	21,836,900	-	21,836,900
Receivables									
Due from State	-	-	-	-	-	-	-	3,937,176	3,937,176
Loans, net of allowance for losses of $8,641,384	-	44,864,619	-	-	-	-	1,408,206	3,090,310	49,363,135
Accrued interest	-	-	1,308,936	26,932	2,703,225	187,746	3,194	180,311	4,410,344
General leases and licenses, net of allowance for losses of $893,000	-	-	-	10,740	-	463,597	-	-	474,337
Other	-	610,558	-	48,152	-	-	429,577	-	1,088,287
Inventory of homes for sale	-	-	30,739,084	-	-	-	-	-	30,739,084
Other assets	-	1,503,870	-	-	-	-	-	126,998	1,630,868
Total assets	$ 86,295	$ 64,996,072	$ 180,001,850	$ 15,952,374	$ 2,705,734	$ 22,069,364	$ 24,859,183	$ 43,058,366	$ 353,729,238
Liabilities									
Vouchers and contracts payable	$ -	$ -	$ 21,703,018	$ 479,730	$ -	$ 222,686	$ 534,157	$ 326,495	$ 23,266,086
Accrued wages and employee benefits payable	25,124	-	-	352,938	-	285,830	-	-	663,892
Due to State Treasury	5,000	-	58,679,162	-	-	-	-	-	58,684,162
Advances of Federal grant funds	-	-	-	-	-	-	22,990,221	-	22,990,221
Other liabilities	-	9,442,799	-	119,440	857,723	-	-	3,141,795	13,561,757
Deferred revenue	-	-	-	381,233	1,144,600	2,381,524	-	-	3,907,357
Total liabilities	30,124	9,442,799	80,382,180	1,333,341	2,002,323	2,890,040	23,524,378	3,468,290	123,073,475
Commitments and contingencies									
Fund Balances									
Reserved for									
Encumbrances	76,020	-	129,990,876	6,500,358	-	662,069	-	3,379,695	140,609,018
Receivables	-	44,864,619	-	-	-	-	1,840,977	3,184,462	49,890,058
Loan commitments	-	1,151,995	-	-	-	-	-	-	1,151,995
Unexpended Federal grants	-	-	-	-	-	-	13,175,705	-	13,175,705
Guaranteed and insured loans	-	150,000	-	-	-	-	-	10,850,100	11,000,100
Total reserved fund balances	76,020	46,166,614	129,990,876	6,500,358	-	662,069	15,016,682	17,414,257	215,826,876
Unreserved	(19,849)	9,386,659	(30,371,206)	8,118,675	703,411	18,517,255	(13,681,877)	-	(7,346,932)
Unreserved, reported in nonmajor									
Special revenue funds	-	-	-	-	-	-	-	19,675,818	19,675,818
Construction funds	-	-	-	-	-	-	-	2,500,001	2,500,001
Total unreserved fund balance	(19,849)	9,386,659	(30,371,206)	8,118,675	703,411	18,517,255	(13,681,877)	22,175,819	14,828,887
Total fund balances	56,171	55,553,273	99,619,670	14,619,033	703,411	19,179,324	1,334,805	39,590,076	230,655,763
Total liabilities and fund balances	$ 86,295	$ 64,996,072	$ 180,001,850	$ 15,952,374	$ 2,705,734	$ 22,069,364	$ 24,859,183	$ 43,058,366	$ 353,729,238

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

State of Hawaii
Department of Hawaiian Home Lands
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2007

Total fund balances – governmental funds		$ 230,655,763
Amounts reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consists of:		
Infrastructure assets	$ 305,972,092	
Construction-in-progress	173,191,366	
Land	40,004,470	
Other capital assets	14,310,182	
Accumulated depreciation	(104,771,847)	
		428,706,263
Other assets are not available to pay for current-period expenditures and therefore, are deferred, or not recognized, in the funds.		1,486,000
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds, including:		
Purchase note payable		(26,400,000)
Bonds payable		(865,735)
Accrued vacation		(1,498,146)
Net assets of governmental entities		$ 632,084,145

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

State of Hawaii
Department of Hawaiian Home Lands
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Land Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Other Funds	Total
Revenues									
State appropriations	$ 1,150,799	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,804,316	$ 3,955,115
General leases	-	-	-	-	-	6,729,249	-	-	6,729,249
Licenses and permits	-	-	-	-	-	2,885,849	-	-	2,885,849
Interest from loans and note receivable	-	-	-	75,921	4,486,418	-	-	-	4,562,339
Interest from short-term investments	-	-	5,316,880	45,281	2,209,800	791,726	-	958,834	9,322,521
Intergovernmental revenues	-	-	-	(218)	-	-	5,940,682	-	5,940,464
Real property sold	-	-	21,320,841	-	-	-	-	-	21,320,841
Other	-	-	1,847,922	459,522	-	14,883	951	263,560	2,586,838
Total revenues	1,150,799	-	28,485,643	580,506	6,696,218	10,421,707	5,941,633	4,026,710	57,303,216
Expenditures									
Current									
Administration and support services	442,041	-	51,114	3,342,727	-	2,991,637	296,344	1,137,514	8,261,377
Homestead services	381,800	4,261,593	-	1,822,918	-	1,904,901	74,000	33,141	8,478,353
Land development	78,469	-	1,794,073	694,447	-	819,341	361,529	33,119	3,780,978
Land management	54,514	-	256,105	697,141	-	493,417	-	980,404	2,481,581
Capital outlay									
Home construction/capital projects	-	-	95,626,070	2,229,954	-	-	5,248,362	-	103,104,386
Debt service									
Principal	-	-	-	197,627	-	-	-	8,650,000	8,847,627
Interest	-	-	-	40,633	-	-	-	320,614	361,247
Total expenditures	956,824	4,261,593	97,727,362	9,025,447	-	6,209,296	5,980,235	11,154,792	135,315,549
Excess (deficiency) of revenues over (under) expenditures	193,975	(4,261,593)	(69,241,719)	(8,444,941)	6,696,218	4,212,411	(38,602)	(7,128,082)	(78,012,333)
Other financing sources (uses)									
Transfers in	-	-	30,000,000	9,880,532	-	11,380,789	103,090	2,923,307	54,287,718
Transfers out	-	-	-	(3,750,000)	(5,758,321)	(10,175,807)	(103,090)	(4,500,500)	(24,287,718)
Total other financing sources (uses)	-	-	30,000,000	6,130,532	(5,758,321)	1,204,982	-	(1,577,193)	30,000,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	193,975	(4,261,593)	(39,241,719)	(2,314,409)	937,897	5,417,393	(38,602)	(8,705,275)	(48,012,333)
Lapsed appropriations	(193,959)	-	-	-	-	-	-	-	(193,959)
Net change in fund balances	16	(4,261,593)	(39,241,719)	(2,314,409)	937,897	5,417,393	(38,602)	(8,705,275)	(48,206,292)
Fund balances at July 1, 2006	56,155	59,814,866	138,861,389	16,933,442	(234,486)	13,761,931	1,373,407	48,295,351	278,862,055
Fund balances at June 30, 2007	$ 56,171	$ 55,553,273	$ 99,619,670	$ 14,619,033	$ 703,411	$ 19,179,324	$ 1,334,805	$ 39,590,076	$ 230,655,763

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

State of Hawaii
Department of Hawaiian Home Lands
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2007

Net change in fund balances – governmental funds		$ (48,206,292)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds, however in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these outlays are:		
Capital outlay	$ 99,715,423	
Depreciation expense	(9,027,383)	
Loss on disposal	(5,009,412)	
Excess of capital outlay over depreciation expense and loss on disposal		85,678,628
Payment of note payable is reported as an expenditure in governmental funds, but the payment reduces note payable in the statement of net assets.		2,200,000
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net assets.		8,847,627
The net increase in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.		(161,009)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues and are deferred in the governmental funds.		(995,000)
Change in net assets of governmental activities		$ 47,363,954

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

State of Hawaii
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
General Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Over (Under)
	Original	Final		
State appropriations	$ 1,067,559	$ 1,150,525	$ 1,150,799	$ 274
Expenditures				
Administration and support services	465,768	486,298	441,467	44,831
Homestead services	493,233	544,406	379,675	164,731
Land development	50,353	55,577	78,281	(22,704)
Land management	58,205	64,244	54,349	9,895
Total expenditures	1,067,559	1,150,525	953,772	196,753
Excess of revenues over expenditures	$ -	$ -	$ 197,027	$ 197,027

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

State of Hawaii
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Other Major Funds
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Over (Under)
Hawaiian Home Administration Account				
Revenues	$ 8,312,279	$ 8,567,809	$ 10,421,707	$ 1,853,898
Expenditures				
Administration and support services	3,672,486	3,753,425	3,135,062	618,363
Homestead services	2,539,686	2,631,899	2,137,179	494,720
Land development	1,268,262	1,320,273	805,223	515,050
Land management	831,845	862,212	477,195	385,017
Total expenditures	8,312,279	8,567,809	6,554,659	2,013,150
Excess of revenues over expenditures	$ -	$ -	$ 3,867,048	$ 3,867,048

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

1. Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. At June 30, 2007, there were no restricted net assets.

Governmental Fund Financial Statements
The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Principal revenue sources considered susceptible to accrual include lease payments, sales, federal grants and interest on loans and investments, and interest receivable. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditure, as well as expenditures related to compensated absences are recorded only when payment is due.

Internally imposed designations of resources are presented as reserves of fund balances. Portions of fund balances are reserved for the following:

- *Encumbrances* – recorded obligations in the form of purchase orders or contracts.
- *Receivables* – amounts owed to the Department at year end and are shown as reserved to indicate that a portion of the fund balance is not available for funding current expenditures.
- *Loan commitments* – loans approved before year end but funded after year end.
- *Unexpended federal grants* – encumbrances of federal awards not yet received from the federal government.
- *Guaranteed and insured loans* – amounts designated to pay mortgage guarantees and insurance claims.

Unreserved fund balances represents resources that have not been internally designated.

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

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

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

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

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

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

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

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

- *Hawaiian Home Administration Account* – The Hawaiian Home Administration Account is used to account for commercial general leases, revocable permits and licenses of homestead lands. Lease revenues are used to fund operations of the Department.

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

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

Encumbrances
Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

Cash and Short-term Investments
The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Effective August 1, 1999, cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

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

GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("Statement No. 40") requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as all of the Department's monies are held in the State cash pool, the Department does not manage its own investments and the types of investments and related interest rate, credit, and custodial risks are not determinable at the Department level. The risk disclosures of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2007 which may be obtained from the following address:

Department of Accounting and General Services
Accounting Division
P.O. Box 119
Honolulu, Hawaii 96810-0119

Cash and short-term investments held outside of State Treasury are held in a financial institution in the State of Hawaii. At June 30, 2007, the depository bank had pledged investment securities with an approximate aggregate market value of $9,886,000 as collateral on certain of these deposits.

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

Investments
The Department invests advances received from the Native Hawaiian Housing Block Grant in obligations of the U.S. Government. The investments are carried at fair value and are valued at the last reported sale price on the last business day of the year or at the last bid price if no sale was reported on that date. Unrealized gains and losses are considered grant program income and must be used in the Native Hawaiian Housing Grant Program and is therefore recorded as advances from Federal Grants.

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

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

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

Capital Assets

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

Capital assets are depreciated on the straight-line method over the assets' estimated useful life. Generally, estimated useful lives are as follows:

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

A portion of the Department's monthly base rent is paid by the Department of Accounting and General Services, State of Hawaii.

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

Accumulated Vacation and Sick Leave

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

Sick leave accumulates at a rate of one and three-quarter days for each month of service without limit, but may be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the Department's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii ("ERS"). Accumulated sick leave as of June 30, 2007, was approximately $4,343,000.

General Leases and Licenses

General leases and licenses received in advance are recognized on a straight-line basis over the lease or license term.

Lease Rents and Interest Income

The Department's governmental fund financial statement recognizes lease rent and mortgage interest of its governmental funds as revenues when they are measurable and available. The available criterion is satisfied when revenues are collectible during the period or soon enough thereafter to pay liabilities of the current period. Amounts not collected within 60 days after the end of the year approximated $1,486,000 as of June 30, 2007, and are recorded as deferred revenue. The departmental financial statements present lease rents and mortgage interest under the accrual method of accounting.

Use of Estimates

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

New Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition and display of other postretirement benefits expense/expenditures and related liabilities (assets), note disclosures and required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management has not yet determined the effect this Statement will have on its financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits.* This Statement establishes standards for accounting for termination benefits that affect an employer's obligations. For defined benefit other postemployment benefit plans, the provisions of this Statement are effective for the fiscal year beginning after December 15, 2006. For all other termination benefits, the provisions of this Statement are effective in fiscal 2007. Management does not expect this Statement to have a material effect on the Department's financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27.* This Statement is to amend note disclosure and required supplementary information ("RSI") standards of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with applicable changes adopted in Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The provisions of this Statement are effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Management has not yet determined the effect this Statement will have on the Department's financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* The provisions of this Statement establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement also results in a more faithful representation of the service capacity of intangible assets – and therefore the financial position of governments – and of the periodic cost associated with the usage of such service capacity in governmental financial statements. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not expect this Statement to have a material effect on the Department's financial statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held As Investments by Endowments*, effective for the Department's fiscal year beginning July 1, 2008. Statement No. 52 requires that land and other real estate held as investments by endowments be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income. Management has not yet determined the effect this Statement will have on the Department's financial statements.

2. Budgeting and Budgetary Control

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

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions which may terminate the authorization for other appropriations.

For purposes of budgeting, the Department's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statement of revenues and expenditures – budget and actual – general fund, are presented on the budgetary basis. A reconciliation of general fund revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2007, to general fund revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 Hawaii Revised Statutes ("HRS"), staff salaries and wages amounting to approximately $31,000 and $286,000 in the general fund and Hawaiian Home Administration Account, respectively, for the period from June 16, 2007 through June 30, 2007, are to be funded with monies budgeted for fiscal year 2008. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual of the general fund and Hawaiian Home Administration Account, but are included in the departmental and governmental fund financial statements in accordance with accounting principles generally accepted in the United States of America.

Salaries and wages amounting to approximately $28,000 and $295,000 in the general fund and Hawaiian Home Administration Account, respectively, for the period from June 16, 2006 to June 30, 2006, were funded with monies budgeted for fiscal year 2007. Accordingly, these amounts are included in the statements of revenues and expenditures – budget and actual of the general fund and Hawaiian Home Administration Account, for the year ended June 30, 2007.

The following schedule reconciles the budgetary amounts of the general fund and the Hawaiian Home Administration Account to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis).

	General Fund	Hawaiian Home Administration Account
Excess of revenues over expenditures – actual on budgetary basis	$ 197,027	$ 3,867,048
Current year's appropriations included in reserved for encumbrances at June 30, 2007	-	289,072
Expenditures for liquidation of prior year's encumbrances	-	(59,843)
Reverse allowance for losses adjustment	-	107,000
Fiscal 2006 expenditures funded by fiscal 2007 budget	28,069	295,123
Fiscal 2007 expenditures funded by fiscal 2008 budget under Section 78-13 HRS	(31,121)	(285,989)
Excess of revenues over expenditures – GAAP basis	$ 193,975	$ 4,212,411

3. Cash and Short-Term Investments

Cash and short-term investments includes monies in the State Treasury. For financial statement reporting purposes, cash and short-term investments consist of cash, time certificates of deposit, and money market accounts. Cash and short-term investments also include repurchase agreements and U.S. government securities with original maturities of three months or less.

As of June 30, 2007, the carrying amount, which approximates the bank balance, of the Department's cash and short-term investments was $239,095,787.

The Department invests advances from the Native Hawaiian Housing Block Grant in cash, short-term investments, and obligations of the U.S. government held outside of the State Treasury through a financial institution in the State of Hawaii. At June 30, 2007, the carrying amount and bank balances of the Department's cash and short-term investments outside of the State Treasury aggregated $1,153,320.

Investments in obligations of the U.S. government mature at various dates through fiscal 2008. At June 30, 2007, the securities had an original cost of $21,684,301, fair value of $21,836,900 and a net unrealized gain of $152,599. Income from the investments is considered grant program income and must be used in the Native Hawaiian Housing Program and is therefore recorded as amounts due to other governments.

4. Loans Receivable

Loans receivable consist of approximately 1,400 loans made to native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately $235,000 and for a maximum term of 30 years. Interest rates on outstanding loans range from 2.5% to 10.0%. The Department's loan portfolio consists of loans that the Department has originated and that generally are collateralized by improvements on the leased properties located in the State. Loan commitments as of June 30, 2007 were $1,151,995. The Department has provided an allowance for loan losses of approximately $8,641,000 as of June 30, 2007. The allowance for loan losses is a valuation reserve, which has been provided through charges to operations. The reserve is based on management's assessment of loan balances deemed uncollectible as of June 30, 2007.

5. Inventory of Homes for Sale

The Department is constructing a total of 326 homes for sale to native Hawaiians in the Kaupe'a, Village of Kapolei subdivision on the island of Oahu. As of June 30, 2007, 91 homes were completed or sold while the Department had accumulated $30,739,084 of costs toward the construction of the remaining homes.

Under certain circumstances, the Department purchases homes from former lessees due to voluntary and involuntary cancellations of land leases. The homes are subsequently resold to qualified lessees. During the year ended June 30, 2007, the Department had purchased homes from former lessees with costs aggregating $1,447,000.

6. Capital Assets

Capital assets activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Capital assets, not being depreciated				
Land	$ 40,004,470	$ -	$ -	$ 40,004,470
Construction in progress	86,114,551	94,282,945	(7,206,130)	173,191,366
Total capital assets, not being depreciated	126,119,021	94,282,945	(7,206,130)	213,195,836
Capital assets, being depreciated				
Buildings and improvements	10,446,367	1,530,662	(72,000)	11,905,029
Infrastructure	304,469,336	9,783,268	(8,280,512)	305,972,092
Furniture and equipment	477,161	1,299,678	(187,221)	1,589,618
Motor vehicles	841,199	25,000	(50,664)	815,535
Total capital assets, being depreciated	316,234,063	12,638,608	(8,590,397)	320,282,274
Less: Accumulated depreciation for				
Buildings and improvements	(3,730,291)	(341,917)	-	(4,072,208)
Infrastructure	(94,550,761)	(7,479,837)	3,541,212	(98,489,386)
Furniture and equipment	(411,168)	(1,144,765)	13,861	(1,542,072)
Motor vehicles	(633,229)	(60,864)	25,912	(668,181)
Total accumulated depreciation	(99,325,449)	(9,027,383)	3,580,985	(104,771,847)
Total capital assets, being depreciated, net	216,908,614	3,611,225	(5,009,412)	215,510,427
Capital assets, net	$ 343,027,635	$ 97,894,170	$ (12,215,542)	$ 428,706,263

Depreciation expense for the year ended June 30, 2007, were charged to functions of the Department as follows:

Administration and support services	$	1,545,122
Homestead services		7,481,101
Land development		1,160
Total depreciation	$	9,027,383

7. **Due to State Treasury**

In October 2006, the Department received a temporary, non-interest bearing loan from the State of Hawaii in the amount of $80,000,000, pursuant to HRS Section 36-24. The loan funds will be used for home construction. At June 30, 2007, the balance of the temporary loan in the Hawaiian Home Land Trust Fund was $58,679,162 and was subsequently paid off in January 2008.

8. **Long-Term Obligations**

For the year ended June 30, 2007, changes in long-term obligations were as follows:

	Purchase Note Payable	Bonds Payable	Accrued Vacation
Balances at July 1, 2006	$ 28,600,000	$ 9,713,362	$ 1,337,137
Increase	-	-	593,460
Decrease	(2,200,000)	(8,847,627)	(432,451)
Balances at June 30, 2007	$ 26,400,000	$ 865,735	$ 1,498,146

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

9. Bonds Payable

The following are portions of the State general obligation bonds allocated to the Department under acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayments of allocated bond debts are made to the State General Fund. Details of the allocated bonds as of June 30, 2007, are as follows:

$1,000,346 Series BW bonds dated March 1, 1992; $166,708 was refunded on February 15, 2002 and $112,089 was refunded on June 15, 2005; due in annual principal installments of $55,569 commencing March 1, 2006 through March 1, 2008 and $54,619 on March 1, 2011 and $55,569 on March 1, 2012; interest at 5.875% to 6.40% payable semi-annually.	$	165,757
$124,303 Series BZ bonds dated October 1, 1992; $7,769 was refunded on April 1, 1998 and $23,307 was refunded on February 15, 2002; due in annual principal installments of $7,769 commencing October 1, 2005 through October 1, 2012; interest at 5.40% to 6.25% payable semi-annually.		38,844
$758,726 Series CI refunding bonds dated November 1, 1993; due in annual principal installments of $50,587 through November 1, 2003 and $50,575 through November 1, 2010; interest at 4.00% to 5.00% payable semi-annually.		202,301
$66,394 Series CH bonds dated November 1, 1993; $55,335 was refunded on October 1, 1997; due in annual principal installments of $3,689 through November 1, 2013; interest at 4.10% to 6.00% payable semi-annually.		25,817
$86,517 Series CO bonds dated March 1, 1997; $11,940 was refunded on April 1, 1998; due in semi-annual principal installments of $2,257 to $4,250 through March 1, 2011; interest at 4.50% to 6.00% payable semi-annually.		30,732
$321,472 Series CS refunding bonds dated April 1, 1998; due in annual principal installments of $45,740 on April 1, 2006; $48,137 on April 1, 2007; $50,548 on April 1, 2008 and $53,074 on April 1, 2009; interest at 5.00% to 5.25% payable semi-annually.		103,622
$65,992 Series CW refund bonds dated August 1, 2001; $2,118 was refunded on June 15, 2005; due in annual principal installments of $4,679 on August 1, 2005; $4,873 on August 1, 2006; $5,073 on August 1, 2007; $5,311 on August 1, 2008; $5,585 on August 1, 2009; $5,885 on August 1, 2010; $6,203 on August 1, 2011; $6,540 on August 1, 2012; $6,896 on August 1, 2013; $7,273 on August 1, 2014; $5,555 on August 1, 2015; interest at 0.82% to 0.88% payable semi-annually.		54,322
$140,129 Series CY refunding bonds dated February 15, 2002; $680 was refunded on June 15, 2005; due in annual principal installments of $12,633 on February 1, 2007; $13,217 on February 1, 2008; $13,910 on February 1, 2009; $14,582 on February 1, 2010; $15,347 on February 1, 2011; $16,192 on February 1, 2012; $17,081 on February 1, 2013; $18,064 on February 1, 2014 and $19,104 on February 1, 2015; interest at 3.60% to 5.75% payable semi-annually.		126,816
Subtotal carried forward		748,211

Subtotal brought forward		748,211
$7,415 Series DB refunding bonds dated September 16, 2003; due in annual principal installments of $675 on September 1, 2008; $703 on September 1, 2009; $738 on September 1, 2010; $776 on September 1, 2011; $815 on September 1, 2012; $857 on September 1, 2013; $902 on September 1, 2014; $949 on September 1, 2015; and $1,000 on September 1, 2016; interest at 5.00% to 5.25% payable semi-annually.		7,415
$110,109 Series DG refunding bonds dated June 15, 2005; due in annual principal installments of $9,933 on July 1, 2009; $10,443 on July 1, 2010; $10,978 on July 1, 2011; $11,541 on July 1, 2012; $12,133 on July 1, 2013; $12,755 on July 1, 2014; $13,409 on July 1, 2015; $14,097 on July 1, 2016; $14,820 on July 1, 2017; interest at 5.00% payable semi-annually.		110,109
	$	865,735

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

		Interest		Principal		Total
Year ending June 30,						
2008	$	33,032	$	185,686	$	218,718
2009		24,241		142,446		166,687
2010		19,527		100,052		119,579
2011		15,248		157,442		172,690
2012		8,816		101,175		109,991
2013 – 2017		10,584		164,114		174,698
2018		227		14,820		15,047
	$	111,675	$	865,735	$	977,410

10. Retirement Benefits

All eligible employees of the Department are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii ("ERS"), a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Prior to June 30, 1984, the ERS consisted only of a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from participating in the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Contributions for employees of the Department are paid from the State General Fund.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation ("AFC"). The final AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan will be eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits, and other aspects of the ERS, is also not available on a departmental or agency basis.

ERS issues a CAFR that includes financial statements and required supplementary information which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

Post-retirement Health Care and Life Insurance Benefits
In addition to providing pension benefits, the State, pursuant to Chapter 87, HRS, provides certain health care and life insurance benefits to all qualified employees. For employees hired before July 1, 1996, the State pays the entire monthly health care premium for those retiring with ten or more years of credited service, and 50% of the monthly premium for those retiring with fewer than ten years of credited service. For employees hired after June 30, 1996, and retiring with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; and for those retiring with over 25 years of service, the State pays the entire health care premium. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement for the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis.

Effective July 1, 2003, the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") replaced the Hawaii Public Employees Health Fund under Act 88, SLH 2001. The EUTF was established to provide a single delivery system of health benefits to state and county employees, retirees, and their dependants.

Deferred Compensation Plan
The State established a deferred compensation plan ("Plan") in accordance with Section 457 of the Internal Revenue Code, which enable State employees to defer a portion of their compensation. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, as well as property and rights purchased with those amounts and income attributable to these amounts are held in trust by third party agents for the exclusive benefit of participants and their beneficiaries. The assets and liabilities of the Plan are not reflected in the State of Hawaii or Department's financial statements.

11. General Leases and Licenses

The Department's general leasing operations (Section 204 of Hawaiian Homes Commission Act of 1920, as amended) consist principally of the leasing of its Hawaiian Home Lands. The general leases have varying terms extending through 2070.

The future minimum lease income from general leases as of June 30, 2007, is as follows:

Year ending June 30,	
2008	$ 6,995,000
2009	7,133,000
2010	7,361,000
2011	7,526,000
2012	5,843,000
Thereafter	234,031,000
	$ 268,889,000

12. Commitments and Contingencies

Leases
In December 2006, the Department entered into a 25-year facility lease agreement with Wells Fargo Bank, National Association (the "lessor"), to lease an office facility. As of June 30, 2007, the facility was in the process of being constructed, with an expected completion date of April 2008. Upon expiration of the lease, the title of the facility will be transferred from the lessor to the Department. The following is a schedule by years of future minimum lease payments related to this agreement:

Year ending June 30,	
2008	$ 1,073,000
2009	1,073,000
2010	1,710,000
2011	1,714,000
2012	1,711,000
Thereafter	34,230,000
	$ 41,511,000

Litigation

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

Insurance

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2007, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation liability was not material at June 30, 2007.

Guaranteed and Insured Loans

As of June 30, 2007, the Department was contingently liable for approximately $10,338,000 in loans originated primarily by the U.S. Department of Agriculture Rural Development for which the Department has guaranteed repayment. Approximately $1,410,000 of these loans have been reported delinquent as of June 30, 2007.

The Department is also a party to a mortgage loan insurance agreement with the U.S. Department of Housing and Urban Development ("HUD"). The agreement provides that HUD will perform underwriting processing for the insurance program and will administer an insurance fund for mortgages originated and held by HUD-approved lenders. The Department will maintain and provide the necessary and proper funds for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowers. The Department has reserved cash of approximately $10,850,000 in the special revenue fund and has deposited $150,000 with HUD. As of June 30, 2007, loans outstanding totaled approximately $310,169,000 under this agreement, of which approximately $9,778,000 has been reported as delinquent.

As of June 30, 2007, the Department was also contingently liable for approximately $16,630,000 in loans originated by financial institutions and other lenders for which it had guaranteed repayment. Approximately $525,000 of these loans has been reported delinquent as of June 30, 2007.

As of June 30, 2007, the Department paid approximately $4,764,000 for delinquent mortgage loan payments of lessees. These payments are carried as loans receivable from lessees and bear similar terms as stipulated in the lessees' mortgage notes with the lenders.

The Department has certain loans for which the collateral for the loans is not covered by casualty insurance. The number of such loans was not known as of June 30, 2007.

Other
As of June 30, 2007, the reserve for encumbrances relating to construction contracts approximated $140,609,000.

Pursuant to Act 14, Special SLH 1995, the Hawaiian Home Land Trust Fund was established to account for funds to be paid by the State beginning in the fiscal year ended June 30, 1996. The primary purpose of Act 14 is to resolve controversies and claims related to the Hawaiian Home Land Trust which arose between August 21, 1959 and June 30, 1988.

Act 14 requires the State to make twenty annual payments of $30,000,000 in cash or such other consideration as agreed to between the State and the Department of Hawaiian Home Lands. Interest is determined as provided in Act 14 on the unpaid balance of any funds due, but not appropriated, by the end of each respective fiscal year. The Department received $30,000,000 in the current year as a transfer from the Department of Budget and Finance, State of Hawaii, to the Hawaiian Home Land Trust Fund. As of June 30, 2007, the Department received approximately $360,000,000 from the State to the Hawaiian Home Land Trust Fund.

13. Hawaiian Home Land Trust Individual Claims

In 1991, the Legislature enacted HRS Chapter 674, *Individual Claims Resolution Under the Hawaiian Home Land Trust*, which established a process for individual beneficiaries of the Hawaiian Home Lands Commission Act of 1920 to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988.

The process was a three-step process which (1) began when informal proceedings presided over by the Hawaiian Home Land Trust Individual Claims Review Panel (the "Panel") to provide the State Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the State Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the State Legislature deemed appropriate by October 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

The deadline to file a claim with the Panel was August 31, 1995. A total of 4,327 claims were filed by 2,753 individuals. As of June 2007, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the Legislature. In 1997, the Legislature declared it to be its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

In December 1999, three claimants filed a class action lawsuit in the First Circuit Court for declaratory and injunctive relief, and for general, special, and punitive damages under HRS Chapter 673 for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. In August 2000, the Circuit Court entered an order granting the plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denied the State's motions on the pleadings. The plaintiff appealed the judgment relating to the other Counts in the lawsuit with the Hawaii Supreme Court. In June 2006, the Hawaii Supreme Court affirmed the plaintiffs' right to pursue their claims under HRS Chapter 674, reversed the Circuit Court's determination that Act 14 is a settlement agreement and that the plaintiff's have a right to sue under HRS Chapter 661 and remanded the case to the Circuit Court for further proceedings. Five other claimants filed similar individual claims actions for themselves. The plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in the class action lawsuit that are common to the questions of law presented in their suits. A trial to settle these matters has been scheduled for October 2008.

Claims for actual damages under Chapter 674 are made against the State of Hawaii. Accordingly, the Department does not believe that the final settlement of the claims will have a material, adverse effect on the financial statements of the Department.

14. Assessments for Central Service and Administrative Expenses

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

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

As of June 30, 2007, the Department's estimate of the accumulated asserted assessments since the inception of the aforementioned law approximated $17,711,000.

15. Land Acquisition

In December 2004, the Department entered into a transfer agreement with the Housing and Community Development Corporation of Hawaii ("HCDCH"), State of Hawaii in connection with the acquisition of approximately 1,800 acres of land consisting of four properties on three islands, by the Department. A portion of the land is partially developed and is intended to be utilized for 3,500 homes for Native Hawaiians.

As part of the transfer agreement, the Department must pay $2.2 million a year for 15 years, for a total of $33 million, in the form of a note, to reimburse the Housing and Community Development Corporation of Hawaii, State of Hawaii, for infrastructure costs at three of the properties. This note is non-interest bearing. At June 30, 2007, the Department owed $26,400,000 to HCDCH. The note will be repaid with monies in the Department's Hawaiian Home Land Trust Fund. The annual payment requirements of the non-interest bearing note are as follows:

Year ending June 30,	
2008	$ 2,200,000
2009	2,200,000
2010	2,200,000
2011	2,200,000
2012	2,200,000
2013 – 2017	11,000,000
2018 – 2019	4,400,000
	$ 26,400,000

State of Hawaii
Department of Hawaiian Home Lands
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

Supplemental Information

	Hawaiian Home Loan Fund	Department of Hawaiian Home Lands Revenue Bond Special Fund	Hawaiian Home Trust	Native Hawaiian Rehabilitation Fund	Protocol Funds	Temporary Deposits	Construction Funds	Total Other Governmental Funds
Assets								
Cash and short-term investments held in State Treasury	$ 1,402,735	$ 9,518,621	$ 10,850,100	$ 10,316,976	$ 2,147	$ 3,632,992	$ -	$ 35,723,571
Receivables								
Due from State	-	-	-	-	-	-	3,937,176	3,937,176
Loans, net of allowance for losses	3,087,798	-	-	2,512	-	-	-	3,090,310
Accrued interest	-	86,160	-	94,151	-	-	-	180,311
Other assets	126,998	-	-	-	-	-	-	126,998
Total assets	$ 4,617,531	$ 9,604,781	$ 10,850,100	$ 10,413,639	$ 2,147	$ 3,632,992	$ 3,937,176	$ 43,058,366
Liabilities								
Vouchers and contracts payable	$ 262,918	$ -	$ -	$ 63,570	$ 7	$ -	$ -	$ 326,495
Other liabilities	-	-	-	-	-	3,141,795	-	3,141,795
Total liabilities	262,918	-	-	63,570	7	3,141,795	-	3,468,290
Fund Balances								
Reserved for								
Encumbrances	-	86,160	-	1,811,560	-	44,800	1,437,175	3,379,695
Receivables	3,087,798	-	-	96,664	-	-	-	3,184,462
Guaranteed and insured loans	-	-	10,850,100	-	-	-	-	10,850,100
Total reserved fund balances	3,087,798	86,160	10,850,100	1,908,224	-	44,800	1,437,175	17,414,257
Unreserved								
Special revenue funds	1,266,815	9,518,621	-	8,441,845	2,140	446,397	2,500,001	22,175,819
Total unreserved fund balances	1,266,815	9,518,621	-	8,441,845	2,140	446,397	2,500,001	22,175,819
Total fund balances	4,354,613	9,604,781	10,850,100	10,350,069	2,140	491,197	3,937,176	39,590,076
Total liabilities and fund balances	$ 4,617,531	$ 9,604,781	$ 10,850,100	$ 10,413,639	$ 2,147	$ 3,632,992	$ 3,937,176	$ 43,058,366

State of Hawaii
Department of Hawaiian Home Lands
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2007

Supplemental Information

	Hawaiian Home Loan Fund	Department of Hawaiian Home Lands Revenue Bond Special Fund	Hawaiian Home Trust	Native Hawaiian Rehabilitation Fund	Protocol Funds	Temporary Deposits	Construction Funds	Total Other Governmental Funds
Revenues								
Appropriations	$ -	$ -	$ -	$ -	$ -	$ 304,316	$ 2,500,000	$ 2,804,316
Interest from short-term investments	-	508,676	-	450,153	5	-	-	958,834
Other	-	-	-	263,560	-	-	-	263,560
Total revenues	-	508,676	-	713,713	5	304,316	2,500,000	4,026,710
Expenditures								
Current								
Administration and support services	262,918	-	-	874,236	360	-	-	1,137,514
Homestead services	33,141	-	-	-	-	-	-	33,141
Land development						33,119		33,119
Land management	-	-	-	404	-	-	980,000	980,404
Debt service								
Principal	-	8,650,000	-	-	-	-	-	8,650,000
Interest	-	320,614	-	-	-	-	-	320,614
Total expenditures	296,059	8,970,614	-	874,640	360	33,119	980,000	11,154,792
Excess (deficiency) of revenues over (under) expenditures	(296,059)	(8,461,938)	-	(160,927)	(355)	271,197	1,520,000	(7,128,082)
Other financing sources (uses)								
Transfers in	-	2,920,807	-	-	2,500	-	-	2,923,307
Transfers out	-	(4,500,000)	-	-	(500)	-	-	(4,500,500)
Total other financing sources (uses)	-	(1,579,193)	-	-	2,000	-	-	(1,577,193)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(296,059)	(10,041,131)	-	(160,927)	1,645	271,197	1,520,000	(8,705,275)
Fund balances at July 1, 2006	4,650,672	19,645,912	10,850,100	10,510,996	495	220,000	2,417,176	48,295,351
Fund balances at June 30, 2007	$ 4,354,613	$ 9,604,781	$ 10,850,100	$ 10,350,069	$ 2,140	$ 491,197	$ 3,937,176	$ 39,590,076

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APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

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APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

As of October 1, 2008

Island	Number	Use	Name	Ending Date	Annual Rent	Reopenning Date
Hawaii	102	Industrial	Akana Petroleum, Inc.	3/1/2021	$ 72,407	None
Hawaii	108	Industrial	Inter-Pacific Motors, Inc.	10/31/2031	53,000	11/1/2011
Hawaii	109	Industrial	David S. Deluz, Sr.	8/31/2031	26,000	9/1/2011
Hawaii	110	Industrial	Yamada & Sons, Inc.	10/31/2031	98,800	11/1/2011
Hawaii	113	Industrial	George R. Jr., and Jean S. Madden	6/14/2024	14,000	6/15/2009
Oahu	114	Utility	Hawaiian Telecom	4/30/2032	8,987	None
Hawaii	122	Industrial	Hilo Wood Treating, Inc.	9/30/2022	46,116	None
Hawaii	126	Industrial	Big Island Toyota, Inc.	12/31/2022	26,325	None
Hawaii	127	Industrial	Aloha Machine & Welding, Ltd.	12/31/2022	15,250	1/1/2013
Hawaii	129	Industrial	Kenneth L. Antonio dba Ken's Towing Service, Inc.	3/1/2023	16,575	None
Hawaii	132	Industrial	Big Island Toyota, Inc.	4/30/2023	37,920	5/1/2008
Oahu	134	Utility	Hawaiian Telecom	5/31/2033	19,001	6/1/2013
Hawaii	135	Utility	Hawaiian Telecom	10/31/2033	67,030	11/1/2013
Hawaii	136	Industrial	Hamakua Macadamia Nut Company	8/31/2033	54,000	9/1/2013
Hawaii	140	Industrial	A & A Hawaii, Inc.	1/14/2024	25,851	1/15/2009
Hawaii	141	Industrial	Big Island Car Wash, Inc.	6/14/2024	25,938	None
Hawaii	142	Industrial	J/R Hilo Acquisition, LLC	6/14/2024	46,041	6/15/2009
Hawaii	143	Industrial	Hawthorne Pacific Corp.	6/14/2024	72,956	6/15/2014
Hawaii	144	Industrial	Lawrence J. Balberde	6/14/2024	20,520	6/15/2009
Hawaii	145	Industrial	Yamada & Sons, Inc.	10/31/2031	33,800	11/1/2011
Hawaii	146	Industrial	Central Pacific Bank - Trustee for Hawaii Community Foundation	6/15/2024	12,000	6/16/2009
Hawaii	152	Industrial	Aloha Veterinary Center, Inc.	9/30/2024	10,122	10/1/2009
Hawaii	155	Industrial	K. Taniguchi, Ltd.	2/14/2025	30,550	2/15/2010
Hawaii	156	Industrial	Bacon Finance & Realty Corp.	3/31/2035	129,650	4/1/2015
Hawaii	158	Industrial	Shawn Nakamoto	6/30/2025	33,800	7/1/2010
Hawaii	159	Industrial	Aloha Machine and Welding, Ltd.	6/30/2025	15,300	7/1/2015
Hawaii	160	Industrial	The Pint Size Corporation	10/31/2025	17,010	11/1/2010
Hawaii	161	Industrial	Taialoha Co., Inc.	10/31/2025	23,200	None
Hawaii	163	Industrial	Holomua Street Partners	10/31/2025	23,200	None
Hawaii	164	Industrial	Office Max, Inc.	10/31/2035	56,550	11/1/2015
Hawaii	165	Industrial	Trojan Lumber Co., Inc.	10/31/2010	23,759	None
Hawaii	166	Industrial	Elton F. Kaku dba Big Isle Auto Care	10/31/2010	17,010	None
Hawaii	167	Industrial	Gil A. & Marcy P. Unilongo	10/31/2025	14,950	11/1/2010
Hawaii	168	Industrial	Frederick W. Jr.,and Trudee K. Siemann dba S&S Cabinets	1/31/2026	13,163	2/1/2011
Hawaii	169	Industrial	Alpha Supply Corp.	1/31/2026	13,163	2/1/2011
Hawaii	170	Industrial	Hawaii Island Glass, Inc.	1/31/2011	13,163	None
Hawaii	171	Industrial	A & A Hawaii, Inc.	1/31/2026	9,190	None
Hawaii	172	Industrial	Eaves & Meredith Co. Ltd.	1/31/2026	8,700	2/2/2011
Hawaii	173	Industrial	A & A Hawaii, Inc.	1/31/2026	10,720	None
Hawaii	174	Industrial	Men's Shop, Inc.	1/31/2026	15,385	2/1/2011
Hawaii	175	Industrial	Nelson & Clara C. Rego dba Steel Fabrication Hawaii	1/31/2026	13,180	None
Hawaii	176	Industrial	Pacific Macadamia Nut Corp.	1/31/2036	28,517	2/1/2016
Hawaii	177	Industrial	Oasis Enterprises LLC	7/22/2026	10,914	7/23/2011
Hawaii	178	Industrial	Hokuloa, Inc.	4/30/2037	40,456	5/1/2012
Hawaii	184	Pasture	Kahua Ranch, Ltd.	1/8/2011	38,775	None
Molokai	185	Agriculture	Agrigenetics Molokai, Inc. c/o Mycogen Seed	6/13/2026	13,000	6/14/2021
Hawaii	187	Industrial	H.Kono, Inc. dba HITCO Moving & Storage Co.	8/22/2031	17,820	8/23/2021
Hawaii	188	Industrial	A&S Delivery	8/22/2031	13,740	8/23/2016
Hawaii	190	Industrial	Hawthorne Pacific Corp.	11/11/2031	72,100	11/12/2016
Hawaii	202	Commercial	Ho Retail Properties I Limited Partnership	9/30/2042	317,793	10/1/2010
Hawaii	204	Industrial	Pacific Waste, Inc.	5/4/2033	16,000	5/5/2018
Hawaii	205	Industrial	Kawaihae Millwork, Inc.	5/4/2033	25,964	5/5/2013
Hawaii	206	Industrial	Kohala Coast Concrete	5/4/2033	58,400	5/5/2018

APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

As of October 1, 2008

Island	Number	Use	Name	Ending Date	Annual Rent	Reopenning Date
Hawaii	207	Industrial	Bragado Trucking	5/4/2033	34,400	5/5/2018
Hawaii	208	Industrial	Estate Systems, Inc.	6/1/2033	24,384	6/2/2013
Hawaii	217	Industrial	Kawaihae Industrial Development Corp. c/o Harborside Investors	5/31/2039	30,680	6/1/2009
Oahu	221	Public Service	Waianae Distr. Comprehensive Health and Hospital Board, Inc., dba Waianae Coast Comprehensive Health Center	12/31/2027	57,000	1/1/2008
Hawaii	224	Industrial	H.Kono, Inc. dba HITCO Moving & Storage Co.	2/28/2031	13,268	3/1/2011
Hawaii	226	Industrial	Michael Blair and Keiko Gibo Shewmaker	2/28/2044	12,900	3/1/2011
Hawaii	227	Industrial	Michael Blair and Keiko Gibo Shewmaker	2/28/2044	13,500	3/1/2011
Molokai	231	National Park	National Park Service, Dept. of Interior Division of Land Resources Western Region	7/14/2041	200,000	7/14/2011
Oahu	240	Public Service	Hale Ola Ho'opakolea	6/30/2007	3,325	None
Kauai	244	Public Service	Anahola Hawaiian Land Farmers Assn.	10/31/2024	480	11/1/2009
Hawaii	245	Commercial	Waiakea Center, Inc.	10/14/2056	1,080,381	10/15/2011
Hawaii	247	Air Traffic Control Beacon	U.S.A., Department of Transportation, Federal Aviation Administration Western Pacific Region	7/31/2015	28,800	8/1/2009
Hawaii	248	Industrial	P & A Investments, Inc.	1/31/2054	7,800	1/1/2009
Oahu	249	Preschool	Trustees of the Estate of Bernice Pauahi Bishop	12/31/2064	1	None
Maui	250	Preschool	Trustees of the Estate of Bernice Pauahi Bishop	6/30/2065	1	None
Hawaii	251	Preschool	Trustees of the Estate of Bernice Pauahi Bishop	6/30/2065	1	None
Molokai	252	Church	Roman Catholic Church dba Molokai Catholic Church	12/31/2066	1,805	1/1/2007
Molokai	253	Church	Hawaii Pacific District Church of the Nazarene aka Molokai Church of the Nazarene	12/31/2041	1,177	1/1/2011
Molokai	254	Radio Receiver Site	The U.S.A., Secretary of the Air Force 30th Space Wing Commander 30 CES/CECBR	12/31/2022	34,800	1/1/2013
Molokai	256	Public Service	U.S. Postal Service Pacific Facilities Service Office	6/30/2027	516	7/1/2007
Hawaii	258	Industrial	Aloha Machine & Welding, Ltd.	5/31/2057	27,900	6/1/2012
Hawaii	259	Commercial	Kona Marina Development Group LLC	12/31/2068	568,574	1/1/2009
Hawaii	260	Commercial	Home Depot U.S.A., Inc.	12/15/2070	400,000	12/16/2014
Oahu	262	Community	Village 6 RTO LP	12/31/2056	1	None
Hawaii	263	Industrial	Argus Johnson dba Argus Building Supply	10/31/2059	37,700	11/1/2014
Oahu	264	Industrial	Otani Produce, Inc.	4/30/2070	255,000	5/1/2016
Hawaii	265	Industrial	The Agency Inc.	1/31/2060	14,100	2/1/2015
Hawaii	266	Industrial	Ivan Mochida Contracting, Inc.	1/31/2060	17,500	2/1/2015
Hawaii	267	Industrial	Makaala Associates, LLC	1/31/2060	14,000	2/1/2015
Hawaii	268	Industrial	Leleiwi Electric, Inc.	1/31/2060	11,300	2/1/2015
Oahu	269	Community	Waimanalo Kupuna Housing Limited Partnership	9/7/2060	1	9/7/2060
Hawaii	270	Industrial	Takahashi LLC	7/31/2060	14,500	8/1/2015
Hawaii	271	Industrial	Shimba Properties LLC	7/31/2060	11,300	8/1/2015
Hawaii	272	Commercial	CFT Development LLC dba Panda Express	11/30/2070	180,000	12/1/2010
Molokai	274	Education	University of Hawaii	6/20/2016	1,500	None
Hawaii	275	Industrial	Kona Carbon LLC	pending	0	
Oahu	276	Commercial	DeBartolo Hawaii LLC	pending	0	
Hawaii	277	Industrial	P&A Investments, Inc.	10/31/2061	56,000	10/1/2016
Oahu	279	Office	Wells Fargo Bank, National Assn. Truste	12/1/2006	1	None
Hawaii	S-3849	Government	USA Department of Army	8/16/2028	1	None
Hawaii	S-3852	Government	USA Department of Navy	8/19/2029	1	None
Oahu	S-3897	Utility	Hawaiian Electric Company, Inc.	3/10/2030	1,920	3/11/2010
Oahu	S-4113	Industrial	U-Haul of Hawaii, Inc.	10/9/2022	101,600	10/10/2012
Oahu	S-4114	Industrial	U-Haul of Hawaii, Inc.	10/9/2022	136,600	10/10/2012
Oahu	S-4115	Industrial	La'au Structures, Inc.	10/9/2007	0	Cxl
Oahu	S-4117	Industrial	Lease Properties, LLC	10/9/2022	151,800	10/10/2012

APPENDIX B

SCHEDULE OF EXISTING GENERAL LEASES

As of October 1, 2008

Island	Number	Use	Name	Ending Date	Annual Rent	Reopenning Date
Oahu	S-4118	Industrial	Lease Properties II, LLC	10/9/2022	151,800	10/10/2012
Oahu	S-4119	Industrial	Garlow Petroleum, Inc.	10/9/2022	174,929	10/10/2012
Oahu	S-4120	Industrial	Frank White Jr. & Sally White	10/9/2022	141,500	10/10/2012
Oahu	S-4121	Industrial	Equipment Service Company, LTD. dba F.K.S. Rental and Sales	10/9/2022	140,000	10/10/2012
Oahu	S-4122	Industrial	Equipment Service Company, LTD. dba F.K.S. Rental and Sales	10/9/2022	77,340	10/10/2012
Oahu	S-4123	Industrial	Douglas Kuniomi Takata, Trustee	10/9/2022	87,711	10/10/2012
Oahu	S-4124	Industrial	Lease Properties, LLC	10/9/2022	89,000	10/10/2012
Oahu	S-4125	Industrial	Lease Properties, LLC	10/9/2022	89,000	10/10/2012
Oahu	S-4126	Industrial	Living The Word	10/9/2022	91,840	10/10/2012
Oahu	S-4127	Industrial	W.P. Inc.	10/9/2022	96,600	10/10/2012
Oahu	S-4290	Industrial	Pacific Diving Industries, Inc.	3/11/2025	39,172	3/12/2010
Oahu	S-4291	Industrial	CLU Investments, Inc.	3/11/2010	34,926	None
Oahu	S-4292	Industrial	AOL Time Warner, Inc.	3/11/2010	85,400	None
Oahu	S-4293	Industrial	Hawaii Pro Sound and Video Rentals, Inc.	3/11/2025	0	Cxl
Oahu	S-4294	Industrial	Hawaii Business Associates, Inc.	3/11/2025	72,550	3/12/2010
Hawaii	S-4466	Pasture	Honokaia Ranch, Inc.	2/28/2011	8,700	None
Oahu	S-4643	Commercial	RCK Partners, Limited Partnership	5/31/2045	378,750	1/1/2010
Maui	S-5267	Agriculture	Maui Land and Pineapple Co., Inc.	9/30/2011	70,400	
Oahu	S-5326	Agriculture	Wong Hon Hin, Inc	7/31/2030	4,150	8/1/2015
					$ 7,318,047	

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Definitions of Certain Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Cash Flow Statement" means a certificate of an independent firm of consultants (which may include, among others, Accountants or financial advisors), experienced in the field of preparing studies and determining financial feasibility, based on assumptions deemed reasonable by such firm of consultants and giving effect to the action proposed to be taken and demonstrating, with respect to each Bond Year within the periods specified therein, that amounts then expected to be on deposit in the Accounts maintained thereunder in each such Bond Year will be at least equal to all amounts required by the Indenture to be on deposit in such Fund and Accounts for the payment of the principal and Redemption Price of and interest on the Bonds and for the funding of the Debt Reserve Account to the Debt Reserve Requirement, except that, to the extent specified in a Supplemental Indenture, a Fund or Account established in said Supplemental Indenture shall not be taken into account when preparing such Cash Flow Statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Subordinated Indebtedness" means any evidence of debt referred to in, and complying with the provisions of, the Indenture.

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

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

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

"Trustee" means Wells Fargo Bank, National Association, as Trustee thereunder, and any successor at any time substituted in its place pursuant thereto.

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

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

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

Conditions for the Issuance of Bonds

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

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

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

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

(4) A Cash Flow Statement demonstrating that the Revenues will be at least equal to 1.25 times Aggregate Debt Service on all Outstanding Bonds, including the Bonds then proposed to be issued, in each of the five (5) full Bond Years following the date of issuance of such Bonds. In estimating Revenues for the five (5) full Bond Years following the date of issuance of a Series of Bonds the consultant preparing such Cash Flow Statement shall only rely on Revenues estimated to be produced based on leases, contracts, and agreements in effect as of the date of the Cash Flow Statement, assuming all payments to the Department thereunder shall be made as and when due and payable, and only such increases or decreases in such payments to the Department as are contained in such leases, contracts, or agreements shall be effective during such period. The Cash Flow Statement required by this clause shall

not be required with respect to any Series of Refunding Bonds unless required by the provisions of the Indenture.

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

Special Provisions for the Issuance of Additional Bonds.

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

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

(1) an Accountant's Certificate showing that Revenues produced in each of the three Fiscal Years preceding the issuance of such Additional Bonds were at least equal to 1.25 times Aggregate Debt Service on Outstanding Bonds for each such Fiscal Year; and

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

Special Provisions for the Issuance of Refunding Bonds.

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

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

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

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

(3) either: (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Paying Agent for the Bonds to be refunded in a separate account irrevocably deposited in trust for and assigned to the respective

Owners of the Bonds to be refunded, or (ii) Investment Securities including only those Investment Securities provided in the Indenture in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, and any moneys, as shall be sufficient at prior redemption or maturity to otherwise comply with the provisions of the Indenture, which Investment Securities and moneys shall be held in trust and used only as provided in the Indenture; and

(4) unless (1) the maximum annual Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed maximum annual Debt Service in any Fiscal Year on the refunded Bonds by more than ten percent (10%), or (2) the Refunding Bonds are being issued to refund Commercial Paper, a Cash Flow Statement as described under "General Provisions for the Issuance of Bonds" above.

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

Subordinated Indebtedness. The Department may at any time or from time to time issue evidences of indebtedness payable out of, and which may be secured by a pledge of, such amounts in the General Account as may from time to time be available for the purpose of payment thereof; provided that: (i) such pledge shall be, and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, and securities, created by the Indenture, (ii) the instrument pursuant to which such Subordinated Indebtedness is issued contains a provision to the effect that the holders of such Subordinated Indebtedness and any trustee on behalf of such holders will have no right to cause the acceleration of the payment of the principal of or interest on such Subordinated Indebtedness unless and until the payment of the principal of and interest on the Bonds has been accelerated thereunder, and (iii) payments of debt service on Subordinated Indebtedness from Revenues shall be limited to amounts on deposit in the General Account and permitted to be used for such payments pursuant to the Indenture; and provided further that nothing therein shall prevent the Department, for purposes of hedging (and not for speculation), from entering into interest rate swap, exchange or similar agreements as may be provided or permitted by law which conform but are not limited to standards of the International Swap Dealers Association, Inc. and which are payable from Revenues on a basis subordinate, junior and inferior to all Bonds.

Establishment of Accounts; Flow of Funds

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

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

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

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

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

(4) in the General Account, the amount, if any, required to be deposited therein for the purpose of satisfying the requirements of the Indenture; and

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

Investment of Moneys. (a) Moneys held in the Accounts shall to the fullest extent practicable be invested and reinvested in Investment Securities which shall mature, or be payable to the Trustee on demand, (i) except in the case of the Debt Reserve Account or any Separate Series Reserve Account, in such amounts and at such times so that the moneys held for credit to such Account will be available when needed for the purposes intended and (ii) in the case of the Debt Reserve Account or any Separate Series Reserve Account, within five (5) years from the date of investment, but in any event no later than the last or final maturity date of the Bonds then Outstanding.

(b) The Trustee shall determine the value of amounts credited to each Account, at the market value thereof: (1) as of the first day of each Fiscal Year; (2) in the case of the Debt Reserve Account or any Separate Series Reserve Account, immediately upon any transfer therefrom to cure a deficiency in the Debt Service Account pursuant to the Indenture; (3) in the case of the General Account, immediately upon any transfer therefrom to cure a deficiency in the Debt Service Account, Debt Reserve Account or any Separate Series Reserve Account pursuant to the Indenture; and (4) at such other times as may be requested by the Department. The Trustee shall notify the Department in writing of such values as soon as practicable after determining the same.

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

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

Certain Covenants of the Department

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

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

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

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

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

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

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

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

Maintenance of Leases. The Department will at all times comply with all terms, covenants and provisions, expressed and implied, of all leases and other agreements with respect to properties constituting a part of the Program Lands. The Department shall promptly collect, or cause to be collected, all payments due under leases and other agreements with respect to properties constituting a part of the Program Lands as the same becomes due, and shall at all times maintain and promptly and vigorously enforce its rights against any person who does not make such payments when due. The Department will not exercise any right to terminate any lease or other agreement with respect to properties constituting a part of the Program Lands, or consent to any deferral or abatement of rentals or other payments due under any lease or other agreement with respect to properties constituting a part of the

Program Lands, or effect or consent to any change in the use of properties constituting a part of the Program Lands, unless the Department, prior to such action, files a Cash Flow Statement with the Trustee giving effect to such action and evidencing that such action will not impair the ability of the Department to comply with the provisions of the Indenture during the current Fiscal Year and during each Fiscal Year thereafter or to meet its obligations under the Indenture from Revenues.

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

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

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

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

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

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

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

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

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

Trustee

Duties and Responsibilities of Trustee.

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

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

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

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

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

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

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

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

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

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

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

Removal of Trustee. The Trustee shall be removed by the Department if at any time so requested by a written instrument or concurrent written instruments, filed with the Trustee and the Department and signed by the owners (or their attorney-in-fact duly authorized) of a majority in principal amount of Bonds Outstanding. The Department in its discretion may remove the Trustee at any time, except during the existence of an Event of Default, upon giving sixty (60) days written notice to the Trustee and filing with the Trustee an instrument of appointment signed by an Authorized Officer and accepted by such successor Trustee.

Amending and Supplementing the Master Indenture

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

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

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

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

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

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

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

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

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

Except for Supplemental Indentures providing for the issuance of Additional Bonds or Refunding Bonds pursuant thereto, the Department shall not make and execute any instrument or adopt any Supplemental Indenture, unless the Trustee (i) determines that the provisions of such instrument or of such Supplemental Indenture do not adversely affect the rights of the Owners of the Bonds then Outstanding, and (ii) receives an Opinion of Counsel to the effect that the making and entering into of such instrument or such Supplemental Indenture is permitted by the provisions of the Indenture, and the provisions of such instrument or of such Supplemental Indenture are not contrary to or inconsistent with the covenants or agreements of the Department contained in the Indenture as originally adopted or as amended with the consent of the Owners.

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

Events of Default; Remedies on Default

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

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

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

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

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

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

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

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

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

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

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

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

Defeasance; Moneys held for payment of Defeased Bonds

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

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

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

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

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

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

(b) as to any such Bonds as are at the time of making of such deposit immediately redeemable or prepayable in accordance with the provisions thereof or thereof, until (1) ninety

(90) days prior to the date fixed for their redemption or prepayment or (2) ninety (90) days prior to the respective stated maturities thereof; and

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

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

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

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

Schedule I

<u>Investment Securities</u>

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

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

(B) Of the United States;

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

(2) Federal Farm Credit System notes and bonds;

(3) Federal Agricultural Mortgage Corporation notes and bonds;

(4) Federal Home Loan Bank notes and bonds;

(5) Federal Home Loan Mortgage Corporation bonds;

(6) Federal National Mortgage Association notes and bonds;

(7) Student Loan Marketing Association notes and bonds;

(8) Tennessee Valley Authority notes and bonds;

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

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

(11) Federally insured savings accounts;

(12) Time certificates of deposit;

(13) Certificates of deposit open account;

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

(15) Student loan resource securities including:

(A) Student loan auction rate securities;

(B) Student loan asset-backed notes;

(C) Student loan program revenue notes and bonds; and

(D) Securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues;

issued with either bond insurance or overcollateralization guaranteed by the United States Department of Education; provided all insurers maintain a triple-A rating by Standard & Poor's, Moody's, Duff & Phelps, Fitch, or any other major national securities rating agency;

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

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

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

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

(1) Invest solely in:

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

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

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

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

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APPENDIX D

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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APPENDIX D

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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

INTRODUCTION

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% 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 the Far East as well as from Europe and the mainland United States. Based on the 2000 U.S. Census, approximately 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

State Government

The Constitution of the State provides for three separate branches of government: the legislative branch, the executive branch and the judicial branch. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his or her inability to exercise and discharge the powers and duties of his or her office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six-year program and financial plan, the State budget, and financial management programs of the State.

The Counties and Their Relationship to the State

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi-county, Kalawao). Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. There are no independent or separate cities or other municipalities, school districts or townships. The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") First Quarter 2009 Quarterly Statistical and Economic Reports ("QSER") or otherwise prepared by DBEDT, some of which may be found at http://www.hawaii.gov/dbedt/. 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 to calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position.

DBEDT's latest QSER indicates that the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") grew by 3.0 percent in nominal terms, or 0.3 percent in real terms (adjusting for inflation), in 2008. In real terms, DBEDT predicts a slight decline of 0.2 percent in 2009, as compared to 2008, followed by a 1.1 percent increase in 2010.

State of the Economy

After showing mixed results through the second quarter of 2008, Hawaii's economy continued to slow through the third and fourth quarters of 2008, primarily the result of worsening national economic conditions and the decline of visitor industry activity in the State. Wage and salary jobs in the fourth quarter decreased from the year before, as gains in government jobs were more than offset by job losses in the private sector. In the private sector, only Health Care and Social Assistance, Educational Services and Other Services showed positive job growth in the fourth quarter of 2008. Total civilian employment also decreased in the fourth quarter from the year before and, combined with increases in the civilian labor force, resulted in an increase in the number of unemployed and the unemployment rate from the same quarter in 2007. Visitor arrivals, visitor expenditures, new private building authorizations and total tax collections distributed to the State general fund revenues all declined for the quarter. Only the value of government contracts awarded increased in the fourth quarter.

According to the most recent data available, in the third quarter of 2008, total personal income (before correcting for inflation) increased $1,999 million or 4.0 percent from the same quarter of 2007. The sharpest growth was in Personal Current Transfer Receipts (9.8 percent), followed by Supplements to Wages and Salaries (4.7 percent), Wage and Salary Disbursements (3.3 percent), and Dividends, Interest, and Rent (2.5 percent). Contributions for Government Social Insurance, which is subtracted from personal income, increased 3.4 percent. For 2007, total personal income increased 5.9 percent from 2006.

In the second half of 2008, Honolulu's consumer price index ("CPI") increased 3.6 percent – 1.3 percentage points lower than the increase in the first half of 2008.

For the fourth quarter of 2008, total tax collections distributed to the State general funds totaled $1,076.6 million, a $48.2 million or 4.3 percent decrease from the fourth quarter of 2007. General Excise and Use Tax (GET) revenues totaled $593.1 million, a decrease of $59.7 million or 9.1 percent. Net Individual Income Tax revenues increased $15.9 million or 4.3 percent to $386.3 million. Transient Accommodations Tax (TAT) revenues were down $6.2 million or 11.5 percent. In 2008, State general fund tax revenues totaled $4,611.2 million, down $71.8 million or 1.5 percent from 2007.

Indicators of tourism activity in Hawaii declined sharply in the third and fourth quarters of 2008 as compared to the same quarters in 2007. The total number of visitors arriving by air to Hawaii declined 15.5 percent in the fourth quarter compared to the same quarter of 2007. The overall average daily census decreased 13.5 percent in the quarter. Average hotel occupancy rate was down 8.3 percentage points to 63.7 percent in the fourth quarter from a year earlier.

The fourth quarter indicators of Hawaii's construction industry were mostly negative. For the first time since early 2002, construction jobs showed a decline from the previous year's comparable quarter, down 5.9 percent or 2,350 jobs. The value of private building authorizations decreased $439.5 million compared to the same quarter of 2007. However, the value of government contracts awarded increased $155.4 million or 133.4 percent in the fourth quarter.

In the existing housing market, for both single-family and condominium units, the median resale prices and the numbers of units resold were down in the fourth quarter of 2008 compared to the same quarter in 2007.

Outlook for the Economy

In its latest quarterly economic report, DBEDT is forecasting virtually no growth or negative growth in Hawaii's economy through most of 2009. Real personal income, total wage and salary jobs, and State GDP are all forecast to show no growth or negative growth in 2009. Visitor arrivals are expected to decrease 5.9 percent in 2009.

Nominal personal income growth rates for 2009 and 2010 are forecast at 0.8 percent and 2.1 percent, respectively. Real personal income growth rates for 2009 and 2010 are expected to be negative 0.4 percent and positive negative 0.6 percent, respectively, after deflating the nominal values by the Honolulu's CPI-U. Honolulu's CPI is expected to rise 1.2 percent in 2009 and 1.5 percent in 2010.

In 2008, Hawaii's GDP increased 3.0 percent in nominal terms and 0.3 percent in real terms. Real GDP growth is projected to be negative 0.2 percent and positive 1.1 percent, respectively, in 2009 and 2010.

The future outlook for Hawaii's economy is linked to the U.S. and Japanese economies. According to the February 2009 Blue Chip Economic Consensus Forecasts, real U.S. GDP growth is expected to decline by 1.9 percent for 2009 as a whole. However, the consensus forecast still expects positive, although subdued, growth in the last two quarters of the year (0.8 percent and 2.0 percent, respectively) and continued growth (2.1 percent) in 2010. For Japan, real GDP is projected to decline 2.4 percent in 2009 before growing by a modest 1.1 percent in 2010.

Based on latest data and the outlook in coming months, in 2009 total visitor arrivals, total visitor days, and total nominal (current dollar) visitor expenditures are expected to decline 5.9 percent, 4.4 percent and 1.9 percent, respectively. For 2010, visitor arrivals, visitor days and visitor expenditures are forecast to increase 1.3 percent, 1.2 percent and 3.6 percent, respectively.

Major indicators of construction activity for 2008 suggest slower construction activity in Hawaii for the near future. Increases in the value of government contracts awarded in 2008 were more than countered by declines in the value of private building authorizations. Going forward, increased government activity is unlikely to completely offset construction declines in the private sector.

Beyond 2010, gradual recovery is expected to continue, with modest job growth of around 0.5 percent expected in 2011. Visitor arrivals are expected to show a healthier 4.6 percent increase in 2011. Hawaii's real GDP growth in 2011 is expected to reach 1.6 percent.

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

Table 1
SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	4th QUARTER 2008 2007	2008	% CHANGE YEAR AGO	YEAR-TO-DATE 2007	2008	% CHANGE YEAR AGO
Civilian labor force, NSA (persona) 1/	647,100	659,800	2.0	649,100	661,250	1.9
Civilian employed, NSA	629,100	627,700	-0.2	631,900	634,800	0.5
Civilian unemployed, NSA	18,000	32,100	78.3	17,150	26,450	54.2
Unemployment rate, NSA (%) 1/ 2/	2.8	4.9	2.1	2.6	4.0	1.4
Total wage and salary jobs, NSA	635,800	628,600	-1.1	630,050	630,050	0.0
Total non-agric. wage & salary jobs	629,400	622,750	-1.1	623,550	623,900	0.1
Nat. Resources, Mining, Constr.	39,950	37,600	-5.9	39,000	38,950	-0.1
Manufacturing	15,100	14,950	-1.0	15,200	15,100	-0.7
Wholesale Trade	18,600	18,500	-0.5	18,400	18,550	0.8
Retail Trade	71,350	71,100	-0.4	70,100	70,450	0.5
Transp., Warehousing, Util.	32,700	28,700	-12.2	32,800	29,950	-8.7
Information	10,650	10,200	-4.2	10,750	10,500	-2.3
Financial Activities	30,000	29,450	-1.8	30,050	29,700	-1.2
Professional & Business Services	76,850	75,350	-2.0	76,100	76,550	0.7
Educational Services	14,200	14,850	4.6	14,200	14,900	5.3
Health Care & Social Assistance	58,950	59,800	1.4	58,650	59,500	1.4
Arts, Entertainment & Recreation	12,000	11,000	-8.3	12,050	11,250	-6.6
Accommodation	38,750	36,550	-5.7	39,150	38,000	-2.9
Food Services & Drinking Places	58,300	57,550	-1.3	58,700	58,400	-0.5
Other Services	26,950	27,450	1.9	26,550	27,200	2.4
Government	124,950	129,650	3.8	122,000	124,950	2.4
Federal	31,600	32,700	3.5	31,650	32,100	1.4
State	75,350	78,400	4.0	72,400	74,300	2.6
Local	18,000	18,550	3.1	17,950	18,550	3.3
Agriculture wage and salary jobs	6,400	5,850	-8.6	6,550	6,150	-5.4
State general fund revenues ($1,000)	1,124,851	1,076,634	-4.3	4,683,086	4,611,240	-1.5
General excise and use tax revenues	652,765	593,107	-9.1	2,623,514	2,570,492	-2.0
Income-individual	370,408	386,333	4.3	1,579,138	1,564,708	-0.9
Declaration estimated taxes	58,609	32,882	-43.9	440,518	397,434	-9.8
Payment with returns	17,124	23,925	39.7	213,194	185,703	-12.9
Withholding tax on wages	350,484	366,702	4.6	1,312,449	1,399,554	6.6
Refunds ('-' indicates relative to State)	-55,809	-37,176	-33.4	-387,024	-417,982	8.0
Transient accommodations tax	53,871	47,700	-11.5	232,542	224,122	-3.6
Honolulu County Surcharge 3/	45,150	42,058	-6.8	148,514	182,341	22.8
Visitor Days - by air	16,937,779	14,656,002	-13.5	69,135,310	62,905,608	-9.0
Domestic visitor days - by air	13,466,921	11,467,603	-14.8	55,100,441	49,505,107	-10.2
International visitor days - by air	3,470,858	3,188,400	-8.1	14,034,869	13,400,502	-4.5
Visitor arrivals by air - by air	1,810,966	1,529,579	-15.5	7,496,820	6,699,424	-10.6
Domestic flight visitors - by air	1,333,085	1,103,617	-17.2	5,582,530	4,902,270	-12.2
International flight visitors - by air	477,881	425,962	-10.9	1,914,290	1,797,154	-6.1
Hotel occupancy rates (%) 2/	72.0	63.7	-8.3	75.0	70.4	-4.6
Visitor expend. - arrivals by air ($Mil.)	3,167.5	2,617.8	-17.4	12,578.3	11,335.9	-9.9

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

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

3/ 0.5% added to the general excise tax to pay for O'ahu's mass transit system and took effect January 1, 2007. Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.

Source: Hawaii State Department of Business, Economic Development, & Tourism <http://www.hawaii.gov/dbedt/inf>, Hawaii State Department of Labor & Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>; Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC.

Key Economic Indicators

Table 2
ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2007 TO 2012

Economic Indicators	2007 (Actual)	2008	2009 (Forecast)	2010	2011	2012
Total population (thousands)	1,277	1,288	1,298	1,309	1,319	1,329
Visitor arrivals (thousands) 1/	7,628	6,807	6,404	6,486	6,783	7,144
Visitor days (thousands) 1/	70,075	63,913	61,108	61,831	64,623	68,038
Visitor expenditures (million dollars) 1/	12,811	11,347	11,131	11,526	12,353	13,337
Honolulu CPI-U (1982-84=100)	219.5	228.9	231.7	235.2	239.9	245.4
Personal income (million dollars) 2/	50,130	52,138	52,555	53,669	55,290	57,225
Real personal income (millions of 2000$) 3/	40,263	40,164	39,993	40,235	40,637	41,114
Total wage & salary jobs (thousands)	630.1	630.0	621.7	621.9	625.2	630.5
Gross domestic product (million dollars) 4/	61,532	63,398	64,349	65,507	67,407	69,924
Real gross domestic product (millions of 2000$) 4/	49,860	49,995	49,883	50,447	51,244	52,217
Gross domestic product deflator (2000=100)	123.4	126.8	129.0	129.9	131.5	133.9
Annual Percentage Change						
Total population	0.2	0.8	0.8	0.8	0.8	0.8
Visitor arrivals 1/	0.0	-10.8	-5.9	1.3	4.6	5.3
Visitor days 1/	0.3	-8.8	-4.4	1.2	4.5	5.3
Visitor expenditures 1/	2.6	-11.4	-1.9	3.6	7.2	8.0
Honolulu CPI-U	4.9	4.3	1.2	1.5	2.0	2.3
Personal income 2/	5.9	4.0	0.8	2.1	3.0	3.5
Real personal income 3/	1.0	-0.2	-0.4	0.6	1.0	1.2
Total wage & salary jobs	1.0	0.0	-1.3	0.0	0.5	0.8
Gross domestic product 4/	4.9	3.0	1.5	1.8	2.9	3.7
Real gross domestic product 4/	3.0	0.3	-0.2	1.1	1.6	1.9
Gross domestic product deflator	1.9	2.8	1.7	0.7	1.3	1.8

1/ Visitors who came to Hawaii by air or by cruise ship.

2/ The 2008 values are estimated based on actual values in the first three quarters of 2008.

3/ DBEDT calculated using BEA estimate of nominal personal income deflated by U.S. Bureau of Labor Statistics Honolulu CPI-U.

4/ The 2008 value is estimated by DBEDT.

Source: Hawaii State Department of Business, Economic Development & Tourism, February 20, 2009.

Labor Force and Jobs

In the fourth quarter of 2008, Hawaii's civilian labor force totaled 659,800 people, an increase of 12,700 people or 2.0 percent from the same quarter of 2007. For the full year in 2008, civilian labor force grew 1.9 percent from 2007.

However, Hawaii's total civilian employment decreased slightly in the fourth quarter. In the fourth quarter of 2008, 627,700 people were employed in Hawaii, which is 1,400 people or 0.2 percent less than that in the fourth quarter of 2007. For the full year in 2008, total civilian employment increased 0.5 from the previous year.

The increased labor force contributed to an increase in the number of unemployed. The number of civilians unemployed averaged 32,100 in the fourth quarter of 2008, a 78.3 percent increase from the fourth quarter of 2007. For the year of 2008, the number of unemployed people averaged 26,450, 54.2 percent greater than in 2007. Due to the rapid increase in the number of unemployed, Hawaii's unemployment rate (not seasonally adjusted) also increased from 2.8 percent in the fourth quarter of 2007 to 4.9 percent in the fourth quarter of 2008. In 2008, Hawaii's unemployment rate averaged 4.0 percent, significantly higher than that of 2007.

In the fourth quarter of 2008, Hawaii's civilian wage and salary jobs totaled 628,600, a decrease of 7,200 jobs or 1.1 percent from the same quarter of 2007. For the full year in 2008, wage and salary jobs remained the same as in 2007, after a 1.0 percent increase in 2007 and a 2.5 percent increase in 2006.

Only a few sectors experienced job growth in the fourth quarter of 2008 compared to the fourth quarter of 2007. Health Care and Social Assistance added 850 jobs or 1.4 percent, followed by Educational Services with 650 jobs or 4.6 percent and Other Services with 500 jobs or 1.9 percent. In the fourth quarter of 2008, Transportation, Warehousing, and Utilities lost 4,000 jobs or 12.2 percent compared to the same quarter of 2007, Natural Resources, Mining and Construction lost 2,350 jobs or 5.9 percent, Accommodation lost 2,200 jobs or 5.7 percent, Professional and Business Services lost 1,500 jobs or 2.0 percent, Arts, Entertainment, and Recreation lost 1,000 jobs or 8.3 percent, Food Services and Drinking Places lost 750 jobs or 1.3 percent, Financial Activities lost 550 jobs or 1.8 percent, and Information lost 450 jobs or 4.2 percent. Agriculture also lost 550 wage and salary jobs or 8.6 percent. During the fourth quarter of 2008, government added 4,700 jobs or 3.8 percent compared to the same quarter of 2007: Federal government added 1,100 jobs; State government added 3,050 jobs; and Local government added 550 jobs in the fourth quarter of 2008 compared with the fourth quarter of 2007.

Table 3
CIVILIAN LABOR FORCE AND EMPLOYMENT
(Number of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	616,300	1.2	592,450	1.4	3.9
2004	622,550	1.0	602,450	1.7	3.2
2005	635,400	2.1	618,000	2.6	2.7
2006	647,600	1.9	631,600	2.2	2.5
2007	649,100	0.2	631,900	0.0	2.6
2008*	661,250	1.9	634,800	0.5	4.0

* Preliminary data.

Income and Prices

Hawaii's total nominal personal income continued to grow at a solid pace in the third quarter of 2008 (the latest period for which income data are available from the U.S. Bureau of Economic Analysis) over the same quarter of 2007. The rate of growth was the highest for Personal Current Transfer Receipts, followed by Supplements to Wages and Salaries, Wage and Salary Disbursements, and Dividends, Interest and Rent. Most major sectors experienced positive earnings growth, except for Transportation and Warehousing, Information, Management of Companies and Enterprises, Arts, Entertainment and Recreation, Accommodation and Food Services, and Construction.

During the third quarter of 2008, Wage and Salary Disbursements, the largest component of personal income, increased $952 million or 3.3 percent from the same quarter of 2007. For 2007, Wage and Salary Disbursements were up 5.6 percent from 2006, lower than the 6.7 percent growth between 2005 and 2006. Wage and Salary Disbursements comprised about 57% of total personal income.

Supplements to Wages and Salaries (consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits) increased $376 million or 4.7 percent in the third quarter of 2008 from that of 2007. For 2007, Supplements to Wages and Salaries increased 4.8 percent, 0.9 percentage points lower than the 5.7 percent annual increase between 2005 and 2006.

Proprietors' Income (the income most closely related to entrepreneurial activity) decreased 1.2 percent in the third quarter of 2008 as compared to the same quarter in 2007. For the year 2007, Proprietors' Income was down 5.5 percent from 2006, compared to a 6.7 percent increase between 2005 and 2006.

Dividends, Interest, and Rent increased $205 million or 2.5 percent in the third quarter of 2008 from the same quarter of 2007. For the year 2007, Dividends, Interest, and Rent were up 8.7 percent from 2006, compared to 13.1 percent growth between 2005 and 2006.

Personal Current Transfer Receipts (consisting largely of retirement and medical payments) increased $641 million or 9.8 percent in the third quarter of 2008 from the same quarter of 2007. In the year of 2007, Personal Current Transfer Receipts grew at a rate of 9.7 percent, compared to a 5.3 percent growth rate in 2006.

Contributions to Government Social Insurance, which is subtracted from total personal income, increased $138 million or 3.4 percent in the third quarter of 2008 compared to the same quarter of 2007. In 2007, Contributions to Government Social Insurance were up 3.6 percent from 2006.

Earnings increased across most private sectors in the third quarter of 2008 as compared to the same quarter in 2007. In dollar terms, the largest increase occurred in Professional and Technical Services, followed by Health Care and Social Assistance, Wholesale Trade, Other Services, Except Public Administration, and Administrative and Waste Services. During the third quarter of 2008, total government earnings increased $973 million or 7.5 percent from the third quarter of 2007.

In the second half of 2008, Honolulu's consumer price index (CPI) increased 3.6 percent from the same period in the previous year, compared to the U.S. average CPI increase of 3.4 percent for the same period. The Honolulu CPI increase in the second half of 2008 was primarily due to increases in Food and Beverages, Other Goods and Services, Education and Communication, and Transportation, which increased 6.7 percent, 5.2 percent, 3.5 percent, and 3.3 percent, respectively in the second half of 2008 compared to the second half of 2007.

Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(In millions of dollars at seasonally adjusted annual rates)

Series	Third Quarter 2007	Third Quarter 2008	YTD 2007	YTD 2008	Percentage Change to: 2008 Q3 from 207Q3	Percentage Change to: YTD 2008 from YTD 2007
PERSONAL INCOME	50,557	52,556	49,838	52,210	4.0	4.8
Earnings By Place of Work	39,801	41,091	39,343	40,876	3.2	3.9
Wage and salary disbursements	28,761	29,713	28,417	29,592	3.3	4.1
Supplements to wages and salaries	8,068	8,444	7,958	8,373	4.7	5.2
Emp'er contrib. for emp'ee pension & ins. funds	6,123	6,445	6,016	6,376	5.3	6.0
Employer contributions for gov't social ins.	1,945	1,999	1,942	1,997	2.8	2.8
Proprietors' income	2,972	2,935	2,968	2,910	-1.2	-2.0
Farm proprietors' income	3	-60	-7	-64	(1/)	(1/)
Nonfarm proprietors' income	2,969	2,995	2,974	2,974	0.9	0.0
Dividends, interest, and rent	8,228	8,433	8,019	8,369	2.5	4.4
Personal current transfer receipts	6,574	7,215	6,499	7,141	9.8	9.9
State unemployment insurance benefits	115	272	103	202	136.5	96.8
Personal current transfer receipts exc State U.I.	6,459	6,943	6,397	6,939	7.5	8.5
Less: Contributions for gov't social insurance	4,046	4,184	4,024	4,176	3.4	3.8
Personal contributions for gov't social insurance	2,101	2,185	2,081	2,179	4.0	4.7
Employer contributions for gov't social insurance	1,945	1,999	1,942	1,997	2.8	2.8
Earnings By Industry	39,801	41,091	39,343	40,876	3.2	3.9
Farm Earnings	223	166	212	160	-25.6	-24.3
Nonfarm Earnings	39,578	40,925	39,132	40,715	3.4	4.0
Private earnings	26,668	27,042	26,436	27,099	1.4	2.5
Forestry, fishing, related activities, and other 6/	38	54	42	54	42.1	28.6
Mining	55	67	55	63	21.8	14.5
Utilities	321	327	304	324	1.9	6.6
Construction	3,182	3,169	3,166	3,230	-0.4	2.0
Manufacturing	1,004	1,023	1,006	1,022	1.9	1.5
Durable goods	390	399	388	394	2.3	1.6
Nondurable goods	614	623	618	627	1.5	1.5
Wholesale trade	1,148	1,219	1,136	1,216	6.2	7.0
Retail trade	2,513	2,546	2,499	2,556	1.3	2.3
Transportation and warehousing	1,613	1,487	1,611	1,565	-7.8	-2.9
Information	772	747	754	748	-3.2	-0.8
Finance and insurance	1,295	1,318	1,296	1,320	1.8	1.9
Real estate and rental and leasing	999	1,003	1,030	998	0.4	-3.1
Professional and technical services	2,388	2,535	2,354	2,503	6.2	6.3
Management of companies and enterprises	680	667	664	648	-1.9	-2.4
Administrative and waste services	1,569	1,620	1,577	1,621	3.3	2.8
Educational services	559	598	550	594	7.0	8.1
Health care and social assistance	3,429	3,550	3,342	3,515	3.5	5.2
Arts, entertainment, and recreation	474	466	466	472	-1.7	1.4
Accommodation and food services	3,392	3,346	3,356	3,370	-1.4	0.4
Other services, except public administration	1,237	1,299	1,226	1,279	5.0	4.4
Government and government enterprises	12,910	13,883	12,696	13,617	7.5	7.3
Federal	7,795	8,385	7,715	8,244	7.6	6.9
Federal, civilian	2,971	3,177	2,975	3,111	6.9	4.6
Military	4,824	5,208	4,740	5,133	8.0	8.3
State and local	5,115	5,498	4,982	5,373	7.5	7.8

Source data for 2008Q1 to 2008Q2 have been revised.
D Estimate is suppressed to avoid disclosure of confidential information.
1/ Percentage changes involving zero or negative values are not meaningful.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, December 18, 2008 <http://www.bea.doc.gov/bea/regional/sqpi/>.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
1999	32,646	2.8
2000	34,451	5.5
2001	35,126	2.0
2002	36,370	3.5
2003	37,837	4.0
2004	41,027	8.4
2005	44,112	7.5
2006	47,338	7.3
2007	50,130	5.9
2008[1/]	52,210	4.8

[1/] *YTD through third quarter.*

Source: U.S. Department of Commerce, Bureau of Economics Analysis, State Quarterly Personal Income, December 18, 2008 <http://www.bea.doc.gov/bea/regional/sqpi/>.

Table 6

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

		Honolulu								
Period	U.S.	All Items	Food &Beverages	Housing	Apparel	Transportation	Medical Care	Recreation	Edu. & Comm [1/]	Other Goods & Services
1990	130.7	138.1	137.8	141.5	107.0	131.1	154.2	(NA)	(NA)	160.4
1991	136.2	148.0	145.9	152.8	110.5	139.3	171.3	(NA)	(NA)	175.7
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	2/	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	2/	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	2/	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	2/	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	2/	101.1	114.0	332.1
2007	207.342	219.504	204.942	238.428	104.145	205.027	2/	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	318.0	105.290	117.118	365.441
1995H1	151.5	166.9	156.5	173.4	118.1	160.0	207.8	(NA)	(NA)	214.4
H2	153.2	169.4	157.1	176.0	116.9	164.9	211.8	(NA)	(NA)	219.2
1996H1	155.8	170.5	156.9	176.8	120.0	166.3	214.9	(NA)	(NA)	220.6
H2	157.9	171.0	156.3	176.8	116.9	167.7	215.0	(NA)	(NA)	232.4
1997H1	159.9	172.1	159.4	177.3	119.8	167.8	215.6	(NA)	(NA)	232.5
H2	161.2	171.8	159.0	177.0	114.8	164.6	219.1	(NA)	(NA)	245.5
1998H1	162.3	172.0	160.0	176.3	116.4	163.2	222.5	101.4	98.9	254.3
H2	163.7	171.0	158.2	175.7	108.0	161.8	229.8	100.3	99.3	258.0
1999H1	165.4	172.7	162.4	175.5	106.0	162.3	231.0	101.3	102.6	273.9
H2	167.8	173.8	163.5	176.0	104.9	162.0	231.5	102.5	106.4	277.3
2000H1	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
H2	173.6	176.7	164.1	178.5	102.6	171.5	243.8	102.6	105.6	281.9
2001H1	176.6	178.1	168.3	178.8	99.7	176.0	246.1	102.1	103.5	287.5
H2	177.5	178.7	170.7	179.3	102.3	173.0	2/	101.1	105.8	291.1
2002H1	178.9	180.1	172.3	180.5	106.2	171.7	2/	99.9	106.9	299.1
H2	180.9	180.4	171.6	181.9	99.1	170.1	266.5	99.2	108.7	305.3
2003H1	183.3	183.2	173.7	184.7	99.2	175.2	2/	99.3	111.1	307.0
H2	184.6	185.7	176.0	187.7	97.8	177.7	2/	101.5	113.8	308.2
2004H1	187.6	189.2	179.5	192.2	102.6	180.2	274.8	102.6	113.5	309.6
H2	190.2	191.9	180.9	196.3	99.9	184.6	277.0	102.0	113.6	315.2
2005H1	193.2	195.0	184.7	199.9	104.9	188.2	2/	98.5	115.8	318.6
H2	197.4	200.6	187.1	210.5	100.0	195.1	2/	97.0	112.8	323.3
2006H1	200.6	206.4	191.6	216.9	104.1	201.6	2/	100.9	114.3	329.5
H2	202.6	212.3	196.8	228.0	104.7	202.6	2/	101.3	113.7	334.7
2007H1	205.709	216.620	202.952	233.606	102.648	204.402	2/	102.058	112.887	343.703
H2	208.976	222.388	206.932	243.250	105.642	205.652	309.195	103.087	115.047	351.295
2008H1	214.429	227.334	212.390	246.676	105.917	215.519	317.380	105.600	115.126	361.286
H2	216.177	230.387	220.859	250.725	104.637	212.477	318.531	104.979	119.110	369.596

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 20, 2009.

Table 6

HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)
[Percentage change from the same period last year]

		Honolulu								
Period	U.S.	All Items	Food & Beverages	Housing	Apparel	Transportation	Medical Care	Recreation	Edu. & Comm [1/]	Other Goods & Services
1991	4.2	7.2	5.9	8.0	3.3	6.3	11.1	(NA)	(NA)	9.5
1992	3.0	4.8	1.8	5.8	3.3	5.8	6.6	(NA)	(NA)	7.6
1993	3.0	3.2	3.0	3.0	2.0	2.1	8.1	(NA)	(NA)	5.9
1994	2.6	2.7	0.3	3.1	1.9	3.9	4.4	(NA)	(NA)	4.7
1995	2.8	2.2	2.2	1.8	-1.0	3.8	1.8	(NA)	(NA)	3.4
1996	3.0	1.5	-0.1	1.2	0.9	2.8	2.5	(NA)	(NA)	4.5
1997	2.3	0.7	1.7	0.2	-1.0	-0.5	1.1	(NA)	(NA)	5.5
1998	1.6	-0.2	-0.1	-0.6	-4.3	-2.2	4.0	(NA)	(NA)	7.2
1999	2.2	1.0	2.4	-0.1	-6.1	-0.2	2.3	1.1	5.4	7.6
2000	3.4	1.7	1.2	1.2	-1.8	4.6	3.7	0.9	1.9	1.5
2001	2.8	1.2	2.9	0.7	-2.4	2.9	2/	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	2/	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	2/	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	2/	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	2/	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	2/	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	2/	1.5	0.0	4.6
2008	3.8	4.3	5.7	4.3	1.1	4.4	2/	2.6	2.8	5.2
1996H1	2.8	2.2	0.3	2.0	1.6	3.9	3.4	(NA)	(NA)	2.9
H2	3.1	0.9	-0.5	0.5	0.0	1.7	1.5	(NA)	(NA)	6.0
1997H1	2.6	0.9	1.6	0.3	-0.2	0.9	0.3	(NA)	(NA)	5.4
H2	2.1	0.5	1.7	0.1	-1.8	-1.8	1.9	(NA)	(NA)	5.6
1998H1	1.5	-0.1	0.4	-0.6	-2.8	-2.7	3.2	(NA)	(NA)	9.4
H2	1.6	-0.5	-0.5	-0.7	-5.9	-1.7	4.9	(NA)	(NA)	5.1
1999H1	1.9	0.4	1.5	-0.5	-8.9	-0.6	3.8	-0.1	3.7	7.7
H2	2.5	1.6	3.4	0.2	-2.9	0.1	0.7	2.2	7.2	7.5
2000H1	3.3	1.9	1.9	1.0	-1.4	3.3	2.1	1.8	4.6	1.3
H2	3.5	1.7	0.4	1.4	-2.2	5.9	5.3	0.1	-0.8	1.7
2001H1	3.4	1.3	1.7	0.8	-4.6	4.9	4.3	-1.0	-3.5	3.6
H2	2.2	1.1	4.0	0.4	-0.3	0.9	2/	-1.5	0.2	3.3
2002H1	1.3	1.1	2.4	1.0	6.5	-2.4	2/	-2.2	3.3	4.0
H2	1.9	1.0	0.5	1.5	-3.1	-1.7	2/	-1.9	2.7	4.9
2003H1	2.5	1.7	0.8	2.3	-6.6	2.0	2/	-0.6	3.9	2.6
H2	2.0	2.9	2.6	3.2	-1.3	4.5	2/	2.3	4.7	0.9
2004H1	2.3	3.3	3.3	4.1	3.4	2.9	2/	3.3	2.2	0.8
H2	3.0	3.3	2.8	4.6	2.1	3.9	2/	0.5	-0.2	2.3
2005H1	3.0	3.1	2.9	4.0	2.2	4.4	2/	-4.0	2.0	2.9
H2	3.8	4.5	3.4	7.2	0.1	5.7	2/	-4.9	-0.7	2.6
2006H1	3.8	5.8	3.7	8.5	-0.8	7.1	2/	2.4	-1.3	3.4
H2	2.6	5.8	5.2	8.3	4.7	3.8	2/	4.4	0.8	3.5
2007H1	2.5	5.0	5.9	7.7	-1.4	1.4	2/	1.1	-1.2	4.3
H2	3.1	4.8	5.1	6.7	0.9	1.5	2/	1.8	1.2	5.0
2008H1	4.2	4.9	4.7	5.6	3.2	5.4	2/	3.5	2.0	5.1
H2	3.4	3.6	6.7	3.1	-1.0	3.3	3.0	1.8	3.5	5.2

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 20, 2009.

Tourism

In the fourth quarter of 2008, Hawaii's tourism sector continued the negative growth started in the second quarter of 2008. Both domestic and international visitor arrivals decreased substantially. In the fourth quarter of 2008, average daily visitor census, visitor expenditures, total air capacity and hotel occupancy also decreased substantially.

The total number of visitors arriving by air to Hawaii decreased 281,387 or 15.5 percent in the fourth quarter of 2008 compared to the same quarter of 2007. Similarly, total average daily census was down 24,802 or 13.5 percent in the quarter. For the full year in 2008, total visitor arrivals by air decreased 797,396 or 10.9 percent from 2007, while average daily census decreased 17,539 or 8.1 percent.

Total visitor arrivals on domestic flights decreased 229,468 or 17.2 percent in the fourth quarter of 2008 from the fourth quarter in 2007. In 2008, domestic arrivals were down 680,260 or 12.2 percent from that in 2007. Arrivals on international flights decreased 51,919 or 10.9 percent in the fourth quarter of 2008 compared to the fourth quarter of 2007. In 2008, international arrivals were down 117,136 or 6.1 percent from 2007.

In terms of major market areas, from the fourth quarter of 2007 to the fourth quarter of 2008, arrivals from the U.S. West decreased 157,526 or 20.0 percent, the second largest quarter-over-quarter decrease since 1990 for this market. Arrivals from the U.S. East decreased 59,965 or 14.6 percent, the sixth consecutive quarterly decline in the U.S. East Market. Similarly, arrivals from Japan decreased 45,419 or 13.9 percent. From the fourth quarter of 2005 to the fourth quarter of 2008, only one quarter (2007Q3) had a quarter-over-quarter increase in the Japanese market. In 2008, arrivals from U.S. West were down 457,784 or 14.7 percent from that of 2007; arrivals from the U.S. East were down 218,829 or 11.5 percent; and Japanese arrivals were down 135,691 or 10.5 percent from 2007.

The total average daily visitor census was down 13.5 percent or 24,802 visitors per day in the fourth quarter of 2008 from the same quarter of 2007. Domestic average daily census decreased 14.8 percent or 21,732 visitors per day, while international average daily census decreased 8.1 percent or 3,070 visitors per day. In 2008, domestic average daily census decreased 15,700 or 10.4 percent from the previous year, and international average daily census decreased 1,838 or 4.8 percent.

Nominal visitor expenditures for visitors arriving by air totaled $2,617.8 million in the fourth quarter of 2008, down 17.4 percent from the same quarter of 2007. In 2008, visitor expenditures decreased $1,242.4 million or 9.9 percent from 2007.

Total airline capacity, as measured in terms of the number of available seats flown to Hawaii, decreased substantially in the fourth quarter of 2008 compared to the same quarter of 2007. A 15.8 percent or 293,095 decrease in domestic seats combined with an 8.8 percent or 59,111 decrease in international seats led to a 13.9 percent or 352,206-seat decrease in the number of total available seats for the quarter. For the year 2008, the total number of available seats (domestic and international) decreased 10.2 percent or 1,064,855 seats from 2007.

In the fourth quarter of 2008, statewide hotel occupancy rate averaged 63.7 percent, down 8.3 percentage points from the same quarter of 2007. For all of 2008, the occupancy rate averaged 70.4 percent, down 4.6 percentage points from 2007.

Table 7
VISITOR ARRIVALS BY AIR
Average Length of Stay, Visitor Days, Average Daily Census

	2006	2007	2008[1]	% Change 2006-2007	% Change 2007-2008
Total Arrivals[2]					
Total	7,528,106	7,496,820	6,699,424	-0.4	-10.6
Domestic	5,550,125	5,582,530	4,902,270	0.6	-12.2
International	1,877,981	1,914,290	1,797,154	-3.2	-6.1
Average Length of Stay					
Total	9.2	9.2	9.4	0.0	2.2
Domestic	9.8	9.9	10.1	1.0	2.0
International	7.7	7.3	7.5	-5.2	2.7
Visitor Days					
Total	69,145,854	69,135,310	62,905,608	0.0	-9.0
Domestic	54,584,048	55,100,441	49,505,107	0.9	-10.2
International	14,561,806	14,034,869	13,400,502	-3.5	-4.5
Average Daily Census					
Total	189,441	189,412	171,873	0.0	-9.3
Domestic	149,545	150,960	135,260	0.9	-10.4
International	39,895	38,452	36,613	-3.6	-4.8

[1] 2008 data are preliminary.
[2] Overnight stay or longer.
Source: Hawaii State Department of Business, Economic Development & Tourism <http://www.hawaii.gov/dbedt/info/visitor-stats/>

Table 8
HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
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	78.8	69.0	70.6	63.7	70.4

Quarterly 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 from February 1995.

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

Construction

Construction is one of the major contributors to job growth in Hawaii. Over the five-year period from 2007 to 2007, construction job growth averaged 8.2 percent per year. In the fourth quarter of 2008, however, the Natural Resources, Mining and Construction sector lost 2,350 jobs, a decrease of 5.9 percent compared with the same quarter of the previous year. This is the second negative quarter-over-quarter growth since the first quarter of 2002. In 2008, construction jobs decreased 0.1 percent or 50 jobs compared to 2007.

In the fourth quarter of 2008, total value of private building authorizations decreased $439.5 million or 50.7 percent compared with the fourth quarter of 2007. In the fourth quarter, the value of new residential permits was down $197.9 million or 54.6 percent; the value of new commercial and the industrial permits was down $231.0 million or 83.3 percent; and the value of additions and alternations permits was down $10.6 million or 4.7 percent, compared to the same quarter of the previous year. In 2008, total private building authorizations decreased $678.9 million or 18.9 percent compared with 2007.

At the county level, in the fourth quarter of 2008, the value of total private building permits decreased in all counties from the same quarter of 2007. In dollar terms, Maui County decreased the most at $230.7 million or 82.5 percent, followed by Hawaii County at $110.1 million or 53.0 percent, Kauai County at $49.5 million or 74.3 percent, and Honolulu at $49.1 million or 15.7 percent.

Government contracts awarded increased $155.4 million or 133.4 percent in the fourth quarter of 2008 compared to the same quarter of 2007. For the full year in 2008, government contracts awarded increased $83.3 million or 9.6 percent compared with 2007. However, State Government Capital Improvement Project (CIP) expenditures were down $304.3 million or 46.6 percent in the fourth quarter of 2008 from the same quarter in 2007. For the full year in 2008, the value of State Government CIP expenditures increased $72.1 million or 4.9 percent over 2007.

Single-family unit authorizations declined 62.3 percent in the fourth quarter of 2008. For the full year, single-family unit authorizations decreased 36.4 percent in 2008 compared to 2007. The value of multi-family units authorized was up 384.7 percent for the fourth quarter of 2008 compared to the same quarter in the previous year, but was down 17.4 percent for the full year in 2008 compared to 2007.

The Honolulu Construction Cost Index for Single Family Residences rose 5.6 percent in the fourth quarter of 2008 over that of 2007, while the comparable index for High-Rise Buildings rose 5.7 percent.

In the fourth quarter of 2008, Honolulu's median price for single family resales was $610,000, a decrease of 2.4 percent from the third quarter of 2007; the median price for condominium resales decreased 1.6 percent to $315,000 compared to the same quarter in 2007. In the tfourth quarter of 2008, the number of single-family unit and condominium unit resales declined 19.1 percent and 34.2 percent from the fourth quarter of 2007.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED – Continued
(Percentage change from the same period in previous year)

Year	Contracting tax base 1/	Total Private Authorizations	Private Building Authorization 4/ Residential 4/	Commercial & Industrial 2/	Additions & Alterations	Government Contracts Awarded
1996	3,285.1	1,117.8	487.0	252.8	378.0	885.5
1997	2,944.4	1,179.2	542.5	264.5	372.2	615.6
1998	3,016.0	1,054.3	485.5	205.6	363.2	685.1
1999	2,991.2	1,320.2	628.8	306.2	385.3	584.8
2000 3/	3,613.5	1,512.6	800.1	246.2	466.2	810.9
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002 4/	4,275.0	1,772.0	1,112.9	254.2	404.9	768.3
2003 4/	4,536.3	2,351.8	1,335.1	509.2	507.5	633.4
2004 4/	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005 4/	5,851.0	3,492.0	2,259.3	433.5	799.1	725.1
2006 4/	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007 4/	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008 4/5/	5,958.5	2,906.6	1,381.6	427.1	1,097.9	952.8
2006 4/ 1 Qtr.	1,714.7	766.2	481.1	61.1	224.0	297.2
4/ 2 Qtr.	1,677.1	908.1	451.6	160.7	295.9	174.4
4/ 3 Qtr.	1,920.2	1,051.5	460.5	206.5	384.5	220.6
4/ 4 Qtr.	1,911.3	1,044.2	418.6	303.8	321.8	161.6
2007 4/ 1 Qtr.	1,991.0	737.1	412.1	59.7	265.3	180.1
4/ 2 Qtr.	2,081.1	1,085.7	668.8	222.6	194.2	317.7
4/ 3 Qtr.	1,924.9	896.3	412.1	144.3	339.9	255.1
4/ 4 Qtr.	2,075.9	866.3	362.3	277.2	226.8	116.5
2008 4/ 1 Qtr.	1,885.1	741.1	353.2	94.0	293.9	196.2
4/ 2 Qtr.	1,977.5	1,048.5	517.4	154.7	376.5	132.8
4/ 3 Qtr.	2,095.9	690.0	346.5	132.3	211.3	351.8
4/ 4 Qtr.	(NA)	426.8	164.5	46.2	216.2	272.0

NA Not available

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in *Building Industry*.

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

2/ Includes hotels.

3/ Kauai County Private Building Authorizations data for November consist of residential data only.

4/ Beginning with 2002 Kauai Private Building Authorizations data available for residential only.

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

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY
(In thousands of dollars)

Year	State	% Change	City & County of Honolulu	% Change	Hawaii County	% Change	Kauai County	% Change	Maui County	% Change
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,226	-19.2	178,220	14.4	88,196	-9.8	163,638	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
1/ 2000	1,512,601	14.6	694,224	-1.7	321,705	31.9	141,313	0.3	355,361	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
2/ 2002	1,772,027	11.7	876,051	28.3	449,600	18.2	172,662	-17.8	273,717	-12.5
2/ 2003	2,351,762	32.7	1,109,568	26.7	619,675	37.8	153,242	-11.2	469,277	71.4
2/ 2004	2,726,537	15.9	1,320,552	19.0	826,494	33.4	130,660	-14.7	448,830	-4.4
2/ 2005	3,491,965	28.1	1,364,029	3.3	1,008,388	22.0	288,132	120.5	831,416	85.2
2/ 2006	3,770,051	8.0	1,625,328	19.2	926,019	-8.2	239,294	-17.0	979,412	17.8
2/ 2007	3,585,447	-4.9	1,676,232	3.1	912,529	-1.5	268,915	12.4	727,772	-25.7
2/ 2008	2,906,578	-18.9	1,481,272	-11.6	704,317	-22.8	277,149	3.1	443,840	-39.0
2/ 2006 1 Qtr.	766,238	8.4	299,983	-1.6	257,258	54.0	28,616	-77.3	180,380	66.7
2/ 2 Qtr.	908,136	24.7	406,075	18.4	217,061	13.5	70,557	-18.1	214,443	98.1
2/ 3 Qtr.	1,051,476	0.1	473,556	53.6	254,057	-31.9	91,856	117.7	232,007	-29.0
2/ 4 Qtr.	1,044,202	3.8	445,714	9.3	197,642	-28.6	48,265	44.3	352,582	22.3
2/ 2007 1 Qtr.	737,121	-3.8	353,732	17.9	209,681	-18.5	58,575	104.7	115,132	-36.2
2/ 2 Qtr.	1,085,692	19.6	540,310	33.1	306,363	41.1	41,091	-41.8	197,928	-7.7
2/ 3 Qtr.	896,293	-14.8	469,854	-0.8	188,762	-25.7	102,612	11.7	135,064	-41.8
2/ 4 Qtr.	866,342	-17.0	312,336	-29.9	207,722	5.1	66,637	38.1	279,648	-20.7
2/ 2008 1 Qtr.	741,141	0.5	309,828	-12.4	243,855	16.3	79,728	36.1	107,730	-6.4
2/ 2 Qtr.	1,048,550	-3.4	528,685	-2.2	186,956	-39.0	91,645	123.0	241,264	21.9
2/ 3 Qtr.	690,037	-23.0	379,567	-19.2	175,904	-6.8	88,683	-13.6	45,883	-66.0
2/ 4 Qtr.	426,849	-50.7	263,191	-15.7	97,602	-53.0	17,094	-74.3	48,963	-82.5

1/ *Kauai County data for November consist of residential data only.*

2/ *Beginning with 2002, Kauai data available for residential only. Values shown for 2001 are all private authorizations however, percentage change 2001-2002 is based on residential only or 2001Q1 of 32,006; 2001Q2 of 22,290; 2001Q3 of 26,613; 2001Q4 of 53,344 and 2001 of 134,253.*

Source: County building departments.

Federal Government Expenditures in Hawaii

According to the most recent data available, total federal direct expenditures or obligations in Hawaii reached $14.1 billion in the federal fiscal year ending September 30, 2007, an increase of 4.2% over the previous year. Between federal fiscal years 1997 and 2007, the annual average growth rate for federal expenditures was about 5.6%. Overall, federal government accounted for about 13.6% of State GDP in Hawaii in 2006, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the third quarter of 2008 increased 7.6% compared to the same quarter of 2007. Total military earnings and total federal civilian earnings increased 8.0% and 6.9%, respectively for the quarter.

Military spending for construction in Hawaii for the federal fiscal year 2009 which begins on October 1, 2008 would total $544 million under the $3.1 trillion budget request President Bush unveiled on February 4, 2008 and is about the same as the federal fiscal year 2008 allotment. Appropriations for federal fiscal year 2008 defense projects in Hawaii total nearly $742 million. This includes a military construction program of $533.6 million, and $208 million for defense-related projects. In addition, $5.5 million is to be provided to improve infrastructure and educational programs for Hawaii's public schools with high enrollments of military children. Further, the federal education budget includes $48.2 million in impact aid funding for Hawaii's public schools. Ongoing programs to privatize construction, renovation and operation of military housing will contribute an estimated $3 billion over the next decade.

Banks and Other Financial Institutions

As of June 30, 2008, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $29.91 billion, a .89% increase from June 30, 2007. The five State-chartered banks accounted for $29.19 billion of such assets.

Transportation

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

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2005, 2006 and 2007 amounted to 20.2 million short tons, 20.7 million short tons and 21.5 million short tons, respectively.

The Harbors System is comprised of eleven commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, Kalaeloa Barbers Point Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System managed Kewalo Basin for its landowner, the Hawaii Community Development Authority. Effective March 1, 2009, the Hawaii Community Development Agency assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System will cease on June 30, 2009. Act 200, SLH 2008, authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System, effective July 1, 2008.

The State uses nine harbors, with the exception of Kewalo Basin and Hana Harbor, to facilitate the movement of goods from and between the mainland, foreign and inter-island ports. The number of commercial vessels entering all ports was 9,714 in fiscal year 2005, 10,465 in fiscal year 2006, and 10,541 in fiscal year 2007.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 9.8 million short tons in fiscal year 2005, 9.8 million short tons in fiscal year 2006, and 10.2 million short tons in fiscal year 2007. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Hawaii has experienced growth in cruise ship passenger volumes in recent years. The number of cruise ship visitor arrivals has increased from 415,967 in 2006 to 501,698 in 2007, a 20.6 percent increase. However, as described in the next paragraph, two cruise ships were redeployed away from the Hawaii market during the first half of 2008.

Norwegian Cruise Lines America ("NCLA") homeported three cruise ships, the Pride of Hawaii, the Pride of America and the Pride of Aloha, providing the State with year-round inter-island service. In February 2008, NCLA withdrew the Pride of Hawaii from Hawaii service to operate in Europe as the Norwegian Jade. In May, 2008, NCLA deployed the Pride of Aloha to Asia, leaving the Pride of America to serve the Hawaii market. NCLA and other foreign cruise ships utilize the new cruise passenger terminal constructed at Pier 2, Honolulu Harbor.

Hawaii Superferry, Inc. ("HSF"), a private ferry operator, operates a large-capacity roll on/roll off high-speed ferry service for the transport of passengers and vehicles, including cars, trucks and commercial vehicles between Honolulu and Kahului Harbors. After HSF commenced service on August 26, 2007, the Hawaii Supreme Court ruled that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. A related circuit court decision ruled that HSF could not operate at Kahului Harbor until an environmental assessment was completed. These court actions halted HSF operations until the Hawaii State Legislature convened a special session and enacted Act 2, Second Special Session 2007, on November 2, 2007 to allow large-capacity ferry vessel companies, such as HSF, to operate under certain conditions while the required environmental reviews are conducted. Daily service between Honolulu and Kahului Harbors re-commenced on December 13, 2007. However, in March 2009, the Hawaii Supreme Court struck down Act 2 on State constitutional grounds and HSF suspended operation of the ferry. The future of the ferry is uncertain at this time.

Act 200, Session Laws of Hawaii, 2008, was enacted to authorize a statewide Harbors Modernization Plan to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation as the entity responsible for the management and implementation of the Harbors Modernization Plan in partnership with the Department. The Act authorizes the Department to issue harbor revenue bonds to finance the improvements. The cost of the Plan, originally estimated at $842 million, was recently revised to $618 million.

Air Transportation. The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls increasing from 4,579 to 6,379 vehicles as a result of a new parking structure opened in February 2009 at HNL, HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo and Kona International Airport at Keahole (both on the island of Hawaii), and Lihue Airport on the island of Kauai, also service direct flights to and from the continental United States.

In fiscal year 2008, HNL recorded 304,839 aircraft operations, as compared to 320,112 in fiscal year 2007. In addition, HNL passenger counts for calendar year 2007 increased by 6.5% to 21,346,026. HNL passenger counts decreased from 20,908,614 in fiscal year 2007 to 20,808,838 in fiscal year 2008.

Until March 31, 2008, inter-island air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. In June 2006, Mesa Air Group began inter-island service as go! Airlines. On March 20, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On March 31, 2008, Aloha Airlines ceased all passenger operations. On April 29, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's inter-island air cargo, ceased all air cargo operations and well as maintenance cleaning services. Almost immediately thereafter, such operations were taken over by Aeko Kula, Inc. (cargo) and Aloha Contract Services LLC (maintenance services). Both the bankruptcy of Aloha Airlines and the rising cost of fuel have led to decreased statewide enplanement activities of 10%, comparing May 2007 and 2008.

In October 2007, the Airports Division and a majority of the airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the Airport-Airline Lease were amended to reflect a rate-making methodology that recovers costs of specific Airports System facilities from the airlines that directly use them. An Airport System Support Charge Cost Center is set up to serve as the residual cost center to ensure Airport System operating revenues are sufficient to cover Airport System operating costs.

The Airports Division is in the process of implementing a modernization program which will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost in excess of $2.0 billion through 2021 and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,234.75 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 932.27 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The following table shows the motor vehicle registrations in the State for the years 2002 through 2008, inclusive.

Table 11

MOTOR VEHICLE REGISTRATION

YEAR	VEHICLES
2002	1,013,594
2003	1,057,623
2004	1,098,447
2005	1,149,403
2006	1,157,027
2007	1,167,240
2008	1,169,148

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2008-2009 school year, system enrollment decreased from a total of 178,369 in the 2007-2008 school year to a total of 177,871 in 288 K-12 public schools. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in Department of Education schools has decreased, while the number of charter school students has increased.

The University of Hawaii was established in 1907 on the model of the American system of land-grant universities created initially by the Morrill Act of 1862. In the 1960s and 1970s, the University was developed into a system of accessible and affordable campuses. These institutions currently include:

- a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law and medicine;

- a comprehensive, primarily baccalaureate institution at Hilo, a College of Pharmacy with a four-year curriculum leading to a Doctor of Pharmacy degree, seated its inaugural class in the fall of 2007; offering professional programs based on a liberal arts foundation and selected graduate degrees;

- a baccalaureate institution at West Oahu, offering degrees in the liberal arts and professional studies; and

- a system of seven open-door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2007, 50,454 students attended the University of Hawaii system, 20,051 of them on the Manoa Campus. In the fall of 2008, 53,526 students attended the University of Hawaii system, 20,169 of them on the Manoa Campus.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other State efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low-income families. Included are the management of low-rent public housing units, the administration of the Section 8 tenant-based housing assistance program and other federal and State programs intended to provide very low to low-income residents with safe, decent and sanitary housing.

The State housing programs previously were carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). On July 1, 2006, pursuant to Act 196, SLH 2005, as amended by Act 180, SLH 2006, the HCDCH was bifurcated into the Hawaii Public Housing Authority (the "HPHA") and the Hawaii Housing Finance and Development Corporation (the "HHFDC"). The assets, obligations and functions of the HCDCH were transferred to the HHFDC and to the HPHA, as provided by such Acts. The HHFDC performs the function of housing finance and development. The HHFDC is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HHFDC and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State. The HPHA performs the function of developing and maintaining public housing.

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Department of Hawaiian Home Lands
Kapolei, Hawaii

Re: Department of Hawaiian Home Lands
Revenue Bonds, Series 2009
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Department of Hawaiian Home Lands (the "Department") in connection with the issuance of $_________ aggregate principal amount of its Revenue Bonds, Series 2009 (the "Bonds"), pursuant to a Master Bond Indenture, dated as of March 1, 2009 (the "Master Bond Indenture"), between the Department and Wells Fargo Bank, National Association, as Trustee (the "Trustee"), as supplemented and amended by the First Supplemental Indenture, dated as of March 1, 2009 (the "First Supplemental Indenture", and together with the Master Bond Indenture, the "Indenture"), by and between the Department and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Department, dated the date hereof (the "Tax Certificate"), an opinion of the Attorney General of the State of Hawaii, certificates of the Department and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State of

Hawaii and its departments. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Department.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Department. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Department of Hawaiian Home Lands of the State of Hawaii (the "Department") in connection with the issuance of $42,500,000 aggregate principal amount of State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2009 (the "Series 2009 Bonds"). The Series 2009 Bonds are being issued pursuant to a Master Bond Indenture, as supplemented by a First Supplemental Indenture, each dated as of March 1, 2009 (the "Indenture") between the Department and Wells Fargo Bank, National Association, as trustee. The Department covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Holders and Beneficial Owners of the Series 2009 Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, 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 Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2009 Bonds (including persons holding Series 2009 Bonds through nominees, depositories or other intermediaries).

"Business Day" means any day other than a Saturday, Sunday or other day on which Department offices generally are not open for business.

"Dissemination Agent" means the Department, or any successor Dissemination Agent designated in writing by the Department and which has filed with the Department a written acceptance of such designation.

"Holder" means any registered owner of Series 2009 Bonds as shown on the books of registration kept by the Registrar.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"Official Statement" means the Official Statement of the Department dated March 18, 2009 relating to the Series 2009 Bonds.

"Participating Underwriter" means any "participating underwriter" of the Series 2009 Bonds within the meaning of the Rule required to comply with the Rule in connection with offering of the Series 2009 Bonds.

"Repository" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission or any successor agency thereto.

SECTION 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year of the Department (presently June 30), commencing with the report for the fiscal year ending June 30, 2009, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Each Annual Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Department shall provide the Annual Report to the Dissemination Agent (if other than the Department). If the Department is unable to provide to the Repository an Annual Report by the date required in subsection (a), the Department shall send a notice to the Repository in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent (if other than the Department) shall file a report with the Department certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Department's Annual Report shall contain or include by reference the following:

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

(b) Information of the type included in the Official Statement under the captions "THE DEPARTMENT OF HAWAIIAN HOME LANDS — Summary Combined Statements of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types" and "— Outstanding Indebtedness," Tables 5 and 6 under the caption "THE GENERAL LEASES AND AVAILABLE LANDS" and the Department's share of the State Retirement System costs under the caption "THE DEPARTMENT OF HAWAIIAN HOME LANDS – Employee Relations and Pension Benefits," in each case to the extent such information is historical and not projections.

The Department has not undertaken in this Disclosure Certificate to provide all information an investor may want to have in making decisions to buy, hold or sell the Series 2009 Bonds, but only to provide the information specified above. Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, which have been submitted to the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the Repository. The Department 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 Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2009 Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) modifications to rights of Holders;

(iv) optional, contingent or unscheduled Series 2009 Bond calls;

(v) defeasances;

(vi) rating changes;

(vii) adverse tax opinions or events affecting the tax-exempt status of the Series 2009 Bonds;

(viii) unscheduled draws on the debt service reserves reflecting financial difficulties;

(ix) unscheduled draws on the credit enhancements reflecting financial difficulties;

(x) substitution of the credit or liquidity providers or their failure to perform; or

(xi) release, substitution or sale of property securing repayment of the Series 2009 Bonds.

(b) Whenever the Department obtains knowledge of the occurrence of a Listed Event, the Department shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Department determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Department shall promptly file a notice of such occurrence with the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2009 Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Department's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Series 2009 Bonds. If such termination occurs prior to the final maturity of the Series 2009 Bonds, the Department shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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

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

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2009 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2009 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 a majority in aggregate principal amount of the Series 2009 Bonds, or (ii) does not, in the opinion of the Department, materially impair the interests of the Holders or Beneficial Owners of the Series 2009 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in 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 Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Series 2009 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Department agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Department under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2009 Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2009 Bonds, and shall create no rights in any other person or entity.

Dated: _____________, 2009.

DEPARTMENT OF HAWAIIAN HOME LANDS

By_________________________________
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Department of Hawaiian Home Lands of the State of Hawaii

Name of Issue: State of Hawaii Department of Hawaiian Home Lands Revenue Bonds, Series 2009

Date of Issuance: April 2, 2009

NOTICE IS HEREBY GIVEN that the Department has not provided an Annual Report with respect to the above-named Series 2009 Bonds as required by Section 3(a) of the Continuing Disclosure Certificate of the Department of Hawaiian Home Lands dated _____________, 2009. [The Department anticipates that the Annual Report will be filed by _____________.]

Dated:_______________.

DEPARTMENT OF HAWAIIAN HOME LANDS

By_________________________________
Chairman

FSC Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
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